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

FORM 10-Q

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

For the quarterly period ended **July 31, 2003**

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.)
622 Broadway, New York, New York	**10012**
(Address of principal executive offices)	(zip code)

Registrant's Telephone Number, Including Area Code **(646) 536-2842**

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 ☒ No ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

As of September 8, 2003, there were 43,304,649 shares of the Registrant's Common Stock outstanding.

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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 July 31, 2003 and October 31, 2002 (unaudited)
(In thousands, except share data)

	July 31, 2003	October 31, 2002
ASSETS		
Current assets		
Cash and cash equivalents	$ 225,859	$ 108,369
Accounts receivable, net of provision for doubtful accounts, returns and sales allowances of $40,500 and $29,194 at July 31, 2003 and October 31, 2002, respectively	65,996	107,188
Inventories	73,902	74,391
Prepaid royalties	15,576	13,723
Prepaid expenses and other current assets	30,055	19,569
Deferred tax asset	5,392	5,392
Total current assets	416,780	328,632
Fixed assets, net	20,078	15,319
Prepaid royalties	8,182	12,203
Capitalized software development costs, net	13,986	10,385
Investments	—	97
Goodwill, net	101,095	61,529
Intangibles, net	39,888	55,293
Deferred tax asset	7,983	7,983
Other assets, net	565	266
Total assets	$ 608,557	$ 491,707
LIABILITIES and STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 56,105	$ 79,660
Accrued expenses and other current liabilities	46,311	49,821
Income taxes payable	15,458	1,603
Current portion of capital lease obligation	101	95
Total current liabilities	117,975	131,179
Capital lease obligation, net of current portion	99	201
Deferred tax liability	6,178	3,885
Total liabilities	124,252	135,265
Stockholders' equity		
Common stock, par value $.01 per share; 50,000,000 shares authorized; 43,287,167 and 40,361,739 shares issued and outstanding, at July 31, 2003 and October 31, 2002, respectively	433	404
Additional paid-in capital	327,410	273,502
Deferred compensation	(3,162)	(227)
Retained earnings	161,154	87,804
Accumulated other comprehensive loss	(1,530)	(5,041)
Total Stockholders' Equity	484,305	356,442
Total Liabilities and Stockholders' Equity	$ 608,557	$ 491,707

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

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TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Operations
For the three and nine months ended July 31, 2003 and 2002 (unaudited)
(In thousands, except per share data)

	Three months ended July 31, 2003	Three months ended July 31, 2002	Nine months ended July 31, 2003	Nine months ended July 31, 2002
Net sales	**$ 155,587**	$ 122,461	**$ 758,594**	$ 575,717
Cost of sales				
Product costs	**81,642**	62,567	**384,984**	303,880
Royalties	**10,434**	12,245	**66,782**	53,894
Software development costs	**1,842**	2,125	**8,558**	6,018
Total cost of sales	**93,918**	76,937	**460,324**	363,792
Gross profit	**61,669**	45,524	**298,270**	211,925
Operating expenses				
Selling and marketing	**20,013**	15,912	**76,928**	58,429
General and administrative	**19,372**	17,390	**67,701**	55,311
Research and development	**7,043**	1,812	**17,419**	7,703
Depreciation and amortization	**2,930**	2,541	**13,689**	6,614
Total operating expenses	**49,358**	37,655	**175,737**	128,057
Income from operations	**12,311**	7,869	**122,533**	83,868
Interest (income) expense, net	**(625)**	(299)	**(1,713)**	728
Gain on Internet investments	**—**	—	**(39)**	(159)
Class action settlement costs	**—**	—	**—**	1,468
Total non-operating (income) expenses	**(625)**	(299)	**(1,752)**	2,037
Income before income taxes	**12,936**	8,168	**124,285**	81,831
Provision for income taxes	**5,287**	3,402	**50,935**	32,599
Net income	**$ 7,649**	$ 4,766	**$ 73,350**	$ 49,232
Per share data:				
Basic:				
Weighted average common shares outstanding	**42,266**	38,705	**41,424**	37,500
Net income per share	**$ 0.18**	$ 0.12	**$ 1.77**	$ 1.31
Diluted:				
Weighted average common shares outstanding	**43,548**	40,231	**42,701**	38,947
Net income per share	**$ 0.18**	$ 0.12	**$ 1.72**	$ 1.26

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

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TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Cash Flows
For the nine months ended July 31, 2003 and 2002 (unaudited)
(In thousands)

	Nine months ended July 31, 2003	2002
Cash flows from operating activities:		
Net income	$ **73,350**	$ 49,232
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**9,281**	6,614
(Gain) loss on disposal of fixed assets	**(56)**	122
Gain on sale of Internet investments	**(39)**	(159)
Change in deferred taxes	**—**	(3,917)
Amortization of various expenses and discounts	**5,741**	4,526
Impairment of intellectual property and technology	**7,892**	—
Non-cash charges for consolidation of distribution facilities	**5,474**	—
Write off of prepaid royalties and capitalized software	**6,712**	9,366
Tax benefit from exercise of stock options	**11,931**	4,365
Compensatory stock and stock options	**2,173**	2,299
Foreign currency transaction (gain) loss	**(88)**	148
Changes in operating assets and liabilities, net of effects of acquisitions:		
Decrease in accounts receivable, net	**45,696**	33,664
Decrease in inventories	**1,798**	11,838
Increase in prepaid royalties	**(11,850)**	(7,124)
Increase in prepaid expenses and other current assets	**(7,324)**	(3,526)
(Increase) decrease in capitalized software development costs	**(3,113)**	305
Decrease in accounts payable	**(30,300)**	(10,914)
(Decrease) increase in accrued expenses and other current liabilities	**(7,537)**	9,108
Increase in income taxes payable	**14,767**	12,871
Net cash provided by operating activities	**124,508**	118,818
Cash flows from investing activities:		
Purchase of fixed assets	**(11,359)**	(8,853)
Proceeds from sale of investments	**114**	5,888
Acquisitions, net of cash acquired	**(27,966)**	(10,106)
Other investing activities	**(490)**	—
Net cash used in investing activities	**(39,701)**	(13,071)
Cash flows from financing activities:		
Net repayments under lines of credit	**(34)**	(54,118)
Proceeds from exercise of stock options and warrants	**30,341**	11,346
Deferred financing costs	**(150)**	(463)
Repayment of capital lease obligation	**(96)**	(69)
Net cash provided by (used in) financing activities	**30,061**	(43,304)
Effect of foreign exchange rates	**2,622**	5,399
Net increase in cash for the period	**117,490**	67,842
Cash and cash equivalents, beginning of the period	**108,369**	6,056
Cash and cash equivalents, end of the period	$ **225,859**	$ 73,898

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

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TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Cash Flows (continued)
For the nine months ended July 31, 2003 and 2002 (unaudited)
(In thousands)

	Nine months ended July 31, 2003	2002
Supplemental information on intangibles and businesses acquired:		
Fair value of assets acquired		
Cash	**$ 1,284**	$ —
Other current assets	**437**	—
Property and equipment, net	**507**	—
Intangible assets	**4,720**	28,649
Goodwill	**38,683**	—
Less, liabilities assumed and non-cash consideration		—
Liabilities	**(3,562)**	—
Stock and prepaid advances	**(12,807)**	(18,543)
Direct transaction costs	**(12)**	—
Cash paid	**29,250**	10,106
Less cash acquired	**(1,284)**	—
Net cash paid	**$ 27,966**	$ 10,106

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

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TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Stockholders' Equity
For the year ended October 31, 2002 and the nine months ended July 31, 2003 (unaudited)
(In thousands)

	Common Stock						
	Shares	Amount	Additional Paid-in Capital	Deferred Compen-sation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, November 1, 2001	36,641	$ 366	$ 213,908	$ —	$ 16,239	$ (10,452)	$ 220,061
Foreign currency translation adjustment	—	—	—	—	—	5,553	5,553
Net unrealized loss on investments, net of taxes	—	—	—	—	—	(142)	(142)
Net income	—	—	—	—	71,565	—	71,565
Comprehensive income							76,976
Proceeds from exercise of stock options and warrants	2,434	25	23,283	—	—	—	23,308
Amortization of deferred compensation	—	—	—	682	—	—	682
Deferred compensation in connection with restricted stock issued	50	1	908	(909)	—	—	—
Issuance of common stock in connection with acquisitions	1,212	12	22,332	—	—	—	22,344
Issuance of compensatory stock and stock options	25	—	2,371	—	—	—	2,371
Tax benefit in connection with the exercise of stock options	—	—	10,700	—	—	—	10,700
Balance, October 31, 2002	40,362	404	273,502	(227)	87,804	(5,041)	356,442
Foreign currency translation adjustment	—	—	—	—	—	3,525	3,525
Net unrealized loss on investment, net of taxes	—	—	—	—	—	(14)	(14)
Net income	—	—	—	—	73,350	—	73,350
Comprehensive income							76,861
Proceeds from exercise of stock options and warrants.	2,464	25	30,316	—	—	—	30,341
Amortization of deferred compensation	—	—	—	2,155	—	—	2,155
Issuance of common stock in connection with acquisition	236	2	6,555	—	—	—	6,557
Issuance of compensatory stock and stock options	225	2	5,106	(5,090)	—	—	18
Tax benefit in connection with the exercise of stock options	—	—	11,931	—	—	—	11,931
Balance, July 31, 2003	**43,287**	**$ 433**	**$ 327,410**	**$ (3,162)**	**$ 161,154**	**$ (1,530)**	**$ 484,305**

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

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 for the fiscal year ended October 31, 2002.

Estimates

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 doubtful accounts, returns and sales allowances. Actual amounts could differ significantly from these estimates.

Recently Adopted Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards 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 provisions of SFAS 143 are effective for financial statements issued for fiscal years beginning after June 15, 2002. The adoption of SFAS 143 in the first quarter of fiscal 2003 did not have an impact on the Company's financial condition, cash flows and results of operations.

In October 2001, the FASB issued Statement of Financial Accounting Standards 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 Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed 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 adoption of SFAS 144 in the first quarter of fiscal 2003 did not have a material impact on the Company's financial condition and results of operations.

In April 2002, the FASB issued Statement of Financial Accounting Standards 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. The rescission of SFAS No. 4 is effective for fiscal years beginning after May 15, 2002, which for the Company was November 1, 2002. Under this pronouncement, the $1,948 net loss on extinguishment of debt for the year ended October 31, 2001 classified as an extraordinary item will be reclassified as follows: $3,165 of loss on extinguishment to non-operating expenses and $1,217 of tax benefit to provision for income taxes in the Company's Annual Report on Form 10-K for the year ending October 31, 2003. The Company does not expect that the rescission of SFAS No. 4 will have a material impact on the Company's financial condition, cash flows and results of operations.

In January 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 requires the recognition of such costs when they are incurred rather than at the date of a commitment to an exit or disposal plan. The provisions of SFAS 146 are to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS 146 in the first quarter of fiscal 2003 did not have a material impact on the Company's financial condition and results of operations.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" ("SFAS 148"). SFAS 148 amends the transition provisions of FASB No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), for entities that voluntarily change to the fair value method of accounting for stock-based employee compensation. The Company does not currently intend to change its accounting to the fair value method. SFAS 148 also amends the disclosure provisions of SFAS 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation and amends APB Opinion No. 28, "Interim Financial Reporting" ("APB 28") to require disclosures about such effects in interim financial information. The amendments to FASB 123 are effective for years ending after December 15, 2002. The disclosures required by the amendments to APB 28 for interim disclosure of pro forma results are contained in this Report.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 expands previously issued accounting guidance and disclosure requirements for certain guarantees and requires recognition of an initial liability for the fair value of an obligation assumed by issuing a guarantee. The provision for initial recognition and measurement of liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of FIN 45 in the first quarter of fiscal 2003 did not have a material impact on the Company's financial condition or results of operations.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual return or both. FIN 46 also provides criteria for determining whether an entity is a variable interest entity subject to consolidation. FIN 46 requires immediate consolidation of variable interest entities created after January 31, 2003. For variable interest entities created prior to February 1, 2003, consolidation is required on July 1, 2003. The adoption of FIN 46 in the third quarter of fiscal 2003 did not have a material impact on the Company's financial condition or results of operations (see Note 4.).

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." In general, SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS 149 did not have a material impact on the Company's financial condition or results of operations.

(Dollars in thousands, except per share amounts)

Recently Issued Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with SFAS 150, financial instruments that embody obligations for the issuer are required to be classified as liabilities. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not expect the provisions of this pronouncement to have a material impact on the Company's financial condition.

