SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF l934.

For the quarterly period ended April 30, 2002

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 number 0-29230

TAKE-TWO INTERACTIVE SOFTWARE, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	51-0350842
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

575 Broadway, New York, New York 10012
(Address of principal executive offices including zip code)

Registrant's Telephone Number, Including Area Code (212) 334-6633

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, and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

As of June 10, 2002, there were 38,855,639 shares of the Registrant's Common Stock outstanding.

TAKE-TWO INTERACTIVE SOFTWARE, INC.
QUARTER ENDED APRIL 30, 2002

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Balance Sheets
As of April 30, 2002 and October 31, 2001 (unaudited)
(In thousands, except share data)

	April 30, 2002	October 31, 2001
ASSETS		
Current assets		
Cash and cash equivalents	$ 69,617	$ 6,056
Accounts receivable, net of provision for doubtful accounts and sales allowances of $26,570 and $26,106 at April 30, 2002 and October 31, 2001, respectively	65,095	94,950
Inventories, net	45,481	61,937
Prepaid royalties	18,852	21,892
Prepaid expenses and other current assets	25,755	17,925
Investments	500	6,241
Deferred tax asset	13,873	13,873
Total current assets	239,173	222,874
Fixed assets, net	14,837	11,033
Prepaid royalties	12,950	11,097
Capitalized software development costs, net	10,649	11,934
Investments	98	75
Goodwill, net	56,033	56,033
Intangibles, net	29,410	32,142
Deferred tax asset	7,892	7,892
Other assets, net	--	1,917
Total assets	$ 371,042	$ 354,997
LIABILITIES and STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 37,962	$ 60,223
Accrued expenses and other current liabilities	41,514	20,250
Income taxes payable	13,794	--
Lines of credit, current portion	--	54,073
Current portion of capital lease obligation	92	99
Total current liabilities	93,362	134,645
Capital lease obligation, net of current portion	254	291
Total liabilities	93,616	134,936
Stockholders' equity		
Common stock, par value $.01 per share; 50,000,000 shares authorized; 37,532,243 and 36,640,972 shares issued and outstanding	375	366
Additional paid-in capital	227,376	213,908
Deferred compensation	(682)	--
Retained earnings	60,705	16,239
Accumulated other comprehensive loss	(10,348)	(10,452)
Total Stockholders' Equity	277,426	220,061
Total Liabilities and Stockholders' Equity	$ 371,042	$ 354,997

The accompanying notes are an integral part of the consolidated condensed financial statements.

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Operations
For the three and six months ended April 30, 2002 and 2001 (unaudited)
(In thousands, except per share data)

	Three months ended April 30		Six months ended April 30	
	2002	2001	2002	2001
Net sales	$ 170,330	$ 88,179	$ 453,256	$ 245,770
Cost of sales (includes impairment charge on Internet gaming assets of $3,786 in 2001 periods)	106,675	57,396	286,140	161,656
Gross profit	63,655	30,783	167,116	84,114
Operating expenses				
Selling and marketing (includes impairment charge on Internet gaming assets of $401 in 2001 periods)	20,522	11,577	42,517	24,129
General and administrative	18,924	9,107	37,921	19,618
Research and development	3,937	1,601	5,891	3,001
Depreciation and amortization	2,517	3,538	4,788	5,960
Total operating expenses	45,900	25,823	91,117	52,708
Income from operations	17,755	4,960	75,999	31,406
Interest expense, net	53	2,355	1,027	5,285
(Gain) loss on Internet investments	(32)	20,754	(159)	20,754
Class action settlement costs	1,468	--	1,468	--
Total non-operating expenses	1,489	23,109	2,336	26,039
Income (loss) before income taxes and cumulative effect of change in accounting principle	16,266	(18,149)	73,663	5,367
Provision (benefit) for income taxes	6,629	(6,682)	29,197	3,265
Income (loss) before cumulative effect of change in accounting principle	9,637	(11,467)	44,466	2,102
Cumulative effect of change in accounting principle, net of taxes of $3,558	--	--	--	5,337
Net income (loss)	$ 9,637	$ (11,467)	$ 44,466	$ (3,235)
Per share data:				
Basic:				
Weighted average common shares outstanding	37,057	32,641	36,888	32,491
Income before cumulative effect of change in accounting principle per share	$ 0.26	$ (0.35)	$ 1.21	$ 0.06
Cumulative effect of change in accounting principle per share	--	--	--	(0.16)
Net income (loss) per share - Basic	$ 0.26	$ (0.35)	$ 1.21	$ (0.10)
Diluted:				
Weighted average common shares outstanding	38,768	32,641	38,280	33,345
Income (loss) before cumulative effect of change in accounting principle per share	$ 0.25	$ (0.35)	$ 1.16	$ 0.06
Cumulative effect of change in accounting principle per share	--	--	--	(0.16)
Net income (loss) per share - Diluted	$ 0.25	$ (0.35)	$ 1.16	$ (0.10)

The accompanying notes are an integral part of the consolidated condensed financial statements.

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Cash Flows
For the six months ended April 30, 2002 and 2001 (unaudited)
(In thousands)

	Six Months Ended April 30	
	2002	2001
Cash flows from operating activities:		
Net income (loss)	$ 44,466	$ (3,235)
Adjustment to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	4,788	5,960
Loss on disposal of fixed assets	122	--
(Gain) loss on Internet investments	(159)	20,754
Impairment charge on Internet assets	--	4,187
Change in deferred tax asset	--	(7,679)
Provision for doubtful accounts and sales allowances	522	5,375
Amortization of various expenses and discounts	1,814	529
Tax benefit from exercise of stock options	3,782	1,057
Issuance of compensatory stock and stock options	2,299	--
Changes in operating assets and liabilities, net of effects of acquisitions:		
Decrease in accounts receivable	31,345	25,503
Decrease in inventories, net	15,450	4,854
Decrease (increase) in prepaid royalties	1,184	(8,950)
Increase in prepaid expenses and other current assets	(9,667)	(8,724)
Decrease (increase) in capitalized software development costs	1,442	(529)
Decrease in non-current assets	1,411	--
Decrease in accounts payable	(21,871)	(16,559)
Increase in accrued expenses	17,675	779
Increase in income taxes payable	13,794	--
Net cash provided by operating activities	108,397	23,322
Cash flows from investing activities:		
Purchase of fixed assets	(6,834)	(2,777)
Proceeds from sale of investments	5,888	--
Acquisitions, net of cash acquired	--	(4,300)
Net cash used in investing activities	(946)	(7,077)
Cash flows from financing activities:		
Net repayments under lines of credit	(54,044)	(17,815)
Deferred financing costs	(463)	--
Proceeds on notes payable	--	40
Proceeds from exercise of stock options and warrants	7,396	4,011
Repayment of capital lease obligation	(73)	(36)
Net cash used in financing activities	(47,184)	(13,800)
Effect of foreign exchange rates	3,294	(804)
Net increase in cash for the period	63,561	1,641
Cash and cash equivalents, beginning of the period	6,056	5,245
Cash and cash equivalents, end of the period	$ 69,617	$ 6,886

The accompanying notes are an integral part of the consolidated condensed financial statements.

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Cash Flows (continued)
For the six months ended April 30, 2002 and 2001 (unaudited)
(In thousands)

	Six Months Ended April 30	
	2002	2001
Supplemental information on businesses acquired:		
Fair value of assets acquired		
Cash	$ --	$ --
Accounts receivables, net	--	9,973
Inventories, net	--	3,710
Prepaid royalties	--	(707)
Prepaid expenses and other assets	--	34
Property and equipment, net	--	272
Intangible asset	--	7,705
Goodwill	--	40,288
Less, liabilities assumed	--	--
Lines of credit	--	(10,841)
Accounts payable	--	(12,447)
Accrued expenses	--	(2,219)
Other current liabilities	--	(651)
Stock issued	--	(13,380)
Value of asset recorded	--	(17,266)
Direct transaction costs	--	(171)
Cash paid	--	4,300
Less cash acquired	--	--
Net cash paid	$ --	$ 4,300

The accompanying notes are an integral part of the
consolidated condensed financial statements.

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Stockholders' Equity
For the year ended October 31, 2001 and the six months ended April 30, 2002
(unaudited)
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital
Balance, November 1, 2000	31,173	$ 312	$ 157,738
Proceeds from exercise of stock options and warrants	3,266	32	22,582
Amortization of deferred compensation	--	--	--
Issuance of common stock in connection with acquisitions	1,466	14	13,967
Issuance of common stock in connection with private placements, net of issuance costs	1,300	13	20,879
Retirement of common stock	(564)	(5)	(7,305)
Tax benefit in connection with the exercise of stock options	--	--	6,047
Foreign currency translation adjustment	--	--	--
Net unrealized income on investments, net of taxes	--	--	--
Net loss	--	--	--
Balance, October 31, 2001	36,641	366	213,908
Proceeds from exercise of stock options and warrants	866	9	7,387
Amortization of deferred compensation	--	--	--
Deferred compensation in connection with restricted stock to be issued	--	--	--
Issuance of compensatory stock and stock options	25	--	2,299
Tax benefit in connection with the exercise of stock options	--	--	3,782
Foreign currency translation adjustment	--	--	--
Net unrealized income on investments, net of taxes	--	--	--
Net income	--	--	--
Balance, April 30, 2002	37,532	$ 375	$ 227,376

	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
Balance, November 1, 2000	$ (5)	$ 24,819	$ (12,672)
Proceeds from exercise of stock options and warrants	--	--	--
Amortization of deferred compensation	5	--	--
Issuance of common stock in connection with acquisitions	--	--	--
Issuance of common stock in connection with private placements, net of issuance costs	--	--	--
Retirement of common stock	--	--	--
Tax benefit in connection with the exercise of stock options	--	--	--
Foreign currency translation adjustment	--	--	(767)
Net unrealized income on investments, net of taxes	--	--	2,987
Net loss	--	(8,580)	--
Balance, October 31, 2001	--	16,239	(10,452)
Proceeds from exercise of stock options and warrants	--	--	--
Amortization of deferred compensation	227	--	--
Deferred compensation in connection with restricted stock to be issued	(909)	--	--
Issuance of compensatory stock and stock options	--	--	--
Tax benefit in connection with the exercise of stock options	--	--	--
Foreign currency translation adjustment	--	--	96
Net unrealized income on investments, net of taxes	--	--	8
Net income	--	44,466	--
Balance, April 30, 2002	$ (682)	$ 60,705	$ (10,348)

The accompanying notes are an integral part of the consolidated condensed financial statements.

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Stockholders' Equity (continued)
For the year ended October 31, 2001 and the six months ended April 30, 2002
(unaudited)
(In thousands)

	Total	Comprehensive Income (Loss)
Balance, November 1, 2000	$ 170,192	$ (5,428)
Proceeds from exercise of stock options and warrants	22,614	
Amortization of deferred compensation	5	
Issuance of common stock in connection with acquisitions	13,981	
Issuance of common stock in connection with private placements, net of issuance costs	20,892	
Retirement of common stock	(7,310)	
Tax benefit in connection with the exercise of stock options	6,047	
Foreign currency translation adjustment	(767)	$ (767)
Net unrealized income on investments, net of taxes	2,987	2,987
Net loss	(8,580)	(8,580)
Balance, October 31, 2001	220,061	$ (6,360)
Proceeds from exercise of stock options and warrants	7,396	
Amortization of deferred compensation	227	
Deferred compensation in connection with restricted stock to be issued	(909)	
Issuance of compensatory stock and stock options	2,299	
Tax benefit in connection with the exercise of stock options	3,782	
Foreign currency translation adjustment	96	$ 96
Net unrealized income on investments, net of taxes	8	8
Net income	44,466	44,466
Balance, April 30, 2002	$ 277,426	$ 44,570

The accompanying notes are an integral part of the consolidated condensed financial statements.

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1. Organization

Take-Two Interactive Software, Inc. (the "Company") develops, publishes and distributes interactive software games designed for PCs and video game console platforms.

2. Significant Accounting Policies and Transactions

Basis of Presentation

The unaudited Consolidated Condensed Financial Statements of the Company have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not include all information and disclosures necessary for a presentation of the Company's financial position, results of operations and cash flows in conformity with generally accepted accounting principles. In the opinion of management, the financial statements reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the Company's financial position, results of operations and cash flows. The results of operations for any interim periods are not necessarily indicative of the results for the full year. The financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company's Annual Report on Form 10-K/A for the fiscal year ended October 31, 2001.

Risk and Uncertainties

Substantially all of the Company's net sales are derived from software publishing and distribution activities, which are subject to increasing competition, rapid technological change and evolving consumer preferences, often resulting in the frequent introduction of new products and short product lifecycles. Accordingly, the Company's profitability and growth prospects depend upon its ability to continually acquire, develop and market new, commercially successful software products and obtain adequate financing, if required. If the Company is unable to continue to acquire, develop and market commercially successful software products, its operating results and financial condition could be materially adversely affected in the near future.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. The most significant estimates and assumptions relate to the recoverability of prepaid royalties, capitalized software development costs and other intangibles, realization of deferred income taxes, valuation of inventories and the adequacy of allowances for returns, price protection and doubtful accounts. Actual amounts could differ significantly from these estimates.

Revenue Recognition

Publishing revenue is derived from the sale of internally developed interactive software titles or from the sale of titles licensed from third-party developers. Publishing revenue amounted to $133,790 and $48,116 for the three months ended April 30, 2002 and 2001, respectively, and $325,746 and $125,905 for the six months ended April 30, 2002 and 2001, respectively.

Distribution revenue is derived from the sale of third-party interactive software titles, accessories and hardware. Distribution revenue amounted to $36,540 and $40,063 for the three months ended April 30, 2002 and 2001, respectively and $127,510 and $119,865 for the six months ended April 30, 2002 and 2001, respectively.

