SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

|X| Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended October 31, 2001

OR

|_| Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

0-29230
(Commission File No.)

TAKE-TWO INTERACTIVE SOFTWARE, INC.
(Exact name of Issuer as specified in its charter)

Delaware	51-0350842
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

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

Issuer's telephone number, including area code: (212) 334-6633

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

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

Common Stock, $.01 par value

Check whether the Registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

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

The aggregate market value of the Registrant's common stock held by non-affiliates as of January 22, 2002 was approximately $668,160,000. As of January 22, 2002, there were 36,807,713 shares of the Registrant's common stock outstanding.

Documents Incorporated by Reference:

Proxy Statement Relating to Annual Meeting
(incorporated into Part III)

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PART I

Item 1. Business.

On December 17, 2001, Take-Two Interactive Software, Inc. announced its intention to restate its financial statements for the fiscal year ended October 31, 2000 and the interim quarters of fiscal 2001. All financial data in this Report reflects the effects of this restatement for fiscal 2000, each of the quarters in such year and the interim quarters of fiscal 2001. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for details regarding the restatement, Item 3. Legal Proceedings for a discussion of a related investigation and Notes 2 and 20 of Notes to Consolidated Financial Statements.

General

We develop, publish and distribute interactive software games worldwide. Our software operates on personal computers and video game consoles manufactured by Sony, Nintendo and Microsoft. We develop software internally and engage third parties to develop games on our behalf. We publish our products under our Rockstar Games, Gathering of Developers, Talonsoft and Take-Two labels. We were ranked number three by NPDFunworld among all video game publishers in North America for 2001.

Our Rockstar Games subsidiary recently released Grand Theft Auto 3 for Sony's PlayStation(R)2. According to NPDFunworld, Grand Theft Auto 3 was ranked the number one selling video game across all platforms in North America for 2001. We also recently released Max Payne for Microsoft's Xbox and Sony's PlayStation(R)2, and we have a strong line-up of additional PlayStation 2 titles, including State of Emergency and a sequel to the popular Midnight Club. Our Gathering of Developers subsidiary also expects to bring several PC games to market, such as the highly anticipated Duke Nukem Forever.

Our Jack of All Games domestic distribution subsidiary sells our software as well as third-party software, hardware and accessories to retail outlets in the United States. Our customers in the United States include Wal-Mart, Gamestop, Best Buy, Circuit City, Electronics Boutique, Toys "R" Us and Blockbuster, as well as other leading national and regional drug store, supermarket and discount store chains and specialty retailers.

We also have sales, marketing and publishing operations in the United Kingdom, France, Germany, Austria, Denmark, Italy, Australia, Canada and Japan.

The Industry

A large and growing installed base of video game consoles and advanced PCs combined with expanding gameplayer demographics have driven demand for interactive entertainment software in recent years. The Interactive Digital Software Association (IDSA) estimates that 60% of all Americans, or approximately 145 million people, play video games on a regular basis. According to Euromonitor, worldwide sales of consoles, console games and games for the PC grew from $17 billion in 1996 to $27 billion in 2000.

Demand for interactive entertainment software is expected to increase due to the increased penetration of PC and console platforms, the increased installed base of next-generation platforms and broadening consumer demographics. The International Data Corporation (IDC) estimates that approximately 53% of all households in the United States will own a PC by 2002. According to IDC, the household penetration rate for video game consoles today is approximately 46%, and is expected to increase.

Historically, the interactive entertainment software industry has experienced rapid and sustained periods of growth coinciding with the release of successive generations of game console platforms. The industry has recently transitioned to next-generation platforms, which began with the release of Sony's PlayStation 2 in 2000 and continued with the recent release of Nintendo's Game Boy Advance, Microsoft's Xbox and Nintendo's GameCube in 2001. Demand for these new platforms is expected to be significant due to their ability to offer one or more of the following features:

- More powerful and realistic graphics and game play through 128-bit technology;
- Backwards compatibility (the ability to play the platforms' previous generation of games); and
- Broad entertainment capabilities, including Internet access and the ability to watch DVD movies and play compact discs.

Interactive entertainment software has increasingly become a mainstream entertainment choice for a maturing, technologically sophisticated audience. According to IDSA, 58% of Americans who play video games are over the age of 18, of which 43% are female. Additional catalysts for growth include mass market penetration of budget titles and the emergence of non-traditional retail channels such as drug stores and supermarkets.

Software Products

We publish titles with potential for broad consumer appeal. We plan to deliver game content for both PC and console markets, particularly for next-generation platforms with potential for significant market penetration, including the following titles:

Title	Platform	Genre	Description
State of Emergency	PS2	Action	Fight for freedom and justice.
Duke Nukem Forever	PC, Xbox, GBA	First-person shooter	The return of video game's ultimate action hero.
Mafia	PC, Xbox	Third-person role playing	Chicago. The 1930's. Prohibition. The real American underworld.
Serious Sam: Second Encounter	PC, GameCube, GBA	First person shooter	Sequel to the Gamesport game of the year.
Austin Powers	GBA, PS2	Third-person action/adventure/ comedy	The international man of mystery is back, baby, yeah!
Age of Wonder 2	PC	Strategy	Sequel to the popular fantasy/strategy game.
Hidden & Dangerous 2	PC, PS2	Military	Tactics and intense action combine in behind-enemy-lines thriller.
Midnight Club 2	PS2	Urban racing	Sequel to the hit urban racing game.
Grand Theft Auto 3	PC	Action	The global mega hit makes its way to the PC.
Smuggler's Run 2	GameCube	Adventure Racing	The off-road franchise returns.
MTV's Celebrity Deathmatch	PS2	Fighting	MTV's smash hit goes interactive.
Austin Powers Pin Ball	PS	Arcade	Adventure with everyone's favorite psychedelic superstar.
Spec Ops: Airborne division	PS	Action	The number one military franchise returns.
Family Feud	GameCube	Game Show	The popular game show comes to GameCube.

Arrangements with Major Platform Manufacturers

We have entered into license agreements with Sony, Nintendo and Microsoft to develop and publish software for the PlayStation, PlayStation 2, Nintendo 64, Color Gameboy, Gameboy Advance, Nintendo GameCube and Xbox in North America and Europe. We are not required to obtain any licenses to develop titles for the PC.

We entered into a Licensed Publisher Agreement with Sony Computer Entertainment America, Inc. in May 2000. Under the agreement, Sony granted us the right and license to develop, market, publish and distribute software titles for the PlayStation 2 in North America. The agreement requires us to submit products to Sony for its approval. The agreement provides for Sony to be the exclusive manufacturer of our products for the PlayStation 2 and for us to pay royalties to Sony based on the number of units manufactured.

The agreement with Sony expires in March 2003 and is automatically renewable for successive one-year terms, unless terminated by Sony in the event of a breach by us or our bankruptcy or insolvency. Sony may also terminate the agreement on a title-by-title basis. Upon expiration or termination of all of our publishing agreements with Sony (including those discussed below), we have certain rights to sell off existing inventories. We also entered into a similar three-year agreement with Sony in March 2000 for PlayStation 2 covering European territories.

We entered into a four-year Licensed Publisher Agreement with Sony in March 1999 under which Sony granted us the right and license to develop, market, publish and distribute software titles for the PlayStation in North America. We also entered into a similar agreement with Sony for Playstation in February 1999 covering European territories.

We entered into a Publisher License Agreement with Microsoft in December 2000. Under the agreement, Microsoft granted us the right and license to develop, market, publish and distribute software titles for Microsoft's Xbox in territories to be determined on a title-by-title basis. The agreement requires us to submit products to Microsoft for its approval and for us to make royalty payments to Microsoft based on the number of units manufactured. Products for the Xbox must be manufactured by pre-approved manufacturers. The agreement may be terminated by either party in the event of a material breach. Microsoft may also terminate the agreement on a title-by-title basis. Upon expiration or termination of the agreement, we have certain rights to sell-off existing inventories.

We entered into a three-year Confidential License Agreement with Nintendo in November 2001. Under the agreement, Nintendo granted us the right and license to develop, market, publish and distribute software for Nintendo's GameCube in the western hemisphere. The agreement requires us to submit products to Nintendo for its approval. The agreement also provides for Nintendo to be the exclusive manufacturer of our products and for us to make royalty payments to Nintendo based on the number of units manufactured. The agreement may be terminated by either party in the event of a breach and may be terminated by Nintendo in the event of our bankruptcy. Upon termination of all of our agreements with Nintendo (including those discussed below), we have certain rights to sell off existing inventories. We also entered into a similar three-year agreement with Nintendo in November 2001 for GameCube covering European territories.

We entered into a three-year agreement with Nintendo in July 2001, granting us the right and license to develop software for Nintendo's GameBoy Advance in the Western Hemisphere. In October 2001, we entered into a similar three-year agreement with Nintendo for European territories. In addition, in March 1999 we entered into an agreement with Nintendo granting us the right and license to develop software for the Nintendo GameBoy, GameBoy Color and GameBoy Pocket handheld game systems. In February 1998, we entered into agreements with Nintendo granting us the right and license to develop software for Nintendo 64 in the United States and Europe.

Software Development and Licensing

We develop software titles through our internal development studios, Talonsoft, Rockstar Canada, DMA Design Limited, the developer of Grand Theft Auto 3, and PopTop Software, the developer of Railroad Tycoon 2 and Tropico. We also maintain a development studio focusing on games for the Nintendo GameBoy Color platform in the United Kingdom under the name Tarantula, as well as a recently acquired development studio in Austria under the name Neo. As of October 31, 2001, our internal development studios and product development department employed 214 personnel with the technical capabilities to develop and localize (translate into foreign languages) software titles for all major game platforms and territories.

For the years ended October 31, 2001, 2000 and 1999, we incurred costs of $6,190,000, $5,668,000 and $5,263,000 on research and development relating to our software titles. Additionally, for the years ended October 31, 2001, 2000 and 1999, we capitalized software development costs of $6,490,000, $8,837,000 and $1,901,000.

Many of our software titles are developed by third parties. As a result of our acquisition of Gathering of Developers in fiscal 2000, we have established relationships with software developers, including Apogee Software a/k/a 3D Realms, the creator of the Duke Nukem' franchise, Ritual Entertainment, Terminal Reality, Epic MegaGames and Remedy Entertainment. We have entered into agreements with certain of these developers, as well as other developers such as Angel Studios and Illusions Software, to develop software products on our behalf.

Agreements with developers generally give us exclusive publishing and marketing rights and require us to make advance royalty payments, pay royalties based on product sales and satisfy other conditions. Royalty advances for software titles are recoupable only against royalties otherwise due to developers. Our agreements with developers generally provide us with the right to monitor development efforts and to cease making advance payments if specified development milestones are not satisfied. We monitor the level of advances in light of expected sales for the related titles and write off unrecoverable advances to cost of sales in the period in which we determine the advance will not be fully recouped.

In May 1998, we entered into an agreement with Apogee Software to develop two games based on the Max Payne character. The agreement grants us the exclusive worldwide right to publish Max Payne and a sequel on PC platforms. The agreement requires us to pay royalties and satisfy other conditions and grants Apogee approval rights with respect to products under development. The agreement may be terminated by either party in the event of a material breach or default.

In July 2001, we entered into a letter agreement with Apogee granting us the exclusive right to develop and publish Max Payne for video game console platforms. The agreement requires us to make recoupable royalty advances and pay royalties to Apogee. We internally developed and released Max Payne for Microsoft's Xbox and Sony's PlayStation 2 in December 2001.

We actively seek to acquire licenses for well-recognized properties. In December 2000, we acquired the exclusive worldwide publishing rights to the best-selling franchise of Duke Nukem' PC and video games, including the back catalog rights to six products, as well as PC, console and sequel rights to Duke Nukem' Forever, the sequel to the popular Duke Nukem' 3D developed by Apogee Software.

We also acquired the exclusive worldwide rights from New Line Productions to publish and distribute titles based on Austin Powers movies, the exclusive rights from MTV to develop titles based on MTV's properties and certain rights from Microsoft, including all of the rights to Oni and Myth and the right to develop two products utilizing the Halo game engine. Among our titles, we own all right, title and interest to all of the intellectual properties associated with the Grand Theft Auto product franchise, and we develop Grand Theft Auto products internally. We expect to launch another major addition to the Grand Theft Auto franchise in 2002.

In 2000, we pursued an Internet strategy, which included our entry into online gaming markets through the acquisition of assets consisting of broadband, multiplayer and other online gaming technologies. We were unable to successfully implement this strategy, and we sold or wrote off certain of these assets. We are currently focusing on potential multiplayer opportunities for our publishing content.