Reclassifications

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

3. STOCK-BASED COMPENSATION

The Company accounts for its employee stock option plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under APB 25, generally no compensation expense is recorded when the terms of the award are fixed and the exercise price of the employee stock option equals or exceeds the fair value of the underlying stock on the date of grant. The Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation."

Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, the Company's net income and the net income per share would have been reduced to the pro forma amounts indicated below.

	Three months ended July 31, 2003	Three months ended July 31, 2002	Nine months ended July 31, 2003	Nine months ended July 31, 2002
Net income, as reported	**$ 7,649**	$ 4,766	**$ 73,350**	$ 49,232
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	**799**	140	**1,341**	1,695
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(5,528)**	(3,081)	**(12,965)**	(11,227)
Pro forma net income	**$ 2,920**	$ 1,825	**$ 61,726**	$ 39,700
Earnings per share:				
Basic – as reported	**$ 0.18**	$ 0.12	**$ 1.77**	$ 1.31
Basic – pro forma	**$ 0.07**	$ 0.05	**$ 1.49**	$ 1.06
Diluted – as reported	**$ 0.18**	$ 0.12	**$ 1.72**	$ 1.26
Diluted – pro forma	**$ 0.07**	$ 0.05	**$ 1.45**	$ 1.02

The pro forma disclosures shown are not representative of the effects on net income and the net income per share in future periods.

4. BUSINESS ACQUISITIONS AND CONSOLIDATION

During the quarter ended July 31, 2003, the Company acquired all of the outstanding capital stock of Frog City, Inc. ("Frog City"), the developer of *Tropico 2*: *Pirate Cove,* and Cat Daddy Games LLC ("Cat Daddy"), another development studio.The total purchase price for both studios consisted of $757 in cash and $319 of prepaid royalties previously advanced to Frog City. The Company also agreed to make additional payments of up to $2,500 to the former owners of Cat Daddy, based on a percentage of Cat Daddy's future profits, which will be recorded as compensation expense if the targets are met. In connection with the acquisitions, the Company recorded goodwill of $1,265 on a preliminary basis.

In November 2002, the Company acquired all of the outstanding capital stock of Angel Studios, Inc. ("Angel"), the developer of the *Midnight Club* and *Smuggler's Run* franchises. The purchase price consisted of 235,679 shares of restricted common stock (valued at $6,557), $28,500 in cash and $5,931 (net of $801 of royalties payable to Angel) of prepaid royalties previously advanced to Angel. In connection with the acquisition, the Company recorded identifiable intangibles of $4,720, comprised of intellectual property of $2,810, technology of $1,600 and non-competition agreements of $310, and goodwill of $37,425 on a preliminary basis.

In August 2002, the Company acquired all of the outstanding capital stock of Barking Dog Studios Ltd. ("Barking Dog"), a Canadian-based development studio. The purchase price consisted of 242,450 shares of restricted common stock (valued at $3,801), $3,000 in cash, $825 of prepaid royalties previously advanced to Barking Dog and assumed net liabilities of $70. In connection with the acquisition, the Company recorded identifiable intangibles of $2,200, comprised of non-competition agreements of $2,000 and intellectual property of $200, and goodwill of $6,372 on a preliminary basis.

The acquisitions have been accounted for as purchase transactions in accordance with SFAS 141 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. The pro forma results of operations and related per share information for the current and prior fiscal periods have not been presented as the impact is not material.

In April 2003, the Company entered into an agreement with Destineer Publishing Corp. ("Destineer"), a publisher of PC games, under which Destineer granted the Company exclusive distribution rights to eight PC games to be published by Destineer. The Company agreed to make recoupable advances to Destineer of approximately $6,700 and to pay Destineer with respect to product sales. In addition, the Company agreed to make a loan to Destineer of $1,000. Destineer granted the Company an immediately exercisable option to purchase a 19.9% interest in Destineer and a second option to purchase the remaining interest for a price equal to a multiple of Destineer's EBIT, exercisable during a period following April 2005. Pursuant to the requirements of FIN 46, since Destineer is a variable interest entity and the Company is considered to be the primary beneficiary (as defined in FIN 46), the results of Destineer's operations have been consolidated in the accompanying financial statements.

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5. NET INCOME PER SHARE

The following table provides a reconciliation of basic net income per share to diluted net income per share for the three and nine months ended July 31, 2003 and 2002:

	Net Income	Shares (in thousands)	Per Share Amount
Three Months Ended July 31, 2003:			
Basic	**$ 7,649**	**42,266**	**$ 0.18**
Effect of dilutive securities- Stock options, restricted stock and warrants	**—**	**1,282**	**—**
Diluted	**$ 7,649**	**43,548**	**$ 0.18**
Three months ended July 31, 2002:			
Basic	$ 4,766	38,705	$ 0.12
Effect of dilutive securities- Stock options and warrants	—	1,526	—
Diluted	$ 4,766	40,231	$ 0.12
Nine Months Ended July 31, 2003:			
Basic	**$ 73,350**	**41,424**	**$ 1.77**
Effect of dilutive securities- Stock options, restricted stock and warrants	**—**	**1,277**	**—**
Diluted	**$ 73,350**	**42,701**	**$ 1.72**
Nine months ended July 31, 2002:			
Basic	$ 49,232	37,500	$ 1.31
Effect of dilutive securities- Stock options and warrants	—	1,447	—
Diluted	$ 49,232	38,947	$ 1.26

The computation of diluted number of shares excludes 845,000 and 1,119,000 unexercised stock options for the three and nine months ended July 31, 2003, respectively, which are anti-dilutive. The computation of diluted number of shares excludes 68,000 and 318,000 unexercised stock options for the three and nine months ended July 31, 2002, respectively, which are anti-dilutive.

The Board of Directors authorized a stock repurchase program under which the Company may repurchase up to $25,000 of its common stock from time to time in the open market or in privately negotiated transactions. The Company has not repurchased any shares under this program.

6. INVENTORY

As of July 31, 2003 and October 31, 2002, inventories consist of:

	July 31, 2003	October 31, 2002
Parts and supplies	**$ 2,543**	$ 3,221
Finished products	**71,359**	71,170
	$ 73,902	$ 74,391

(Dollars in thousands, except per share amounts)

7. **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. The Company continually evaluates the recoverability of prepaid royalties and charges to cost of sales the amount that management determines is impaired and probable that will not be recouped at the contractual royalty rate in the period in which such determination is made or if the Company determines that it will cancel a development project.

The following table sets forth for the periods indicated changes in total prepaid royalties:

	Fiscal 2003	Fiscal 2002
Balance at November 1	**$ 25,926**	$ 32,989
Additions	**3,457**	7,737
Amortization	**(1,344)**	(9,655)
Reclassification	**(6,932)**	1,419
Write down	**(6,649)**	(2,152)
Foreign exchange	**17**	(517)
Balance at January 31	**14,475**	29,821
Additions	**10,114**	8,349
Amortization	**(4,843)**	(3,060)
Write down	**—**	(3,433)
Foreign exchange	**3**	125
Balance at April 30	**19,749**	31,802
Additions	**7,121**	6,126
Amortization	**(2,635)**	(3,329)
Reclassification	**(319)**	—
Write down	**—**	(3,762)
Foreign exchange	**(158)**	225
Balance at July 31	**23,758**	31,062
Less current balance	**15,576**	18,100
Non-current balance	**$ 8,182**	$ 12,962

The reclassification in the three months ended January 31, 2003 principally reflects the transfer of prepaid royalties paid to Angel prior to its acquisition by the Company as a component of the purchase price of Angel. The reclassification in the three months ended July 31, 2003 principally reflects the transfer of prepaid royalties paid to Frog City prior to its acquisition by the Company as a component of the purchase price of Frog City.

(Dollars in thousands, except per share amounts)

8. CAPITALIZED SOFTWARE DEVELOPMENT COSTS

The Company capitalizes internal software development costs, as well as other content costs, subsequent to establishing technological feasibility of a title.

The following table sets forth for the periods indicated changes in capitalized software development costs:

	Fiscal 2003	Fiscal 2002
Balance at November 1	**$ 10,385**	$ 9,739
Additions	**3,444**	1,484
Amortization	**(3,288)**	(2,955)
Reclassification	**—**	(1,419)
Write down	**(63)**	—
Foreign exchange	**150**	(114)
Balance at January 31	**10,628**	6,735
Additions	**4,390**	2,524
Amortization	**(3,365)**	(919)
Write down	**—**	(19)
Foreign exchange	**127**	133
Balance at April 30	**11,780**	8,454
Additions	**3,937**	3,165
Amortization	**(1,842)**	(2,125)
Foreign exchange	**111**	500
Balance at July 31.	**$ 13,986**	$ 9,994

9. 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 Accounting Standards 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.

As of October 31, 2002, non-current investments, which consisted solely of an investment in Gameplay plc stock, are summarized as follows:

	October 31, 2002
Average cost	$ 75
Unrealized gain	22
Fair value	$ 97

During the nine months ended July 31, 2003, the Company sold all the shares of Gameplay plc held by it for gross proceeds of $114. The Company realized a gain of $39 based on the average cost of the securities sold.

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10. **LINES OF CREDIT**

In December 1999, the Company entered into a credit agreement, as amended and restated in August 2002, with a group of lenders led by Bank of America, N.A., as agent. The agreement provides for borrowings of up to $40,000 through the expiration of the line of credit on August 28, 2005. Generally, advances under the line of credit are based on a borrowing formula equal to 75% of eligible accounts receivable plus 35% of eligible inventory. Interest accrues on such advances at the bank's prime rate plus 0.25% to 1.25%, or at LIBOR plus 2.25% to 2.75% depending on the Company's consolidated leverage ratio (as defined). The Company is required to pay a commitment fee to the bank equal to 0.5% of the unused loan balance. 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. Available borrowings under the agreement are reduced by the amount of outstanding letters of credit, which were $5,546 at July 31, 2003. The loan agreement contains certain financial and other covenants, including the maintenance of consolidated net worth, consolidated leverage ratio and consolidated fixed charge coverage ratio. As of July 31, 2003, the Company was 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 Company had no outstanding borrowings under the revolving line of credit as of July 31, 2003.

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 approximately $21,090. 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. Available borrowings under the agreement are reduced by the amount of outstanding guarantees. The facility expires on March 31, 2004. The Company had no outstanding guarantees or borrowings under this facility as of July 31, 2003.

11. **INTANGIBLE ASSETS**

Intangible assets consist of trademarks, intellectual property, customer lists and acquired technology in connection with acquisitions. 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.

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 (valued at $18,543). In addition, the Company is contingently obligated to make aggregate payments of up to $8,000 in cash upon the timely delivery of the final version of *Max Payne 2* for the PC and the achievement of certain sales targets for the PC and console versions of the title. The *Max Payne* assets acquired have been recorded as intellectual property and are included in intangible assets. The $8,000 will be recorded as an additional intangible asset upon resolution of the contingency.

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Notes to Unaudited Consolidated Condensed Financial Statements (continued)
(Dollars in thousands, except per share amounts)

		As of July 31, 2003			As of October 31, 2002		
	Range of Useful Life	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trademarks	7-10 years	**$ 23,342**	**$ (5,627)**	**$ 17,715**	$ 23,342	$ (4,515)	$ 18,827
Customer lists and relationships	5-10 years	**4,674**	**(2,665)**	**2,009**	9,081	(2,352)	6,729
Intellectual property	2-6 years	**22,737**	**(7,570)**	**15,167**	25,771	(2,869)	22,902
Non-competition agreements	3-6 years	**5,190**	**(2,185)**	**3,005**	4,880	(906)	3,974
Technology	3 years	**4,192**	**(2,200)**	**1,992**	4,640	(1,779)	2,861
		$ 60,135	**$ (20,247)**	**$ 39,888**	$ 67,714	$ (12,421)	$ 55,293

Amortization expense for the three months ended July 31, 2003 and 2002 was $2,212 and $1,660, respectively, and for the nine months ended July 31, 2003 and 2002 was $7,825 and $4,392, respectively.

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

2003	$ 9,355
2004	8,866
2005	3,958
2006	4,788
2007	2,356
Total	$29,323

During the three months ended January 31, 2003, the Company recorded a charge of $4,407 related to the impairment of a customer list, which was included in depreciation and amortization (see Note 14.). In addition, cost of sales – product costs include $7,892 of intellectual property and technology written off during the three months ended January 31, 2003, of which $5,499 related to *Duke Nukem Forever* and its sequel, reflecting the continued development delays for these products.

12. LEGAL AND OTHER PROCEEDINGS

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 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.