The Company recognizes revenue in accordance with Statement of Position ("SOP") 97-2 "Software Revenue Recognition", as amended by SOP 98-9 "Modification of SOP 97-2 Software Revenue Recognition with respect to Certain Transactions." SOP 97-2 provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions. SOP 98-9 deals with the determination of vendor specific objective evidence of fair value in multiple element arrangements, such as maintenance agreements sold in conjunction with software packages. The Company's transactions generally include only one element, the interactive software game. The Company recognizes revenue when the price is fixed and determinable, there is persuasive evidence of an arrangement, the fulfillment of its obligations under any such arrangement and determination that collection is probable. Accordingly, revenue is recognized when title and all risks of loss are transferred to the customer, which is generally upon receipt by customer. The Company's payment arrangements with its customers provide primarily 60 day terms and to a limited extent with certain customers 30, 90 or 120 day terms.

The Company's distribution arrangements with customers generally do not give customers the right to return products; however, the Company at its discretion may accept product returns for stock balancing or defective products. In addition, the Company sometimes negotiates accommodations to customers, including price discounts, credits and product returns, when demand for specific products falls below expectations. The Company's publishing arrangements generally require the Company to accept product returns and provide price protection. The Company establishes a reserve for future returns and other allowances based primarily on its return policies, price protection policies and historical return rates. The Company may not have a reliable basis to estimate returns and price protection for certain customers or it may be unable to determine that collection of the receivable is probable. In such circumstances, the Company defers the revenues at the time of the sale and recognizes them when collection of the related receivable becomes probable or cash is received.

Effective November 1, 2000, the Company adopted Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements". Consistent with the guidelines provided in SAB No. 101, the Company changed its revenue recognition policy to recognize revenue as noted above. Prior to the adoption of SAB 101, the Company recognized revenue upon shipment. As a result of adopting SAB 101, net sales and cost of sales of approximately $27,230 and $18,335, respectively, which were originally recognized in the year ended October 31, 2000 were also recognized in the six months ended April 30, 2001. The cumulative effect of the adoption of SAB 101 for the quarter ended January 31, 2001 was $5,337 of income, net of taxes of $3,558. This adoption had no effect on net income for the six months ended April 30, 2001.

Prepaid Royalties

The Company's agreements with licensors and developers generally provide it with exclusive publishing rights and require it to make advance royalty payments that are recouped against royalties due to the licensor or developer based on product sales. Prepaid royalties are amortized as cost of sales on a title-by-title basis based on the greater of the proportion of current year sales to total of current and estimated future sales for that title or the contractual royalty rate based on actual net product sales. The Company continually evaluates the recoverability of prepaid royalties and charges to cost of sales the amount that management determines is probable that will not be recouped at the contractual royalty rate in the period in which such determination is made. Prepaid royalties are classified as current and non-current assets based upon estimated net product sales within the next year. Prepaid royalties were written down by $2,428 and $3,168 for the three and six months ended April 30, 2002, respectively, and $75 for the three and six months ended April 30, 2001, to estimated net realizable value. Amortization of prepaid royalties amounted to $8,307 and $2,649, which was included in total royalty expense of $19,053 and $2,905, respectively, for the three months ended April 30, 2002 and 2001. Amortization of prepaid royalties amounted to $23,545 and $8,669, which was included in total royalty expense of $38,481 and $9,305, respectively, for the six months ended April 30, 2002 and 2001.

Capitalized Software Development Costs (Including Production Costs)

The Company capitalizes internal software development costs subsequent to establishing technological feasibility of a title. Capitalized software development costs primarily represent the costs associated with the internal development of the Company's publishing products. Amortization of such costs as a component of cost of sales is recorded on a title-by-title basis based on the greater of the proportion of current year sales to total of current and estimated future sales for the title or the straight-line method over the remaining estimated useful life of the title.

The Company continually evaluates the recoverability of capitalized software costs. For the three and six months ended April 30, 2002, capitalized software costs of $19 were written down to net realizable value. For the three and six months ended April 30, 2001, capitalized software costs of $389 were written off as cost of sales as part of the impairment charge as described in Note 3. Amortization of capitalized software costs amounted to $919 and $1,049 for the three months ended April 30, 2002 and 2001, respectively, and $3,874 and $1,941 for the six months ended April 30, 2002 and 2001, respectively.

Recently Issued Accounting Pronouncements

In November 2001, the Financial Accounting Standards Board ("FASB") Emerging Issues Task Force (EITF) reached a consensus on EITF Issue 01-09, Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor's Products, which is a codification of EITF 00-14, 00-22 and 00-25. This EITF presumes that consideration from a vendor to a customer or reseller of the vendor's products to be a reduction of the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement and could lead to negative revenue under certain circumstances. Revenue reduction is required unless consideration relates to a separate identifiable benefit and the benefit's fair value can be established. The Company has early adopted EITF 01-09 effective November 1, 2001. The adoption of the new standard did not have a material impact on the consolidated condensed financial statements. The prior period has been reclassified in accordance with this statement.

Effective November 1, 2001, the Company adopted Statement of Financial Accounting Standard No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires all business combinations to be accounted for using the purchase method of accounting and that certain intangible assets acquired in a business combination shall be recognized as assets apart from goodwill. SFAS 142 addresses the recognition and measurement of goodwill and other intangible assets subsequent to their acquisition. SFAS 142 also addresses the initial recognition and measurement of intangible assets acquired outside of a business combination whether acquired individually or with a group of other assets. This statement provides that intangible assets with finite useful lives be amortized and that intangible assets with indefinite lives and goodwill will not be amortized, but will be tested at least annually for impairment. Upon completion of the transitional impairment test, the fair value for each of the Company's reporting units exceeded the reporting unit's carry amount and no impairment was indicated (See Note 9).

In August 2001, the FASB issued Statement of Financial Accounting Standard No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets" ("SFAS 143"). The objective of SFAS 143 is to provide accounting guidance for legal obligations associated with the retirement of long-lived assets. The retirement obligations included within the scope of this pronouncement are those that an entity cannot avoid as a result of either the acquisition, construction or normal operation of a long-lived asset. Components of larger systems also fall under this pronouncement, as well as tangible long-lived assets with indeterminable lives. The provisions of SFAS 143 are effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company is currently evaluating the expected impact of the adoption of SFAS 143 on the Company's financial condition, cash flows and results of operations. The Company will adopt the standard in the first quarter of fiscal 2003.

In October 2001, the FASB issued Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). The objectives of SFAS 144 are to address significant issues relating to the implementation of SFAS 121 and to develop a single accounting model, based on the framework established in SFAS 121, for the long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company is currently evaluating the expected impact of the adoption of SFAS 144 on the Company's financial condition and results of operations. The Company will adopt the standard in the first quarter of fiscal 2003.

In April 2002, the FASB issued Statement of Financial Accounting Standard No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment to FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). SFAS 145 eliminates the requirement (in SFAS No. 4) that gains and losses from the extinguishments of debt be aggregated and classified as extraordinary items, net of the related income tax. In addition, SFAS No. 145 requires sales-lease back treatment for certain modifications of a capital lease that result in the lease being classified as an operating lease. The rescission of SFAS No. 4 is effective for fiscal years beginning after May 15, 2002, which for the Company would be November 1, 2002. Earlier application is encouraged. Any gain or loss on extinguishment of debt that was previously classified as an extraordinary item would be reclassified to other income (expense). The remainder of the statement is generally effective for transactions occurring after May 15, 2002. The Company does not expect that the adoption of SFAS No. 145 will have a material impact on the Company's financial condition, cash flows and results of operations.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation.

3. 2001 Business Acquisitions

In fiscal 2001, the Company acquired businesses that develop, publish or distribute interactive software games and accessories. The aggregate purchase price, including cash payments and issuance of its common stock was $28,143. The value of the Company's common stock issued in connection with these acquisitions was based on the market price of the Company's common stock at the time such transactions were consummated.

The acquisitions described below have been accounted for as purchase transactions in accordance with APB No. 16 and SFAS 141 (for transactions after July 1, 2001) and, accordingly, the results of operations and financial position of the acquired businesses are included in the Company's consolidated financial statements from the respective dates of acquisition.

In July 2001, the Company acquired all of the outstanding capital stock of Techcorp Limited ("Techcorp"), a Hong Kong based design and engineering firm specializing in video game accessories. In consideration, the Company issued 30,000 shares of the Company's restricted common stock (valued at $572), paid $100 in cash and assumed net liabilities of $2,856. In connection with the acquisition, the Company recorded goodwill of $3,558 on a preliminary basis. The Company is in the process of obtaining an independent third party valuation to complete the purchase price allocation. The Company will make the required adjustments, if any, upon completion of such valuation. In accordance with SFAS 141, the Company is not amortizing the goodwill recorded in connection with this acquisition.

In November 2000, the Company acquired all of the outstanding capital stock of VLM Entertainment Group, Inc. ("VLM"), a company engaged in the distribution of third-party software products. In connection with this transaction, the Company paid the former stockholders of VLM $2,000 in cash and issued 875,000 shares of the Company's common stock (valued at $8,039) and assumed net liabilities of approximately $10,627.

In connection with the sale of Toga Holdings to Gameplay.com plc ("Gameplay") in October 2000, the Company agreed to acquire Gameplay's game software development and publishing business, Neo Software Produktions GMBH ("Neo"). Such acquisition was completed in January of 2001 and the Company assumed net liabilities of $808, in addition to the prepaid purchase price of $17,266. In connection with the acquisition, the Company recorded intangibles of $18,183.

(Dollars in thousands, unless otherwise noted)

The following table sets forth the components of the purchase price of the 2001 acquisitions:

	Neo	VLM	Techcorp	Total
Cost of the acquisition:				
Value of business sold (Prepaid purchase price - Neo)				
Stock issued	$ 17,266	$ 8,039	$ 572	$ 25,877
Cash	--	2,000	100	2,100
Transaction Costs	109	27	30	166
Total	$ 17,375	$ 10,066	$ 702	$ 28,143
Allocation of purchase price:				
Current Assets	$ 2	$ 9,852	$ 894	$ 10,748
Non-Current Assets	71	201	498	770
Liabilities	(881)	(20,680)	(4,248)	(25,809)
Goodwill	8,207	12,416	3,558	24,181
Customer Lists	--	8,277	--	8,277
Technology	8,037	--	--	8,037
Trademarks	1,939			1,939
Total	$ 17,375	$ 10,066	$ 702	$ 28,143

Certain of Neo's internet-related technology assets were determined to be impaired in April 2001. Accordingly, the Company recorded as cost of sales a non-cash impairment charge of $3,786 consisting of $2,350 relating to server maintenance technologies and $1,047 relating to multiplayer technologies developed by Neo's development studio in connection with Online Pirates and $389 of capitalized software relating to other products to be developed by Neo. In addition, the Company recorded as selling and marketing expenses an impairment charge of $401 related to online sales promotions for Neo's products.

Unaudited pro forma information

The unaudited pro forma data below for the six months ended April 30, 2001 is presented as if these purchase acquisitions had been made as of November 1, 2000. The unaudited pro forma financial information is based on management's estimates and assumptions and does not purport to represent the results that actually would have occurred if the acquisitions had, in fact, been completed on the dates assumed, or which may result in the future. The unaudited pro forma financial information includes purchase acquisitions that are significant to the Company's operations:

	Six months ended April 30, 2001
Net Sales	$ 249,935
Income before cumulative effect of change in accounting principle	$ 1,716
Net income per share - Basic	$ 0.05
Net income per share - Diluted	$ 0.05

4. Income Taxes

The provisions for income taxes for the three and six months ended April 30, 2002 and 2001 are based on the Company's estimated annualized tax rate for the respective years after giving effect to the utilization of available tax credits and tax planning opportunities.

5. Net Income (Loss) Before Cumulative Effect of Change in Accounting Principle per Share

The following table proves a reconciliation of basic earnings per share to dilutive earnings per share for the three and six months ended April 30, 2002 and 2001:

	Income (loss) before cumulative effect of change in accounting principle	Shares (in thousands)	Per Share Amount
Three Months Ended April 30, 2002:			
Basic	$ 9,637	37,057	$ 0.26
Effect of dilutive securities - Stock options and warrants	--	1,711	(0.01)
Diluted	$ 9,637	38,768	$ 0.25
Three months ended April 30, 2001 - Basic and Diluted	$(11,467)	32,641	$ (0.35)
Six Months Ended April 30, 2002			
Basic	$ 44,466	36,888	$ 1.21
Effect of dilutive securities - Stock options and warrants	--	1,392	(0.05)
Diluted	$ 44,466	38,280	$ 1.16
Six months ended April 30, 2001			
Basic	$ 2,102	32,491	$ 0.06
Effect of dilutive securities - Stock options and warrants	--	854	--
Diluted	$ 2,102	33,345	$ 0.06

The computation of diluted number of shares excludes 60,000 and 660,000 unexercised stock options for the three and six months ended April 30, 2002, respectively, which are anti-dilutive.

As the Company reported losses before cumulative effect of change in accounting principle for the three months ended April 30, 2001 all 1,015,000 of the options and warrants outstanding were anti-dilutive, and therefore, there were no reconciling items between basic and diluted loss per share. For the six months ended April 30, 2001, the computation for diluted number of shares excludes 825,000 unexercised stock options and warrants, which are anti-dilutive.

6. Inventory

As of April 30, 2002 and October 31, 2001, inventories consist of:

	April 30, 2002	October 31, 2001
Parts and supplies	$ 787	$ 1,468
Finished products	44,694	60,469
	$ 45,481	$ 61,937

(Dollars in thousands, unless otherwise noted)

7. Investments

Investments are comprised of equity securities and are classified as current and non-current assets. Investments are accounted for under the average cost method as "available-for-sale" in accordance with Statement of Financial Standards Board No. 115 "Accounting for Certain Investments in Debt and Equity Securities." Investments are stated at fair value, with unrealized appreciation (loss) reported as a separate component of accumulated other comprehensive income (loss) in stockholders' equity.