Sales and Marketing

We sell software titles to retail outlets in the United States and Europe through direct relationships with large retail customers and third-party distributors. Our customers in the United States include Wal-Mart, Gamestop, BestBuy, Circuit City, Electronics Boutique, Toys "R" Us and Blockbuster as well as other leading mass merchandisers; video, electronic and toy stores; national and regional drug stores; supermarket and discount store chains; and specialty retailers. Our European customers include Dixons, Electronics Boutique and Karstadt. We have sales and marketing operations in the United Kingdom, France, Germany, Austria, Denmark, Italy, Australia, Canada and Japan.

Our marketing and promotional efforts are intended to maximize exposure and broaden distribution of our titles, promote brand name recognition, assist retailers and properly position, package and merchandise our titles. We market titles by implementing aggressive public relations campaigns, primarily using print and on-line advertising and to a lesser extent television and radio spots.

Our Rockstar Games subsidiary actively pursues relationships with participants in the music and entertainment industries. We believe that the shared demographics between various media and some of the software titles marketed by Rockstar Games provide excellent cross-promotional opportunities. We have been working with popular recording artists to create sophisticated game soundtracks, have entered into agreements to license high-profile names and likenesses, and have arrangements for co-branding opportunities. Our goal is to accelerate the acceptance of our titles, create brand awareness and develop a greater number of franchise titles.

We also employ various other marketing methods designed to promote consumer awareness, including in-store promotions and point-of-purchase displays, direct mail, cooperative advertising, as well as attendance at trade shows. As of October 31, 2001, we had a sales and marketing staff of 150 persons.

Distribution

We distribute our own titles, as well as third-party titles and hardware through our subsidiaries. We distribute three major categories of third-party console products, consisting principally of hardware; newly released and popular software titles; and budget and catalog software titles. We seek to maintain a balance among these product categories in order to maximize sales and operating performance.

For the year ended October 31, 2001, the sale of third-party products accounted for approximately 46.1% of our total revenues, with sales to our five largest customers aggregating approximately 20.9% of our total revenues. No single customer accounted for more than 10% of our total revenues during this period.

We procure products from suppliers using standard purchase orders based on our assessment of market demand, as well as pre-orders from retailers. We generally do not have any long-term agreements with our suppliers, and carry inventory quantities that we believe are necessary to provide rapid response time to retailer orders. We utilize electronic data interchange, or EDI, with many of our retailers to enhance the efficiency of placing and shipping orders.

Jack of All Games maintains warehouse facilities and sales offices in Ohio, Illinois and New York. Products arrive at our warehouses where products are picked, packed and shipped to customers. We generally ship products by common carrier.

Manufacturing

Sony and Nintendo are the sole manufacturers of software products sold for use on their respective hardware platforms. We begin the manufacturing process for our published titles by placing a purchase order for the manufacture of our products with Sony or Nintendo and opening either a letter of credit in favor of the manufacturer or utilizing our line of credit with the manufacturer. We then send software code and a prototype of the product to the manufacturer, together with related artwork, user instructions, warranty information, brochures and packaging designs for approval, defect testing and manufacture. Games manufactured by Sony and Nintendo are generally shipped within two weeks of receipt of our manufacturing order. Games for the Xbox must be manufactured by pre-approved manufacturers.

Production of PC software includes CD-ROM pressing, assembly of components, printing of packaging and user manuals and shipping of finished goods, which is performed by third-party vendors in accordance with our specifications. We believe that there are alternative sources for these services that could be implemented without delay. We send software code and a prototype of a title, together with related artwork, user instructions, warranty information, brochures and packaging designs to manufacturers. Games are generally shipped within two weeks of receipt of our manufacturing order.

To date, we have not experienced any material difficulties or delays in the manufacture of our titles or material delays due to manufacturing defects. Our software titles carry a 90-day limited warranty.

Competition

In our publishing business, we compete both for licenses to properties and the sale of interactive entertainment software with Sony, Nintendo, Microsoft and Sega, each of which is a large developer and marketer of software for its platforms. Sony and Nintendo currently dominate the industry and have the financial resources to withstand significant price competition and to implement extensive advertising campaigns, particularly for prime-time television spots. These companies may also increase their own software development efforts or focus on developing software products for third-party platforms.

We also compete with domestic companies such as Electronic Arts, Activision, Acclaim Entertainment, THQ, Midway Games and international companies such as Sega, Vivendi, Ubisoft, Infogrames, Eidos, Capcom, Konami and Namco. In addition, we believe that large software companies and media companies are increasing their focus on the interactive entertainment software market. Certain of our competitors are developing on-line interactive games and interactive networks that may compete with our products for consumer dollars. Many of our competitors have far greater financial, technical, personnel and other resources than we do, and many are able to carry larger inventories, adopt more aggressive pricing policies and make higher offers to licensors and developers for commercially desirable properties than we can.

Retailers have limited shelf space and promotional resources, and competition is intense among an increasing number of newly introduced entertainment software titles and hardware 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 support and shelf space that such competitors receive. Similarly, as competition for popular properties increases, our cost of acquiring licenses for such properties is likely to increase, possibly resulting in reduced margins. Prolonged price competition, increased licensing costs or reduced operating margins would cause our profits to decrease significantly.

Competition for our titles is influenced by the timing of competitive product releases and the similarity of such products to our titles and may result in loss of shelf space or a reduction in sell-through of our titles at retail stores. Our titles also compete with other forms of entertainment such as motion pictures, television and audio and video products featuring similar themes, on-line computer programs and other forms of entertainment which may be less expensive or provide other advantages to consumers.

In our distribution business, we compete with large national companies such as Ingram Entertainment, as well as smaller regional distributors. We also compete with the efforts of the major entertainment software companies that distribute directly to retailers or over the Internet. Some of our competitors have far greater financial, technical, personnel and other resources than we do, and many are able to carry larger inventories, adopt more aggressive pricing policies and provide more comprehensive product selection than we can.

Intellectual Property

We develop proprietary software titles and have obtained the rights to publish and distribute software titles 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. Although we generally do not hold any patents or registered copyrights, we seek to obtain trademark registrations for our product names.

Interactive entertainment software is susceptible to unauthorized copying. Unauthorized third parties may be able to copy or to reverse engineer our titles to obtain and use programming or production techniques that we regard as proprietary. In addition, our competitors could independently develop technologies substantially equivalent or superior to our technologies.

As the amount of interactive entertainment software 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 titles and the titles and technologies of third-party developers and publishers with whom we have contractual relationships do not and will not infringe or violate proprietary rights of others, it is possible that infringement of proprietary rights of others may occur. Any claims of infringement, with or without merit, could be time-consuming, costly and difficult to defend.

Employees

As of December 31, 2001, we had 662 full-time employees. None of our employees are subject to a collective bargaining agreement. We consider our relations with employees to be good.

Item 2. Properties.

Executive Offices

Our principal executive offices are located at 575 Broadway, New York, New York in approximately 13,300 square feet of space under a five-year lease with 575 Broadway Corporation, a company controlled by the father of Ryan A. Brant, our Chairman. The lease provides for an annual rent of approximately $474,000 and expires in 2004. We believe that the terms of the lease are no less favorable than could have been obtained from an unaffiliated third-party.

International Operations

Take-Two Interactive Software Europe Limited leases 12,500 square feet of office space in Windsor, United Kingdom. The lease provides for a current annual rent of approximately $400,000, plus taxes and utilities, and expires in 2011. Take-Two Interactive Software Europe Limited also leases office space in Lincoln, United Kingdom. The lease provides for a current annual rent of approximately $17,000 and expires in 2007.

Subsidiaries of Take-Two Interactive Software Europe Limited lease office space at locations in Paris, France, Munich, Germany and Tokyo, Japan for current aggregate annual rent of approximately $173,000. Directsoft leases office and warehouse space in Hornsby, Australia at an annual rent of approximately $48,000. Joytech Europe Limited leases office space in Leighton Buzzard Beds, United Kingdom at an annual rent of approximately $85,000. Funsoft Nordic A.S. and its subsidiaries lease office and warehouse space at locations in Oslo, Norway, Spanga, Sweden and Arthus, Denmark for current aggregate annual rent of approximately $45,000. DMA Design Limited currently leases office space in Dundee and Edinburgh, Scotland, at an annual rental of approximately $400,000. CD Verte Italia Spa currently leases office and warehouse space in Golarata, Italy at an annual rent of approximately $79,000.

Development Facilities

Rockstar Canada leases approximately 3,600 square feet of space in Ontario, Canada at an annual rental of approximately $26,000 plus taxes and insurance. Talonsoft leases approximately 10,800 square feet of office space in Baltimore, Maryland. Talonsoft currently pays $162,000 per annum under the lease. PopTop Software leases approximately 3,300 square feet of office space in Fenton, Missouri and pays an annual rental of $37,000. Neo leases approximately 3,000 square feet of office space in Vienna, Austria.

North America Distribution Facilities

Jack of All Games leases approximately 13,000 square feet of office and warehouse space in College Point, New York. The lease provides for annual rent of $237,000, plus increases in real estate taxes, and expires in October 2006. Jack of All Games also leases approximately 206,000 square feet of office and warehouse space in Cincinnati, Ohio. Jack of All Games pays $750,000 per annum, plus taxes and insurance, under the lease, which expires in January 2006. Jack of All Games Canada, Inc. (formerly Triad Distributors) currently leases approximately 36,750 square feet of office and warehouse space in Ontario, Canada at an annual rate of approximately $219,000 plus operating costs, under a lease that expires September 2004. VLM Entertainment Group leases approximately 3,000 square feet of space in Northbrook, Illinois at an annual rental of $33,000. VLM also leases approximately 56,200 square feet of office and warehouse space in Ottawa, Illinois at an annual rent of $288,000. VLM leases such space from its former stockholders and believes that the terms of the lease are no less favorable than could have been obtained from an unaffiliated third-party.

Item 3. Legal Proceedings.

In December 2001 and January 2002, six purported class action lawsuits were filed in the United States District Court for the Southern District of New York by Peter Fischbein; Drimal Ltd.; Corado Petruzzelli; Michael Lucas; Israel M. Zacks; and Eliot Gertsen against Take-Two Interactive Software, Inc. and certain of its officers or directors asserting damages on behalf of all persons or entities who purchased or otherwise acquired Take-Two common stock in the open market during the period commencing on February 24, 2000 through December 17, 2001. These complaints allege violations of Section 10 (b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by Take-Two and the individual defendants and violations of Section 20 (a) of the Exchange Act by the individual defendants.

In the foregoing complaints, the plaintiffs allege that, among other things, because Take-Two's financial statements issued during the class period were not prepared in conformity with generally accepted accounting principles, the defendants concealed adverse material information and made or participated in the making of untrue statements of material facts and omitted to state material facts concerning the business, financial condition, operations and future prospects of Take-Two. The plaintiffs, in each of the complaints, seek compensatory damages, including interest, against all of the defendants, recovery of their reasonable litigation costs, and expenses. Take-Two intends to defend vigorously the claims against it. Although we cannot predict the ultimate outcome of these actions, an unfavorable resolution could have a material adverse effect on our financial condition, cash flows and results of operations.

In connection with an informal and voluntary request from the SEC to provide documents, we engaged the law firm of Blank Rome Tenzer Greenblatt LLP, as counsel, to conduct an investigation into our accounting treatment of certain transactions in fiscal 2000 and 2001. Blank Rome retained advisors to conduct a forensic accounting investigation. In addition, our Board of Directors authorized the Audit Committee (consisting of three independent members of the Board), together with Morrison Foerster LLP, as independent counsel, to oversee the investigation and advise the Audit Committee with respect to the investigation. In February 2002, Blank Rome reported the results of the investigation to the Audit Committee and the Board of Directors, which included among other things, that we implement certain remedial procedures, controls and systems.

As a result of the investigation and other reviews we performed, we restated our previously issued consolidated financial statements for fiscal 2000, each of the quarters in such year, and the first three quarters of 2001. The effect of the restatement is presented in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and in Notes 2 and 20 of the Notes to the Consolidated Financial Statements.

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

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

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

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Market Information. Our common stock has traded since September 23, 1998 on the NASDAQ National Market under the symbol "TTWO." From April 14, 1997 to September 22, 1998, our common stock traded on the NASDAQ SmallCap Market. On January 22, 2002, trading in our common stock was halted by NASDAQ pending our furnishing certain information relating to a restatement of our financial statements. The following table sets forth, for the periods indicated, the range of the high ask and low bid prices for the common stock as reported by NASDAQ. Such prices reflect inter-dealer quotations, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	High	Low
Fiscal Year Ended October 31, 2000		
First Quarter	17.50	10.00
Second Quarter	18.94	8.00
Third Quarter	13.50	8.88
Fourth Quarter	16.50	9.00
Fiscal Year Ended October 31, 2001		
First Quarter	13.44	8.41
Second Quarter	14.63	10.44
Third Quarter	24.50	14.06
Fourth Quarter	21.62	6.44
Fiscal Year Ending October 31, 2002		
First Quarter (through January 22, 2002)	19.50	9.30

The last reported sale price for our common stock on January 22, 2002 was $18.56. The number of record holders of our common stock was approximately 157 as of January 22, 2002. We believe that there are in excess of 1,000 beneficial owners of our common stock.