(Dollars in thousands, except per share amounts)

13. COMMITMENTS AND CONTINGENCIES

The Company periodically enters into agreements to purchase various software games that require the Company to make minimum guaranteed payments. These agreements, which expire between October 1, 2003 and February 1, 2005, require remaining aggregate minimum guaranteed payments of $7,888 at July 31, 2003. These agreements are collateralized by standby letters of credit of $3,986 at July 31, 2003. Additionally, assuming performance by third-party developers, the Company has outstanding commitments under various software development agreements to pay developers an aggregate of $16,917 over the twelve months ending July 31, 2004.

In connection with the Company's acquisition of the publishing rights to the *Duke Nukem* franchise for 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 obligated 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 the PC and console versions of the title. In May 2003, the Company agreed to make further payments of up to $6,000 in cash upon the timely commercial release of console versions of *Max Payne 2* and the achievement of certain additional sales targets. The Company also agreed to make additional payments of up to $2,500 to the former owners of Cat Daddy based on a percentage of Cat Daddy's future profits. The payables will be recorded when the contingencies are resolved.

14. CONSOLIDATION OF DISTRIBUTION FACILITIES

In January 2003, based on management's strategy to consolidate the Company's distribution business, and after taking into account the relative cost savings involved, the Company closed its warehouse operations in Ottawa, Illinois and College Point, New York. Operations at these warehouses ceased by January 31 and the business conducted there was consolidated with the operations of the Company's Jack of All Games' distribution facility in Ohio.

As a result of the closures, the Company recorded a charge of $7,501. The charge consisted of: (1) lease termination costs, representing the fair value of remaining lease payments, net of estimated sublease rent; (2) disposition of fixed assets, representing the net book value of fixed assets and leasehold improvements; (3) other exit costs; and (4) an impairment charge with respect to an intangible asset, representing a customer list relating to the business conducted at the Illinois facility. The accruals are included in accrued expenses in the consolidated condensed balance sheet. During the third quarter of 2003, the Company paid $1,402 in consideration of the termination of leases, which, along with reversal of other exit costs, resulted in a reversal of $473 of previously recorded charges.

These costs are included in general and administrative expense for the three months ended January 31, 2003, except for the intangibles impairment which is included in depreciation and amortization expense, and are summarized in the table below:

	Lease Termination Costs	Fixed Asset Dispositions	Intangibles Impairment	Other Exit Costs	Total
Provisions during quarter ended January 31, 2003	$ 2,015	$ 999	$ 4,407	$ 80	$ 7,501
Asset write-offs	(65)	(999)	(4,407)	(3)	(5,474)
Cash payments	(1,542)	—	—	(12)	(1,554)
Reversal during quarter ended July 31, 2003	(408)	—	—	(65)	(473)
Remaining obligations at July 31, 2003	$ —	$ —	$ —	$ —	$ —

(Dollars in thousands, except per share amounts)

15. SEGMENT REPORTING

The Company has adopted Statement of Financial Accounting Standards No. 131, “Disclosures about Segments of an Enterprise and Related Information” (“SFAS 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 and types of 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 131.

Information about the Company’s non-current assets in the United States and international areas as of July 31, 2003 and October 31, 2002 are presented below:

	July 31, 2003	October 31, 2002
Total non-current assets:		
United States	**$ 124,951**	$ 98,849
International		
United Kingdom	**21,037**	20,505
All other Europe	**15,377**	17,685
Other	**30,412**	26,036
	$ 191,777	$ 163,075

Information about the Company’s net sales in the United States, Canada and international areas for the three and nine months ended July 31, 2003 and 2002 are presented below:

	Three months ended July 31,		Nine months ended July 31,	
	2003	2002	2003	2002
Net Sales:				
United States	**$ 102,689**	$ 91,769	**$ 489,176**	$ 435,731
Canada	**14,484**	5,599	**59,401**	15,121
International				
United Kingdom	**7,834**	5,486	**71,797**	39,303
All other Europe	**26,036**	15,779	**122,302**	75,142
Asia Pacific	**4,034**	3,606	**14,810**	9,500
Other	**510**	222	**1,108**	920
	$ 155,587	$ 122,461	**$ 758,594**	$ 575,717

(Dollars in thousands, except per share amounts)

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Information about the Company's net sales by product platforms for the three and nine months ended July 31, 2003 and 2002 are presented below:

	Three months ended July 31,		Nine months ended July 31,	
	2003	**2002**	**2003**	**2002**
Platforms:				
Sony PlayStation 2	**$ 55,779**	$ 51,008	**$ 487,877**	$ 357,992
Sony PlayStation	**9,146**	9,372	**43,991**	48,021
Microsoft Xbox	**20,522**	5,754	**46,959**	42,812
PC	**42,509**	36,781	**77,017**	61,771
Nintendo GameBoy Color, GameBoy Advance and N64	**8,024**	3,298	**31,539**	14,665
Nintendo GameCube	**5,564**	2,327	**19,324**	8,821
Sega Dreamcast	—	128	**112**	1,504
Accessories	**4,475**	5,991	**14,428**	18,357
Hardware	**9,568**	7,802	**37,347**	21,774
	$ 155,587	$ 122,461	**$ 758,594**	$ 575,717

16. SUBSEQUENT EVENTS

In September 2003, the Company and TDK Mediactive, Inc. ("TDK") entered into an agreement pursuant to which the Company agreed to acquire all of TDK's outstanding capital stock for approximately $22,737, consisting of (1) $0.55 per share for each of the 23,005,885 shares outstanding (approximately $12,653); (2) the purchase of debt of approximately $9,911 ($1,911 in cash and restricted shares of the Company's common stock having a value of $8,000); and (3) approximately $173 to retire outstanding stock options. The closing of the acquisition is subject to customary conditions.

The Company and TDK also entered into a separate agreement providing the Company with the exclusive North American distribution rights for certain TDK titles, including *The Haunted Mansion*, *Star Trek: Shattered Universe* and *Corvette*.

Business Acquisitions

During the quarter ended July 31, 2003, we acquired all of the outstanding capital stock of Frog City, Inc. ("Frog City"), the developer of *Tropico 2*: *Pirate Cove,* and Cat Daddy Games LLC ("Cat Daddy"), another development studio.The total purchase price for both studios consisted of $757 in cash and $319 of prepaid royalties previously advanced to Frog City. We also agreed to make additional payments of up to $2,500 to the former owners of Cat Daddy, based on a percentage of Cat Daddy's future profits, which will be recorded as compensation expense if the targets are met. In connection with the acquisitions, we recorded goodwill of $1,265 on a preliminary basis.

In November 2002, we acquired all of the outstanding capital stock of Angel Studios, Inc. ("Angel"), the developer of the *Midnight Club* and *Smuggler's Run* franchises*.* The purchase price consisted of 235,679 shares of restricted common stock (valued at $6,557), $28,500 in cash and $5,931 (net of $801 of royalties payable to Angel) of prepaid royalties previously advanced to Angel. In connection with the acquisition, we recorded identifiable intangibles of $4,720, comprised of intellectual property of $2,810, technology of $1,600 and non-competition agreements of $310, and goodwill of $37,425 on a preliminary basis.

In August 2002, we acquired all of the outstanding capital stock of Barking Dog Studios Ltd. ("Barking Dog"), a Canadian-based development studio. The purchase price consisted of 242,450 shares of restricted common stock (valued at $3,801), $3,000 in cash, $825 of prepaid royalties previously advanced to Barking Dog and assumed net liabilities of $70. In connection with the acquisition, we recorded identifiable intangibles of $2,200, comprised of non-competition agreements of $2,000 and intellectual property of $200, and goodwill of $6,372 on a preliminary basis.

The acquisitions have been accounted for as purchase transactions in accordance with SFAS 141 and, accordingly, the results of operations and financial position of the acquired businesses are included in our consolidated financial statements from the respective dates of acquisition. The pro forma results of operations and related per share information for the current and prior fiscal periods have not been presented as the impact is not material.

Critical Accounting Policies

Estimates

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 doubtful accounts, returns and sales allowances. Actual amounts could differ significantly from these estimates.

Revenue Recognition

Our 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 products designed for video game consoles.

We recognize revenue net of allowances for returns and sales allowances when title and risk of loss pass to customers (generally, upon receipt of products by customers). In accordance with Statement of Position 97-2, "Software Revenue Recognition," we recognize revenue when the price is fixed and determinable, upon persuasive evidence of an agreement, our fulfillment of our obligations under any such agreement and a determination that collection is probable. Our payment arrangements with customers provide primarily 60 day terms and to a limited extent with certain customers 30 or 90 day terms. We 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, we defer revenue at the time of sale and recognize revenue when collection of the related receivable becomes probable or cash is collected.

(Dollars in thousands, except per share amounts)

Returns and Reserves

We generally accept returns and grant price protection in connection with our publishing arrangements. We establish a reserve for future returns of published titles and sales allowances based primarily on historical return rates, return policies and price protection policies, and recognize revenue net of allowances for returns and sales allowances. Our distribution arrangements with customers generally do not give them the right to return titles or to cancel firm orders. However, we sometimes accept returns for stock balancing and negotiate accommodations to customers, which includes price discounts, credits and returns, when demand for specific titles falls below expectations. If future returns or price protection significantly exceed established reserves, our operating results would be adversely affected.

Prepaid Royalties

Our agreements with licensors and developers generally provide us with exclusive publishing rights and require us 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 a component of 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. We continually evaluate the recoverability of prepaid royalties and charge 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 or if we determine that we will cancel a development project. Prepaid royalties are classified as current and non-current assets based upon estimated net product sales within the next year.

The following table sets forth for the periods indicated changes in total prepaid royalties:

	Fiscal 2003	Fiscal 2002
Balance at November 1	**$ 25,926**	$ 32,989
Additions	**3,457**	7,737
Amortization	**(1,344)**	(9,655)
Reclassification	**(6,932)**	1,419
Write down	**(6,649)**	(2,152)
Foreign exchange	**17**	(517)
Balance at January 31	**14,475**	29,821
Additions	**10,114**	8,349
Amortization	**(4,843)**	(3,060)
Write down	**—**	(3,433)
Foreign exchange	**3**	125
Balance at April 30	**19,749**	31,802
Additions	**7,121**	6,126
Amortization	**(2,635)**	(3,329)
Reclassification	**(319)**	—
Write down	**—**	(3,762)
Foreign exchange	**(158)**	225
Balance at July 31	**23,758**	31,062
Less current balance	**15,576**	18,100
Non-current balance	**$ 8,182**	$ 12,962

The reclassification in the three months ended January 31, 2003 principally reflects the transfer of prepaid royalties paid to Angel prior to its acquisition by us as a component of the purchase price of Angel. The reclassification in the three months ended July 31, 2003 principally reflects the transfer of prepaid royalties paid to Frog City prior to its acquisition by us as a component of the purchase price of Frog City.

(Dollars in thousands, except per share amounts)

Capitalized Software Development Costs

We capitalize internal software development costs subsequent to establishing technological feasibility of a title. Capitalized software development costs represent the costs associated with the internal development of our 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. We continually evaluate the recoverability of capitalized software development costs and will charge to cost of sales any amounts that are deemed unrecoverable or for projects that we abandon.