During the three months ended April 30, 2001, the Company recorded an impairment charge of $20,754, principally consisting of $18,448 relating to its investment in Gameplay and $2,000 relating to its investment in eUniverse to reflect other than temporary declines in value.

As of April 30, 2002 and October 31, 2001, investments were summarized as follows:

	April 30, 2002		October 31, 2001	
	Current	Non-Current	Current	Non-Current
Average cost	$ 259	$ 75	$ 5,988	$ 75
Unrealized gains	241	23	253	--
Fair value	$ 500	$ 98	$ 6,241	$ 75

For the six months ended April 30, 2002, the gross proceeds from the sale of investments were $5,888. The realized gain from these sales totaled $32 and $159 for the three months and six months ended April 30, 2002, respectively. The gain on sale of securities is based on the average cost of the individual securities sold.

8. Lines of Credit

In December 1999, the Company entered into a credit agreement, as amended, with a group of lenders led by Bank of America, N.A., as agent. The agreement was amended in February 2002 to provide for borrowings of up to $50,000 through the remaining term of the agreement. Generally, advances under the line of credit are based on a borrowing formula equal to the lesser of (1) the borrowing limit or (2) 70% of eligible accounts receivable, plus 25% of eligible inventory. Interest accrues on such advances at the bank's prime rate plus 1.25%, or at LIBOR plus 3.25%. Borrowings under the line of credit are collateralized by the Company's accounts receivable, inventory, equipment, general intangibles, securities and other personal property, including the capital stock of the Company's domestic subsidiaries. The loan agreement contains certain financial and other covenants. As of April 30, 2002, the Company is in compliance with such covenants. The loan agreement limits or prohibits the Company from declaring or paying cash dividends, merging or consolidating with another corporation, selling assets (other than in the ordinary course of business), creating liens and incurring additional indebtedness. The line of credit expires on December 7, 2002. The Company had no outstanding borrowings under the revolving line of credit as of April 30, 2002.

In February 2001, the Company's United Kingdom subsidiary entered into a credit facility agreement, as amended in March 2002, with Lloyds TSB Bank plc ("Lloyds") under which Lloyds agreed to make available borrowings of up to $19,000. Advances under the credit facility bear interest at the rate of 1.25% per annum over the bank's base rate, and are guaranteed by the Company. The facility expires on March 31, 2004. The Company had no outstanding borrowings under this facility as of April 30, 2002.

(Dollars in thousands, unless otherwise noted)

9. Intangible Assets

As a result of the adoption of SFAS 142, the Company discontinued the amortization of goodwill effective November 1, 2001. Identifiable intangible assets are amortized under the straight-line method over the period of expected benefit ranging from three to ten years, except for intellectual property, which is amortized based on the shorter of the useful life or expected revenue stream. The Company re-characterized acquired workforce of $925, which is no longer defined as an acquired intangible asset under SFAS 141, as goodwill. Additionally, the estimated useful lives of certain identifiable intangible assets were adjusted in conjunction with the adoption of SFAS 142.

Intangible assets consist of trademarks, intellectual property, customer lists, acquired technology and the excess purchase price paid over identified intangible and tangible net assets of acquired companies (goodwill).

The following table sets forth the components of the intangible assets subject to amortization as of April 30, 2002 and October 31, 2001:

		As of April 30, 2002			As of October 31, 2001		
	Range of Useful Life	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trademarks	7-10 years	$ 13,922	$ (3,077)	$ 10,845	$ 13,922	$ (2,312)	$ 11,610
Customer lists and relationships	5-10 years	9,081	(1,710)	7,371	9,081	(1,068)	8,013
Intellectual property	2-6 years	8,527	(910)	7,617	8,527	(300)	8,227
Technology	3 years	4,640	(1,063)	3,577	4,640	(348)	4,292
		$ 36,170	$ (6,760)	$ 29,410	$ 36,170	$ (4,028)	$ 32,142

Amortization expense (including goodwill for 2001) for the three months ended April 30, 2002 and 2001 amounted to $1,260, and $3,179, respectively and for the six months ended April 30, 2002 and 2001 amounted to $2,732 and $5,470, respectively.

Estimated amortization expense for the fiscal years ending October 31, are as follows:

2002	$ 4,244
2003	3,826
2004	3,789
2005	3,553
2006	3,475
Total	$18,887

(Dollars in thousands, unless otherwise noted)

The following table provides a reconciliation of net income for exclusion of goodwill amortization:

	Three months ended April 30		Six months ended April 30	
	2002	2001	2002	2001
Income (loss) before cumulative effect of change in accounting principle	$ 9,637	$ (11,467)	$ 44,466	$ 2,102
Cumulative effect of change in accounting principle, net of taxes	--	--	--	(5,337)
Net income (loss) - as reported	9,637	(11,467)	44,466	(3,235)
Add: Goodwill amortization, net of taxes	--	1,193	--	2,131
Net income (loss) - as adjusted	$ 9,637	$ (10,274)	$ 44,466	$ (1,104)
Earnings (loss) per share:				
Income (loss) before cumulative effect of change in accounting principle per share - basic	$ 0.26	$ (0.35)	$ 1.21	$ 0.06
Cumulative effect of change in accounting principle per share	--	--	--	(0.16)
Add: Goodwill amortization, net of taxes	--	0.04	--	0.07
Adjusted earnings (loss) per share - basic	$ 0.26	$ (0.31)	$ 1.21	$ (0.03)
Income (loss) before cumulative effect of change in accounting principle per share - diluted	$ 0.25	$ (0.35)	$ 1.16	$ 0.06
Cumulative effect of change in accounting principle per share	--	--	--	(0.16)
Add: Goodwill amortization, net of taxes	--	0.04	--	0.07
Adjusted earnings (loss) per share - diluted	$ 0.25	$ (0.31)	$ 1.16	$ (0.03)

(Dollars in thousands, unless otherwise noted)

The effect on fiscal 2002 resulting from the change in accounting principle from the early adoption of SFAS 142 is as follows:

	Three months ended April 30, 2002	Six months ended April 30, 2002
Net income - as reported	$ 9,637	$ 44,466
Less: Additional Goodwill amortization, net of taxes	1,239	2,478
Net income - as adjusted	$ 8,398	$ 41,988
Earnings per share:		
Reported earnings per share - basic	$ 0.26	$ 1.21
Add: Goodwill amortization, net of taxes	(0.03)	(0.07)
Adjusted earnings per share - basic	$ 0.23	$ 1.14
Reported earnings per share - diluted	$ 0.25	$ 1.16
Add: Goodwill amortization, net of taxes	(0.03)	(0.06)
Adjusted earnings per share - diluted	$ 0.22	$ 1.10

10. Commitments and Contingencies

Since December 2001, thirteen purported class action lawsuits have been filed in the United States District Court for the Southern District of New York against the Company and certain of its current and former officers and directors. The actions were consolidated in one lawsuit, Gershon Bassman v. Take-Two Interactive Software, Inc., in April 2002. The consolidated complaint includes claims under Sections 10 (b) and 20 (a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated under Section 10 (b), and generally alleges that defendants issued false and misleading public filings, press releases and other statements regarding the Company's financial condition during a class period commencing on February 24, 2001 through December 17, 2001 in a scheme to artificially inflate the value of the Company's common stock.

In June 2002, the Company entered into a definitive agreement with the plaintiffs to settle the consolidated class action lawsuits for $7,500 in cash. During the quarter ended April 30, 2002, the Company recorded $1,468 of class action settlement costs, which represents the settlement of $7,500 and related legal fees, net of $6,145 of insurance proceeds. The settlement amount is included in accounts payable at April 30, 2002. The insurance proceeds are included in prepaid expenses and other current assets at April 30, 2002. The settlement agreement is subject to final approval of the United States District Court.

The Securities and Exchange Commission has issued a formal order of investigation into, among other things, certain accounting matters relating to the Company's financial statements, periodic reporting and internal accounting control provisions of the federal securities laws.

(Dollars in thousands, unless otherwise noted)

The Company is involved in routine litigation arising in the ordinary course of its business. In the opinion of the Company's management, none of the pending routine litigation will have a material adverse effect on the Company's consolidated financial condition, cash flows or results of operations.

In April 2002, the Company acquired exclusive distribution rights to various software games in the United States and Canada. The agreement, which expires in October 2003, requires minimum guaranteed payments of $4,200, which are collateralized by a standby letter of credit.

11. Segment Reporting

The Company has adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"), which establishes standards for reporting by public business enterprises of information about product lines, geographic areas and major customers. The method for determining what information to report is based on the way management organizes the Company for making operational decisions and assessment of financial performance. The Company's chief operating decision maker is considered to be the Company's Chief Executive Officer ("CEO"). The CEO reviews financial information presented on a consolidated basis accompanied by disaggregated information about sales by geographic region and by product platforms. The Company's Board of Directors reviews consolidated financial information. The Company's operations employ the same products, cost structures, margins and customers worldwide. The Company's product development, publishing and marketing activities are centralized in the United States under one management team, with distribution activities managed geographically. Accordingly, the Company's operations fall within one reportable segment as defined in SFAS No. 131.

Information about the Company's non-current assets in the United States and international areas as of April 30, 2002 and October 31, 2001 are presented below:

	April 30, 2002	October 31, 2001
Total Non-current Assets:		
United States	$ 84,245	$ 81,243
International		
United Kingdom	20,539	21,128
All other Europe	18,618	21,405
Other	8,467	8,347
	$131,869	$132,123

Information about the Company's net sales in the United States and international areas for the three and six months April 30, 2002 and 2001 are presented below (net sales are attributed to geographic areas based on product destination):

	Three months ended April 30		Six months ended April 30	
Net Sales:	2002	2001	2002	2001
United States ..	$ 123,954	$ 64,098	$ 343,962	$ 177,461
Canada	5,456	2,247	9,522	8,872
International				
United Kingdom .	18,226	6,046	33,817	23,496
All other Europe	18,896	13,053	59,363	29,503
Asia Pacific ...	3,406	2,574	5,894	6,137
Other	392	161	698	301
	$ 170,330	$ 88,179	$ 453,256	$ 245,770

(Dollars in thousands, unless otherwise noted)

Information about the Company's net sales by product platforms for the three and six months ended April 30, 2002 and 2001 are presented below:

	Three months ended April 30		Six months ended April 30	
Platforms:	2002	2001	2002	2001
Sony Playstation 2	$ 118,516	$ 25,375	$ 306,984	$ 61,582
Sony Playstation	10,774	19,651	38,649	50,231
Microsoft Xbox	12,852	--	37,058	--
PC	11,858	20,307	24,990	50,773
Nintendo GameBoy Color, GameBoy Advance and N64	2,657	2,959	11,367	18,846
Nintendo GameCube	2,093	--	6,494	--
Sega Dreamcast	412	1,337	1,376	9,238
Accessories	4,690	5,195	12,366	25,061
Hardware	6,478	13,355	13,972	30,039
	$ 170,330	$ 88,179	$ 453,256	$ 245,770

12. Subsequent Event

In May 2002, the Company acquired all right, title and interest to the Max Payne product franchise, including all of the intellectual property rights associated with the brand, and a perpetual, royalty-free license to use the Max Payne game engine and related technology. The purchase price consisted of $10,000 in cash and 969,932 shares of restricted common stock. Based on an independent third-party valuation, the fair value of the shares is $18,543. In addition, the Company is contingently liable to make aggregate payments of up to $8,000 in cash upon the timely delivery of the final PC version of Max Payne 2 and the achievement of certain sales targets for such product. Any contingent payments will be recorded as an increase to the recorded intangible asset upon resolution of the contingency. The Company is in the process of obtaining an independent third-party valuation in support of its purchase price allocation for the assets acquired.

General

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates and assumptions relate to the recoverability of prepaid royalties, capitalized software development costs and other intangibles, inventories, realization of deferred income taxes and the adequacy of allowances for returns, price protection and doubtful accounts. Actual amounts could differ significantly from these estimates.

Revenue Recognition

The Company's principal sources of revenues are derived from publishing and distribution operations. Publishing revenues are derived from the sale of internally developed software titles or software titles licensed from third parties. Distribution revenues are derived from the sale of third-party software titles, accessories and hardware. Publishing activities generally generate significantly higher margins than distribution activities, with sales of PC software titles resulting in higher margins than sales of CDs or cartridges designed for video game consoles.

Effective November 1, 2000, in accordance with the adoption of SAB 101, "Revenue Recognition in Financial Statements", the Company recognizes revenue net of allowances for returns and price protection when title and risk of loss pass to customers (generally, upon receipt of products by customers). Prior to that date, the Company recognized revenue upon shipment. In accordance with Statement of Position 97-2 "Software Revenue Recognition" the Company recognizes revenue when the price is fixed and determinable, upon persuasive evidence of an agreement, the Company's fulfillment of its obligations under any such agreement and a determination that collection is probable. The Company's payment arrangements with customers provide primarily 60 day terms and to a limited extent with certain customers 30, 90 or 120 day terms. The Company may not have a reliable basis to estimate returns and allowances for certain customers or may be unable to determine that collection of receivables is probable. In such circumstances, the Company defers revenues at the time of sale and recognizes revenues when collection of the related receivable becomes probable or cash is collected.

Returns and Reserves

The Company's arrangements with customers for published titles generally require it to accept returns and provide price protection. The Company establishes a reserve for future returns of published titles and price protection based primarily on historical return rates, return policies and price protection policies, and recognizes revenues net of allowances for returns and price protection. The Company's distribution arrangements with customers generally do not give them the right to return titles or to cancel firm orders. However, the Company sometimes accepts returns for stock balancing and negotiates accommodations to customers, which includes price discounts, credits and returns, when demand for specific titles fall below expectations. The historical product return rate for the Company's distribution business has been substantially less than for its publishing business. If future returns significantly exceed established reserves, the Company's operating results would be adversely affected.