Dividend Policy. To date, we have not declared or paid any cash dividends. The payment of dividends, if any, in the future is within the discretion of the board of directors and will depend upon future earnings, capital requirements and other relevant factors. The payment of cash dividends is restricted by the terms of our loan agreement. We presently intend to retain all earnings to finance continued growth and development of our business and we do not expect to declare or pay any cash dividends in the foreseeable future.

Item 6. Selected Financial Data.

Our consolidated financial statements for the fiscal year ended October 31, 2000, the related Management's Discussion and Analysis of Financial Condition and Results of Operations for such year, each of the quarters in such year and the interim quarters of fiscal 2001 have been restated. See Management's Discussion and Analysis of Financial Condition and Results of Operations and Consolidated Financial Statements contained elsewhere in this Report.

(in thousands, except per share data)

Statement of Operations Data:	Fiscal Year Ended October 31				
	2001(1)	2000(2)	1999	1998(3)	1997(3)
Net sales	$451,056	$364,001	$304,714	$194,052	$97,341
Income (loss) from operations	25,841	33,309	27,381	10,690	(895)
Income (loss) before extraordinary item and cumulative effect of change in accounting principle	(1,295)	6,417	16,332	7,181	(2,768)
Net income (loss)	(8,580)	6,417	16,332	7,181	(2,768)
Net income (loss) per share					
Basic	$(.25)	$.23	$.79	$ .49	$(.25)
Diluted	(.25)	.23	.76	.42	(.25)
Net income (loss) per share attributable to common stockholders - Diluted (4)	(.25)	.23	.76	.37	(.31)

Balance Sheet Data:	As of October 31				
	2001	2000(2)	1999	1998	1997
Cash and cash equivalents	$6,056	$5,245	$10,374	$2,763	$2,372
Working capital	88,229	69,025	41,439	21,797	16,037
Total assets	354,997	330,257	231,712	109,385	56,395
Total debt	54,073	96,873	56,137	30,808	22,031
Total liabilities	134,936	160,065	146,609	73,820	44,460
Stockholders' equity	220,061	170,192	85,103	35,566	11,935

(1) Includes approximately $27 million of net sales and $5.3 million of income, net of taxes of $3.6 million, representing the effect of the adoption of Staff Accounting Bulletin 101 "Revenue Recognition" (SAB 101) in the first quarter of fiscal 2001. There was no impact on net income. See Note 3 of Notes to Consolidated Financial Statements.

(2) As restated. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Restatement of Historical Financial Statements."

(3) Net income in 1998 and 1997 includes acquired S corporation net income of $1,233,000 and $1,347,000, respectively.

(4) Gives effect to distributions of $673,000 and $931,000 to S corporation shareholders prior to acquisitions in 1998 and 1997, respectively.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Restatement of Historical Financial Statements

In connection with an informal and voluntary request from the SEC to provide documents, we engaged counsel to conduct an investigation into our accounting treatment of certain transactions in fiscal 200 and 2001. Counsel retained advisors to perform a forensic accounting investigation. As a result of the investigation, we restated our previously issued consolidated financial statements for fiscal 2000 to eliminate $15,367,000 of net sales made to certain independent third-party distributors and related cost of sales of $8,702,000, which were improperly recognized as revenue and later returned or repurchased by us.

In addition, we reviewed our revenue recognition policy, reserve policies and our accounting for certain other transactions. As a result of this review, we restated our previously issued consolidated financial statements for fiscal 2000 for the following transactions:

- The elimination of $3,780,000 of net sales and related cost of sales of $2,236,000 that were previously recognized for products that had not been shipped within the period;

- A charge of $19,206,000 to record our portion of the losses incurred by an affiliate accounted for under the equity method in accordance with the provisions of EITF Issue No. 99-10, and a net reduction for post acquisition amortization of $710,000 after we acquired the remaining 80% interest in this entity. See note 5 of Notes to Consolidated Financial Statements; and

- The elimination of $2,563,000 of license revenue in connection with a business combination.

Our financial statements for fiscal 2000 have been restated as follows (and are presented in thousands, except per share data):

	Year ended October 31, 2000	
	As Reported	As Restated
Statement of Operations Data:		
Net sales (1)	$387,006	$364,001
Cost of sales (1)	247,796	235,978
Depreciation and amortization	9,805	8,680
Income from operations	45,061	33,309
Equity in loss of affiliate	763	19,969
Income before provision for income taxes	38,229	8,961
Provision for income taxes	13,266	2,544
Net income	24,963	6,417
Basic income per share	0.91	0.23
Diluted income per share	0.88	0.23

(1) Restated amounts give effect to reclassification of certain amounts to conform to current year presentation, including the reduction in net sales and costs of sales by approximately $1.3 million.

	October 31, 2000	
	As Reported	As Restated
Balance Sheet Data:		
Accounts receivable*	$134,877	$110,783
Inventories*	44,922	53,798
Prepaid royalties - current	19,721	24,093
Deferred tax assets	666	9,243
Intangible assets	90,505	66,562
Other assets, net	1,565	2,558
Total assets	351,641	330,257
Accounts payable	47,972	46,566
Accrued expenses and other current liabilities*	19,357	16,189
Total liabilities	164,639	160,065
Retained earnings	43,365	24,819
Total liabilities and stockholders' equity	351,641	330,257

* Restated amounts reflect a reclassification relating to the presentation of allowance for returns.

We also restated the unaudited results of operations for each of the quarters in fiscal 2000 for the matters described above.

Our unaudited results of operations for each of the three quarters in the period ended July 31, 2001 were restated for the matters discussed above and for the following:

- The cumulative effect in the first quarter of the change in accounting related to the adoption of SAB 101. See Note 3 of Notes to Consolidated Financial Statements;
- The recognition in the first quarter of net sales of $3,780,000 and related cost of sales of $2,237,000 for transactions that did not qualify for revenue recognition in the fourth quarter of fiscal 2000;
- An additional charge of $438,000, net of taxes of $292,000, in the third quarter for an extraordinary loss on the early extinguishment of debt; and
- An adjustment in the first two quarters for income related to the reversal of revenue of $721,000 in the first quarter and $951,000 in the second quarter, net of expense reductions, and a corresponding adjustment to the purchase price related to a business acquired during the year.

	Nine months ended July 31, 2001	
	As Reported	As Restated
Statement of Operations Data:		
Net sales	$ 309,048	$ 327,797
Cost of sales	201,609	210,226
Income from operations	23,610	35,555
Net income (loss)	(3,765)	(3,275)
Basic income per share	(.11)	(.10)
Diluted income per share	(.11)	(.10)

See Note 20 of Notes to Consolidated Financial Statements for financial information relating to the restatement of the fiscal 2000 and fiscal 2001 quarters.

Significant Accounting Policies

Financial Reporting Release No. 60, which was recently released by the Securities and Exchange Commission, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Note 3 of the Notes to the Consolidated Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements. The following is a brief discussion of the more significant accounting policies and methods used by us.

In addition, Financial Reporting Release No. 61 was recently released by the SEC to require all companies to include a discussion to address, among other things, liquidity, off-balance sheet arrangements, contractual obligations and commercial commitments.

General

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

Revenue Recognition

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 CDs or cartridges designed for video game consoles. Effective November 1, 2000, we recognize revenue net of allowances for returns and price protection when title and risk of loss pass to customers (generally, upon receipt of products by customers). Prior to that date, we recognized revenue upon shipment. 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, 90 or 120 day terms. We may not have a reliable basis to estimate returns and allowances for certain customers or we may be unable to determine that collection of receivables is probable. In such circumstances, we defer revenues at the time of sale and recognize revenues when collection of the related receivable becomes probable or cash is collected.

Returns and Reserves

Our arrangements with customers for published titles generally require us to accept returns and provide price protection. We establish a reserve for future returns of published titles and price protection based primarily on historical return rates, return policies and price protection, and recognize revenues net of allowances for returns and price protection. 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 fall below expectations. The historical product return rate for our distribution business has been substantially less than for our publishing business. If future returns significantly exceed our reserves, our operating results would be adversely affected.

Prepaid Royalties

Our agreements with licensors and developers generally require us to make advance royalty payments and pay royalties based on product sales. Prepaid royalties are capitalized when technological feasibility of the related software title is established, which generally occurs early in the development cycle. Prepaid royalties are amortized as cost of sales based on the greater of the proportion of current year sales to total of current and estimated future sales on a product-by-product basis for that title or the contractual royalty rate based on actual net product sales. We continually evaluate recoverability of prepaid royalties on a product-by-product basis and we charge to cost of sales any amount that management deems unlikely to be recoverable in the future.

Prepaid royalties are classified as current and non-current assets based on estimated net product sales within the next year. Unrecoverable prepaid royalties written down amounted to $975,000, $501,000 and $1,308,000 for the years ended October 31, 2001, 2000 and 1999. Amortization of prepaid royalties amounted to $17,598,000, $16,849,000 and $12,144,000 for the years ended October 31, 2001, 2000 and 1999.

Capitalized Software Development Costs

We capitalize internal software development costs subsequent to establishing technological feasibility of a title. Amortization of such costs as cost of sales is done on a product-by-product 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 straight-line method over the remaining estimated useful life of the title. We continually evaluate the recoverability of capitalized costs. Capitalized software costs were written down by $389,000 and $698,000 for the years ended October 31, 2001 and 1999. No capitalized software costs were written down for the year ended October 31, 2000. Amortization of capitalized software costs amounted to $3,780,000, $1,451,000 and $1,136,000 for the years ended October 31, 2001, 2000 and 1999.

Income Taxes

Income tax assets and liabilities are determined by taxable jurisdiction. We do not provide taxes in undistributed earnings of our subsidiaires. The total amount of undistributed earnings of foreign susbsidiaries for income tax purposes was approximately $36 million and $10 million for the years ended October 31, 2001 and 2000, respectively. It is our intention to reinvest undistributed earnings of our foreign subsidiaries and thereby indefinitely postpone their remittance. Accordingly, no provision has been made for foreign withholding taxes or United States income taxes which may become payable if undistributed earnings of foreign subsidiaires are paid as dividends to us.

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, platform and principal product:

	Years Ended October 31,		
	2001	2000	1999
		(as restated)	
OPERATING DATA:			
Net sales	100.0%	100.0%	100.0%
Cost of sales	67.9	64.8	70.2
Selling and marketing	12.2	11.8	9.9
General and administrative	9.9	10.0	8.3
Research and development	1.4	1.6	1.7
Depreciation and amortization	2.8	2.4	0.9
Interest expenses	1.9	1.7	1.0
Provision (benefit) for income taxes	(0.5)	0.7	2.7
Net income (loss)	(1.9)	1.8	5.4
NET SALES BY TERRITORY:			
North America	76.4%	71.6%	67.0%
International	23.6	28.4	33.0
PLATFORM MIX (publishing):			
Console	57.5%	50.6%	47.4%
PC	35.7	36.9	41.7
Hand-held	1.9	7.3	5.7
Accessories	4.9	5.2	5.2
PRINCIPAL PRODUCT SALES (2001)			
Grand Theft Auto 3, PS2	7.4%	--	--
Max Payne, PC	5.2	--	--
Midnight Club, PS2	4.1	2.7	--
Smugglers Run, PS2	3.0	3.3	--
Ten largest titles	31.3%	16.4%	33.5%

Business Acquisitions and Dispositions

In April 2000, we acquired the remaining 80.1% of the stock of Gathering of Developers, Inc. that we did not already own for 1,060,000 shares of common stock. Prior to the acquisition, we had a distribution and publishing arrangement with Gathering under which we were entitled to receive a distribution fee of 20% of net receipts derived from sales of PC products. Products sold under this arrangement accounted for approximately 6.3% of our net sales and 18.0% of our net income for the year ended October 31, 1999, and approximately 9.7% of our net sales and 9.3% of our net income during fiscal 2000.

We also acquired PopTop Software, Inc., an independent software developer, in July 2000 for 559,100 shares of common stock. PopTop's operations did not contribute to our revenues and its loss did not significantly affect our net income during fiscal 2000.