The following table sets forth for the periods indicated changes in capitalized software development costs:

	Fiscal 2003	Fiscal 2002
Balance at November 1	**$ 10,385**	$ 9,739
Additions	**3,444**	1,484
Amortization	**(3,288)**	(2,955)
Reclassification	**—**	(1,419)
Write down	**(63)**	—
Foreign exchange	**150**	(114)
Balance at January 31	**10,628**	6,735
Additions	**4,390**	2,524
Amortization	**(3,365)**	(919)
Write down	**—**	(19)
Foreign exchange	**127**	133
Balance at April 30	**11,780**	8,454
Additions	**3,937**	3,165
Amortization	**(1,842)**	(2,125)
Foreign exchange	**111**	500
Balance at July 31	**$ 13,986**	$ 9,994

(Dollars in thousands, except per share amounts)

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Results of Operations

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

	Three months ended July 31,		Nine months ended July 31,	
	2003	**2002**	**2003**	**2002**
Operating data:				
Net sales	**100.0%**	100.0%	**100.0%**	100.0%
Cost of sales				
Product costs	**52.5**	51.1	**50.8**	52.8
Royalties	**6.7**	10.0	**8.8**	9.4
Software development costs	**1.2**	1.7	**1.1**	1.0
Total cost of sales	**60.4**	62.8	**60.7**	63.2
Selling and marketing	**12.9**	13.0	**10.1**	10.1
General and administrative	**12.5**	14.2	**8.9**	9.6
Research and development	**4.5**	1.5	**2.3**	1.3
Depreciation and amortization	**1.9**	2.1	**1.8**	1.1
Interest (income) expense, net	**(0.4)**	(0.2)	**(0.2)**	0.1
Provision for income taxes	**3.4**	2.8	**6.7**	5.7
Net income	**4.9**	3.9	**9.7**	8.6
Net Sales by Territory:				
North America	**75.3%**	79.5%	**72.3%**	78.3%
International	**24.7**	20.5	**27.7**	21.7
Net Sales Mix:				
Publishing	**59.7%**	70.3%	**69.2%**	71.5%
Distribution	**40.3**	29.7	**30.8**	28.5
Platform Mix (publishing):				
Console	**59.2%**	60.1%	**87.5%**	87.3%
PC	**39.6**	37.1	**11.1**	11.0
Accessories and hand-held	**1.2**	2.8	**1.4**	1.7
Principal Products:				
Grand Theft Auto: Vice City, PS2 (released October – November 2002)	**9.5%**	—%	**43.7%**	—%
Grand Theft Auto: Vice City, PC (released May 2003)	**17.6**	—	**3.6**	—
Midnight Club 2, PS2 (released April 2003)	**7.6**	—	**5.1**	—
Midnight Club, PS2 (released October 2000)	**0.9**	3.9	**0.8**	0.9
Grand Theft Auto 3, PS2 (released October 2001)	**3.1**	29.7	**2.0**	37.2
Grand Theft Auto 3, PC (released May 2002)	**0.3**	17.5	**0.5**	3.7
State of Emergency, PS2 (released February 2002)	**—**	—	**—**	6.1
Max Payne, PS2 (released December 2001)	**1.2**	3.2	**1.1**	8.7
Max Payne, Xbox (released December 2001)	**0.4**	1.6	**—**	4.0
Ten largest titles	**51.7**	62.3	**60.9**	63.5

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Three Months Ended July 31, 2003 and 2002

Net Sales. Net sales increased by $33,126, or 27.1%, to $155,587 for the three months ended July 31, 2003 from $122,461 for the three months ended July 31, 2002. The increase was primarily attributable to higher distribution revenues during the period, as well as increased publishing revenues.

Publishing revenues increased by $6,817, or 7.9%, to $92,938 for the three months ended July 31, 2003 from $86,121 for the three months ended July 31, 2002, on higher revenues from international publishing operations partly offset by lower domestic publishing revenues. Publishing revenues represented 59.7% and 70.3% of net sales for the three months ended July 31, 2003 and 2002, respectively.

Products designed for video game console platforms accounted for 59.2% of publishing revenues as compared to 60.1% for the comparable period last year. Products designed for PC platforms accounted for 39.6% of publishing revenues as compared to 37.1% for the prior comparable period. These changes resulted from the higher number of releases of PC titles and higher unit sales of these products in the current quarter.

Distribution revenues increased by $26,309, or 72.4%, to $62,649 for the three months ended July 31, 2003 from $36,340 for the three months ended July 31, 2002. The increase was primarily attributable to increased sales of third-party titles and reflected our increasing market share for budget titles in North American retail channels. Distribution revenues represented 40.3% and 29.7% of net sales for the three months ended July 31, 2003 and 2002, respectively.

International operations accounted for approximately $38,414, or 24.7% of net sales for the three months ended July 31, 2003 compared to $25,093 or 20.5% of net sales for the three months ended July 31, 2002. The increases were primarily attributable to expanded publishing operations in Europe, which benefited from the continued strong sales of the *Grand Theft Auto* and *Midnight Club* titles, higher catalog sales and significantly higher average foreign exchange rates.

Cost of Sales. Total cost of sales increased by $16,981, or 22.1%, to $93,918 for the three months ended July 31, 2003 from $76,937 for the three months ended July 31, 2002. Cost of sales as a percentage of net sales decreased to 60.4% from 62.8% for the comparable quarter in the prior year.

Product costs increased $19,075, or 30.5%, to $81,642 for the three months ended July 31, 2003 from $62,567 for the prior comparable quarter, and increased as a percentage of net sales to 52.5% from 51.1%. The increases principally reflect the shift to the higher cost distribution operations, partly offset by favorable product pricing from distribution suppliers and shift in platform mix to lower cost PC titles. Product costs for the three months ended July 31, 2002 include $2,248 of Ubi Soft litigation settlement costs.

Royalties decreased $1,811, or 14.8%, to $10,434 for the three months ended July 31, 2003 from $12,245 for the prior comparable quarter, and decreased as a percentage of net sales to 6.7% from 10.0%. The decreases were due to the absence of write downs of prepaid royalties related to products in development this period, lower external royalty payments and lower amortization of prepaid royalties during the current quarter, reflecting the sales of fewer third party titles (*Max Payne* and *Midnight Club*, which were previously third-party titles, were acquired by us in May 2002 and November 2002, respectively). The decreases were partly offset by royalty expense under a royalty program for certain of our internal development personnel.

Software development costs decreased $283, or 13.3% to $1,842 for the three months ended July 31, 2003 from $2,125 for the three months ended July 31, 2002, and decreased as a percentage of sales for the three months ended July 31, 2003 to 1.2% from 1.7% for the comparable period in 2002. The decreases were due to lower amortization in the current period, as a smaller percentage of net sales for the current quarter was generated from internally developed products that had unamortized capitalized software cost attributable to the products.

Selling and Marketing. Selling and marketing expenses increased by $4,101, or 25.8%, to $20,013 for the three months ended July 31, 2003 from $15,912 for the three months ended July 31, 2002. The increase was attributable to increased levels of advertising and promotional support for existing and new titles as well as higher personnel expenses. Selling and marketing expenses as a percentage of net sales remained relatively constant at about 13.0% for both periods.

General and Administrative. General and administrative expenses increased by $1,982 , or 11.4%, to $19,372 for the three months ended July 31, 2003 from $17,390 for the three months ended July 31, 2002, but decreased as a percentage of net sales to 12.5% from 14.2%. The increase in absolute dollars was primarily attributable to increased personnel expenses (including the issuance of restricted stock and severance payments), partly offset by lower professional fees, including the reimbursement of $300 of legal fees from insurance proceeds during this quarter relating to costs recorded in the prior year, and a $473 reversal principally related to the settlement of lease termination costs recorded for the consolidation of distribution facilities in the three months ended January 31, 2003. The three months ended July 31, 2002 included costs related to the settlement of the Ubi Soft litigation, legal and professional fees incurred in connection with legal proceedings and regulatory matters and expenses related to the relocation of the Company's principal executive offices.

Research and Development. Research and development costs increased by $5,231, or 288.7%, to $7,043 for the three months ended July 31, 2003 from $1,812 for the three months ended July 31, 2002, principally due to the recent acquisitions of development studios and increased personnel costs. Research and development costs as a percentage of net sales increased to 4.5% for the three months ended July 31, 2003 from 1.5% for the three months ended July 31, 2002.

Depreciation and Amortization. Depreciation and amortization expense increased $389, or 15.3%, to $2,930 for the three months ended July 31, 2003 from $2,541 for the prior comparable period. The increase reflects higher amortization of intangible assets as a result of acquisitions and higher depreciation related to the implementation of accounting software systems. Depreciation and amortization expenses as a percentage of net sales decreased to 1.9% for the three months ended July 31, 2003 from 2.1% for the three months ended July 31, 2002.

Income from Operations. Income from operations increased by $4,442, or 56.4%, to $12,311 for the three months ended July 31, 2003 from $7,869 for the three months ended July 31, 2002, due to the changes referred to above.

Interest (Income) Expense, net. Interest income increased by $326, or 109.0% for the three months ended July 31, 2003 from $299 for the prior comparable period, reflecting increased invested cash.

Provision for Income Taxes. Income tax expense was $5,287 for the three months ended July 31, 2003 as compared to $3,402 for the three months ended July 31, 2002. The increase was primarily attributable to increased taxable income. The effective tax rate was 40.9% for the three months ended July 31, 2003, as compared to an effective tax rate of 41.7% for the 2002 quarter. The effective income tax rate differs from the statutory rate as a result of non-deductible expenses and the mix of foreign and domestic taxes as applied to the income.

Net Income. Net income increased $2,883, or 60.5%, to $7,649 for the three months ended July 31, 2003 from $4,766 for the three months ended July 31, 2002, due to the changes referred to above.

Diluted Net Income per Share. Diluted net income per share increased $0.06, or 50.0%, to $0.18 for the three months ended July 31, 2003 from $0.12 for the three months ended July 31, 2002, as the increase in net income was partly offset by the higher weighted average shares outstanding. The increase in weighted shares outstanding resulted from the issuance of shares underlying stock options, restricted stock and acquisitions.

Nine Months Ended July 31, 2003 and 2002

Net Sales. Net sales increased by $182,877, or 31.8%, to $758,594 for the nine months ended July 31, 2003 from $575,717 for the nine months ended July 31, 2002. The increase was attributable to growth in publishing and distribution operations.

Publishing revenues increased by $113,198, or 27.5%, to $525,065 for the nine months ended July 31, 2003 from $411,867 for the nine months ended July 31, 2002. The increase was primarily attributable to sales of *Grand Theft Auto: Vice City* for PlayStation 2, which was released in October 2002 in North America and in November 2002 internationally. Publishing revenues represented 69.2% and 71.5% of net sales for the nine months ended July 31, 2003 and 2002, respectively.

Products designed for video game console platforms accounted for 87.5% of publishing revenues as compared to 87.3% for the comparable period last year. Products designed for PC platforms accounted for 11.1% of publishing revenues as compared to 11.0% for the prior comparable period.

Distribution revenues increased by $69,679, or 42.5%, to $233,529 for the nine months ended July 31, 2003 from $163,850 for the nine months ended July 31, 2002. The increase was primarily attributable to increased sales of third-party titles and reflected our increasing market share for budget titles in North American retail channels. Distribution revenues represented 30.8% and 28.5% of net sales for the nine months ended July 31, 2003 and 2002, respectively.

International operations accounted for approximately $210,016, or 27.7% of net sales for the nine months ended July 31, 2003 compared to $124,865, or 21.7% of net sales for the nine months ended July 31, 2002. The increases were primarily attributable to expanded publishing operations in Europe, which benefited from the November 2002 release of *Grand Theft Auto: Vice City* for PlayStation 2, and significantly higher average foreign exchange rates.

Cost of Sales. Total cost of sales increased by $96,532, or 26.5%, to $460,324 for the nine months ended July 31, 2003 from $363,792 for the nine months ended July 31, 2002. Cost of sales as a percentage of net sales decreased to 60.7% for the nine months ended July 31, 2003 from 63.2% for the prior comparable period.

Product costs increased $81,104, or 26.7%, to $384,984 for the nine months ended July 31, 2003 from $303,880 for the prior comparable quarter, but decreased as a percentage of net sales to 50.8% from 52.8%. The decrease in cost of sales as a percentage of net sales was due to lower product pricing from distribution suppliers and lower manufacturing costs (principally attributable to volume purchase discounts and rebates). The decrease was partly offset by a charge of $7,892 relating to the impairment of intangibles related to certain products in development, including *Duke Nukem Forever* and its sequel. The impairment was based on continued product development delays and our assessment of current market acceptance and projected cash flows for these products. Product costs for the 2002 period include $3,064 of Ubi Soft litigation settlement costs.

Royalties increased $12,888, or 23.9%, to $66,782 for the nine months ended July 31, 2003 from $53,894 for the prior comparable period but decreased as a percentage of net sales to 8.8% from 9.4%. The increase in absolute dollars was primarily due to significant royalty expense under a royalty program for certain of our internal development personnel partly offset by lower amortization of prepaid royalties and lower royalties to third-parties. Our royalty program may continue to be a significant expense in future periods.

Software development costs increased $2,540, or 42.2% to $8,558 for the nine months ended July 31, 2003 from $6,018 for the nine months ended July 31, 2002 and remained relatively constant as a percentage of sales at 1.0%. The increase in absolute dollars was due to the release of a greater number of internally developed titles during this period resulting in higher amortization in the current period.

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 $18,499, or 31.7%, to $76,928 for the nine months ended July 31, 2003 from $58,429 for the nine months ended July 31, 2002. The increase was attributable to increased levels of advertising and promotional support for existing and new titles as well as higher personnel expenses. Selling and marketing expenses as a percentage of net sales for the nine months ended July 31, 2003 and for the nine months ended July 31, 2002 remained constant at 10.1%.