Prepaid Royalties

The Company's agreements with licensors and developers generally provide it with exclusive publishing rights and require it to make advance royalty payments that are recouped against royalties due to the licensor or developer based on product sales. Prepaid royalties are amortized as cost of sales on a title by title basis based on the greater of the proportion of current year sales to total of current and estimated future sales for that title or the contractual royalty rate based on actual net product sales. The Company continually evaluates the recoverability of prepaid royalties and charges to cost of sales the amount that management determines is probable that will not be recouped at the contractual royalty rate in the period in which such determination is made. Prepaid royalties are classified as current and non-current assets based upon estimated net product sales within the next year.

Prepaid royalties were written down by $2,428 and $3,168 for the three and six months ended April 30, 2002, respectively, to estimated net realizable value. Prepaid royalties were written down by $75 for the three and six months ended April 30, 2001, to estimated net realizable value. Amortization of prepaid royalties amounted to $8,307 and $2,649, which was included in total royalty expense of $19,053 and $2,905, respectively, for the three months ended April 30, 2002 and 2001. Amortization of prepaid royalties amounted to $23,545 and $8,669, which was included in total royalty expense of $38,481 and $9,305, respectively, for the six months ended April 30, 2002 and 2001.

Capitalized Software Development Costs

The Company capitalizes internal software development costs subsequent to establishing technological feasibility of a title. Capitalized software development costs primarily represent the costs associated with the internal development of the Company's publishing products. Amortization of such costs as a component of cost of sales is recorded on a title-by-title basis based on the greater of the proportion of current year sales to total of current and estimated future sales for the title or the straight-line method over the remaining estimated useful life of the title. The Company continually evaluates the recoverability of capitalized software costs. For the three and six months ended April 30, 2002, capitalized software costs of $19 were written down to net realizable value. For the three and six months ended April 30, 2001, capitalized software costs of $389 were written off as cost of sales as part of the impairment charge as described in Note 3 to the Unaudited Consolidated Condensed Financial Statements. Amortization of capitalized software costs amounted to $919 and $1,049 for the three months ended April 30, 2002 and 2001, respectively, and $3,874 and $1,941 for the six months ended April 30, 2002 and 2001, respectively.

(Dollars in thousands, unless otherwise noted)

Results of Operations

The following table sets forth for the periods indicated the percentage of net sales represented by certain items reflected in the Company's statement of operations, and sets forth net sales by territory, platform and principal products:

Operating data:	Three months ended April 30		Six months ended April 30	
	2002	2001	2002	2001
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales (1)	62.6	65.1	63.1	65.8
Selling and marketing (2)	12.0	13.1	9.4	9.8
General and administrative	11.1	10.3	8.4	8.0
Research and development	2.3	1.8	1.3	1.2
Depreciation and amortization	1.5	4.0	1.1	2.4
Interest expense, net	--	2.7	0.2	2.2
(Gain) loss on Internet securities	--	23.5	--	8.4
Provision (benefit) for income taxes	3.9	(7.6)	6.4	1.3
Net income (loss)	5.7	(13.0)	9.8	(1.3)
Net Sales by Territory:				
North America	76.0%	75.2%	78.0%	75.8%
International	24.0	24.8	22.0	24.2
Platform Mix (publishing):				
Console	93.7%	62.7%	94.5%	58.6%
PC	5.0	33.9	4.0	34.0
Accessories and Hand-held	1.3	3.4	1.5	7.4
Principal Product Sales:				
Grand Theft Auto 3, PS2 (released October 2001)	35.5%	--%	39.2%	--%
State of Emergency (released February 2002)	22.0	--	8.3	--
Max Payne, PS2 (released December 2001)	8.0	--	10.2	--
Max Payne, Xbox (released December 2001)	4.9	--	4.6	--
Ten largest titles	75.0	38.8	66.5	25.3

(1) Includes impairment charge on Internet assets of 4.3% and 1.5% of sales for the three and six months ended April 30, 2001, respectively.

(2) Includes impairment charge on Internet assets of 0.5% and 0.2% of sales for the three and six months ended April 30, 2001, respectively.

Three Months Ended April 30, 2002 and 2001

Net Sales. Net sales increased by $82,151 or 93.2%, to $170,330 for the three months ended April 30, 2002 from $88,179 for the three months ended April 30, 2001. The increase was primarily attributable to growth in publishing operations.

Publishing revenues increased by $85,674, or 178.1%, to $133,790 for the three months ended April 30, 2002 from $48,116 for the three months ended April 30, 2001. The increase was primarily attributable to the continued strong sales of Grand Theft Auto 3 and Max Payne and the release of State of Emergency. For the three months ended April 30, 2002 and 2001, publishing activities accounted for approximately 78.5% and 54.6% of net sales, respectively.

For the current period, products designed for PC platforms accounted for approximately 5.0% of publishing revenues as compared to 33.9% for the prior comparable period. The decrease is a result of fewer PC titles released during the current quarter. Products designed for video game console platforms accounted for 93.7% of publishing revenues as compared to 62.7% for the prior comparable period. The increase was primarily attributable to the release of State of Emergency for PlayStation 2, and continued sales of Grand Theft Auto 3 for PlayStation 2 and Max Payne for PlayStation 2 and Xbox.

Distribution revenues decreased by $3,523 or 8.8%, to $36,540 for the three months ended April 30, 2002 from $40,063 for the three months ended April 30, 2001. The decrease was primarily attributable to lower hardware sales. For the three months ended April 30, 2002 and 2001, distribution activities accounted for approximately 21.5% and 45.4% of net sales, respectively.

International operations accounted for approximately $40,921 or 24.0% of net sales for the three months ended April 30, 2002 compared to $21,834 or 24.8% for the three months ended April 30, 2001. The increase in absolute dollars was primarily attributable to expanded publishing operations in Europe.

Cost of Sales. Cost of sales increased by $49,279, or 85.9%, to $106,675 for the three months ended April 30, 2002 from $57,396 for the three months ended April 30, 2001. The 2001 quarter included a non-cash impairment charge of $3,786 relating to a reduction in the value of certain Internet assets, including software technologies and products developed by Neo. Excluding this charge, cost of sales as a percentage of net sales increased to 62.6% for the three months ended April 30, 2002 from 60.8% for the prior comparable period. The increase in cost of sales as a percentage of net sales was due partially to the change in publishing product mix to lower margin console titles as compared to higher margin PC titles in the prior compatible period. In addition, royalty expense increased during the current period due principally to sales of State of Emergency and incremental write downs of prepaid royalties of $2,353. In future periods, cost of sales may be adversely affected by manufacturing and other costs, price competition and by changes in product and sales mix and distribution channels.

Selling and Marketing. Selling and marketing expenses increased by $8,945, or 77.3%, to $20,522 for the three months ended April 30, 2002 from $11,577 for the three months ended April 30, 2001. The increase was attributable to increased television and other advertising expenses relating to Max Payne and Grand Theft Auto 3 during the 2002 quarter. The 2001 quarter includes a non-cash impairment charge of $401 relating to online sales promotions for the Company's products to be delivered by Neo to Gameplay. Excluding the 2001 charge, selling and marketing expenses as a percentage of net sales for the three months ended April 30, 2002 decreased to 12.0% from 12.6% for the three months ended April 30, 2001.

General and Administrative. General and administrative expenses increased by $9,817, or 107.8%, to $18,924 for the three months ended April 30, 2002 from $9,107 for the three months ended April 30, 2001. General and administrative expenses as a percentage of net sales increased to 11.1% from 10.3% from the prior period. The increase in absolute dollars was attributable to increased personnel expenses necessary to support the Company's operations and legal and professional fees incurred in connection with legal proceedings and regulatory matters.

Research and Development. Research and development costs increased by $2,336, or 145.9%, to $3,937 for the three months ended April 30, 2002 from $1,601 for the three months ended April 30, 2001. Research and development costs as a percentage of net sales increased to 2.3% for the three months ended April 30, 2002 from 1.8% for the three months ended April 30, 2001. The increase was attributable to bonus compensation and increased staffing levels.

Depreciation and Amortization. Depreciation and amortization expense decreased $1,021, or 28.9%, to $2,517 for the three months ended April 30, 2002 from $3,538 from the prior comparable period due to the Company's adoption of SFAS 142. The decrease was partially offset by increased costs related to the company-wide implementation of a new accounting software system.

Income from Operations. Income from operations increased by $12,795, or 258.0%, to $17,755 for the three months ended April 30, 2002 from $4,960 for the three months ended April 30, 2001, due to the changes referred to above.

Interest Expense, net. Interest expense decreased by $2,302, or 97.7%, to $53 for the three months ended April 30, 2002 from $2,355 for the three months ended April 30, 2001. The decrease was attributable to the absence of borrowings from the Company's credit facilities during the 2002 quarter.

(Gain) Loss on Internet Investments . For the three months ended April 30, 2002, the Company recognized a gain of $32 from the sale of marketable securities. During the three months ended April 30, 2001, the Company incurred a non-recurring non-cash impairment charges of $20,754 relating primarily to its investments in Gameplay and eUniverse to reflect other than temporary declines in the value of these investments.

Class Action Settlement Costs. During the three months ended April 30, 2002, the Company recorded $1,468 of class action settlement costs, which represents a settlement of $7,500 and related legal fees, net of $6,145 of insurance proceeds.

Provision (Benefit) for Income Taxes. Income tax expense of $6,629 for the three months ended April 30, 2002 compared to a benefit of $6,682 for the three months ended April 30, 2001. The increase in absolute dollars resulted primarily from attainment of pre-tax income for the three months ended April 30, 2002 as compared to a pre-tax loss for the comparable 2001 quarter. The effective tax rate was 40.8% for the three months ended April 30, 2002, while the tax rate for the 2001 quarter was 36.8%. The effective tax rate differs from the statutory rate as a result of non deductible expenses and the mix of foreign taxes as applied to the applicable income or loss.

Net Income. For the three months ended April 30, 2002, the Company achieved net income of $9,637, as compared to net loss of $11,467 for the three months ended April 30, 2001.

Six Months Ended April 30, 2002 and 2001

Net Sales. Net sales increased by $207,486, or 84.4%, to $453,256 for the six months ended April 30, 2002 from $245,770 for the six months ended April 30, 2001. The increase was primarily attributable to growth in publishing operations. Included in net sales for the six months ended April 30, 2001 was $27,230 attributable to the adoption of SAB 101.

Publishing revenues increased by $199,841, or 158.7%, to $325,746 for the six months ended April 30, 2002 from $125,905 for the six months ended April 30, 2001. The increase was primarily attributable to the continued strong sales of Grand Theft Auto 3 and the release of Max Payne and State of Emergency. For the six months ended April 30, 2002 and 2001, publishing activities accounted for approximately 71.9% and 51.2% of net sales, respectively. The 2001 period included $20,632 attributable to the adoption of SAB 101.

For the current period, products designed for PC platforms accounted for approximately 4.0% of publishing revenues as compared to 34.0% for the prior comparable period. The decrease is a result of fewer PC titles released during the current period. Products designed for video game console platforms accounted for 94.5% of publishing revenues as compared to 58.6% for the prior comparable period. The increase was primarily attributable to the release of State of Emergency for PlayStation 2, and Max Payne for PlayStation 2 and Xbox and continued sales of Grand Theft Auto 3 for PlayStation 2.

Distribution revenues increased by $7,645 or 6.4% to $127,510 for the six months ended April 30, 2002 from $119,865 for the six months ended April 30, 2001. The increase was primarily attributable to the commercial introduction of Xbox and GameCube and the continued rollout of PlayStation 2. For the six months ended April 30, 2002 and 2001, distribution activities accounted for approximately 28.1% and 48.8% of net sales, respectively. The 2001 period included $6,598 attributable to the adoption of SAB 101.

International operations accounted for approximately $99,772 or 22.0% of net sales for the six months ended April 30, 2002 compared to $59,437 or 24.2% for the six months ended April 30, 2001. The increase was primarily attributable to expanded publishing operations in Europe, including the release of Max Payne and State of Emergency on PlayStation 2 and continued sales of Grand Theft Auto 3 for PlayStation 2. The Company expects that international sales will continue to account for a significant portion of its revenue.

Cost of Sales. Cost of sales increased by $124,484, or 77.0%, to $286,140 for the six months ended April 30, 2002 from $161,656 for the six months ended April 30, 2001. The 2001 period includes a non-cash impairment charge of $3,786 relating to a reduction in the value of certain Internet assets. Excluding this charge, cost of sales as a percentage of net sales decreased to 63.1% for the six months ended April 30, 2002 from 64.3% for the prior comparable period. The decrease in cost of sales as a percentage of net sales was due to a higher percentage of publishing revenues derived principally from sales of internally owned and developed Grand Theft Auto 3. This decrease was partially offset by higher royalty expense during the current period due primarily to sales of State of Emergency and incremental write downs of prepaid royalties of $3,093. Additionally, this decrease in cost of sales as a percentage of net sales was partially offset by the change in publishing product mix to lower margin console titles as compared to higher margin PC titles in the prior comparable period. Cost of sales in 2001 included $18,335 related to the adoption of SAB 101. In future periods, cost of sales may be adversely affected by manufacturing and other costs, price competition and by changes in product and sales mix and distribution channels.

Selling and Marketing. Selling and marketing expenses increased by $18,388, or 76.2%, to $42,517 for the six months ended April 30, 2002 from $24,129 for the six months ended April 30, 2001. The increase was attributable to increased television and other advertising expenses relating to Max Payne and Grand Theft Auto 3 during the period, partly offset by the 2001 non-cash impairment charge of $401 relating to online sales promotions for the Company's products to be delivered by Neo to Gameplay. Selling and marketing expenses as a percentage of net sales declined to 9.4% for the six months ended April 30, 2002 from 9.8% in the similar period of 2001.