We purchased Toga Holdings BV, the parent of Pixel Broadband Studios Ltd. in March 2000 as part of our Internet strategy for $4.5 million in cash and 2,561,000 shares of common stock. Pixel had developed leading-edge software technology, which enables broadband carriers to deliver persistent online gameplay via satellite, cable and wireless communications devices. We intended to combine Pixel's business with the gaming content of our Rockstar video game publishing subsidiary with a view toward obtaining financing to operate this business independently. Due to unfavorable market conditions, we abandoned a proposed financing in July 2000. We incurred a charge of $1,103,000 consisting primarily of professional fees related to the abandoned offering.

We sold Toga to Gameplay.com plc in October 2000. During fiscal 2000, Toga's operations did not contribute to our revenues and accounted for an operating loss of approximately $1.5 million. We incurred a loss of $286,000 in connection with the sale of Toga. In connection with the sale of Toga, we entered into a Joint Exploitation Agreement with Gameplay pursuant to which we acquired Neo Software Productions GMBH, a software developer based in Austria. Neo developed Max Payne for Microsoft's Xbox.

In February 2000, we sold Falcon Ventures d/b/a DVDWave.com, an online provider of music CDs, to eUniverse, Inc. and recorded a gain of $1,976,000. Falcon Ventures accounted for an insignificant portion of our revenues and accounted for an operating loss of approximately $1.1 million during fiscal 2000.

In November 2000, we acquired all of the capital stock of VLM Entertainment Group Inc., a third-party video game distributor, for $2 million in cash and 875,000 shares of common stock and assumed liabilities of approximately $10.6 million. VLM accounted for 14.4% of our distribution revenues in fiscal 2001.

In July 2001, we acquired all of the outstanding capital stock of Techcorp Limited, a Hong Kong based design and engineering firm specializing in video game accessories, for 30,000 shares of restricted common stock, $100,000 in cash and assumed liabilities of $2.9 million. The acquisition of Techcorp did not have a significant effect on our 2001 operating results.

In July 2001, we sold all of the outstanding capital stock of Jack of All Games UK, a video game distributor, to Jay Two Limited, an unaffiliated third-party controlled by Freightmasters Ltd., for approximately $215,000. In connection with the sale, the purchaser assumed net liabilities of $436,000. We recorded a gain on this sale of $651,000. The sale of Jack of All Games UK is not expected to have a significant effect on our future operating results.

Fiscal Year Ended October 31, 2001 and 2000

Net Sales. Net sales increased by $87,055,000, or 23.9%, to $451,056,000 for fiscal 2001 from $364,001,000 for fiscal 2000. The increase was attributable to growth in both publishing and distribution operations and acquisitions. The adoption of SAB 101 effective November 2000 to recognize revenue when both title and all risks of loss pass to customers resulted in an increase in net sales of $27 million. Fiscal 2000 sales that were previously recognized upon product shipment were effectively reversed with the adoption of SAB 101 and reported upon receipt by the customer as sales in the first quarter of fiscal 2001. In fiscal 2001, we implemented changes to our practices to significantly reduce shipment time near quarter and year end. Accordingly, the adoption of SAB 101 did not have a significant impact on previously reported interim results for the first three quarters of fiscal 2001.

Publishing revenues increased by $56,795,000 or 30.5%, to $242,913,000 for fiscal 2001 from $186,118,000 for fiscal 2000. The increase was primarily attributable to the release of Grand Theft Auto 3 for PlayStation 2 and Max Payne for the PC, and included $21 million resulting from the adoption of SAB 101. Publishing activities accounted for approximately 53.9% of net sales in fiscal 2001.

In fiscal 2001, software titles designed for PC platforms accounted for approximately 35.7% of publishing revenues as compared to 36.9% in the prior year. Software titles designed for video game console platforms accounted for 57.5% of publishing revenues as compared to 50.6% in the prior year. We expect that sales of video game console titles will continue to account for an increasing portion of our publishing revenues.

Distribution revenues increased by $30,260,000, or 17.0%, to $208,143,000 for fiscal 2001 from $177,883,000 for fiscal 2000. The increase was attributable to the continued rollout of Sony's PlayStation 2, and included $6 million relating to the adoption of SAB 101. VLM Entertainment Group, which was acquired in November 2000, accounted for 14.4% of our distribution revenues in fiscal 2001. In fiscal 2001, distribution activities accounted for approximately 46.1% of net sales, with video game hardware and peripherals accounting for 16.0% of net sales.

International operations accounted for approximately $106,564,000 or 23.6% of net sales in fiscal 2001 compared to $103,315,000 or 28.4% in fiscal 2000. The percentage decrease was attributable to the growth in our North American operations. In recent periods, we placed increasing emphasis on expanding publishing activities in Europe, and we sold our Jack of All Games UK distribution subsidiary in July 2001. We expect that international sales will continue to account for a significant portion of our future revenues.

Cost of Sales. Cost of sales increased by $70,286,000 or 29.8%, to $306,264,000 for fiscal 2001 from $235,978,000 for fiscal 2000. The increase was commensurate with increased net sales and included $18 million resulting from the adoption of SAB 101. Cost of sales primarily represents royalties paid to our manufacturers, amortization of prepaid royalties to third-party developers, amortization of capitalized software related to internally developed titles and the cost of third-party products for our distribution business. Included in cost of sales is a non-cash impairment charge of $3,786,000 taken in the quarter ended April 30, 2001 relating to a reduction in the value of certain Internet gaming assets. Cost of sales as a percentage of net sales increased to 67.9% for fiscal 2001 from 64.8% for fiscal 2000 as a result of higher production costs associated with the development of next-generation software titles and the aforementioned impairment charge. We estimate that cost of sales as a percentage of net sales in our publishing business is generally 60%, while cost of sales as a percentage of net sales in our distribution business is generally 90%.

Selling and Marketing. Selling and marketing expenses increased by $12,399,000, or 28.9%, to $55,253,000 for fiscal 2001 from $42,854,000 for fiscal 2000. The increase was primarily attributable to increased advertising activities relating to our new releases in 2001. Selling and marketing expenses as a percentage of net sales remained relatively constant from year to year.

General and Administrative. General and administrative expenses increased by $8,458,000, or 23.2%, to $44,867,000 for fiscal 2001 from $36,409,000 for fiscal 2000. General and administrative expenses as a percentage of net sales remained relatively constant from year to year at 10.0%. The increase in absolute dollars was attributable to increased salaries and rent necessary to support our expanded operations and increased bad debt expenses.

Research and Development. Research and development costs increased by $522,000, or 9.2%, to $6,190,000 for fiscal 2001 from $5,668,000 for fiscal 2000. Research and development costs as a percentage of net sales remained relatively constant from year to year. Once software development projects reach technological feasibility, a substantial portion of our research and development costs are capitalized and subsequently amortized as cost of goods sold. These capitalized software development costs relate to our internally developed publishing titles.

Depreciation and Amortization. Depreciation and amortization expense increased by $3,961,000, or 45.6%, to $12,641,000 for fiscal 2001 from $8,680,000 for fiscal 2000. Depreciation and amortization expense as a percentage of net sales increased to 2.8% for fiscal 2001 from 2.4% for fiscal 2000. The increases were attributable to amortization of intangible assets as a result of business acquisitions offset by the impact of sales of businesses made in fiscal 2000 and fiscal 2001.

Income from Operations. Income from operations decreased by $7,468,000, or 22.4%, to $25,841,000 for fiscal 2001 from $33,309,000 for fiscal 2000 primarily due to the increase in our cost of sales discussed above.

Interest Expenses. Interest expenses increased by $2,441,000, or 40.2% to $8,510,000 for fiscal 2001 from $6,069,000 for fiscal 2000. The increase was attributable to higher levels of borrowings during 2001. Interest expenses as a percentage of net sales remained constant.

Gain on Sale of Subsidiary. We sold Jack of All Games UK in July 2001 and recorded a gain on sale of $651,000.

Loss on Available-For-Sale Internet Securities. We incurred non-cash impairment charges of $21,477,000 during fiscal 2001 relating to our Internet related investments to reflect other than temporary declines in the value of such investments.

Income Taxes. Income tax expenses decreased by $4,744,000 for fiscal 2001 from fiscal 2000. The decrease was attributable to tax losses in fiscal 2001 compared to taxable income in fiscal 2000. We recorded an income tax benefit of $2,200,000 for fiscal 2001 compared to an income tax provision of $2,544,000 for fiscal 2000. The effective tax rate in 2001 and 2000 of (62.9%) and 28.4%, respectively, are the result of state and foreign tax rate differentials partially offset by non deductible items. We believe that it is more likely than not that we will generate sufficient levels of taxable income in the future to realize $21,765,000 of reported net deferred tax assets, approximately $7 million of which is a capital loss carryforward. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. 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 net appreciated assets to the extent required (if any) to generate sufficient taxable income prior to the expiration of the capital loss carryforwards.

Extraordinary Item. We incurred an extraordinary charge of $1,948,000, net of taxes of $1,217,000, upon the early extinguishment of debt of $15,000,000 in July 2001.

Cumulative Effect of Change in Accounting Principle. In connection with our adoption of SAB 101, we recognized a cumulative effect of $5.3 million, net of taxes of $3,558,000.

Net (loss) Income. As a result of the foregoing, for fiscal 2001, we incurred a net loss of $8,580,000 as compared to net income of $6,417,000 for fiscal 2000.

Fiscal Years Ended October 31, 2000 and 1999

Net Sales. Net sales increased by $59,287,000, or 19.5%, to $364,001,000 for fiscal 2000 from $304,714,000 for fiscal 1999. Substantially all of the increase in net sales in fiscal 2000 was attributable to internal growth of our publishing and distribution operations.

Publishing revenues increased by $27,001,000, or 17.0%, to $186,118,000 for fiscal 2000 from $159,117,000 for fiscal 1999. The increase was primarily attributable to the release of Midnight Club and Smuggler's Run at the launch of PlayStation 2. In fiscal 2000, publishing activities accounted for approximately 51.1% of our net sales.

In fiscal 2000, software products designed for PC platforms accounted for approximately 36.9% of our publishing revenues as compared to 41.7% in fiscal 1999. The decrease was primarily attributable to our emphasis on developing and releasing titles for next-generation video game console platforms. Software titles developed for video game console platforms accounted for 50.6% of publishing revenues compared to 47.4% in the prior year. The increase was primarily attributable to the release of several new products with the launch of PlayStation 2 in October 2000.

Distribution revenues increased by $32,286,000, or 22.2%, to $177,883,000 for fiscal 2000 from $145,597,000 for fiscal 1999. The increase was primarily attributable to continued strong sales of PlayStation hardware and software, and the launch of PlayStation 2. In fiscal 2000, distribution activities accounted for approximately 48.9% of our net sales, with video game hardware and peripherals accounting for 20.4% of net sales.

International operations accounted for approximately $103,315,000 or 28.4% of our net sales for fiscal 2000 compared to $100,520,000 or 33.0% for fiscal 1999. The percentage decrease was primarily attributable to the growth in our North American operations.

Cost of Sales. Cost of sales increased by $22,074,000, or 10.3%, to $235,978,000 for fiscal 2000 from $213,904,000 for fiscal 1999. The increase was primarily a result of the expanded scope of our operations and was consistent with revenue growth. Cost of sales as a percentage of net sales decreased to 64.8% for fiscal 2000 from 70.2% for fiscal 1999. This decrease was primarily due to an increase in our higher margin publishing activities.

Selling and Marketing. Selling and marketing expenses increased by $12,746,000, or 42.3%, to $42,854,000 for fiscal 2000 from $30,108,000 for fiscal 1999. Selling and marketing expenses as a percentage of net sales increased to 11.8% for fiscal 2000 from 9.9% for fiscal 1999. The increases were due to increased marketing costs associated with establishing our publishing programs and brand names.

General and Administrative. General and administrative expenses increased by $11,173,000 or 44.3%, to $36,409,000 for fiscal 2000 from $25,236,000 for fiscal 1999. General and administrative expenses as a percentage of net sales increased to 10.0% for fiscal 2000 from 8.3% for fiscal 1999. The increases were due to additional salaries, rent, insurance premiums and professional fees in connection with our expanded operations and from our acquisitions offset by our dispositions.

Research and Development. Research and development costs increased by $405,000, or 7.7%, to $5,668,000 for fiscal 2000 from $5,263,000 for fiscal 1999. Research and development costs as a percentage of sales decreased to 1.6% for fiscal 2000 from 1.7% for fiscal 1999.