General and Administrative. General and administrative expenses increased by $12,390, or 22.4%, to $67,701 for the nine months ended July 31, 2003 from $55,311 for the nine months ended July 31, 2002, but decreased as a percentage of net sales to 8.9% from 9.6%. The increase in absolute dollars was attributable to costs associated with the consolidation of our distribution operations, as well as increased personnel expenses (including bonuses, severance payments and the issuance of restricted stock), higher rent and bad debt expenses, partly offset by lower professional fees, including the reimbursement of $1,100 of legal fees from insurance proceeds this year relating to costs recorded in the prior year and costs related to the settlement of the Ubi Soft litigation in the prior year. The current year's net consolidation charge of $7,028 consisted of: lease termination costs, representing the fair value of remaining lease payments, net of estimated sublease rent; disposition of fixed assets, representing the net book value of fixed assets and leasehold improvements; and other exit costs. Bad debt expense increased as a result of customer bankruptcies during the current year.

Research and Development. Research and development costs increased by $9,716, or 126.1%, to $17,419 for the nine months ended July 31, 2003 from $7,703 for the nine months ended July 31, 2002, principally due to the recent acquisitions of development studios and increased personnel costs. Research and development costs as a percentage of net sales increased to 2.3% for the nine months ended July 31, 2003 from 1.3% for the nine months ended July 31, 2002.

Depreciation and Amortization. Depreciation and amortization expense increased $7,075, or 107.0%, to $13,689 for the nine months ended July 31, 2003 from $6,614 for the prior comparable period. The increase includes $4,407 related to the impairment of a customer list from a previous acquisition as a result of the consolidation of our distribution operations, higher amortization of intangible assets as a result of acquisitions and higher depreciation related to the implementation of accounting software systems. Depreciation and amortization expenses as a percentage of net sales increased to 1.8% for the nine months ended July 31, 2003 from 1.1% for the nine months ended July 31, 2002.

Income from Operations. Income from operations increased by $38,665, or 46.1%, to $122,533 for the nine months ended July 31, 2003 from $83,868 for the nine months ended July 31, 2002, due to the changes referred to above.

Interest (Income) Expense, net. Interest income of $1,713 during the nine months ended July 31, 2003 was attributable to interest earned on the invested cash. Interest expense of $728 for the nine months ended July 31, 2002 reflected borrowings from our credit facilities, which were repaid in early fiscal 2002.

Class Action Settlement Costs. During the three months ended July 31, 2002, we 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 for Income Taxes. Income tax expense was $50,935 for the nine months ended July 31, 2003 as compared to $32,599 for the nine months ended July 31, 2002. The increase was primarily attributable to increased taxable income. The effective tax rate was 41.0% for the nine months ended July 31, 2003, as compared to an effective tax rate of 39.8% for the 2002 period. The effective income tax rate differs from the statutory rate as a result of non-deductible expenses and the mix of foreign and domestic taxes as applied to the income.

At October 31, 2002, we had capital loss carryforwards totaling approximately $21,000. The capital loss carryforwards expire in fiscal 2006. Failure to achieve sufficient levels of taxable income from capital transactions might affect the ultimate realization of the capital loss carryforwards. If this were to occur, management is committed to implementing tax planning strategies, such as the sale of our net appreciated assets to the extent required (if any) to generate sufficient taxable income prior to the expiration of these benefits.

Net Income. Net income increased $24,118, or 49.0%, to $73,350 for the nine months ended July 31, 2003 from $49,232 for the nine months ended July 31, 2002, due to the changes referred to above.

Diluted Net Income per Share. Diluted net income per share increased $0.46, or 36.5%, to $1.72 for the nine months ended July 31, 2003 from $1.26 for the nine months ended July 31, 2002, as the increase in net income was partly offset by the higher weighted average shares outstanding. The increase in weighted shares outstanding resulted from the issuance of shares underlying stock options and to the acquisitions of the Max Payne intellectual property and the development studios.

Liquidity and Capital Resources

Our primary cash requirements have been and will continue to be to fund developing, manufacturing, publishing and distributing our and third-party products. We have historically satisfied our working capital requirements primarily through cash flow from operations, the issuance of debt and equity securities and bank borrowings. At July 31, 2003, we had working capital of $298,805 as compared to working capital of $197,453 at October 31, 2002.

Cash and cash equivalents increased $117,490 to $225,859 at July 31, 2003, from $108,369 at October 31, 2002. The increase is primarily attributable to $124,508 of cash provided by operating activities and $30,061 provided by financing activities, partly offset by $39,701 used in investing activities.

Cash provided by operating activities for the nine months ended July 31, 2003 was $124,508, as compared to $118,818 for the nine months ended July 31, 2002, as the increase in net income, higher non-cash adjustments and increased tax benefit from stock options were partly offset by a lower benefit from changes in operating assets and liabilities. We anticipate negative cash from operating activities in the quarter ending October 31, 2003 due to the timing of product releases.

Net cash used in investing activities for the nine months ended July 31, 2003 was $39,701 as compared to net cash used in investing activities of $13,071 for the nine months ended July 31, 2002. The increase is primarily attributable to the acquisition of Angel in the current period and the lower proceeds from sale of investments.

Net cash provided by financing activities for the nine months ended July 31, 2003 was $30,061, as compared to net cash used in financing activities of $43,304 for the nine months ended July 31, 2002. The change was primarily attributable to the absence of repayment of indebtedness during the current period and higher proceeds from the exercise of stock options.

In December 1999, we entered into a credit agreement, as amended and restated in August 2002, with a group of lenders led by Bank of America, N.A., as agent. The agreement provides for borrowings of up to $40,000 through the expiration of the line of credit on August 28, 2005. Generally, advances under the line of credit are based on a borrowing formula equal to 75% of eligible accounts receivable plus 35% of eligible inventory. Interest accrues on such advances at the bank's prime rate plus 0.25% to 1.25%, or at LIBOR plus 2.25% to 2.75% depending on our consolidated leverage ratio (as defined). We are required to pay a commitment fee to the bank equal to 0.5% of the unused loan balance. Borrowings under the line of credit are collateralized by our accounts receivable, inventory, equipment, general intangibles, securities and other personal property, including the capital stock of our domestic subsidiaries. Available borrowings under the agreement are reduced by the amount of outstanding letters of credit, which were $5,546 at July 31, 2003. The loan agreement contains certain financial and other covenants, including the maintenance of consolidated net worth, consolidated leverage ratio and consolidated fixed charge coverage ratio. As of July 31, 2003, we were in compliance with such covenants. The loan agreement limits or prohibits us 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. We had no outstanding borrowings under the revolving line of credit as of July 31, 2003.

In February 2001, our 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 approximately $21,090. 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 us. Available borrowings under the agreement are reduced by the amount of outstanding guarantees. The facility expires on March 31, 2004. We had no outstanding guarantees or borrowings under this facility as of July 31, 2003.

For the nine months ended July 31, 2003 and 2002, we received proceeds of $30,341 and $11,346, respectively, relating to the exercise of stock options and warrants.

Our accounts receivable, less an allowance for doubtful accounts, returns and sales allowances at July 31, 2003 was $65,996. Of such receivables, each of four retail customers accounted for more than 10% of the receivable balance (62.4% in aggregate) at July 31, 2003. Most of our receivables are covered by insurance, with certain limits and deductibles, in the event of a customer's bankruptcy or insolvency. Generally, we have been able to collect our receivables in the ordinary course of business. We do not hold any collateral to secure payment from customers. As a result, we are 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 we are unable to collect our accounts receivable as they become due and such accounts are not covered by insurance, we could be required to increase our allowance for doubtful accounts, which could adversely affect our liquidity and working capital position.

Our allowance for doubtful accounts, returns and sales allowances increased during the nine months ended July 31, 2003 as a result of additional price protection for our published products and included additional bad debt expense, net of deductibles and insurance proceeds, related to the bankruptcy of two customers, the losses from which were not entirely covered by insurance. We had accounts receivable days outstanding of 38 days for the three months ended July 31, 2003, as compared to 48 days for the three months ended July 31, 2002.

In September 2002, we relocated our principal executive offices to 622 Broadway, New York, New York. We have recently leased additional space at 622 Broadway to accommodate our expanded operations. We estimate that as of July 31, 2003 we will incur an additional $3,000 in capital expenditures for continuing renovations and leasehold improvements for this space. In connection with signing a ten year lease, we provided a standby letter of credit of $1,560, expiring December 31, 2003. As a result of the relocation, during the nine months ended July 31, 2003, we recorded expenses of $363 related to lease costs with regard to our former executive offices. In addition, we expect to spend an additional $670 in connection with the implementation of accounting software systems for our international operations. As of the date of this report, we have no other material commitments for capital expenditures.

Our Board of Directors authorized a stock repurchase program under which we may repurchase up to $25,000 of our common stock from time to time in the open market or in privately negotiated transactions. We have not repurchased any shares under this program.

We have incurred and may continue to incur significant legal, accounting and other professional fees and expenses in connection with pending regulatory matters.

Based on our currently proposed operating plans and assumptions, we believe that projected cash flow from operations and available cash resources will be sufficient to satisfy our cash requirements for the reasonably foreseeable future.

Contractual Obligations and Contingent Liabilities and Commitments

Our offices and warehouse facilities are occupied under non-cancelable operating leases expiring at various times from October 2003 to October 2011. We also lease certain furniture, equipment and automobiles under non-cancelable leases expiring through September 2007.

We have entered into distribution agreements under which we purchase various software games. These agreements, which expire between October 1, 2003 and February 1, 2005, require remaining aggregate minimum guaranteed payments of $7,888 at July 31, 2003. These agreements are collateralized by standby letters of credit of $3,986 at July 31, 2003. Additionally, assuming performance by third-party developers, we have outstanding commitments under various software development agreements to pay developers an aggregate of $16,917 over the twelve months ending July 31, 2004.

In connection with our acquisition of the publishing rights to the *Duke Nukem* franchise for PC and video games in December 2000, we are contingently obligated to pay $6,000 in cash upon delivery of the final version of *Duke Nukem Forever* for the PC. In addition, in connection with our acquisition of the *Max Payne* product franchise in May 2002, we are contingently obligated to make aggregate payments of up to $8,000 in cash upon the timely delivery of the final version of *Max Payne 2* for the PC and the achievement of certain sales targets for the PC and console versions of the title. In May 2003, we agreed to make further payments of up to $6,000 in cash upon the timely commercial release of console versions of *Max Payne 2* and the achievement of certain additional sales targets. We also agreed to make additional payments of up to $2,500 to the former owners of Cat Daddy based on a percentage of Cat Daddy's future profits. The payables will be recorded when the contingencies are resolved.

Fluctuations in Operating Results and Seasonality

We have 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 our 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 our competitors; product returns; changes in pricing policies by us and our 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 our titles are also seasonal, with peak shipments typically occurring in the fourth calendar quarter (our 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 our net sales. For the nine months ended July 31, 2003 and 2002, sales in international markets accounted for approximately 27.7% and 21.7%, respectively, of our net sales. We are 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 our operating results.

Recently Adopted Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards 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 provisions of SFAS 143 are effective for financial statements issued for fiscal years beginning after June 15, 2002. The adoption of SFAS 143 in fiscal 2003 did not have an impact on our financial condition, cash flows and results of operations.

In October 2001, the FASB issued Statement of Financial Accounting Standards 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 Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed 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 adoption of SFAS 144 in the first quarter of fiscal 2003 did not have a material impact on our financial condition and results of operations.

In April 2002, the FASB issued Statement of Financial Accounting Standards 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. The rescission of SFAS No. 4 is effective for fiscal years beginning after May 15, 2002, which for us was November 1, 2002. Under this pronouncement, the $1,948 net loss on extinguishment of debt for the year ended October 31, 2001 classified as an extraordinary item will be reclassified as follows: $3,165 of loss on extinguishment to non-operating expenses and $1,217 of tax benefit to provision for income taxes in our Annual Report on Form 10-K for the year ending October 31, 2003. We do not expect that the rescission of SFAS No. 4 will have a material impact on our financial condition, cash flows and results of operations.