General and Administrative. General and administrative expenses increased by $18,303, or 93.3%, to $37,921 for the six months ended April 30, 2002 from $19,618 for the six months ended April 30, 2001. General and administrative expenses as a percentage of net sales remained constant from the prior period. The increase in absolute dollars was attributable to increased personnel expenses necessary to support the Company's operations and legal and professional fees incurred in connection with legal proceedings and regulatory matters.

Research and Development. Research and development costs increased by $2,890, or 96.3% to $5,891 for the six months ended April 30, 2002 from $3,001 for the six months April 30, 2001. Research and development costs as a percentage of net sales remained relatively constant for the six months ended April 30, 2002 and 2001.

Depreciation and Amortization. Depreciation and amortization expense of $4,788 for the six months ended April 30, 2002 decreased $1,172, or 19.7%, from the prior comparable period, due to the Company's adoption of SFAS 142 partly offset by increased costs related to the company-wide implementation of a new accounting software system.

Income from Operations. Income from operations increased by $44,593, or 142.0%, to $75,999 for the six months ended April 30, 2002 from $31,406 for the six months ended April 30, 2001, due to the changes referred to above.

Interest Expense, net. Interest expense decreased by $4,258, or 80.6%, to $1,027 for the six months ended April 30, 2002 from $5,285 for the six months ended April 30, 2001. The decrease was attributable to substantially lower levels of borrowing from the Company's credit facilities.

(Gain) Loss on Internet Investments. For the six months ended April 30, 2002, the Company recognized a gain of $159 from the sale marketable of securities. During the six months ended April 30, 2001, the Company incurred a non-recurring non-cash impairment charges of $20,754 relating primarily to its investments in Gameplay and eUniverse to reflect other than temporary declines in the value of these investments.

Class Action Settlement Costs. During the three months ended April 30, 2002, the Company recorded $1,468 of class action settlement costs, which represents a settlement of $7,500 and related legal fees, net of $6,145 of insurance proceeds.

Provision (Benefit) for Income Taxes. Income tax expense increased by $25,932, to $29,197 for the six months ended April 30, 2002 from $3,265 for the six months ended April 30, 2001. The increase was primarily attributable to increased taxable income. The decrease in the effective rate to 39.6% for the six months ended April 30, 2002 as compared to 60.8% for the six months ended April 30, 2001 is the result of state and foreign tax rate differentials and a decrease in non-deductible items, such as goodwill as applied to higher levels of pretax income.

Cumulative Effect of Change in Accounting Principle. In connection with the adoption of SAB 101, the Company recognized a cumulative effect of $5,337 net of taxes of $3,558 in 2001.

Net Income. For the six months ended April 30, 2002, the Company achieved net income of $44,466, as compared to net loss of $3,235 for the six months ended April 30, 2001.

Liquidity and Capital Resources

The Company's primary cash requirements have been and will continue to be to fund developing, manufacturing, publishing and distributing its products. The Company has historically satisfied its working capital requirements primarily through cash flow from operations, the issuance of debt and equity securities and bank borrowings. At April 30, 2002, the Company had working capital of $145,811 as compared to working capital of $88,229 at October 31, 2001.

The Company's cash and cash equivalents increased $63,561 to $69,617 at April 30, 2002, from $6,056 at October 31, 2001. The increase is primarily attributable to $108,397 of cash provided by operating activities, partly offset by $946 used in investing activities and by $47,184 used in financing activities.

Cash provided by operating activities for the six months ended April 30, 2002 was $108,397 compared to $23,322 for the six months ended April 30, 2001 reflecting increased net income and working capital.

Net cash used in investing activities for the six months ended April 30, 2002 was $946 as compared to net cash used in investing activities of $7,077 for the six months ended April 30, 2001. The decrease is primarily attributable to the sale of securities coupled with no acquisition activity in 2002, partially offset by increased expenditures for fixed assets.

Net cash used in financing activities for the six months ended April 30, 2002 was $47,184, as compared to net cash used in financing activities of $13,800 for the six months ended April 30, 2001. The increase in net cash used in financing activities was primarily attributable to the increased repayment of indebtedness.

In December 1999, the Company entered into a credit agreement, as amended, with a group of lenders led by Bank of America, N.A., as agent. The agreement was amended in February 2002 to provide for borrowings of up to $50,000 through the remaining term of the agreement. Generally, advances under the line of credit are based on a borrowing formula equal to the lesser of (1) the borrowing limit or (2) 70% of eligible accounts receivable, plus 25% of eligible inventory. Interest accrues on such advances at the bank's prime rate plus 1.25%, or at LIBOR plus 3.25%. Borrowings under the line of credit are collateralized by the Company's accounts receivable, inventory, equipment, general intangibles, securities and other personal property, including the capital stock of the Company's domestic subsidiaries. The loan agreement contains certain financial and other covenants. As of April 30, 2002, the Company is in compliance with such covenants. The loan agreement limits or prohibits the Company from declaring or paying cash dividends, merging or consolidating with another corporation, selling assets (other than in the ordinary course of business), creating liens and incurring additional indebtedness. The line of credit expires on December 7, 2002. The Company had no outstanding borrowings under the revolving line of credit as of April 30, 2002.

In February 2001, the Company's United Kingdom subsidiary entered into a credit facility agreement, as amended in March 2002, with Lloyds TSB Bank plc ("Lloyds") under which Lloyds agreed to make available borrowings of up to $19,000. Advances under the credit facility bear interest at the rate of 1.25% per annum over the bank's base rate, and are guaranteed by the Company. The facility expires on March 31, 2004. The Company had no outstanding borrowings under this facility as of April 30, 2002.

For the six months ended April 30, 2002, the Company received proceeds of $7,396 relating to exercise of stock options and warrants.

In connection with the Company's acquisition of the publishing rights to the franchise of Duke Nukem' PC and video games in December 2000, the Company is contingently obligated to pay $6,000 in cash upon delivery of the final PC version of Duke Nukem' Forever. In addition, in connection with the Company's acquisition of the Max Payne product franchise, the Company is contingently liable to make aggregate payments of up to $8,000 in cash upon the timely delivery of the final PC version of Max Payne 2 and the achievement of certain sales targets for such product. The payables will be recorded when the contingencies are resolved.

The Company's accounts receivable, less an allowance for doubtful accounts, returns and price protection and other discounts at April 30, 2002 was $65,095. Of such receivables, approximately 10.7% was due from one customer. Most of the Company's receivables are covered by insurance in the event of a customer's bankruptcy or insolvency and generally the Company has been able to collect its receivables in the ordinary course of business. The Company does not hold any collateral to secure payment from customers. As a result, the Company is subject to credit risks, particularly in the event that any of the receivables represent a limited number of retailers or are concentrated in foreign markets. If the Company is unable to collect its accounts receivable as they become due and such accounts are not covered by insurance, the Company could be required to increase its allowance for doubtful accounts, which could adversely affect its liquidity and working capital position. The Company had accounts receivable days outstanding of 34 days at April 30, 2002, as compared to 96 days at April 30, 2001. The 2002 period was favorably impacted by the launch of State of Emergency in the first month of the quarter, which provided the time to collect such receivables by April 30, 2002.

The Company's offices and warehouse facilities are occupied under non-cancelable operating leases expiring at various times from January 2003 to October 2011. Additionally, the Company has leased certain furniture equipment and automobiles under non-cancelable leases expiring through July 2005. In April 2002, the Company acquired exclusive distribution rights to various software games in the United States and Canada. The agreement, which expires in October 2003, requires minimum guaranteed payments of $4,200, which are collateralized by a standby letter of credit.

The Company has no material commitments for capital expenditures. The Company may incur significant legal, accounting and other professional fees and expenses in connection with pending regulatory matters.

Based on its currently proposed operating plans and assumptions, the Company believes that projected cash flow from operations and available cash resources, including amounts available under its lines of credit, will be sufficient to satisfy its cash requirements for the reasonably foreseeable future.

Fluctuations in Operating Results and Seasonality

The Company has experienced fluctuations in quarterly operating results as a result of the timing of the introduction of new titles; variations in sales of titles developed for particular platforms; market acceptance of the Company's titles; development and promotional expenses relating to the introduction of new titles, sequels or enhancements of existing titles; projected and actual changes in platforms; the timing and success of title introductions by the Company's competitors; product returns; changes in pricing policies by the Company and its competitors; the accuracy of retailers' forecasts of consumer demand; the size and timing of acquisitions; the timing of orders from major customers; and order cancellations and delays in product shipment. Sales of the Company's titles are also seasonal, with peak shipments typically occurring in the fourth calendar quarter (the Company's fourth and first fiscal quarters) as a result of increased demand for titles during the holiday season. Quarterly comparisons of operating results are not necessarily indicative of future operating results.

International Operations

Sales in international markets, principally in the United Kingdom and other countries in Europe, have accounted for a significant portion of the Company's net sales. For the three months ended April 30, 2002, and 2001, sales in international markets accounted for approximately 24.0% and 24.8%, respectively, of the Company's net sales. For the six months ended April 30, 2002 and 2001, sales in international markets accounted for approximately 22.0% and 24.2%, respectively, of the Company's net sales. The Company is subject to risks inherent in foreign trade, including increased credit risks, tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays and international political, regulatory and economic developments, all of which can have a significant impact on the Company's operating results.

Recently Issued Accounting Pronouncements

In November 2001, the Financial Accounting Standards Board ("FASB") Emerging Issues Task Force (EITF) reached a consensus on EITF Issue 01-09, Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor's Products, which is a codification of EITF 00-14, 00-22 and 00-25. This EITF presumes that consideration from a vendor to a customer or reseller of the vendor's products to be a reduction of the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement and could lead to negative revenue under certain circumstances. Revenue reduction is required unless consideration relates to a separate identifiable benefit and the benefit's fair value can be established. The Company has early adopted EITF 01-09 effective November 1, 2001. The adoption of the new standard did not have a material impact on the consolidated condensed financial statements. The prior period has been reclassified in accordance with this statement.

Effective November 1, 2001, the Company adopted Statement of Financial Accounting Standard No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires all business combinations to be accounted for using the purchase method of accounting and that certain intangible assets acquired in a business combination shall be recognized as assets apart from goodwill. SFAS 142 addresses the recognition and measurement of goodwill and other intangible assets subsequent to their acquisition. SFAS 142 also addresses the initial recognition and measurement of intangible assets acquired outside of a business combination whether acquired individually or with a group of other assets. This statement provides that intangible assets with finite useful lives be amortized and that intangible assets with indefinite lives and goodwill will not be amortized, but will be tested at least annually for impairment. Upon completion of the transitional impairment test, the fair value for each of the Company's reporting units exceeded the reporting unit's carry amount and no impairment was indicated.

In August 2001, the FASB issued Statement of Financial Accounting Standard No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets" ("SFAS 143"). The objective of SFAS 143 is to provide accounting guidance for legal obligations associated with the retirement of long-lived assets. The retirement obligations included within the scope of this pronouncement are those that an entity cannot avoid as a result of either the acquisition, construction or normal operation of a long-lived asset. Components of larger systems also fall under this pronouncement, as well as tangible long-lived assets with indeterminable lives. The provisions of SFAS 143 are effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company is currently evaluating the expected impact of the adoption of SFAS 143 on the Company's financial condition, cash flows and results of operations. The Company will adopt the standard in the first quarter of fiscal 2003.

In October 2001, the FASB issued Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). The objectives of SFAS 144 are to address significant issues relating to the implementation of SFAS 121 and to develop a single accounting model, based on the framework established in SFAS 21, for the long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company is currently evaluating the expected impact of the adoption of SFAS 144 on the Company's financial condition and results of operations. The Company will adopt the standard in the first quarter of fiscal 2003.

In April 2002, the FASB issued Statement of Financial Accounting Standard No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment to FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). SFAS 145 eliminates the requirement (in SFAS No. 4) that gains and losses from the extinguishments of debt be aggregated and classified as extraordinary items, net of the related income tax. In addition, SFAS No. 145 requires sales-lease back treatment for certain modifications of a capital lease that result in the lease being classified as an operating lease. The rescission of SFAS No. 4 is effective for fiscal years beginning after May 15, 2002, which for the Company would be November 1, 2002. Earlier application is encouraged. Any gain or loss on extinguishment of debt that was previously classified as an extraordinary item would be reclassified to other income (expense). The remainder of the statement is generally effective for transactions occurring after May 15, 2002. The Company does not expect that the adoption of SFAS No. 145 will have a material impact on the Company's financial condition, cash flows and results of operations.

Cautionary Statement and Risk Factors

Safe Harbor Statement under the Securities Litigation Reform Act of 1995: The Company makes statements in this report that are considered forward-looking statements under federal securities laws. Such forward-looking statements are based on the beliefs of management as well as assumptions made by and information currently available to them. The words "expect," "anticipate," "believe," "may," "estimate," "intend" and similar expressions are intended to identify such forward-looking statements. Forward-looking statements involve risks, uncertainties and assumptions including, but not limited to, the following:

The market for interactive entertainment software titles is characterized by short product life cycles. The interactive entertainment software market is characterized by short product life cycles and frequent introduction of new products. New products may not achieve significant market acceptance or achieve sufficient sales to permit the Company to recover development, manufacturing and associated costs. Historically, few interactive entertainment software products have achieved sustained market acceptance. Even the most successful titles remain popular for only limited periods of time, often less than six months. Because revenues associated with the initial shipments of a new product generally constitute a high percentage of the total revenues associated with the life of a product, any delay in the introduction of one or more new products could harm the Company's operating results. The failure of one or more of the Company's products to achieve market acceptance could result in losses.