Depreciation and Amortization. Depreciation and amortization expense increased by $5,858,000 to $8,680,000 for fiscal 2000 from $2,822,000 for fiscal 1999. Depreciation and amortization expense as a percentage of net sales increased to 2.4% for fiscal 2000 from 0.9% for fiscal 1999. The increases were attributable to the amortization of goodwill associated with the acquisitions of Toga Holdings, Gathering of Developers and DMA Design Limited. We sold Toga Holdings in October 2000.

Abandoned Offering Costs. We incurred a charge of $1,103,000 relating to an abandoned offering in fiscal 2000.

Income from Operations. Income from operations increased by $5,928,000, or 21.7%, to $33,309,000 for fiscal 2000 from $27,381,000 for fiscal 1999. The increase was commensurate with our growth in net sales offset by the changes referred to above.

Interest Expenses. Interest expenses increased by $3,159,000, or 108.6%, to $6,069,000 for fiscal 2000 from $2,910,000 for fiscal 1999. The increase was primarily a result of increased borrowings and the amortized portion of the expenses relating to a subordinated loan.

Gain on Sale of Subsidiary - Net. Includes a gain on sale of $1,976,000 relating to the sale of Falcon Ventures and offset by a loss of $286,000 relating to the sale of Toga Holdings.

Equity in Loss of Affiliate. In fiscal 2000, in accordance with EITF 99-10, we incurred a charge of $19,969,000 for our share of losses incurred by Gathering of Developers prior to our acquisition of the then remaining interest in Gathering of Developers. The increase over fiscal 1999 is the result of increased losses at Gathering of Developers coupled with the implementation of EITF 99-10.

Income Taxes. Income taxes decreased by $5,550,000 or 68.6% to $2,554,000 as a result of a reduced taxable income for fiscal 2000 as compared to a tax provision of $8,094,000 for fiscal 1999. The reduction in the effective tax rate of 28.4% in fiscal 2000 from 33.1% in fiscal 1999 is primarily attributable to the foreign tax rate differential.

Net Income. As a result of the foregoing, we recorded net income of $6,417,000 in fiscal 2000, as compared to net income of $16,332,000 in fiscal 1999.

Liquidity and Capital Resources

Our primary cash requirements have been and will continue to be to fund developing, publishing and distributing our products. We have historically financed our operations through cash flows from operations, the issuance of debt and equity securities and bank borrowings. At October 31, 2001, we had working capital of $88,229,000 as compared to working capital of $69,025,000 at October 31, 2000. At October 31, 2001, we had cash and cash equivalents of $6,056,000.

Net cash provided by operating activities for fiscal 2001 was $27,319,000 as compared to net cash used in operating activities of $54,230,000 for fiscal 2000 and $16,023,000 for fiscal 1999. The increase in 2001 was primarily attributable to our increased focus on working capital management. In fiscal 2000 and 1999, we invested substantial funds in our next-generation entertainment software publishing subsidiaries. We believe that such investments will continue to be reflected in future cash flow from operations. Fiscal 1999 cash flows were also impacted by an increase in accounts receivable offset in part by an increase in accounts payable.

Net cash used in investing activities for fiscal 2001 was $13,479,000 as compared to $12,906,000 for fiscal 2000 and $21,540,000 for fiscal 1999. Net cash used in investing activities in 2001 related primarily to the purchase of fixed assets and to a lesser extent acquisitions. Net cash used in investing activities in 2000 and 1999 related primarily to acquisitions.

Net cash used in financing activities for fiscal 2001 was $11,790,000 as compared to net cash provided by financing activities of $70,535,000 for fiscal 2000 and $46,055,000 for fiscal l999. Net cash used in fiscal 2001 related primarily to the repayment of indebtedness offset by proceeds from equity offerings and the exercise of stock options and warrants. Net cash provided by operations in fiscal 2000 and 1999 was primarily due to proceeds from borrowings and equity offerings.

In December 1999, we entered into a credit agreement with a group of lenders led by Bank of America, N.A., as agent. The agreement was amended in February 2002 to provide for borrowings of up to $15,000,000 through February 20, 2002; $22,500,000 through February 28, 2002; $30,000,000 through April 13, 2002; and $50,000,000 through the remaining term of the agreement. Generally, advances under the line of credit are based on a borrowing formula equal to the lesser of (1) the borrowing limit or (2) 70% of eligible accounts receivable, plus 25% of eligible inventory. Interest accrues on such advances at the bank's prime rate plus 0.5%, or at LIBOR plus 2.5%. 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. The loan agreement contains certain financial and other covenants, which were amended retroactively. Accordingly, as of October 31, 2001, we were in compliance with such covenants, as amended. 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. The line of credit expires on December 7, 2002. As of October 31, 2001, $48,701,000 was outstanding under the line of credit.

In January 2001, our United Kingdom subsidiary entered into a credit facility agreement, as amended, with Lloyds TSB Bank plc under which Lloyds agreed to make available borrowings of up to $19,000,000. Advances under the credit facility bear interest at the rate of 1.25% per annum over the bank's base rate, and are guaranteed by us. The credit facility expires in March 2002. As of October 31, 2001, $5,372,000 was outstanding under the credit facility.

During the year ended October 31, 2001, we received proceeds of $22,614,000 from the exercise of stock options and warrants.

In July 2001, we sold 1,300,000 shares of common stock in a private placement and received net proceeds of approximately $20.9 million. We used the proceeds to repay in full the subordinated indebtedness described below, and other indebtedness.

In July 2000, we entered into a subordinated loan agreement with Finova Mezzanine Capital under which we borrowed $15,000,000 evidenced by a five-year promissory note bearing interest at the rate of 12.5% per annum, payable monthly. In connection with the loan, we issued to Finova warrants to purchase 451,747 shares of common stock at an exercise price of $11.875 per share. We incurred an extraordinary charge of $1,948,000, net of taxes, upon the early repayment of this indebtedness.

In connection with our acquisition of the franchise of Duke Nukem' PC and video games in December 2000, we are obligated to pay $6 million in cash upon delivery of the final PC version of Duke Nukem' Forever.

Our accounts receivable, less an allowance for doubtful accounts, returns and price protection and other discounts at October 31, 2001 were $94,950,000. Of such receivables, approximately $11,033,000 or 11.7% was due from one customer. Most of our receivables are covered by insurance and generally have been collected in the ordinary course of business. 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, our liquidity and working capital position would be adversely affected. We had accounts receivable days outstanding of 69 at October 31, 2001, as compared to 92 days at October 31, 2000.

Our offices and warehouse facilities are occupied under noncancelable operating leases expiring at various times from July 2001 to October 2011. Additionally, we have leased certain furniture, equipment and automobiles under noncancelable operating leases expiring through July 2005. Our future minimum rental payments for the year ending October 31, 2002 are $3,879,000, and aggregate minumum rental payments through applicable lease expirations is $16,756,000.

We have no material commitments for capital expenditures. We anticipate incurring significant additional legal, accounting and other professional expenses in connection with pending litigation and regulatory matters.

Recently Issued Accounting Pronouncements

In July 2001, the FASB issued Statement of Financial Accounting Standard No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142").

SFAS 141 establishes accounting and reporting for business combinations by requiring that all business combinations be accounted for under the purchase method. Use of the pooling-of-interests method is no longer permitted. SFAS 141 also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. SFAS 141 requires that the purchase method be used for business combinations initiated after June 30, 2001. SFAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Upon adoption of SFAS 142, amortization of goodwill recorded for business combinations consummated prior to July 1, 2001 will cease, and intangible assets acquired prior to July 1, 2001 that do not meet the criteria for recognition under SFAS 141 will be reclassified to goodwill. Goodwill will be subject to an annual impairment test, including a transitional impairment test required upon adoption of SFAS 142, which companies have six months to complete.

The provisions of SFAS 142 will be effective for fiscal years beginning after December 15, 2001; however, early adoption is permitted. We anticipate the early adoption of SFAS 142 as of the beginning of fiscal 2002. We are still in the process of reallocating previously identifiable intangibles that do not meet the criteria of SFAS 141 into goodwill and evaluating the useful lives of our remaining identifiable intangibles. However, we currently estimate that unaudited pro forma income before extraordinary item and cumulative effect of change in accounting principle and the respective diluted EPS would have been approximately $2.9 million and $0.08, respectively for the year ended October 31, 2001 had the provisions of the new standards been applied in that year. We are in the process of completing the step one transitional assessment of goodwill. We do not currently anticipate having to record a transition impairment of goodwill or other intangible assets as a cumulative effect as a result of these new standards.

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

In October 2001, the FASB issued Statement of Financial Accounting Standard No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). The objectives of SFAS 144 are to address significant issues relating to the implementation of SFAS 121 and to develop a single accounting model, based on the framework established in SFAS 121, for 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. We are currently evaluating the expected impact of the adoption of SFAS 144 on our financial condition and results of operations and will be adopting SFAS 144 in the first quarter of fiscal 2003.

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:

The market for interactive entertainment software titles is characterized by short product life cycles. The interactive entertainment software market is characterized by short product life cycles and frequent introduction of new products. New products introduced by us may not achieve significant market acceptance or achieve sufficient sales to permit us to recover development, manufacturing and associated costs. Historically, few interactive entertainment software products have achieved sustained market acceptance. Even the most successful titles remain popular for only limited periods of time, often less than six months. The life cycle of a game generally consists of 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 a given period, the failure of one or more of our products to achieve market acceptance could result in losses.

A significant portion of our revenues are derived from a limited number of titles. Our ten best selling titles accounted for approximately 31.3% of our revenues for the year ended October 31, 2001. For this period, Grand Theft Auto 3 for the PlayStation 2 accounted for 7.4% of our revenues; Midnight Club for the PlayStation 2 accounted for 4.1% of our revenues; Smuggler's Run for the PlayStation 2 accounted for 3.0% of our revenues; and Max Payne for the PC accounted for 5.2% of our revenues, with each of the next three titles accounting for between 1.9% and 3.0% of our revenues. Our ten best selling titles accounted for 16.4% of our revenues for the year ended October 31, 2000. Each of Grand Theft Auto and the Smuggler's Run titles accounted for approximately 3.0% of our revenues for the year ended October 31, 2000, with each of the next four titles accounting for between 1.2% and 2.3% of our revenues. For the year ended October 31, 1999, our ten best selling titles accounted for approximately 33.5% of our revenues, with Grand Theft Auto products accounting for approximately 18.7% of our revenues. Our future titles may not be commercially viable. We also may not be able to release new titles within scheduled release times or at all. 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 corporate acquisitions; variations in sales of titles designed to operate on particular platforms; development and promotional expenses relating to the introduction of new titles, sequels or enhancements of existing titles; availability of hardware platforms; the timing and success of title introductions by 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; changes in consumer demographics; the availability of other forms of entertainment; and critical reviews and public tastes and preferences, all of which change rapidly and cannot be predicted. 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 CD-ROMs or game cartridges is unpredictable. During this period, consumer appeal of a particular title may decrease, causing sales to decline.

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. We expect that as more advanced platforms achieve market acceptance, consumer demand for software for older platforms will decline. 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. 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 manufacturers over the Internet would materially adversely affect our distribution business.

Next-generation hardware platforms on which we have based our business strategy may not achieve significant market acceptance. Our software development efforts with respect to new hardware platforms may not lead to marketable titles or titles that generate sufficient revenues to recover their development, manufacturing and marketing costs, especially if a new hardware platform does not reach a significant level of market acceptance. This risk may increase in the future, as continuing increases in development costs require corresponding increases in revenues in order to maintain profitability.

We have devoted and will continue to devote significant development and marketing resources on products designed for next-generation video game systems that have not yet achieved large installed bases. We released several titles for the PlayStation 2 and have additional titles under development for this platform. If PlayStation 2 does not continue to achieve wide acceptance by consumers or Sony is unable to ship a significant number of PlayStation 2 units in a timely fashion, or if the sale of our titles fails to meet our expectations, we will have spent substantial amounts for developing products for this platform without corresponding revenues, which could result in losses. We are also devoting development resources on products designed for Microsoft's Xbox and Nintendo's GameCube. If fewer than expected units of a new hardware platform are produced or shipped, or if such platforms do not achieve commercial success, we may experience lower than expected sales or losses for these platforms.

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 markdown allowances may adversely affect our operating results. We are exposed to the risk of product returns and markdown allowances with respect to our customers. Although our distribution arrangements with retailers generally do not give them the right to return titles to us or to cancel firm orders, our arrangements with retailers for published titles require us to accept returns. We sometimes negotiate accommodations to retailers, including price discounts, credits and returns, when demand for specific titles falls below expectations. We establish a reserve for future returns and markdown allowances for published titles at the time of sales, based primarily on these return policies and historical return rates, and we report our revenues net of returns.