In January 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 requires the recognition of such costs when they are incurred rather than at the date of a commitment to an exit or disposal plan. The provisions of SFAS 146 are to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS 146 in the first quarter of fiscal 2003 did not have a material impact on our financial condition and results of operations.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" ("SFAS 148"). SFAS 148 amends the transition provisions of FASB No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), for entities that voluntarily change to the fair value method of accounting for stock-based employee compensation. We do not currently intend to change our accounting to the fair value method. SFAS 148 also amends the disclosure provisions of SFAS 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation and amends APB Opinion No. 28, "Interim Financial Reporting" ("APB 28") to require disclosures about such effects in interim financial information. The amendments to FASB 123 are effective for years ending after December 15, 2002. The disclosures required by the amendments to APB 28 for interim disclosure of pro forma results are contained in this Report.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 expands previously issued accounting guidance and disclosure requirements for certain guarantees and requires recognition of an initial liability for the fair value of an obligation assumed by issuing a guarantee. The provision for initial recognition and measurement of liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of FIN 45 in the first quarter of fiscal 2003 did not have a material impact on our financial condition or results of operations.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual return or both. FIN 46 also provides criteria for determining whether an entity is a variable interest entity subject to consolidation. FIN 46 requires immediate consolidation of variable interest entities created after January 31, 2003. For variable interest entities created prior to February 1, 2003, consolidation is required on July 1, 2003. The adoption of FIN 46 in the third quarter of fiscal 2003 did not have a material impact on our financial condition or results of operations (see Note 4.).

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." In general, SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS 149 did not have a material impact on our financial condition or results of operations.

Recently Issued Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with SFAS 150, financial instruments that embody obligations for the issuer are required to be classified as liabilities. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003. We do not expect the provisions of this pronouncement to have a material impact on our financial condition.

Cautionary Statement and Risk Factors

***Safe Harbor Statement under the Securities Litigation Reform Act of 1995*:** We make 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 which could cause our actual results, performance or achievements to be materially different from results, performance or achievements, expressed or implied by such forward-looking statements:

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 introductions of new products. New products introduced by us may not achieve significant market acceptance or achieve sufficient sales to permit us to recover development, manufacturing and marketing 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 nine months. The life cycle of a game generally involves a relatively high level of sales during the first few months after introduction followed by a decline in sales. 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 our operating results. Additionally, because we introduce a relatively limited number of new products in any period, the failure of one or more of our products to achieve market acceptance could result in losses.

A significant portion of our revenues is derived from a limited number of titles. For the nine months ended July 31, 2003, our ten best selling titles accounted for approximately 60.9% of our revenues, with *Grand Theft Auto: Vice City* for PlayStation 2 accounting for 43.7% of our revenues, *Midnight Club 2* for PlayStation 2 accounting for 5.1% of our revenues and *Grand Theft Auto: Vice City* for PC accounting for 3.6% of our revenues. Our ten best selling titles accounted for approximately 63.5% of our revenues for the nine months ended July 31, 2002. For this period, *Grand Theft Auto 3* for PlayStation 2 accounted for 37.2% of our revenues and *Max Payne* for PlayStation 2 accounted for 8.7% of our revenues. Our ten best selling titles accounted for approximately 59.9% of our revenues for the fiscal year ended October 31, 2002. Our future titles may not be commercially viable. If we fail to continue to develop and sell new, commercially successful titles, our revenues and profits may decrease substantially and we may incur losses.

Our quarterly operating results may vary significantly, which could cause our stock price to decline. We have 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. Our failure or inability to introduce products on a timely basis to meet seasonal fluctuations in demand will harm our business and operating results. These fluctuations could also cause our stock price to decline. Other factors that cause fluctuations include:

- delays in the introduction of new titles;
- the size and timing of product and business acquisitions;
- variations in sales of titles designed to operate on particular platforms;
- development and promotional expenses relating to the introduction of new titles;
- availability of hardware platforms;
- the timing and success of title introductions by our competitors;
- product returns;
- the accuracy of retailers' forecasts of consumer demand; and
- the timing of orders from major customers.

Our expense levels are based, in part, on our expectations regarding future sales and therefore our operating results would be harmed by a decrease in sales or a failure to meet our sales expectations. The uncertainties associated with interactive entertainment software 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 our products will ship and therefore may cause us to fail to meet financial expectations. In future quarters our operating results may fall below the expectations of securities analysts and investors. In this event, the trading price of our common stock could significantly decline.

The interactive entertainment software industry is cyclical, and we may fail to anticipate changing consumer preferences. Our 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. Our future operating results will depend on numerous factors beyond our control, including:

- the popularity, price and timing of new software and hardware platforms being released and distributed by us and our competitors;
- international, national and regional economic conditions, particularly economic conditions adversely affecting discretionary consumer spending;
- war, acts of terrorism and military action, which could adversely affect consumer preferences in entertainment;
- changes in consumer demographics;
- the availability and popularity of other forms of entertainment; and
- critical reviews and public tastes and preferences, all of which change rapidly and cannot be predicted.

In order to plan for acquisition and promotional activities we must anticipate and respond to rapid changes in consumer tastes and preferences. A decline in the popularity of interactive entertainment software or particular platforms could cause sales of our titles to decline dramatically. The period of time necessary to develop new game titles, obtain approvals of manufacturers and produce finished products is unpredictable. During this period, consumer appeal of a particular title may decrease, causing product sales to fall short of expectations.

Rapidly changing technology and platform shifts could hurt our 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. As more advanced platforms achieve market acceptance, consumer demand for software for older platforms declines. Obsolescence of software or platforms could leave us with increased inventories of unsold titles and limited amounts of new titles to sell to consumers, which would have a material adverse effect on our operating results.

We are devoting significant development resources primarily on products designed for Sony's PlayStation 2 and Microsoft's Xbox. If consumer demand for these platforms declines generally or as a result of the next hardware transition cycle, we may experience lower than expected sales or losses from products designed for these platforms.

A number of software publishers who compete with us 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 our sales. Direct sales of software by major publishers over the Internet would materially adversely affect our distribution business.

Our business is dependent on licensing and publishing arrangements with third parties. Our success depends on our ability to identify and develop new titles on a timely basis. We have entered into agreements with third parties to acquire the rights to publish and distribute interactive entertainment software. These agreements typically require us to make advance payments, pay royalties and satisfy other conditions. Our 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 our software. Future sales of our titles may not be sufficient to recover advances to software developers, and we may not have adequate financial and other resources to satisfy our contractual commitments. If we fail to satisfy our obligations under these license agreements, the agreements may be terminated or modified in ways that may be burdensome to us.

Returns of our published titles and price protection may adversely affect our operating results. We are exposed to the risk of product returns and price protection with respect to our customers. Our distribution arrangements with customers generally do not give them the right to return titles to us or to cancel firm orders; however, at our discretion, we may accept product returns for stock balancing or defective products. In addition, we sometimes negotiate accommodations to customers, including price discounts, credits and product returns, when demand for specific products falls below expectations. We generally accept returns and grant price protection in connection with our publishing arrangements. We establish a reserve for future returns and price protection for published titles based primarily on these return policies and historical return rates, and we report our revenues net of returns and price protection. If return rates and price protection for our published titles significantly exceed our reserves, our revenues will decline and we could incur losses.

The interactive entertainment software industry is highly competitive. We compete for both licenses to properties and the sale of interactive entertainment software with Sony, Microsoft and Nintendo, each of which is a large developer and marketer of software for its own platforms. Each of these competitors has 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. We also compete with domestic companies such as Electronic Arts, Activision, THQ, Midway Games and Acclaim Entertainment and international companies such as Sega, Vivendi, Ubi Soft, Atari, Eidos, Capcom, Konami and Namco. Some of our competitors have greater financial, technical, personnel and other resources than we do, and are able to carry larger inventories, adopt more aggressive pricing policies and make higher offers to licensors and developers for commercially desirable properties than we can. Our titles also compete with other forms of entertainment such as motion pictures, television and audio and video products featuring similar themes, online computer programs and forms of entertainment which may be less expensive or provide other advantages to consumers.

Our distribution business also operates in a highly competitive environment. The intense competition that characterizes our industry is based primarily on breadth, availability and quality of product lines; price; terms and conditions of sale; credit terms and availability; speed and accuracy of delivery; and effectiveness of sales and marketing programs. Our competitors include regional, national and international distributors, as well as hardware manufacturers and software publishers. We may lose market share or be forced in the future to reduce our prices in response to the actions of our competitors, and thereby experience a reduction in our gross margins.

Increased competition for limited shelf space and promotional support from retailers could affect the success of our business and require us to incur greater expenses to market our 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 us to increase our marketing expenditures just to maintain current levels of sales of our titles. Competitors with more extensive lines and popular titles frequently have greater bargaining power with retailers. Accordingly, we may not be able to achieve the levels of promotional support and shelf space that such competitors receive.

A limited number of customers may account for a significant portion of our sales. Sales to our five largest customers accounted for approximately 40.3% and 31.7%, respectively, of our revenues for the nine months ended July 31, 2003 and 2002. Sales to our five largest customers accounted for approximately 31.4% of our revenues for the fiscal year ended October 31, 2002. Our sales are made primarily pursuant to purchase orders without long-term agreements or other commitments. Our customers may terminate their relationship with us at any time. The loss of our relationships with principal customers or a decline in sales to principal customers could harm our operating results. Bankruptcies or consolidations of certain large retail customers could also seriously hurt our business.

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

Rating systems for interactive entertainment software, potential legislation and consumer opposition could inhibit sales of our 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, we may be required to modify our products to comply with the requirements of such rating systems, which could delay the release of those products in such countries. Historically, our software titles received a rating of “E” (age 6 and older) or “T” (age 13 and over), although many of our new titles (including *Grand Theft Auto 3, Grand Theft Auto: Vice City, Max Payne and State of Emergency*) have received a rating of “M” (age 17 and over). We believe that we comply with such rating systems and properly display the ratings and content descriptions received for our titles.

Several proposals have been made for 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 or 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 or sexually explicit material by pressing for legislation in these areas (including legislation prohibiting the sale of certain “M” rated video games to minors) and by engaging in public demonstrations and media campaigns. Retailers may decline to sell interactive entertainment software containing graphic violence or sexually explicit material, which may limit the potential market for our “M” rated products, and adversely affect our operating results. If any groups (including international and domestic political and regulatory bodies) were to target our “M” rated titles, we might be required to significantly change or discontinue a particular title, which in the case of our best selling titles could seriously hurt our business. Although lawsuits seeking damages for injuries allegedly suffered by third parties as a result of video games have been unsuccessful, such lawsuits may be threatened or asserted against us.

We cannot publish our console titles without the approval of hardware manufacturers. We are required to obtain a license from Sony, Microsoft and Nintendo, our principal competitors, to develop and publish titles for their respective hardware platforms. Our existing hardware console platform licenses require that we obtain approval for the publication of new titles on a title-by-title basis. As a result, the number of titles we are able to publish for these hardware platforms, along with our ability to time the release of these titles and, accordingly, our revenues from titles for these hardware platforms, may be limited. If any manufacturer chooses not to renew or extend our license agreement at the end of its current term, or if the manufacturer were to terminate our license for any reason, we would be unable to publish additional titles for that manufacturer’s hardware platform.

License agreements relating to these rights generally extend for a term of three years. The agreements are terminable upon the occurrence of a number of factors, including: (1) breach of the agreement by us; (2) our bankruptcy or insolvency; or (3) our entry into a relationship with, or acquisition by, a competitor of the manufacturer. We cannot assure you that we will be able to obtain new or maintain existing licenses on acceptable terms, or at all.

We are dependent upon a license agreement with Sony to publish titles for PlayStation 2. The term of this license agreement is automatically extended, unless terminated by one of the parties, for successive one-year terms. Termination of such agreement would seriously hurt our business.

Sony and Nintendo are the sole manufacturers of the titles we publish 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 for its products.

In addition, these manufacturers may not have sufficient production capacity to satisfy our scheduling requirements during any period of sustained demand. If manufacturers do not supply us with finished titles on favorable terms without delays, our operations would be materially interrupted, and we would be unable to obtain sufficient amounts of our product to sell to our customers. If we cannot obtain sufficient product supplies, our revenues will decline and we could incur losses.

We may not be able to protect our proprietary rights or avoid claims that we infringe on the proprietary rights of others. We develop proprietary software and have obtained the rights to publish and distribute software developed by third parties. We attempt to protect our 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 our software to obtain and use programming or production techniques that we regard as proprietary.

As the amount of interactive entertainment software titles in the market increases and the functionality of this software further overlaps, we believe that interactive entertainment software will increasingly become the subject of claims that such software infringes the copyrights or patents of others. From time to time, we receive notices from third parties alleging infringement of their proprietary rights. Although we believe that our software and technologies and the software and technologies of third-party developers and publishers with whom we have 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. Moreover, intellectual property litigation or claims could require us to discontinue the distribution of products, obtain a license or redesign our products, which could result in additional substantial costs and material delays.