A significant portion of the Company's revenues is derived from a limited number of titles. The Company's ten best selling titles accounted for approximately 75.0% and 66.5% of revenues for the three and six months ended April 30, 2002, respectively, and 31.3% of revenues for the year ended October 31, 2001. Future titles may not be commercially viable. The Company also may not be able to release new titles within scheduled release times or at all. If the Company fails to continue to develop and sell new, commercially successful titles, revenues and profits may decrease substantially and the Company may incur losses.

The Company's quarterly operating results may vary significantly, which could cause its stock price to decline. The Company has experienced and may continue to experience wide fluctuations in quarterly operating results. The interactive entertainment industry is highly seasonal, with sales typically higher during the fourth and first calendar quarters, due primarily to the increased demand for games during and immediately following the holiday buying season. The Company's failure or inability to introduce products on a timely basis to meet seasonal fluctuations in demand could harm the Company's business and operating results. Other factors that cause fluctuations include delays in the introduction of new titles; the size and timing of product and corporate acquisitions; variations in sales of titles designed to operate on particular platforms; development and promotional expenses relating to the introduction of new titles, sequels or enhancements of existing titles; availability of hardware platforms; the timing and success of title introductions by competitors; product returns; the accuracy of retailers' forecasts of consumer demand; and the timing of orders from major customers.

The Company's expense levels are based largely on expectations regarding future sales. Therefore, the Company's operating results would be harmed by a decrease in sales or a failure to meet sales expectations. The uncertainties associated with product development, lengthy manufacturing lead times, production delays and the approval process for products by hardware manufacturers and other licensors make it difficult to predict the quarter in which products will ship and may cause the Company to fail to meet financial expectations. In future quarters operating results may fall below the expectations of securities analysts and investors. In this event, the trading price of the Company's common stock could decline.

The interactive entertainment software industry is cyclical, and is subject to rapidly changing consumer tastes and preferences. The Company's business is subject to all of the risks generally associated with the interactive entertainment software industry, which has been cyclical in nature and has been characterized by periods of significant growth followed by rapid declines. Future operating results depend on numerous factors beyond the Company's control, including the popularity, price and timing of new software and hardware platforms being released and distributed by the Company and its competitors; international, national and regional economic conditions, particularly economic conditions adversely affecting discretionary consumer spending; changes in consumer demographics; the availability of other forms of entertainment; and critical reviews and public tastes and preferences, all of which change rapidly and cannot be predicted.

Rapidly changing technology and platform shifts could hurt the Company's operating results. The interactive entertainment industry in general is associated with rapidly changing technology, which often leads to software and platform obsolescence and significant price erosion over the life of a product. The introduction of new platforms and technologies can render existing software titles obsolete or unmarketable. Obsolescence of software or hardware platforms could leave the Company with increased inventories of unsold titles and limited amounts of new titles to sell to consumers, which would have a material adverse effect on the Company's operating results. A number of the Company's competitors have developed or are currently developing software for use by consumers over the Internet. Future increases in the availability of such software or technological advances in such software or the Internet could result in a decline in platform-based software and impact the Company's sales. Direct sales of software by major manufacturers over the Internet would materially adversely affect the Company's distribution business.

Next-generation hardware platforms may not achieve significant market acceptance. The Company's software development efforts with respect to new hardware platforms may not lead to marketable titles or titles that generate sufficient revenues to recover their development, manufacturing and marketing costs, especially if a new hardware platform does not reach a significant level of market acceptance. This risk may increase in the future as continuing increases in development costs require corresponding increases in revenues in order to maintain profitability. The Company is devoting development resources on products designed for Sony's PlayStation 2, Microsoft's Xbox and Nintendo's GameCube. If fewer than expected units of a new hardware platform are produced or shipped, or if such platforms do not achieve commercial success, the Company may experience lower than expected sales or losses for these platforms.

The Company's business is dependent on licensing and publishing arrangements with third parties. The Company's success depends on its ability to identify and develop new titles on a timely basis. The Company has entered into agreements with third parties to acquire the rights to publish and distribute interactive entertainment

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software. These agreements typically require the Company to make advance payments, pay royalties and satisfy other conditions. The Company's advance payments may not be sufficient to permit developers to develop new software successfully. In addition, software development costs, promotion and marketing expenses and royalties payable to software developers have increased significantly in recent years and reduce the potential profits derived from sales of the Company's software. Future sales of titles may not be sufficient to recover advances to software developers, and the Company may not have adequate financial and other resources to satisfy its contractual commitments. If the Company fails to satisfy its obligations under these license agreements, the agreements may be terminated or modified in ways that may be burdensome.

Returns of published titles and price protection may adversely affect the Company's operating results. The Company is exposed to the risk of product returns and price protection with respect to its customers. Although distribution arrangements with retailers generally do not give them the right to return titles to the Company or to cancel firm orders, the Company's arrangements with retailers for published titles require it to accept returns. The Company establishes a reserve for future returns and price protection for published titles at the time of sales, based primarily on its return policies, price protection policies and historical return rates. If return rates and price protection for published titles significantly exceed established reserves, revenues will decline and the Company could incur losses.

The interactive entertainment software industry is highly competitive. The Company competes for both licenses to properties and the sale of interactive entertainment software with Sony, Nintendo, Microsoft and Sega, each of which is a large developer and marketer of software for its platforms. Sony and Nintendo currently dominate the industry and have the financial resources to withstand significant price competition and to implement extensive advertising campaigns, particularly for prime-time television spots. These companies may also increase their own software development efforts or focus on developing software products for third-party platforms. The Company also competes with domestic and international companies, large software companies and media companies. Many of these competitors have far greater financial, technical, personnel and other resources than the Company, and many are able to carry larger inventories, adopt more aggressive pricing policies and make higher offers to licensors and developers for commercially desirable properties.

Increased competition for limited shelf space and promotional support from retailers could require the Company to incur greater expenses to market titles. Retailers have limited shelf space and promotional resources, and competition is intense among an increasing number of newly introduced interactive entertainment software titles for adequate levels of shelf space and promotional support. Competition for retail shelf space is expected to increase, which may require the Company to increase its marketing expenditures just to maintain current levels of sales of titles. Competitors with more extensive lines and popular titles frequently have greater bargaining power with retailers. Accordingly, the Company may not be able to achieve the levels of promotional support and shelf space that such competitors receive.

Rating systems for interactive entertainment software, potential legislation and consumer opposition could inhibit sales of the Company's products. Trade organizations within the video game industry require interactive entertainment software publishers to provide consumers with information relating to graphic violence, profanity or sexually explicit material contained in software titles. Certain countries have also established similar rating systems as prerequisites for sales of interactive entertainment software in such countries. In some instances, the Company may be required to modify products to comply with the requirements of such governmental entities, which could delay the release of those products in such countries. The Company recently discontinued making sales of Grand Theft Auto 3 in Australia for several weeks while it made certain content changes to this title to comply with applicable rating systems. The Company believes that it complies with such rating systems and displays the ratings received for its titles.

Historically, the Company's software titles received a rating of "E" (all ages) or "T" (age 13 and over), although most newer titles (including Grand Theft Auto 3, Max Payne and State of Emergency) have received a rating of "M" (age 17 and over). Certain retailers may decline to sell interactive entertainment software containing graphic violence or sexually explicit material, which may limit the potential market for the Company's "M" rated products.

Several proposals have been made for federal legislation to regulate the interactive entertainment software, motion picture and recording industries, including a proposal to adopt a common rating system for interactive entertainment software, television and music containing violence and sexually explicit material and the Federal Trade Commission has adopted rules with respect to the marketing of such material to minors. Consumer advocacy groups have also opposed sales of interactive entertainment software containing graphic violence and sexually explicit material by pressing for legislation in these areas and by engaging in public demonstrations and media campaigns. If any groups were to target the Company's "M" rated titles, it might be required to significantly change or discontinue a particular title, which in the case of the Company's best selling titles could hurt its business. Additionally, in light of the events in September 2001, the Company revised content in certain of its products that the Company deemed inappropriate. Delays in the release of products as a result of content changes could result in lost revenues.

The Company cannot publish console titles without the approval of hardware manufacturers. The Company is required to obtain a license to develop and publish titles for each hardware console platform for which it develops and publishes titles. If any manufacturer chooses not to renew or extend the Company's license agreement at the end of its current term, or if the manufacturer were to terminate the license for any reason, the Company would be unable to publish additional titles for that manufacturer's hardware platform. The Company is dependent upon a license agreement with Sony to publish titles for PlayStation 2. Termination of such agreement would seriously hurt the Company's business.

Sony and Nintendo are the sole manufacturers of the titles published under license from them. Games for the Xbox must be manufactured by pre-approved manufacturers. Each platform license provides that the manufacturer may raise prices for the titles at any time and grants the manufacturer substantial control over the release of new titles.

Each of these manufacturers also publishes software for its own platforms and manufactures titles for all of its other licensees and may choose to give priority to its own titles or those of other publishers if it has insufficient manufacturing capacity or if there is increased demand.

In addition, these manufacturers may not have sufficient production capacity to satisfy the Company's scheduling requirements during any period of sustained demand. If manufacturers do not supply the Company with finished titles on favorable terms without delays, the Company's operations would be materially interrupted, its revenues could decline and it could incur losses.

The Company may not be able to protect its proprietary rights or avoid claims that it infringes on the proprietary rights of others. The Company develops proprietary software and has obtained the rights to publish and distribute software developed by third parties. The Company attempts to protect its software and production techniques under copyright, trademark and trade secret laws as well as through contractual restrictions on disclosure, copying and distribution. Interactive entertainment software is susceptible to unauthorized copying. Unauthorized third parties may be able to copy or to reverse engineer the Company's software that the Company regards as proprietary. From time to time, the Company receives notices from third parties alleging infringement of their proprietary rights.

Although the Company believes that its software and technologies and the software and technologies of third-party developers and publishers with whom its has contractual relations do not and will not infringe or violate proprietary rights of others, it is possible that infringement of proprietary rights of others has or may occur. Any claims of infringement, with or without merit, could be time-consuming, costly and difficult to defend.

The Company is dependent on third-party software developers to complete many of its titles. The Company relies on third-party software developers for the development of a significant number of its titles. Quality third-party developers are continually in high demand. Software developers may not be available to develop software for the Company or may not be able to complete titles on a timely basis or within acceptable quality standards. In addition, the development cycle for new titles is long, typically ranging from twelve to twenty-four months. After development of a product, it may take between six to twelve additional months to develop the product for other hardware platforms. If developers experience financial difficulties, additional costs or unanticipated development delays, the Company may not be able to release titles according to schedule.

The Company's software is susceptible to errors, which can harm the Company's financial results and reputation. The technological advancements of new hardware platforms allow more complex software products. As software products become more complex, the risk of undetected errors in products when first introduced increases. If, despite testing, errors are found in new products or releases after shipments have been made, the Company could experience a loss of or delay in timely market acceptance, product returns, loss of revenues and damage to its reputation.

Gross margins relating to the Company's distribution business have been historically narrow which increases the impact of variations in costs on operating results. As a result of intense price competition in the console hardware and software distribution industry, gross margins in the Company's distribution business have historically been narrow and the Company expects them to continue to be narrow. The Company receives purchase discounts from suppliers based on various factors, including volume purchases. These purchase discounts directly affect gross margins. It may become more difficult for the Company to achieve the percentage growth in sales required to continue to receive volume purchase discounts.

The Company may not be able to adequately adjust its cost structure in a timely fashion in response to a sudden decrease in demand. A significant portion of the Company's selling and general and administrative expense is comprised of personnel, facilities and costs of invested capital. In the event of a significant decline in revenues, the Company may not be able to exit facilities, reduce personnel, or make other significant changes to its cost structure without significant disruption to its operations or without significant termination and exit costs. Management may not be able to implement such actions, if at all, in a timely manner to offset an immediate shortfall in revenues and gross profit.

The Company's distribution business is dependent on suppliers to maintain an adequate supply of products to fulfill customer orders on a timely basis. The Company's ability to obtain particular products in required quantities and to fulfill customer orders on a timely basis is critical to its success. In most cases, the Company has no guaranteed price or delivery agreements with suppliers. In certain product categories, limited price protection or return rights offered by manufacturers may have a bearing on the amount of product the Company may be willing to purchase. The console hardware industry experiences significant product supply shortages from time to time due to the inability of certain manufacturers to supply certain products on a timely basis. As a result, the Company has experienced, and may in the future continue to experience, short-term hardware inventory shortages. In addition, manufacturers who currently distribute their products through the Company may decide to distribute, or to substantially increase their existing distribution, through other distributors, or directly to retailers. In the case of software, alternative means of distribution have emerged, such as electronic distribution.

The Company is subject to the risk that inventory values may decline and protective terms under supplier arrangements may not adequately cover the decline in values. The interactive entertainment software and hardware industry is subject to rapid technological change, new and enhanced generations of products, and evolving industry standards. These changes may cause inventory to decline substantially in value or to become obsolete. The Company is exposed to inventory risk to the extent that supplier price protections are not available on all products or quantities and are subject to time restrictions. In addition, suppliers may become insolvent and unable to fulfill price protection obligations.

A limited number of customers may account for a significant portion of the Company's sales. Sales to the Company's five largest customers accounted for approximately 20.9% of revenues for the year ended October 31, 2001 and 32.6% of revenues for the six months ended April 30, 2002. Customers may terminate their relationship with the Company at any time. The loss of relationships with principal customers or a decline in sales to principal customers could harm the Company's operating results. Bankruptcies or consolidations of certain large retail customers could also hurt the Company's business.

The Company is subject to credit and collection risks. Sales are typically made on credit, with terms that vary depending upon the customer and the demand for the particular title being sold. The Company does not hold any collateral to secure payment by its customers. As a result, the Company is subject to credit risks, particularly in the event that any of its receivables represent sales to a limited number of retailers or are concentrated in foreign markets. If the Company is unable to collect on accounts receivable as they become due and such accounts are not covered by insurance, it could adversely affect the Company's liquidity and financial condition.