Decreased demand for products compatible with older hardware platforms may result in a higher level of markdown allowances. In addition, if new platforms or products do not achieve market acceptance, we may be required to grant markdown allowances to maintain our relationships with retailers and access to distribution channels. If return rates and markdown allowances 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, Nintendo, Microsoft and Sega, each of which is a large developer and marketer of software for its platforms. Sony and Nintendo currently dominate the industry and have the financial resources to withstand significant price competition and to implement extensive advertising campaigns, particularly for prime-time television spots. These companies may also increase their own software development efforts or focus on developing software products for third-party platforms.

We compete with domestic and international companies, large software companies and media companies. Many of our competitors have far greater financial, technical, personnel and other resources than we do, and many are able to carry larger inventories, adopt more aggressive pricing policies and make higher offers to licensors and developers for commercially desirable properties than we can. Competition in the entertainment software industry is based on product quality and features; brand name recognition; access to distribution channels; effectiveness of marketing; and price. Our titles also compete with other forms of entertainment such as motion pictures, television and audio and video cassettes featuring similar themes, online computer programs and forms of entertainment which may be less expensive or provide other advantages to consumers.

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.

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 governmental entities, which could delay the release of those products in such countries. We recently discontinued making sales of Grand Theft Auto 3 in Australia for several weeks while we made certain content changes to this title to comply with applicable rating systems. We believe that we comply with such rating systems and display the ratings received for our titles.

Historically, our software titles received a rating of "G" (all ages) or "T" (age 13 and over), although most of our newer titles (including Grand Theft Auto 3, Max Payne and State of Emergency) have received a rating of "M" (age 18 and over). Certain retailers may decline to sell interactive entertainment software containing graphic violence or sexually explicit material, which may limit the potential market for our "M" rated products.

Several proposals have been made for federal legislation to regulate the interactive entertainment software, motion picture and recording industries, including a proposal to adopt a common rating system for interactive entertainment software, television and music containing violence and sexually explicit material and the Federal Trade Commission has adopted rules with respect to the marketing of such material to minors. Consumer advocacy groups have also opposed sales of interactive entertainment software containing graphic violence and sexually explicit material by pressing for legislation in these areas and by engaging in public demonstrations and media campaigns. If any groups were to target 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 hurt our business. Additionally, in light of the events in September 2001, we revised content in certain of our products that we deemed inappropriate. Delays in the release of products as a result of inappropriate content could result in lost revenues.

We cannot publish our console titles without the approval of hardware manufacturers. We are required to obtain a license to develop and publish titles for each hardware console platform for which we develop and publish titles. 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 the license agreement expires in March 2003 and is automatically extended, unless terminated by one of the parties, for additional 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.

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 amounts, 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.

We are dependent on third-party software developers to complete many of our titles. We rely on third-party software developers for the development of a significant number 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. In addition, the development cycle for new titles is long, typically ranging from twelve to twenty-four months. After development of a product, it may take between six to twelve additional months to develop the product for other hardware platforms. If developers experience financial difficulties, additional costs or unanticipated development delays, 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.

The costs of developing and marketing products for new interactive entertainment hardware platforms may be substantial and could harm our operating results. We anticipate that it will be more costly to develop titles for new hardware platforms and believe the costs of developing and publishing titles for these hardware platforms will require greater financial and technical resources than prior development and publishing efforts. Additionally, during periods of new technology and platform introductions, forecasting our revenues and earnings is more difficult than in more stable or rising product markets.

Our distribution business is subject to intense competition. Our distribution business 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.

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 in the console hardware and software distribution industry, 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.

A significant percentage of our revenues relates to products sold to us by relatively few manufacturers or publishers. They each have the ability to make rapid and significantly adverse changes in their sales terms and conditions, such as reducing the amount of price protection and return rights as well as reducing the level of purchase discounts they make available to us. Our inability to pass through to our customers the impact of these changes could have a negative impact on our gross margins. A decline in gross margins could have a material adverse effect on our business and could result in losses.

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, facilities and costs of invested capital. 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, if at all, in a timely manner 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. The console hardware industry experiences significant product supply shortages from time to time due to the inability of certain manufacturers to supply certain products on a timely basis. As a result, 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. In the case of software, alternative means of distribution have emerged, such as electronic distribution. We cannot assure you that suppliers will be able to maintain an adequate supply of products to fulfill our customer orders on a timely basis or that we will be able to obtain particular products or that products currently offered by suppliers will continue to be available.

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 rely on arrangements with independent shipping companies for the delivery of our products. The termination of our arrangements with one or more of these independent shipping companies, or the failure or inability of one or more of these independent shipping companies to deliver products from suppliers to us or products from us to our customers on a timely basis could adversely affect our results of operations.

Our rapid expansion and acquisitions may strain our operations. We have expanded through internal growth and acquisitions, which have placed and may continue to place a significant strain on our management, administrative, operational, financial and other resources. We have released a significant number of titles on new platforms, expanded our publishing and distribution operations, increased our advances to developers and payments to manufacturers, enlarged our work force and expanded our presence in international markets. To successfully manage this growth, we must continue to implement and improve our operating systems as well as hire, train and manage a substantial and increasing number of management, technical, marketing, administrative and other personnel. We may be unable to effectively manage expanded operations that are geographically dispersed.

A limited number of customers may account for a significant portion of our sales. Sales to our five largest customers accounted for approximately, 20.9% of our revenues for the year ended October 31, 2001, 22.7% of our revenues for the year ended October 31, 2000 and 24.6% of our revenues for the year ended October 31, 1999. 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 hurt our business.

We have significant debt obligations. We have historically incurred substantial indebtedness in order to finance our operations. As of October 31, 2001, $48,701,000 was outstanding under a line of credit agreement entered into with a group of lenders led by Bank of America, N.A., as agent. This line of credit was recently amended to provide for borrowings of up to $15,000,000 through February 20, 2002; $22,500,000 through February 28, 2002; $30,000,000 through April 13, 2002; and $50,000,000 through December 7, 2002. 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. The loan agreement contains certain financial and other covenants, which were retroactively amended. Accordingly, we are in compliance with such covenants as amended. The loan agreement limits or prohibits us, subject to certain exceptions, 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. If we default on our obligations, the banks could elect to declare our indebtedness to be due and payable and foreclose on our assets. Our UK subsidiary also had outstanding indebtedness of $5,372,000 at October 31, 2001.

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 on accounts receivable as they become due and such accounts are not covered by insurance, it could adversely affect our financial condition. Our accounts receivable, less an allowance for doubtful accounts and product returns, at October 31, 2001 were $94,950,000.

We are subject to risks and uncertainties of international trade. Sales in international markets, primarily in the United Kingdom and other countries in Europe and the Pacific Rim, have accounted for a significant portion of our revenues. Sales in international markets accounted for approximately 23.6% of our revenues for the year ended October 31, 2001, 28.4% of our revenues for the year ended October 31, 2000 and 33.0% of our revenues for the year ended October 31, 1999. 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. For the year ended October 31, 2001, our foreign currency translation adjustment loss was $767,000. We purchase currency forward contracts to a limited extent to seek to minimize our exposure to fluctuations in foreign currency exchange rates.

Litigation. Several class action lawsuits have been filed against us. These lawsuits can be costly to defend and can distract management's time from our operations. An unfavorable resolution of these actions could have a material adverse effect on our financial condition and results of operations.

Item 7A. 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 October 31, 2001, we had $54,073,000 in outstanding variable rate indebtedness. A hypothetical 1% increase in the interest rate of our variable rate debt would increase annual interest expense by approximately $541,000 as of October 31, 2001.

We transact business in foreign currencies and are exposed to risk 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 or year end. Translation adjustments are included within accumulated other comprehensive income as a separate component of stockholders' equity. For the year ended October 31, 2001, our foreign currency translation loss was $767,000. A hypothetical 10% change in applicable currency exchange rates at October 31, 2001 would result in a material translation adjustment. We purchase currency forward contracts to a limited extent to seek to minimize our exposure to fluctuations in foreign currency exchange rates. We had no outstanding contracts as of October 31, 2001.

In addition, we may be exposed to risk of loss associated with fluctuations in the value of our investments. Our investments are stated at fair value, with net unrealized appreciation and loss included within accumulated other comprehensive income as a separate component of stockholders' equity. We regularly review the carrying values of our investments to identify and record impairment losses when events or circumstances indicate that such investments may be other than temporarily impaired.

In fiscal 2001, we recorded a loss of $19,171,000 to reflect an other than temporary impairment of our investment relating to Gameplay. At October 31, 2001, we held 6,869,000 shares of common stock of Gameplay.com plc with a fair value of approximately $75,000 which was recorded as non-current.

In fiscal 2001, we recorded a loss of $2,000,000 to reflect an other than temporary impairment of our investment relating to eUniverse Inc. At October 31, 2001, we held 2,269,333 shares of eUniverse with fair value of approximately $6,241,000, all of which was recorded as current. We recorded an unrealized gain of $157,000, net of tax of $96,000, within accumulated other comprehensive income (loss) as a separate component of stockholders' equity.

Item 8. Financial Statements.

The financial statements appear in a separate section of this report following Part III.

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

Not applicable.

PART III

Item 10. Directors and Executive Officers.

The information required by this Item is incorporated by reference to the section of the Company's definitive Proxy Statement for its Annual Meeting of Stockholders to be held in 2002, entitled "Election of Directors" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Report.

Item 11. Executive Compensation.

The information required by this Item is incorporated by reference to the section of the Company's definitive Proxy Statement for its Annual Meeting of Stockholders to be held in 2002, entitled "Executive Compensation" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Report.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by this Item is incorporated by reference to the section of the Company's definitive Proxy Statement for its Annual Meeting of Stockholders to be held in 2002, entitled "Security Ownership of Certain Beneficial Owners and Management" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Report.

Item 13. Certain Relationships and Related Transactions.

The information required by this Item is incorporated by reference to the section of the Company's definitive Proxy Statement for its Annual Meeting of Stockholders to be held in 2002, entitled "Certain Relationships and Related Transactions" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Report.

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) Exhibits

3.1	Form of Restated Certificate of Incorporation of the Company.(1)
3.2	Amendment to Restated Certificate of Incorporation.(1)
3.3	By-Laws of the Company.(1)
10.1	1997 Stock Option Plan of the Company.(1)
10.2	Credit Agreement (the "Credit Agreement"), dated December 7, 1999, by and among the Company, certain of its subsidiaries, certain lenders and Bank of America, N.A., as Agent.(2)
10.3	Amendment to Credit Agreement.
10.4	Loan Agreement with Lloyds TBS Commercial and Take-Two Interactive Software Europe Ltd.
10.5	Employment Agreement, dated July 21, 2000, as amended, by and between the Company and Paul Eibeler.
10.6	Employment Agreement dated February 15, 2001 by and between the Company and Kelly Sumner.
10.7	Licensed Publishing Agreement dated April 1, 2000 between Sony Computer Entertainment America, Inc. and the Company.(3)*
10.8	Publishing Agreement dated May 8, 1998 between Gathering of Developers I, Ltd. and Apogee Software, Ltd/ 3D Realms.(3)*
10.9	Xbox Publisher License Agreement dated December 14, 2000 between Microsoft Corporation and the Company. *
10.10	Confidential License Agreement for Nintendo GameCube dated September 24, 2001 between Nintendo of America Inc. and the Company. *
21.1	Subsidiaries of the Company.
23.1	Consent of PricewaterhouseCoopers LLP.
*	Portions hereof have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment in accordance with Exchange Act Rule 24b-2

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(1) Incorporated by reference to the applicable exhibit contained in the Company's Registration Statement on Form SB-2 (File no. 333-6414).

(2) Incorporated by reference to the applicable exhibit contained in the Company's Annual Report on Form 10-K for the year ended October 31, 1999.

(3) Incorporated by reference to the applicable exhibit contained in the Company's Registration Statement on Form S-3 (File No. 333-66748).

(b) Financial Statement Schedules: Schedule II-Valuation and Qualifying Accounts.

(c) Reports on Form 8-K filed during the quarter ended October 31, 2001: None

TAKE-TWO INTERACTIVE SOFTWARE, INC.
YEAR ENDED OCTOBER 31, 2001

INDEX TO FINANCIAL STATEMENTS

Report of Independent Accountants

To the Board of Directors and
Shareholders of Take-Two Interactive Software, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, cash flows and stockholders' equity listed in the accompanying index present fairly, in all material respects, the financial position of Take Two Interactive Software, Inc. and its subsidiaries ("the Company") at October 31, 2001 and October 31, 2000, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2001 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company restated its financial statements for the year ended October 31, 2000.

As discussed in Note 3 to the consolidated financial statements, effective November 1, 2000, the Company changed its method of accounting for revenue recognition to conform to the requirements of SEC Staff Accounting Bulletin No. 101 Revenue Recognition.