We are dependent on third-party software developers to complete certain of our titles. We rely on third-party software developers for the development of certain of our titles. Quality third-party developers are continually in high demand. Software developers who have developed titles for us in the past may not be available to develop software for us in the future. Due to the limited number of third-party software developers and the limited control that we exercise over them, these developers may not be able to complete titles for us on a timely basis or within acceptable quality standards, if at all.

We depend on third-party software developers and our internal development studios to develop new interactive entertainment software within anticipated release schedules and cost projections. 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 nine to twelve additional months to develop the product for other hardware platforms. If developers experience financial difficulties, additional costs or unanticipated development delays, we will not be able to release titles according to our schedule.

Our software is susceptible to errors, which can harm our 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, we could experience a loss of or delay in timely market acceptance, product returns, loss of revenues and damage to our reputation.

Gross margins relating to our distribution business have been historically narrow which increases the impact of variations in costs on our operating results. As a result of intense price competition, our gross margins in our distribution business have historically been narrow and we expect them to continue to be narrow in the future. We receive purchase discounts from suppliers based on various factors, including volume purchases. These purchase discounts directly affect our gross margins. It may become more difficult for us to achieve the percentage growth in sales required to continue to receive volume purchase discounts.

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

Our distribution business is dependent on suppliers to maintain an adequate supply of products to fulfill customer orders on a timely basis. Our ability to obtain particular products in required quantities and to fulfill customer orders on a timely basis is critical to our success. In most cases, we have 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 we may be willing to purchase. Our industry may experience significant hardware supply shortages from time to time due to the inability of certain manufacturers to supply certain products on a timely basis. As a result, we have experienced, and may in the future continue to experience, short-term hardware inventory shortages. In addition, manufacturers who currently distribute their products through us may decide to distribute, or to substantially increase their existing distribution, through other distributors, or directly to retailers.

We are subject to the risk that our 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. We are also 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.

We are subject to risks and uncertainties of international trade. Sales in international markets, primarily in the United Kingdom and other countries in Europe, have accounted for a significant portion of our revenues. Sales in international markets accounted for approximately 27.7% and 21.7%, respectively, of our revenues for the nine months ended July 31, 2003 and 2002. Such sales accounted for 20.1% of our revenues for the fiscal year ended October 31, 2002. We are 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 our operating results. All of our international sales are made in local currencies.

We depend on skilled personnel. Our success depends on our ability to identify, hire and retain qualified management, creative, development, financial, marketing, sales and technical personnel. If we are unable to continue to attract and retain skilled personnel, our business and prospects would be negatively affected.

The market price for our common stock may be highly volatile. The market price of our common stock has been and may continue to be highly volatile. Factors such as our operating results, announcements by us or our competitors and various factors affecting the interactive entertainment software industry may have a significant impact on the market price of our common stock.

We are subject to rapidly evolving regulation affecting financial reporting, accounting and corporate governance matters. In response to recent corporate events, legislators and government agencies have focused on the integrity of financial reporting, and regulatory accounting bodies have recently announced their intention to issue several new accounting standards, including accounting for stock options as compensation expense, certain of which are significantly different from current accounting standards. We cannot predict the impact of the adoption of any such proposals on our future financial results. Additionally, recently enacted legislation focused on corporate governance, auditing and internal accounting controls imposes compliance burdens on us, and will require us to devote significant financial, technical and personnel resources to address compliance issues.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the ordinary course of our business, primarily risks associated with interest rate and foreign currency fluctuations.

Historically, fluctuations in interest rates have not had a significant impact on our operating results. At July 31, 2003, we had no outstanding variable rate indebtedness.

We transact business in foreign currencies and are 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 nine months ended July 31, 2003, our foreign currency translation adjustment gain was $3,525. Foreign exchange transaction gain for the nine months ended July 31, 2003 was $88. A hypothetical 10% change in applicable currency exchange rates at July 31, 2003 would result in a material translation adjustment.

Item 4. Controls and Procedures

Based on their evaluation of the effectiveness of our disclosure controls and procedures as of the end of the quarter ended July 31, 2003, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934. In addition, during the quarter ended July 31, 2003, there were no significant changes in our internal controls or in other factors that could significantly affect these controls.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

During the three months ended July 31, 2003, the Company issued 100,000 shares of restricted common stock to five employees under the Company's Incentive Stock Plan.

In connection with the above securities issuances, the Company relied on Section 4(2) promulgated under the Securities Act of 1933, as amended, as offerings to a limited number of persons.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

10.1 Incentive Stock Plan adopted by the Board of Directors on June 12, 2003.

31.1 Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

On May 29, 2003, the Company furnished a Current Report on Form 8-K to report the Press Release dated May 29, 2003 relating to the Company's financial results for the second fiscal quarter ended April 30, 2003. (Items 7, 9 and 12)

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SIGNATURES

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

TAKE-TWO INTERACTIVE SOFTWARE, INC.
(Registrant)

Date: September 12, 2003	By:	/s/ Jeffrey C. Lapin Jeffrey C. Lapin Chief Executive Officer (Principal Executive Officer)
Date: September 12, 2003	By:	/s/ Karl H. Winters Karl H. Winters Chief Financial Officer (Principal Financial Officer)

TAKE-TWO INTERACTIVE SOFTWARE, INC.
Incentive Stock Plan

Section 1. Purpose

The purpose of the Take-Two Interactive Software, Inc. Incentive Stock Plan is to enable Take-Two Interactive Software, Inc. (the "Company") to offer to those of its employees and to the employees of its Subsidiaries who are expected to contribute to the success of the Company, long term equity interests in the Company, thereby enhancing its ability to attract, retain and reward such key employees, and to increase the mutuality of interests between those employees and the shareholders of the Company.

Section 2. Administration

The Plan shall be administered by the Compensation Committee of the Board of Directors (the "Board"), the membership of which shall consist solely of two or more members of the Board, each of whom shall serve at the pleasure of the Board and shall be a "Non-Employee Director," as defined in Rule 16b-3 under the Securities Exchange Act of 1934, and, if practicable, shall also be an "outside director," as defined in Section 162(m) of the Internal Revenue Code, and shall be at all times constituted so as not to adversely affect the compliance of the Plan with the requirements of Rule 16b-3 or with the requirements of any other applicable law, rule or regulation.

The Committee shall have the authority to grant, pursuant to the terms of the Plan, to directors (other than directors serving as members of the Committee), officers and other employees shares of the Company's Common Stock ("Stock") pursuant to: (i) Section 5 ("Restricted Stock"), (ii) Section 6 ("Deferred Stock") and/or (iii) Section 7 ("Other Stock-Based Awards"). Notwithstanding anything in the Plan to the contrary, the Board reserves the right to make and set the terms of and to interpret the terms of any grant of Stock under the Plan to directors who are members of the Committee.

For purposes of illustration and not of limitation, the Committee shall have the authority (subject to the express provisions of the Plan):

(i) to select the directors, officers and other employees of the Company or any Subsidiary to whom Restricted Stock, Deferred Stock and/or Other Stock-Based Awards may be from time to time granted hereunder;

(ii) to determine the Restricted Stock, Deferred Stock and/or Other Stock-Based Awards, or any combination thereof, if any, to be granted hereunder to one or more eligible persons;

(iii) to determine the number of shares of Stock to be covered by each award granted hereunder;

(iv) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder (including, but not limited to, share price, any restrictions or limitations, and any vesting acceleration and/or forfeiture provisions);

(v) to determine the terms and conditions under which awards granted hereunder are to operate on a tandem basis and/or in conjunction with or apart from other awards made by the Company or any Subsidiary outside of the Plan; and

(vi) to determine the extent and circumstances under which Stock and other amounts payable with respect to an award hereunder shall be deferred.

Subject to Section 9 hereof, the Committee shall have the authority to (i) adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall, from time to time, deem advisable, (ii) interpret the terms and provisions of the Plan and any award issued under the Plan (and to determine the form and substance of all agreements relating thereto), and (iii) to otherwise supervise the administration of the Plan.

Subject to the express provisions of the Plan, all decisions made by the Committee pursuant to the provisions of the Plan shall be made in the Committee's sole and absolute discretion and shall be final and binding upon all persons, including the Company, its Subsidiaries and the Plan participants.

Section 3. Stock Subject to Plan

The total number of shares of Stock reserved and available for distribution under the Plan shall be 500,000 shares, and shall include Restricted Stock previously granted by the Committee and Board. Such shares may consist, in whole or in part, of authorized and unissued shares or treasury shares.

If any shares of Stock that are subject to any Restricted Stock, Deferred Stock or Other Stock-Based award are forfeited, such shares shall again be available for distribution under the Plan.

In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split, extraordinary distribution with respect to the Stock or other change in corporate structure affecting the Stock, such substitution or adjustments shall be made in the aggregate number of shares of Stock reserved for issuance under the Plan.

Subject to the provisions of the immediately preceding paragraph, the maximum numbers of shares subject to Restricted Stock, Deferred Stock and other Stock-Based awards to (i) all of the Company's directors and officers (as determined in accordance with Rule 16a-1(f) of the Securities Exchange Act of 1934) as a group or (ii) each of the Company's chief executive officer and the four other highest compensated executive officers who are employed by the Company on the last day of any taxable year of the Company, shall be 250,000 shares during the term of the Plan.

Section 4. Eligibility

Directors, officers and other employees of the Company or any Parent or Subsidiary (but excluding any person whose eligibility would adversely affect the compliance of the Plan with the requirements of Rule 16b-3) who are at the time of the grant of an award under the Plan employed by the Company or any Subsidiary and who are responsible for or contribute to the management, growth and/or profitability of the business of the Company or any Parent or Subsidiary, are eligible to be granted awards under the Plan. Eligibility under the Plan shall be determined by the Committee.

The Committee may, in its sole discretion, include additional conditions and restrictions in connection with awards under the Plan. The grant of an award under the Plan, and any determination made in connection therewith, shall be made on a case by case basis and can differ among grantees. The grant of an award under the Plan is a privilege and not a right and the determination of the Committee can be applied on a non-uniform (discretionary) basis.

Section 5. Restricted Stock

(a) Grant and Exercise. Shares of Restricted Stock may be issued either alone or in addition to or in tandem with other awards granted under the Plan. The Committee shall determine the eligible persons to whom, and the time or times at which grants of Restricted Stock will be made, the number of shares to be awarded, the price (if any) to be paid by the recipient, the time or times within which such awards may be subject to forfeiture (the "Restriction Period"), the vesting schedule and rights to acceleration thereof, and all other terms and conditions of the awards. The Committee may condition the grant of Restricted Stock upon the attainment of such factors as the Committee may determine.

(b) Terms and Conditions. Each Restricted Stock award shall be subject to the following terms and conditions:

(i) Restricted Stock, when issued, will be represented by a stock certificate or certificates registered in the name of the holder to whom such Restricted Stock shall have been awarded. During the Restriction Period, the Restricted Stock shall be subject to such restrictions, terms and conditions as may be established by the Committee.

(ii) Restricted Stock shall constitute issued and outstanding shares of Common Stock for all corporate purposes, and the issuance thereof shall be made for at least the minimum consideration (if any) necessary to permit the shares of Restricted Stock to be deemed to be fully paid and nonassessable. The holder will have the right to vote such Restricted Stock, to receive and retain all regular cash dividends and other cash equivalent distributions as the Board may in its sole discretion designate, pay or distribute on such Restricted Stock and to exercise all other rights, powers and privileges of a holder of Stock with respect to such Restricted Stock, with the exceptions that (A) other than regular cash dividends and other cash equivalent distributions as the Board may in its sole discretion designate, pay or distribute, the Company will retain custody of all distributions ("Retained Distributions") made or declared with respect to the Restricted Stock (and such Retained Distributions will be subject to the same restrictions, terms and conditions as are applicable to the Restricted Stock) until such time, if ever, as the Restricted Stock with respect to which such Retained Distributions shall have been made, paid or declared shall have become vested and with respect to which the Restriction Period shall have expired; (B) the holder may not sell, assign, transfer, pledge, exchange, encumber or dispose of the Restricted Stock or any Retained Distributions during the Restriction Period; and (C) a breach of any of the restrictions, terms or conditions contained in the Plan or any agreement referred to in Section 5(b)(iv) below, or otherwise established by the Committee with respect to any Restricted Stock or Retained Distributions will cause a forfeiture of such Restricted Stock and any Retained Distributions with respect thereto. Notwithstanding anything to the contrary in this Plan, the Committee may grant Restricted Stock awards outright, without any restrictions and conditions, except those restrictions under federal securities laws.