The Company is subject to risks and uncertainties of international trade. Sales in international markets, primarily in the United Kingdom and other countries in Europe and the Pacific Rim, have accounted for a significant portion of revenues. Sales in international markets accounted for approximately 24.0% and 22.0%, of the Company's revenues for the three and six months ended April 30, 2002, respectively. The Company is subject to risks inherent in foreign trade, including increased credit risks; tariffs and duties; fluctuations in foreign currency exchange rates; shipping delays; and international political, regulatory and economic developments, all of which can have a significant impact on the Company's operating results. International sales are made in local currencies. For the six months ended April 30, 2002, the Company's foreign currency translation adjustment gain was $96. The Company purchases currency forward contracts to a limited extent to seek to minimize the Company's exposure to fluctuations in foreign currency exchange rates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk
(Dollars in thousands, unless otherwise noted)

The Company is subject to market risks in the ordinary course of its business, primarily risks associated with interest rate and foreign currency fluctuations and possible impairment of the carrying values of the Company's investments.

Historically, fluctuations in interest rates have not had a significant impact on the Company's operating results. At April 30, 2002, the Company had no outstanding variable rate indebtedness.

The Company transacts business in foreign currencies and is exposed to risks resulting from fluctuations in foreign currency exchange rates. Accounts relating to foreign operations are translated into United States dollars using prevailing exchange rates at the relevant fiscal quarter. Translation adjustments are included as a separate component of stockholders' equity. For the six months ended April 30, 2002, the Company's foreign currency translation adjustment gain was $96. A hypothetical 10% change in applicable currency exchange rates at April 30, 2002 would result in a material translation adjustment. The Company purchases currency forward contracts from time to time to seek to minimize the Company's exposure to fluctuations in foreign currency exchange rates.

In addition, the Company may be exposed to risk of loss associated with fluctuations in the value of its investments. The Company's investments are stated at fair value, with net unrealized appreciation and loss included as a separate component of stockholders' equity. The Company regularly reviews the carrying values of its investments to identify and record impairment losses when events or circumstances indicate that such investments may be permanently impaired.

At April 30, 2002, the Company held 6,869,407 shares of common stock of Gameplay.com plc with a fair value of approximately $98 and was recorded as a non-current asset. The Company recorded an unrealized gain of $14, net of taxes of $9 as a separate component of accumulated other comprehensive income (loss) in stockholders' equity. For the three and six months ended April 30, 2001, the Company recorded a loss of $18,448 to reflect the other than temporary impairment of its investments relating to Gameplay.

At April 30, 2002, the Company held 98,033 shares of eUniverse Inc. with a fair value of approximately $500, all of which was recorded as current assets. The Company recorded an unrealized gain of $149, net of taxes of $92, as a separate component of accumulated other comprehensive income (loss) in stockholders' equity. For the three and six months ended April 30, 2001, the Company recorded a loss of approximately $2,000 to reflect the other than temporary impairment of its investment in eUniverse.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Since December 2001, thirteen purported class action lawsuits have been filed in the United States District Court for the Southern District of New York against the Company and certain of its current and former officers and directors. The actions were consolidated in one lawsuit, Gershon Bassman v. Take-Two Interactive Software, Inc., in April 2002. The consolidated complaint includes claims under Sections 10 (b) and 20 (a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated under Section 10 (b), and generally alleges that defendants issued false and misleading public filings, press releases and other statements regarding the Company's financial condition during a class period commencing on February 24, 2001 through December 17, 2001 in a scheme to artificially inflate the value of the Company's common stock.

In June 2002, the Company entered into a definitive agreement with the plaintiffs to settle the consolidated class action lawsuits for $7,500,000 in cash. During the quarter ended April 30, 2002, the Company recorded $1,468,000 of class action settlement costs which, represents the settlement of $7,500,000 and related legal fees, net of $6,145,000 of insurance proceeds. The settlement agreement is subject to final approval of the United States District Court.

The Securities and Exchange Commission has issued a formal order of investigation into, among other things, certain accounting matters relating to the Company's financial statements, periodic reporting and internal accounting control provisions of the federal securities laws.

The Company is involved in routine litigation in the ordinary course of business which in management's opinion will not have a material adverse effect on the Company's financial condition, cash flows or results of operations.

Item 2. Changes in Securities

From February 1, 2002 to April 30, 2002, 367,000 options from the 1997 Stock Option Plan and 804,000 non-plan options were granted at exercise prices ranging from $15.25 to $25.31.

In February 2002, the Company issued 20,000 shares of restricted common stock to a former employee of the Company as compensation.

In February 2002, the Company issued 5,000 shares of restricted common stock to three individuals in connection with the settlement of a lawsuit.

In connection with the above securities issuances, the Company relied on Section 4(2) and Regulation D promulgated under the Securities Act of 1933, as amended.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

10.1 Development and Publishing Agreement dated February 10, 2000 by and between the Company and VIS Interactive plc.

(b) Reports on Form 8-K:

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Take-Two Interactive Software, Inc. has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on this 13th day of June 2002.

TAKE-TWO INTERACTIVE SOFTWARE, INC.

By: /s/ Kelly Sumner

Kelly Sumner
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Karl H. Winters

Karl H. Winters
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 10.1

[LOGO]
TAKE2 Interactive

DEVELOPMENT AND PUBLISHING AGREEMENT

This Agreement is entered into as of February 10, 2000 , by and between Take-Two Interactive Software, Inc., a Delaware corporation, located at 575 Broadway, New York, NY 10012 ("Publisher") and VIS Interactive p/c, a corporation organized under the laws of Scotland, located at The VIS Building, Izatt Avenue, DunFermline Scotland, KY11 3BZ ("Developer").

WHEREAS, Publisher and Developer wish to enter into a Publishing Agreement whereby Developer shall create and develop State of Emergency (the "Product") and Publisher shall publish the Product on the terms and conditions set forth herein;

NOW, THEREFORE, the parties agree as follows:

1. GRANT OF LICENSE

Developer grants to Publisher the exclusive right during the Term (as hereinafter defined) and throughout the world (the "Territory") to produce, reproduce, perform, promote, advertise, export, import, rent, license, sublicense, translate, localize, manufacture, package, market, merchandise, distribute (through any channels, including electronic distribution by download), display, sell, lease and otherwise exploit the Product, including products without original narrative or interactive elements designed to support and/or promote the product using the names, renderings, dialog, sound effects or screen shots from the Product (including, without limitation, clothing, posters, novelties and strategy guides of every kind and nature whatsoever) (hereinafter referred to as "Ancillary Products") on the Platform (as hereinafter defined). Developer also hereby grants to Publisher the non-exclusive right throughout the Territory to use and reproduce the object code and an exclusive right to use the name of the Product (and any trademarks which may be applied for by Developer at Developer's sole cost and expense) in accordance with the provisions of this Agreement. Developer shall not exercise the exclusive rights granted to Publisher during the Term and throughout the Territory. Developer shall retain all copyrights and all other intellectual property rights in and to the Product, including all original elements of design and game software, and all rights in all source code, tools, technology, and other development aids embodied in and used in connection with the development of the Product. Any rights not explicitly granted to Publisher hereunder are reserved by Developer.

2. MARKETING

Publisher shall determine, in its sole discretion, the manner and method of marketing and distribution of the Product, including, but not limited to, marketing expenditures, advertising and promotion, packaging, channels of distribution and the price of the Product, provided however, that Publisher shall use commercially reasonable efforts to cause the Product to be released within nine (9) months of the date the Product is approved by Sony Corporation of America ("Sony") and shall spend at least $500,000 on advertising. Neither party makes any guarantee of success with respect to revenue to be achieved or royalties to be earned from the Product.

3. COMPETING PRODUCTS

Developer shall not, directly or indirectly, develop, manufacture or distribute a product of the same genre (i.e., third-person urban conflict simulation similar in theme, look and feel) as the Product for any party other than Publisher until the date two (2) years following the initial release of the Product. The parties acknowledge and agree that the foregoing restriction is of the essence of this Agreement and is necessary for the protection of Publisher's ongoing business.

During the Term and following the commercial release of the Product, Publisher shall have a right of first and last refusal for the exclusive, worldwide publishing rights to sequels, add-ons, mission packs and other platform versions of the Product. Any refusal right must be exercised in writing within fifteen (15) days of receipt of written notice by Developer of a bona fide third-party offer.

4. DEVELOPMENT

(a) Within thirty (30) days following the date hereof, Developer shall submit to Publisher for Publisher's acceptance design specifications ("Design Specifications") for the Product. Publisher shall, within fifteen (15) business days of submission of the Design Specifications, review the Design Specifications and shall notify Developer, in writing, indicating either acceptance or rejection of the Design Specifications, and, if rejection, the specific reasons therefor. Upon rejection of the Design Specifications, Developer shall have fifteen (15) business days from Publisher's notice to revise the Design Specifications and resubmit the Design Specifications for acceptance. Should Developer fail, to the reasonable satisfaction of Publisher, to deliver satisfactory Design Specifications, Publisher may terminate this Agreement by written notice to Developer and all amounts paid by the Publisher in connection with the Product shall be fully refundable.

(b) Developer shall develop the Product for the Sony Playstation 2 (the "Platform") in accordance with the approved Design Specifications, the development schedule annexed hereto as Exhibit A (the "Development Schedule) and the terms and conditions of this Agreement. Material changes to the Design Specifications shall be mutually agreed to in good faith by the parties.

(c) Publisher shall have the right to request translations/localization of the Product by providing written notice to Developer. Publisher shall pay to Developer the reasonable costs incurred by Developer set forth in an approved budget for each localization, such costs to be deemed an advance hereunder and shall be payable 50% upon commencement of development of additional language(s), and 50% upon Publisher's acceptance of the gold master of the localized version.

(d) Approval. After delivery to Publisher by Developer of each deliverable pursuant to the milestones identified in the Development Schedule (collectively, "Unapproved Deliverables"), Publisher will have thirty (30) calendar days to examine and test such Unapproved Deliverable to determine whether it conforms in all material respects to the approved design specifications and whether it is complete and free from material error (the "Acceptance Criteria"). On or before the thirtieth day after delivery, Publisher will notify Developer in writing of Publisher's acceptance or rejection of the Unapproved Deliverable based upon the Acceptance Criteria and, in case of any rejection, will provide Developer with a reasonably detailed list of deficiencies in the Unapproved Deliverable. In the event that Publisher fails to provide Developer with such written notification within thirty days of the date of delivery of an Unapproved Deliverable, Publisher shall be deemed to have accepted such Unapproved Deliverable. In the event of a rejection, Developer will use its good faith, best efforts to correct the deficiencies (including, without limitation, any material bugs and deficiencies that affect game play and/or compatibility) and will resubmit such Unapproved Deliverable, as corrected, as soon as reasonably practicable following Publisher's rejection. Publisher will either accept or reject the corrected Unapproved Deliverables based upon the Acceptance Criteria. This procedure will continue until Publisher either (i) accepts the Unapproved Deliverable or (ii) elects to terminate this Agreement for material breach after the Cure Period (as defined herein) pursuant to Section 14(b)(ii).

5. DELIVERY

Developer shall deliver to Publisher four (4) copies of the fully functional gold master for the Product (in executable object code form), on the Platform in electronic format, Bug (as hereinafter defined) free, and from which Publisher can create copies of the Product. Timely delivery in accordance with the Development Schedule is of the essence of this Agreement. In the event Developer fails to deliver the gold master for the Product by March 31, 2001 (the "Gold Master Delivery Date") unless such delivery date is extended by mutual agreement of Publisher and Developer, Developer shall be deemed to be in material breach of this Agreement. For the avoidance of doubt, the Cure Period (as hereinafter defined) shall not apply to any termination by Publisher pursuant to this Section. If Publisher terminates this Agreement pursuant to this section, all amounts paid by Publisher in connection with the Product shall be fully refundable in accordance with Section 14(b)(ii). "Bug" means any deviation from the commonly accepted standards for normal operation of games or any material error including, without limitation, an abnormal cessation of functioning of the Product.

6. CREDITS

Developer shall submit on-screen credits for the Product to Publisher for Publisher's approval, which approval shall not be unreasonably withheld. Publisher shall accord credit to Developer as developer with reasonable prominence on all printed materials related to the product, including without limitation, on front of the package, in the manual and advertising materials which shall contain Developer's logo. Developer's website address shall be displayed on the back of the package. The Product, user manual and Ancillary Products shall contain the following legal: (C) VIS Interactive plc 2000 or such other legal as may be provided by Developer.

7. DEVELOPER SUPPORT

During the three months following the initial release of the Product, at Publisher's request, Developer shall provide reasonable telephone support to Publisher's designated employees in connection with the technical support of users of the Product. Publisher shall reimburse Developer its reasonable pre-approved out-of-pocket expenses (as documented) in connection with rendering telephone support and training services.

8. ADVANCE

Provided Developer has performed in accordance with the terms hereof, Publisher shall pay to Developer a fully recoupable advance in the aggregate amount of (pound)1,625,000, of which (pound)325,000 has been paid, the receipt of which is hereby acknowledged by Developer, payable (i) (pound)650,000 upon delivery of the gold master by the Gold Master Delivery Date (as defined in the Development Schedule); and (ii) (pound)650,000 upon approval by Sony. All advances paid to Developer or on Developer's behalf in respect of the Product shall be recoupable by Publisher at any time from any and all royalties accruing hereunder with regard to the Product.

9. ROYALTIES

Publisher shall accrue to Developer's account royalties at a rate of fifty percent (50%) of the net receipts derived worldwide by Publisher and its affiliates from the commercial exploitation (including without limitation sales of, rental of, and time charged services derived from) of the Product and Ancillary Products. Net receipts means amounts actually received by Publisher, less returns, credits, freight, taxes and similar charges and manufacturing expenses and royalties.