/s/ PricewaterhouseCoopers LLP
New York, New York
February 11, 2002

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Balance Sheets
(In thousands, except share data)

ASSETS:	October 31, 2001	October 31, 2000 Restated
Current assets:		
Cash and cash equivalents	$ 6,056	$ 5,245
Accounts receivable, net of provision for doubtful accounts and sales allowances of $26,106 and $11,615 at October 31, 2001 and 2000, respectively	94,950	110,783
Inventories, net	61,937	53,798
Prepaid royalties	21,892	24,093
Prepaid expenses and other current assets	17,925	10,386
Investments	6,241	2,926
Deferred tax asset	13,873	9,243
Total current assets	222,874	216,474
Property and equipment, net	11,033	5,260
Prepaid royalties	11,097	1,303
Capitalized software development costs, net	11,934	9,613
Investments	75	28,487
Intangibles, net	88,175	66,562
Deferred tax asset	7,892	--
Other assets	1,917	2,558
Total assets	$ 354,997	$ 330,257
LIABILITIES and STOCKHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 60,223	$ 46,566
Accrued expenses and other current liabilities	20,250	16,189
Lines of credit	54,073	84,605
Current portion of capital lease obligation	99	89
Total current liabilities	134,645	147,449
Capital lease obligation, net of current portion	291	348
Loan payable, net of unamortized discount of $2,732 at October 31, 2000	--	12,268
Total liabilities	134,936	160,065
Commitments and contingencies (See Note 14)		
Stockholders' equity		
Common stock, par value $.01 per share; 50,000,000 shares authorized; 36,640,972, and 31,172,866 shares issued and outstanding at October 31, 2001 and 2000, respectively	366	312
Additional paid-in capital	213,908	157,738
Deferred compensation	--	(5)
Retained earnings	16,239	24,819
Accumulated other comprehensive loss	(10,452)	(12,672)
Total stockholders' equity	220,061	170,192
Total liabilities and stockholders' equity	$ 354,997	$ 330,257

The accompanying notes are an integral part of these consolidated financial statements

TAKE-TWO INTERACTIVE SOFTWARE, INC.
Consolidated Statements of Operations
(In thousands, except per share data)

	Years Ended October 31,		
	2001	2000 Restated	1999
Net sales	$ 451,056	$ 364,001	$ 304,714
Cost of sales (includes impairment charge on Internet gaming assets of $3,786 for the year ended October 31, 2001)	306,264	235,978	213,904
Gross profit	144,792	128,023	90,810
Operating expenses:			
Selling and marketing (includes impairment charge on Internet gaming assets of $401 for the year ended October 31, 2001)	55,253	42,854	30,108
General and administrative	44,867	36,409	25,236
Research and development costs	6,190	5,668	5,263
Depreciation and amortization	12,641	8,680	2,822
Abandoned offering costs	--	1,103	--
Total operating expenses	118,951	94,714	63,429
Income from operations	25,841	33,309	27,381
Non-operating expense (income):			
Interest expenses, net	8,510	6,069	2,910
Gain on sale of subsidiary	(651)	(1,690)	--
Loss on available-for-sale Internet securities	21,477	--	--
Equity in loss of affiliate	--	19,969	45
Total non-operating expense	29,336	24,348	2,955
(Loss) income before income taxes, extraordinary item and cumulative effect of change in accounting principle	(3,495)	8,961	24,426
(Benefit) provision for income taxes	(2,200)	2,544	8,094
(Loss) income before extraordinary item and cumulative effect of change in accounting principle	(1,295)	6,417	16,332
Extraordinary item, loss on early extinguishment of debt, net of taxes of $1,217	1,948	--	--
Cumulative effect of change in accounting principle, net of taxes of $3,558	5,337	--	--
Net (loss) income	$ (8,580)	$ 6,417	$ 16,332
Share data:			
Basic:			
Weighted average common shares outstanding	33,961	27,307	20,690
(Loss) income before extraordinary item and cumulative effect of change in accounting per share	$ (0.04)	$ 0.23	$ 0.79
Extraordinary item per share	(0.06)	--	--
Cumulative effect of change in accounting principle per share	(0.16)	--	--
Net (loss) income - Basic	$ (0.25)	$ 0.23	$ 0.79
Diluted:			
Weighted average common shares outstanding	33,961	28,330	21,515
(Loss) income before extraordinary item and cumulative effect of change in accounting per share	$ (0.04)	$ 0.23	$ 0.76
Extraordinary item per share	(0.06)	--	--
Cumulative effect of change in accounting principle per share	(0.16)	--	--
Net (loss) income - Diluted	$ (0.25)	$ 0.23	$ 0.76

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

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Statements of Cash Flows

(In thousands)	Year ended October 31,		
	2001	2000 Restated	1999
Cash flows from operating activities:			
Net (loss) income	$ (8,580)	$ 6,417	$ 16,332
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	12,641	8,680	2,822
Loss on disposal of fixed assets	219	239	124
Gain on sale of subsidiary	(651)	(1,690)	--
Loss on available-for-sale Internet securities	21,477	--	--
Impairment charge on Internet assets	4,187	--	--
Stock received in consideration of license revenues	--	(1,710)	--
Equity in loss of affiliate	--	19,969	45
Extraordinary loss on early extinguishment of debt, net of taxes	1,948	--	--
(Benefit) provision for deferred taxes	(8,307)	(1,301)	70
Provision for doubtful accounts and sales allowances	14,491	3,722	3,843
Provision for Inventory obsolescence	108	9	319
Amortization of various expenses and discounts	2,134	439	485
Forfeiture of compensatory stock options in connection with AIM acquisition	--	--	(146)
Issuance of compensatory stock	--	55	831
Changes in assets and liabilities, net of acquisitions and disposals:			
Decrease (increase) in accounts receivable	7,325	(6,467)	(51,970)
Increase in inventories, net	(4,034)	(12,507)	(10,835)
Increase in prepaid royalties	(8,279)	(16,914)	(12,119)
Decrease in advances to developers	--	--	4,320
Increase in prepaid expenses and other current assets	(5,470)	(4,009)	(6,361)
(Increase) decrease in capitalized software development costs	(2,710)	(7,386)	33
(Increase) decrease in other non-current assets	(455)	(1,428)	618
Increase (decrease) in accounts payable	1,511	(28,680)	30,181
(Decrease) increase in accrued expenses and other current liabilities	(236)	(11,668)	9,366
Decrease in other liabilities	--	--	(3,981)
Net cash provided by (used in) operating activities	27,319	(54,230)	(16,023)
Cash flows from investing activities:			
Purchases of fixed assets	(8,568)	(2,881)	(2,180)
Investment in affiliates	--	--	(4,100)
Other investment	--	(4,122)	--
Acquisitions, net of cash acquired	(1,769)	(4,294)	(15,260)
Acquisitions of intangible assets	(3,105)		
Proceeds from disposal of a business	215	--	--
Additional cash paid for prior acquisition	(252)	(1,609)	--
Net cash used in investing activities	(13,479)	(12,906)	(21,540)
Cash flows from financing activities:			
Issuance of stock in connection with the secondary public offering, net of issuance costs of $2,187	--	--	21,852
Proceeds from private placements	20,892	21,285	--
Net (repayments) borrowings under lines of credit	(40,545)	28,557	22,869
Financing costs		(1,029)	(725)
(Repayment) proceeds from loan payable	(15,000)	15,000	--
Repayments of note payable	--	(89)	(460)
Proceeds from exercise of stock options and warrants	22,931	6,921	2,609
Repayments of capital lease obligation	(68)	(110)	(90)
Net cash (used in) provided by financing activities	(11,790)	70,535	46,055
Effect of foreign exchange rates on cash	(1,239)	(8,528)	(881)
Net increase (decrease) in cash for the period	811	(5,129)	7,611
Cash and cash equivalents, beginning of the period	5,245	10,374	2,763
Cash and cash equivalents, end of the period	$ 6,056	$ 5,245	$ 10,374
Supplemental disclosure of non-cash investing activities:			
Issuance of common stock in connection with acquisitions	$ 13,981	$ 55,261	$ 7,364
Equipment acquired under capital lease	$ 21	$ 140	$ --

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Statements of Cash Flows

(In thousands)	Year ended October 31,		
	2001	2000 Restated	1999
Supplemental information on businesses acquired:			
Fair value of assets acquired			
Cash	$ 331	$ 164	$ 329
Current assets	10,417	241	12,316
Non current assets	770	138	1,245
Investment (including prepaid purchase price for Neo)	--	48,385	--
Intangible assets	25,168	22,910	24,097
Less, liabilities assumed			
Current Liabilities	(25,809)	(3,171)	(15,909)
Stock and warrants issued	(8,611)	(54,816)	(6,096)
Options issued	--	(1,750)	--
Disposal adjustment	--	(3,279)	--
Direct transaction costs	(166)	(400)	(393)
Investment interest and purchase option	--	(3,964)	--
Cash paid	2,100	4,458	15,589
Less, cash acquired	(331)	(164)	(329)
Net cash paid	$ 1,769	$ 4,294	$ 15,260
Supplemental information on businesses disposed:			
Current assets	$ (318)	$ (457)	
Non current assets	--	(553)	
Current liabilities	754	235	
Net liabilities (assets) disposed	436	(775)	
Consideration received for business disposed:			
Stock	--	2,751	
Cash	215	--	
Gain on sale	$ (651)	$ (1,976)	
Cash paid during the year for interest	$ 8,284	$ 5,944	$ 2,670
Cash paid during the year for taxes	$ 9,793	$ 4,030	$ 829

The supplemental information on business acquired and disposed for the year ended October 31, 2000 are net of the Toga acquisition and disposal. (See Note 4)

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

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
For the years ended October 31, 1999, October 31, 2000 (restated) and
October 31, 2001

(In thousands)

	Common Stock		Additional Paid-in	Deferred
	Shares	Amount	Capital	Compensation
Balance, November 1, 1998	18,072	$ 181	$ 33,546	$ (224)
Issuance of compensatory stock options and warrants	537	5	831	(5)
Proceeds from exercise of stock options and warrants	654	6	2,602	--
Amortization of deferred compensation	--	--	--	181
Forfeiture of compensatory stock options in connection with AIM acquisition	--	--	(146)	--
Issuance of common stock in connection with acquisitions	763	8	7,364	--
Issuance of common stock in connection with a public offering, net of issuance costs	3,005	30	21,822	--
Issuance of common stock in lieu of royalty payments	55	1	332	--
Tax benefit in connection with the exercise of stock options	--	--	994	--
Foreign currency translation adjustment	--	--	--	--
Net income	--	--	--	--
Balance, October 31, 1999	23,086	231	67,345	(48)
Proceeds from exercise of stock options and warrants	1,373	13	6,963	--
Amortization of deferred compensation	--	--	--	43
Issuance of common stock in connection with acquisitions	4,222	43	55,218	--
Issuance of common stock in connection with private placements, net of issuance costs	2,422	24	21,261	--
Issuance of warrant in connection with a debt financing			2,927	--
Issuance of common stock in lieu of repayment of debt assumed from Pixel	168	2	2,528	
Retirement of common stock	(98)	(1)	(1,249)	--
Tax benefit in connection with the exercise of stock options	--	--	2,745	--
Foreign currency translation adjustment	--	--	--	--
Net unrealized loss on investments net of taxes of $1,736	--	--	--	--
Net income - Restated	--	--	--	--
Balance, October 31, 2000 (restated)	31,173	312	157,738	(5)
Proceeds from exercise of stock options and warrants	3,266	32	22,582	--
Amortization of deferred compensation	--	--	--	5
Issuance of common stock in connection with acquisitions	1,466	14	13,967	--
Issuance of common stock in connection with private placements, net of issuance costs	1,300	13	20,879	--
Retirement of common stock	(564)	(5)	(7,305)	--
Tax benefit in connection with the exercise of stock options	--	--	6,047	--
Foreign currency translation adjustment	--	--	--	--
Net unrealized gain on investments net of taxes of $1,640	--	--	--	--
Net loss	--	--	--	--
Balance, October 31, 2001	36,641	$ 366	$ 213,908	$ --

(In thousands)