(iii) Upon the expiration of the Restriction Period with respect to each award of Restricted Stock and the satisfaction of any other applicable restrictions, terms and conditions (A) all or part of such Restricted Stock shall become vested in accordance with the terms of any agreement referred to in Section 5(b)(iv) below or as otherwise established by the Committee, and (B) any Retained Distributions with respect to such Restricted Stock shall become vested to the extent that the Restricted Stock related thereto shall have become vested. Any such Restricted Stock and Retained Distributions that do not vest shall be forfeited to the Company and the holder shall not thereafter have any rights with respect to such Restricted Stock and Retained Distributions that shall have been so forfeited.

(iv) Restricted Stock awards may be confirmed by, and may be subject to the terms of, an agreement executed by the Company and the participant.

Section 6. Deferred Stock

(a) Grant and Exercise. Deferred Stock may be awarded either alone or in addition to or in tandem with other awards granted under the Plan. The Committee shall determine the eligible persons to whom and the time or times at which Deferred Stock shall be awarded, the number of shares of Deferred Stock to be awarded to any person, the duration of the period (the "Deferral Period") during which, and the conditions under which, receipt of the Deferred Stock will be deferred, and all the other terms and conditions of the awards. The Committee may condition the grant of the Deferred Stock upon the attainment of such factors or criteria as the Committee shall determine.

(b) Terms and Conditions. Each Deferred Stock award shall be subject to the following terms and conditions:

(i) Subject to the provisions of the Plan, any agreement referred to in Section 6(b)(vii) below and any conditions otherwise established by the Committee, Deferred Stock awards may not be sold, assigned, transferred, pledged or otherwise encumbered during the Deferral Period. At the expiration of the Deferral Period (or the Additional Deferral Period referred to in Section 6(b)(vi) below, where applicable), share certificates shall be delivered to the participant, or his legal representative, in a number equal to the shares of Stock covered by the Deferred Stock award.

(ii) As determined by the Committee at the time of award, amounts equal to any dividends declared during the Deferral Period (or the Additional Deferral Period referred to in Section 6(b)(vi) below, where applicable) with respect to the number of shares covered by a Deferred Stock award may be paid to the participant currently or deferred and deemed to be reinvested in additional Deferred Stock.

(iii) Subject to the provisions of any agreement referred to in Section 6(b)(vii) below and this Section 6 and Section 11(g) below, upon termination of a participant's employment with the Company or any Parent or Subsidiary for any reason during the Deferral Period (or the Additional Deferral Period referred to in Section 6(b)(vi) below, where applicable) for a given award, the Deferred Stock in question will vest or be forfeited in accordance with the terms and conditions established by the Committee at the time of grant.

(iv) The Committee may, after grant, accelerate the vesting of all or any part of any Deferred Stock award and/or waive the deferral limitations for all or any part of a Deferred Stock award.

(v) In the event of hardship or other special circumstances of a participant whose employment with the Company or any Parent or Subsidiary is involuntarily terminated (other than for cause), the Committee may waive in whole or in part any or all of the remaining deferral limitations imposed hereunder or pursuant to any agreement referred to in Section 6(b)(vii) below with respect to any or all of the participant's Deferred Stock.

(vi) A participant may request to, and the Committee may at any time, defer the receipt of an award (or an installment of an award) for an additional specified period or until a specified period or until a specified event (the "Additional Deferral Period"). Subject to any exceptions adopted by the Committee such request must be made at least one year prior to expiration of the Deferral Period for such Deferred Stock award (or such installment).

(vii) Deferred Stock awards may be confirmed by, and may be subject to the terms of, an agreement executed by the Company and the participant.

Section 7. Other Stock-Based Awards

(a) Grant and Exercise. Other Stock-Based Awards, which may include performance shares and shares valued by reference to the performance of the Company or any Subsidiary, may be granted either alone or in addition to or in tandem with Restricted Stock or Deferred Stock. The Committee shall determine the eligible persons to whom, and the time or times at which, such awards shall be made, the number of shares of Stock to be awarded pursuant to such awards, and all other terms and conditions of the awards. The Committee may also provide for the grant of Stock under such awards upon the completion of a specified performance period.

(b) Terms and Conditions. Each Other Stock-Based Award shall be subject to the following terms and conditions:

(i) Shares of Stock subject to an Other Stock-Based Award may not be sold, assigned, transferred, pledged or otherwise encumbered prior to the date on which the shares are issued, or, if later, the date on which any applicable restriction or period of deferral lapses.

(ii) The recipient of an Other Stock-Based Award shall be entitled to receive, currently or on a deferred basis, dividends or dividend equivalents with respect to the number of shares covered by the award, as determined by the Committee at the time of the award. The Committee may provide that such amounts (if any) shall be deemed to have been reinvested in additional Stock.

(iii) Any Other Stock-Based Award and any Stock covered by any Other Stock-Based Award shall vest or be forfeited to the extent so provided in any agreement referred to in Section 7(b)(v) below or as otherwise determined by the Committee.

(iv) In the event of the participant's retirement, disability or death, or in cases of special circumstances, the Committee may waive in whole or in part any or all of the limitations imposed hereunder (if any) with respect to any or all of an Other Stock-Based Award.

(v) Other Stock-Based Awards may be confirmed by, and may be subject to the terms of, an agreement executed by the Company and by the participant.

Section 8. Change of Control Provisions

(a) A "Change of Control" shall be deemed to have occurred on the tenth day after:

(i) any individual, corporation or other entity or group (as defined in Section 13(d)(3) of the Exchange Act), becomes, directly or indirectly, the beneficial owner (as defined in the General Rules and Regulations of the Securities and Exchange Commission with respect to Sections 13(d) and 13(g) of the Exchange Act) of more than 50% of the then outstanding shares of the Company's capital stock entitled to vote generally in the election of directors of the Company; or

(ii) the commencement of, or the first public announcement of the intention of any individual, firm, corporation or other entity or of any group (as defined in Section 13(d)(3) of the Exchange Act) to commence, a tender or exchange offer subject to Section 14(d)(1) of the Exchange Act for any class of the Company's capital stock; or

(iii) the shareholders of the Company approve (A) a definitive agreement for the merger or other business combination of the Company with or into another corporation pursuant to which the shareholders of the Company do not own, immediately after the transaction, more than 50% of the voting power of the corporation that survives, or (B) a definitive agreement for the sale, exchange or other disposition of all or substantially all of the assets of the Company, or (C) any plan or proposal for the liquidation or dissolution of the Company;

provided, however, that a "Change of Control" shall not be deemed to have taken place if beneficial ownership is acquired (A) directly from the Company, other than an acquisition by virtue of the exercise or conversion of another security unless the security so converted or exercised was itself acquired directly from the Company, or (B) by, or a tender or exchange offer is commenced or announced by, the Company, any profit-sharing, employee ownership or other employee benefit plan of the Company; or any trustee of or fiduciary with respect to any such plan when acting in such capacity.

(b) In the event of a "Change of Control" as defined in Section 8(a) above, all restrictions and deferral limitations contained in Restricted Stock, Deferred Stock and Other Stock-Based Awards granted under the Plan shall lapse, unless the provisions of this Section 8 are suspended or terminated by an affirmative vote of a majority of the Board prior to the occurrence of such a "Change of Control."

Section 9. Amendments and Termination

The Board may at any time, and from time to time, amend any of the provisions of the Plan, and may at any time suspend or terminate the Plan. The Committee may amend the terms of any award heretofore granted under the Plan; provided, however, that subject to Section 3 above, no such amendment may be made by the Committee which in any material respect impairs the rights of the participant without the participant's consent, except for such amendments which are made to cause the Plan to qualify for the exemption provided by Rule 16b-3.

Section 10. Unfunded Status of Plan

The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a participant by the Company, nothing contained herein shall give any such participant any rights that are greater than those creditor of the Company.

Section 11. General Provisions

(a) The Committee may require each person acquiring shares of Stock pursuant to an award under the Plan to represent to and agree with the Company in writing that the participant is acquiring the shares for investment without a view to distribution thereof.

All certificates for shares of Stock delivered under the Plan shall be subject to such stop transfer orders and other restrictions as the Committee may deem to be advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange or association upon which the Stock is then listed or traded, any applicable Federal or state securities law, and any applicable corporate law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(b) Nothing contained in the Plan shall prevent the Board from adopting such other or additional incentive arrangements as it may deem desirable, including, but not limited to, the granting of stock options and the awarding of stock and cash otherwise than under the Plan; and such arrangements may be either generally applicable or applicable only in specific cases.

(c) Nothing contained in the Plan or in any award hereunder shall be deemed to confer upon any employee of the Company or any Parent or Subsidiary any right to continued employment with the Company or any Parent or Subsidiary, nor shall it interfere in any way with the right of the Company or any Parent or Subsidiary to terminate the employment of any of its employees at any time.

(d) No later than the date as of which an amount first becomes includable in the gross income of the participant for Federal income tax purposes with respect to any award under the Plan, the participant shall pay to the Company, or make arrangements satisfactory to the Committee regarding the payment of, any Federal, state and local taxes of any kind required by law to be withheld or paid with respect to such amount. If permitted by the Committee tax withholding or payment obligations may be settled with Stock, including Stock that is part of the award that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional upon such payment or arrangements, and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant from the Company or any Parent or Subsidiary.

(e) The Plan and all awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of New York (without regard to choice of law provisions).

(f) Any award made under the Plan shall not be deemed compensation for purposes of computing benefits under any retirement plan of the Company or any Parent or Subsidiary and shall not affect any benefits under any other benefit plan now or subsequently in effect under which the availability or amount of benefits is related to the level of compensation (unless required by specific reference in any such other plan to awards under the Plan).

(g) A leave of absence, unless otherwise determined by the Committee prior to the commencement thereof, shall not be considered a termination of employment. Any awards made under the Plan shall not be affected by any change of employment, so long as the holder continues to be an employee of the Company or any Parent or Subsidiary.

(h) Except as otherwise expressly provided in the Plan or in any agreement, no right or benefit under the Plan may be alienated, sold, assigned, hypothecated, pledged, exchanged, transferred, encumbranced or charged, and any attempt to alienate, sell, assign, hypothecate, pledge, exchange, transfer, encumber or charge the same shall be void. No right or benefit hereunder shall in any manner be subject to the debts, contracts or liabilities of the person entitled to such benefit.

(i) The obligations of the Company with respect to all awards under the Plan shall be subject to (A) all applicable laws, rules and regulations, and such approvals by any governmental agencies as may be required, and (B) the rules and regulations of any securities exchange or association on which the Stock may be listed or traded.

(j) If any of the terms or provisions of the Plan conflicts with the requirements of Rule 16b-3 as in effect from time to time, or with the requirements of any other applicable law, rule or regulation, then such terms or provisions shall be deemed inoperative to the extent they so conflict with the requirements of said Rule 16b-3.

Section 12. Effective Date of Plan

The Plan shall be effective as of the date of the approval and adoption thereof at a meeting of the Board, provided that the Plan shall cover Restricted Stock previously granted by the Committee and Board.

Section 13. Term of Plan

No award shall be granted pursuant to the Plan after the tenth anniversary of the effective date of the Plan, but awards granted on or prior to such tenth anniversary may extend beyond that date.

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Section 302 Certification

I, Jeffrey C. Lapin, Chief Executive Officer of Take-Two Interactive Software, Inc, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2003 of Take-Two Interactive Software, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and;

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 12, 2003

/s/ Jeffrey C. Lapin

Jeffrey C. Lapin
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Section 302 Certification

I, Karl H. Winters, Chief Financial Officer of Take-Two Interactive Software, Inc, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2003 of Take-Two Interactive Software, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and;

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 12, 2003

/s/ Karl H. Winters

Karl H. Winters
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U. S. C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Take-Two Interactive Software, Inc. (the "Company") on Form 10-Q for the period ended July 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey C. Lapin, as Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. SS 1350, as adopted pursuant to SS. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934: and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeffrey C. Lapin

Jeffrey C. Lapin
Chief Executive Officer

September 12, 2003

A signed original of this written statement required by Section 906 has been provided to Take-Two Interactive Software, Inc. and will be retained by Take-Two Interactive Software, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U. S. C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Take-Two Interactive Software, Inc. (the "Company") on Form 10-Q for the period ended July 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Karl H. Winters, as Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. SS 1350, as adopted pursuant to SS. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934: and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Karl H. Winters

Karl H. Winters
Chief Financial Officer

September 12, 2003

A signed original of this written statement required by Section 906 has been provided to Take-Two Interactive Software, Inc. and will be retained by Take-Two Interactive Software, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.