10. ROYALTY PAYMENTS

(a) Royalties earned hereunder will be accrued quarterly and paid in United States dollars, less all advances and other permitted charges, within seventy-five (75) days following the last day of January, April, July, and October, in accordance with Publisher's regular accounting practices. Royalties statements shall be sent to Marjacq Micro Limited. Publisher shall have the right to establish reserves for returns and defective products in accordance with Publisher's business practices (not to exceed 15% of royalties owed to Developer). Unused reserves shall be liquidated during the second quarter following the quarter the reserve was taken.

(b) Each royalty payment hereunder shall be accompanied by a statement in United States dollars, in accordance with Publisher's regular accounting practices. Each royalty statement shall contain information relating to the life to date activity of the Product including period of statement, units sold, cost of goods, gross royalty, reserves, earned royalties, territories, sublicensed and repackaged sales and Ancillary Product sales. Each statement shall become binding on both parties and Developer shall neither have nor make any claim against Publisher with respect to such statement, unless Developer objects in writing to the statement of the specific basis of such claim within one (1) year after the date Publisher renders such statement.

(c) Royalty payments shall be less whatever taxes the laws of the applicable jurisdiction require be withheld in connection with such royalties and subject to applicable local currency remittance laws or foreign exchange remittance regulations.

(d) Publisher agrees that Developer may, not more than once during any calendar year, but only once with respect to any statement rendered hereunder, audit its books and records for the purpose of determining the accuracy of Publisher's statements to Developer. If Developer wishes to perform any such audit, Developer will be required to notify Publisher in writing at least thirty (30) days before the date when Developer plans to begin it. All audits shall be made during regular business hours, and shall be conducted on Developer's behalf by a certified independent public accountant. Each examination shall be made at Developer's own expense at Publisher's regular place of business in New York where the books and records will be made available to Developer's accountant. In the event that Developer establishes as a result of an audit conducted by Developer, that there is a discrepancy in the royalty payments due to Developer of ten percent (10%) or more for the period covered by the audit, then Publisher shall pay to Developer, upon settlement of the audit, Developer's reasonable third-party legal and auditor's fees and disbursements actually incurred in connection with such audit and interest at the rate of 2% per annum on underpaid accountings.

(e) If Developer claims that additional monies are payable to Developer, Publisher shall not be deemed to be in material breach of this Agreement unless (i) Publisher fails to produce appropriate books and records of manufacture and sales for audit, or (ii) such claim shall have been reduced to a final judgment by a court of competent jurisdiction and Publisher shall have failed to pay Developer the amount thereof within thirty (30) days after Publisher shall have received written notice of the entry of such judgment or (iii) Publisher agrees that there are royalties owing and does not pay the amount thereof within thirty (30) days.

11. CONFIDENTIAL INFORMATION

(a) Publisher and Developer recognize that, in connection with the performance of this Agreement, each of them may disclose to the other information about the disclosing party's business or activities, which such party considers proprietary and confidential. All of such proprietary and confidential information of each party (which shall include, without limitation, all business, financial and technical information of a party, identities of customers, clients or licensees, proprietary software code and any other information whether oral or written which is not generally known or available to the public) is hereinafter referred to as "Confidential Information."

(b) The party who receives any Confidential Information agrees to maintain the confidential status for such Confidential Information, not to use any such Confidential information for any purpose other than the purpose for which it was originally disclosed to the receiving party, and not to disclose any of such Confidential Information to any third party unless required by law or court order.

12. REPRESENTATIONS AND WARRANTIES

(a) Ownership and Non-infringement. Developer represents and warrants to Publisher that it has obtained all rights, licenses and authorizations necessary to enter into this agreement and grant the rights granted herein; each of Developer and Publisher represent and warrant that the execution and performance of this Agreement does not and will not violate or interfere with any other agreement to which it is a party, Developer represents and warrants that the source code and development tools for the Product is or will be original to Developer and/or exclusively owned by Developer and/or validly licensed by Developer at Developer's expense for all uses to be made of them pursuant to this Agreement and that the source code and development tools are not nor will they be a violation of the rights of any other person or organization; and Developer represents and warrants that no part of the Product or the exercise of the rights granted hereunder violates or infringes upon any rights of any person or entity, including, but not limited to, copyrights, trademark rights, patent rights, trade secrets rights, or contractual, common law or statutory rights. Publisher represents and warrants that it will not reverse-engineer the Product.

(b) Authority. Each of Publisher and Developer represents and warrants that it is duly organized and in good standing under the laws of the jurisdiction of its incorporation or existence; that it has (and shall at all times remain possessed of) the full right, power and authority to enter into and perform this Agreement; that it is not presently the subject of a voluntary or involuntary petition in bankruptcy, does not presently contemplate filing any such voluntary petition, and is not aware of any intention on the part of any other person to file such an involuntary petition against it; and the person(s) executing this Agreement on its behalf has the actual authority to bind Developer to this Agreement.

(c) Performance. Each of Publisher and Developer represents and warrants that it is under no disability, restriction or prohibition, whether contractual or otherwise with respect to its rights to execute and perform this Agreement; that the agreement of any person who is not a party to this Agreement is not necessary or required for it to carry out its obligations hereunder, or for it to enjoy the benefits contemplated by this Agreement; that during the Term of this Agreement, it will not enter into any agreement or make any commitments which would interfere with the grant of rights hereunder or its performance of any of the terms and provisions hereto; and that it will not, nor will it, sell, assign, lease, license or in any other way dispose of or encumber the rights granted to Publisher hereunder.

(d) Operation. Developer represents and warrants to Publisher that the gold master for the Product will operate in accordance with the applicable design specifications and with commonly accepted standards for operation of such product, will be free from any Bugs, significant programming errors or anomalies, and will operate and run in a reasonable and efficient business manner as described in the user and system configuration documentation which fully explains the operation and design of the Product.

13. INDEMNITY

(a) Developer does hereby indemnify, save and hold harmless Publisher and Publisher's subsidiaries, affiliates, licensees, assigns, officers and employees from any and all loss and damage (including, without limitation, fees and disbursements of counsel incurred by Publisher in any action or proceeding between Developer and Publisher or between Publisher and any third party or otherwise) arising out of or in connection with any claim by any third party based on facts or alleged facts inconsistent with any of the warranties, representations or agreements made by Developer under this Agreement or any breach of, or act by Developer which is inconsistent with, any of the warranties, representations or agreements made by Developer under this Agreement, and agrees to reimburse Publisher on demand for any payment made or loss suffered with respect to any claim or act to which the foregoing indemnity applies. In the case of a claim by a third party, Publisher shall give Developer prompt written notice of any such claim and shall be entitled to conduct the defense or settlement thereof. Publisher shall give Developer reasonable progress reports and Developer shall give Publisher reasonable assistance in defending or settling any such claim.

(b) In the event that, through the breach of any of Developer's representations and warranties or the failure of Developer to perform any of its obligations herein, distribution of the Product is or is reasonably likely to be adjudged infringing or otherwise unlawful or violate of any right of any third party ("Infringing Product"), Developer shall, at its sole cost and expense, either (i) promptly modify the Product so that Publisher's distribution as permitted hereunder ceases to be infringing or wrongful, or (ii) promptly procure for Publisher the right to continue distributing the Product. In the case of an Infringing Product (a) Developer shall promptly reimburse Publisher for all costs incurred in replacing copies of the Product or for all refunds given, as well as all reasonable costs of removing all infringing copies of the Product from the channels of distribution; (b) Publisher shall be entitled to offset any royalty or other payments due to Developer under this Agreement (or any other agreement) against any sums owed by Developer to Publisher under clause (a); and (c) following the commencement of any litigation covered by this Section in which Publisher is named as a defendant, Publisher shall be entitled to withhold royalty payments and all other sums payable to Developer hereunder pending the outcome of such litigation.

(c) Publisher does hereby indemnify, save and hold harmless Developer and Developer's subsidiaries, affiliates, licensees, assigns, officers and employees from any and all loss and damage (including, without limitation, fees and disbursements of counsel incurred by Developer in any action or proceeding between Publisher and Developer or between Developer and any third party or otherwise) arising out of or in connection with any claim by any third party or any breach of, or act by Publisher which is inconsistent with, any of the warranties, representations or agreements made by Publisher in this Agreement, and agrees to reimburse Developer on demand for any payment made or loss suffered with respect to any claim or act to which the foregoing indemnity applies.

14. TERM AND TERMINATION

(a) Term. This Agreement shall become effective on the date set forth above and shall continue until the seventh anniversary of the date of this agreement or the date terminated as set forth in this Agreement.

(b) Breach. (i) In the event of a material breach of this Agreement by Developer, Publisher shall have the right to suspend Publisher's obligations to make payments to Developer and/or offset any royalties or other payments due to Developer under this Agreement against any sums owed by Developer to Publisher under this Agreement until Developer has cured such breach. If such breach is not cured within thirty (30) days of written notice (the "Cure Period") Publisher shall have the right to terminate this Agreement. Nothing contained herein shall in any way limit Publisher's other rights and remedies under this Agreement at law or equity.

(ii) In the event of termination by Publisher prior to the release of the Product for a material breach by Developer, Publisher shall have the right to obtain a refund of all unrecouped advances and other reimbursable sums paid by Publisher to Developer hereunder. All rights granted hereunder in and to the Product shall remain with Publisher until the full repayment of the unrecouped advances by Developer to Publisher. Thereafter, the license granted pursuant to Section 1 hereof shall revert to Developer and neither Publisher nor Developer shall have any further obligation to the other hereunder.

(iii) In the event of termination of this Agreement for a material breach by Publisher, all of Publisher's rights to market and distribute the Product shall cease and all rights granted to Publisher shall revert to Developer.

(c) Delivery. In the event that Developer fails to deliver the Product by the Gold Master Delivery Date, Publisher may make other arrangements, including but not limited to engaging third party consultants, to develop the Product. All costs associated therewith shall be fully recoupable at any time from any and all royalties and other sums accruing to Developer under this Agreement. Upon notice by Publisher of its intention to develop the Product in the manner aforesaid, Developer shall deliver to Publisher all materials reasonably requested or required by Publisher to do so, including, but not limited to, the source code and the development tools to be used solely in connection with exploiting the Product, subject to Publisher's continuing obligation to account for royalties.

(d) Events on Termination. After the Product has been released by Publisher and the advance has been paid, notwithstanding termination of this Agreement for any reason whatsoever, Publisher shall have the exclusive continuing right to market and distribute the Product for a period of six (6) months following termination, subject to Publisher's obligation to account for royalties.

15. GENERAL PROVISIONS

(a) Agency: Publisher acknowledges that Developer has appointed Marjacq Micro Ltd. ("Marjacq"), a corporation organized under the laws of England, located at 34 Devonshire Place, London W1N 1PE, as its true and lawful agent and attorney-in-fact for purposes of this Agreement. Developer agrees that payments made hereunder to Marjacq, if any, will be automatically deemed payments made directly to Developer in discharge of Publisher's obligations hereunder, and Developer hereby indemnifies Publisher to the same extent as set forth above in connection with any claim arising out to any payment made to Marjacq. Publisher shall make all payments that become due to Developer to Marjacq in accordance with written instructions from Marjacq.

(b) Assignment. Neither party shall have the right to assign this Agreement or any of its rights or obligations hereunder without the prior written consent of the other party which consent shall not be unreasonably withheld..

(c) Notices. All notices and other items from one party to the other hereunder will, unless herein indicated to the contrary, be sent by facsimile with a copy by mail addressed as follows:

To Developer: At Developer's address as set forth on the first page hereof (fax 44-(1383) 845-345), with a copy to Marjacq (fax 44 (207) 935-9499).

To Publisher: At Publisher's address as set forth on the first page hereof, directed to the attention of Chief Financial Officer (fax: (212) 663-6644).

Any notice shall be sent by by facsimile, to the facsimile number of the party to be served and shall be deemed complete at the time of receipt of the written confirmation at the end of the facsimile in question.

(d) Governing Law. This Agreement shall be construed under the internal laws of the State of New York applicable to agreements to be performed wholly therein, and both parties agree that New York courts and the American Arbitration Association in New York shall have jurisdiction over this Agreement and any controversies arising out of this Agreement shall be brought by the parties to the Supreme Court of the State of New York, County of New York, or to the United States District Court for the Southern District of New York, or to the appropriate arbitration tribunal in New York City and they hereby grant exclusive jurisdiction to such court(s) and to any appellate courts having jurisdiction over appeals from such court(s).

(e) Survival. The representations, warranties, indemnification, termination and confidentiality obligations set forth in this Agreement shall survive the termination of this Agreement by either party for any reason.

(f) Amendments. No supplement, modification, amendment, waiver, termination or discharge of this Agreement shall be binding, unless executed in writing by a duly authorized representative of each party to this Agreement.

(g) Entire Agreement. This Agreement constitutes the complete and entire agreement of the parties and supersedes all previous communications, oral or written, and all other communications between them relating to the subject matter hereof, including the Agreement dated July 15, 1999.

(h) Force Majeure. No party shall be responsible for delays or failure of performance resulting from acts beyond the reasonable control of such party, including, acts of God, war, power failures, floods, earthquakes and other natural disasters.

(i) Counterparts. This Agreement may be executed in one or more counterparts, each of which when taken together, shall be deemed to constitute one and the same instrument

(j) Facsimile Signatures. Facsimile signatures on this Agreement shall be deemed originals for all purposes.

(k) Severability. If any provision of this Agreement shall be adjudicated to be invalid or unenforceable, it shall be construed by limiting and reducing it so as to be enforceable or eliminating it, without invalidating the remaining provisions of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date specified below.

Very truly yours,

TAKE TWO INTERACTIVE SOFTWARE, INC.

By: /s/ Larry Muller

Title: Chief Financial Officer

Date: February 16, 2000

AGREED TO AND ACCEPTED:

VIS INTERACTIVE PLC

By: /s/ Peter Baillie

Title: Director

Date: February 15, 2000