	Retained	Accumulated Other Comprehensive	Comprehensive

	Earnings (Deficit)	Income (Loss)	Total	Income (Loss)
Balance, November 1, 1998	$ 2,070	$ (7)	$ 35,566	$ 7,304
Issuance of compensatory stock options and warrants	--	--	831	
Proceeds from exercise of stock options and warrants	--	--	2,608	
Amortization of deferred compensation	--	--	181	
Forfeiture of compensatory stock options in connection with AIM acquisition	--	--	(146)	
Issuance of common stock in connection with acquisitions	--	--	7,372	
Issuance of common stock in connection with a public offering, net of issuance costs	--	--	21,852	
Issuance of common stock in lieu of royalty payments	--	--	333	
Tax benefit in connection with the exercise of stock options	--	--	994	
Foreign currency translation adjustment	--	(820)	(820)	(820)
Net income	16,332	--	16,332	16,332
Balance, October 31, 1999	18,402	(827)	85,103	15,512
Proceeds from exercise of stock options and warrants	--	--	6,976	
Amortization of deferred compensation	--	--	43	
Issuance of common stock in connection with acquisitions	--	--	55,261	
Issuance of common stock in connection with private placements, net of issuance costs	--	--	21,285	
Issuance of warrant in connection with a debt financing	--	--	2,927	
Issuance of common stock in lieu of repayment of debt assumed from Pixel			2,530	
Retirement of common stock	--	--	(1,250)	
Tax benefit in connection with the exercise of stock options	--	--	2,745	
Foreign currency translation adjustment	--	(9,014)	(9,014)	(9,014)
Net unrealized loss on investments net of taxes of $1,736	--	(2,831)	(2,831)	(2,831)
Net income - Restated	6,417	--	6,417	6,417
Balance, October 31, 2000 (restated)	24,819	(12,672)	170,192	(5,428)
Proceeds from exercise of stock options and warrants	--	--	22,614	
Amortization of deferred compensation	--	--	5	
Issuance of common stock in connection with acquisitions	--	--	13,981	
Issuance of common stock in connection with private placements, net of issuance costs	--	--	20,892	
Retirement of common stock	--	--	(7,310)	
Tax benefit in connection with the exercise of stock options	--	--	6,047	
Foreign currency translation adjustment	--	(767)	(767)	(767)
Net unrealized gain on investments net of taxes of $1,640	--	2,987	2,987	2,987
Net loss	(8,580)	--	(8,580)	(8,580)
Balance, October 31, 2001	$ 16,239	$ (10,452)	$ 220,061	$ (6,360)

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

1. Description of the Business

Take-Two Interactive Software, Inc. (the "Company") was incorporated in the State of Delaware in September 1993. The Company develops interactive software games designed for PCs and video game console platforms and publishes games it and other parties develop. It also distributes games for PC's and video game consoles published by third parties.

2. Restatement of Financial Statements

The Company engaged outside Counsel to conduct an investigation into the Company's accounting treatment of certain transactions in fiscal 2000 and 2001. Counsel was assisted in its investigation by forensic accountants.

As a result of the investigation, the Company restated its previously issued consolidated financial statements for fiscal 2000 to eliminate $15,367,000 of net sales made to independent third party distributors and the related cost of sales of $8,702,000, which were improperly recognized as revenue since the products were later returned or repurchased by the Company.

In addition, the Company reviewed its revenue recognition policy, reserve policies and its accounting for certain other transactions. As a result of this review, the Company restated its previously issued consolidated financial statements for fiscal 2000 for the following transactions:

- The elimination of $3,780,000 of sales and related cost of sales of $2,236,000 that were previously recognized for products that had not been shipped within the period.

- A non-cash charge of $19,206,000 to record the Company's portion of the losses incurred by an affiliate accounted for under the equity method in accordance with the provisions of EITF Issue No. 99-10 (see Note 7), and a relating net reduction for post acquisition amortization of $710,000 after the Company acquired the remaining 80% interest in this entity (see Note 4).

- The elimination of $2,563,000 of license revenue in connection with a business combination (see Note 5).

The Company's 2000 financial statements have been restated as follows (presented in thousands, except per share data):

	Year ended October 31, 2000	
	As Reported	As Restated
Statement of Operations Data:		
Net sales *	$ 387,006	$ 364,001
Cost of sales *	$ 247,796	$ 235,978
Depreciation and amortization	$ 9,805	$ 8,680
Income from operations	$ 45,061	$ 33,309
Equity in loss of affiliate	$ 763	$ 19,969
Income before provision for income taxes	$ 38,229	$ 8,961
Provision for income taxes	$ 13,266	$ 2,544
Net income	$ 24,963	$ 6,417
Basic income per share	$ 0.91	$ 0.23
Diluted income per share	$ 0.88	$ 0.23

* Restated amounts give effect to reclassification of certain amounts to conform to current year presentation including the reduction in net sales and costs of sales by approximately $1.3 million.

	October 31, 2000	
	As Reported	As Restated
Balance Sheet Data		
Accounts receivable*	$134,877	$110,783
Inventories*	$ 44,922	$ 53,798
Prepaid royalties - current	$ 19,721	$ 24,093
Deferred tax assets	$ 666	$ 9,243
Intangible assets	$ 90,505	$ 66,562
Other assets, net	$ 1,565	$ 2,558
Total assets	$351,641	$330,257
Accounts payable	$ 47,972	$ 46,566
Accrued expenses and other current liabilities*	$ 19,357	$ 16,189
Total liabilities	$164,639	$160,065
Retained earnings	$ 43,365	$ 24,819
Total liabilities and stockholders equity	$351,641	$330,257

* Restated amounts reflect a reclassification relating to the presentation of allowance for returns.

All applicable amounts relating to the aforementioned restatements have been reflected in these consolidated financial statements and notes thereto.

3. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Certain amounts in the financial statements of the prior years have been reclassified to conform to the current year presentation for comparative purposes.

Risks and Uncertainties

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

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

Concentration of Credit Risk

A significant portion of the Company's cash balance is maintained with several major financial institutions with satisfactory standing and, while attempting to limit credit exposure with any single institution, there are times that balances will exceed insurable amounts.

If the financial condition and operations of the Company's customers deteriorate, the risk of collection could increase substantially. As of October 31, 2001 and 2000, the receivable balances from the Company's largest customer amounted to approximately 11.7% and 10.1% of the Company's net receivable balance, respectively. For the years ended October 2001, 2000, and 1999, the Company's five largest customers accounted for 20.9%, 22.7%, and 24.6% of net sales, respectively. Except for the largest customer noted above, all receivable balances from the remaining customers were less than 10%. The Company maintains insurance, to the extent available, on the receivable balances.

Revenue Recognition

Publishing revenue is derived from the sale of internally developed interactive software titles or from the sale of titles licensed from a third party developer. Publishing revenue amounted to $242,913,000 $186,118,000 and $159,117,000 in 2001, 2000 and 1999, respectively.

Distribution revenue is derived from the sale of third-party interactive software titles and hardware. Distribution revenue amounted to $208,143,000, $177,883,000 and $145,597,000 for 2001, 2000 and 1999, respectively.

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

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

Effective November 1, 2000, the Company adopted Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements". Consistent with the guidelines provided in SAB No. 101, the Company changed its revenue recognition policy to recognize revenue as noted above. Prior to the adoption of SAB 101, the Company recognized revenue upon shipment. As a result of adopting SAB 101, net sales and cost of sales of approximately $27.2 million and $18.3 million, respectively, which were originally recognized in the year ended October 31, 2000 were also recognized in the year ended October 31, 2001. The cumulative effect of the application of the revenue recognition policies set forth in SAB 101 for the year ended October 31, 2001 was approximately $5.3 million net of tax benefit of approximately $3.6 million or $0.16 per share. Had the Company adopted SAB 101 as of the beginning of fiscal 2000, the unaudited pro forma net sales, net income and diluted earnings per share for the year ended October 31, 2000 would have been approximately $345 million, $4.6 million and $0.16, respectively. It is impracticable for the Company to present proforma information for periods prior to fiscal 2000.

Advertising

The Company expenses advertising costs as incurred. The Company shares portions of certain customers' advertising expenses through co-op advertising arrangements. Co-op advertising allowances provided to customers are recognized at the time the revenue is recognized. Advertising expense for the years ended October 31, 2001, 2000, and 1999 amounted to $22,983,000, $16,769,000 and $11,986,000, respectively.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with original maturities of three months or less to be cash equivalents.

Inventory

Inventories are stated at the lower of average cost or market. The Company periodically evaluates the carrying value of its inventories and makes adjustments as necessary. Reserves for product returns are included in the inventory balance.

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 developer based on product sales. Prepaid royalties are amortized as cost of sales based on the greater of the proportion of current year sales to total of current and estimated future sales on a title by title basis for that title or the contractual royalty rate based on actual net product sales. The Company continually evaluates the recoverability of prepaid royalties and charges to cost of sales the amount that management determines is probable that will not be recouped at the contractual royalty rate in the period in which such determination is made. Included in prepaid royalties at October 31, 2001 and 2000, respectively are $13,811,000 and $9,029,000 related to titles that have not been released yet. Prepaid royalties are classified as current and non-current assets based upon estimated net product sales within the next year. Prepaid royalties were written down by $975,000 $501,000 and $1,308,000 for the years ended October 31, 2001, 2000 and 1999, respectively, to estimated net realizable value. Amortization of prepaid royalties amounted to $17,598,000, $16,849,000 and $12,144,000 during fiscal years 2001, 2000, and 1999, respectively.

Capitalized Software Development Costs (Including Film Production Costs)

The Company capitalizes internal software development costs subsequent to establishing technological feasibility of a title. Amortization of such costs as a component of cost of sales is recorded on a product-by-product basis upon product release based on the greater of the proportion of current year sales to total of current and estimated future sales for that title or the straight-line method over the remaining estimated useful life of the product. The Company continually evaluates the recoverability of capitalized software costs. Capitalized Software Development Costs represent the costs associated with the internal development of the Company's publishing products. Capitalized software costs were written down by $389,000 and $698,000 to estimated net realizable value for the years ended October 31, 2001 and 1999, respectively. No capitalized software costs were written down for the year ended October 31, 2000. Amortization of capitalized software costs amounted to $3,780,000, $1,451,000 and $1,136,000 during 2001, 2000, and 1999, respectively.

Property and Equipment

Office equipment, furniture and fixtures and automobiles are depreciated using the straight-line method over their estimated lives ranging from five to seven years. Computer equipment and software are depreciated using the straight-line method over three years. Leasehold improvements are amortized over the lesser of the term of the related lease or estimated useful lives. Accumulated amortization includes the amortization of assets recorded under capital leases, which amounted to approximately $202,000 and $73,000 at October 31, 2001 and 2000, respectively. The cost of additions and betterments are capitalized, and repairs and maintenance costs are charged to operations in the periods incurred. When depreciable assets are retired or sold, the cost and related allowances for depreciation are removed from the accounts and the gain or loss is recognized. The carrying values of these assets are recorded at historical cost. The cost of major additions and betterments is capitalized.

Intangible Assets

Intangible assets consist of identifiable intangibles and the remaining excess purchase price paid over identified intangible and tangible net assets of acquired companies (goodwill). Intangible assets are amortized under the straight-line method over the period of expected benefit of seven years for the acquisition of development studios and ten years for the acquisition of distribution operations. The Company assesses the recoverability of its intangible assets by determining whether the carrying value can be recovered through estimated future undiscounted cash flows over its remaining life. If estimated future cash flows indicate that the unamortized balance will not be recovered, an adjustment will be made to reduce the carrying value to an amount consistent with estimated future cash flows discounted at the Company's incremental borrowing rate. Cash flow estimates are based on trends of historical performance and management's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions.

Impairment of Long-Lived Assets

The Company accounts for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards No. 121, "Accounting for Impairment of Long-Lived Assets and Long Lived Assets to be Disposed Of" ("SFAS 121"). SFAS 121 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company compares the carrying amount of the asset to the estimated undiscounted future cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds estimated expected undiscounted future cash flows, the Company records an impairment charge for the difference between the carrying amount of the asset its fair value. The estimation of fair value is generally measured by discounting expected future cash flows at the Company's incremental borrowing rate or fair value if available.

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 ("SFAS") No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

Net (Loss) Income per Share

Basic earnings per share ("EPS") is computed by dividing the net (loss) income applicable to common stockholders for the year by the weighted-average number of common shares outstanding during the year. Diluted EPS is computed by dividing the net (loss) income applicable to common stockholders for the year by the weighted-average number of common and common stock equivalents, which include common shares issuable upon the exercise of stock options and warrants outstanding during the year. Common stock equivalents are excluded from the computation if their effect is antidilutive.

Comprehensive Income (Loss)

Comprehensive income (loss) represents the change in net assets of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income (loss) of the Company includes net income adjusted for the change in foreign currency translation adjustments and the change in net unrealized gain (loss) from investments.

Income Taxes

The Company recognizes deferred taxes under the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for differences between the financial statement and tax bases of assets and liabilities at currently enacted statutory tax rates for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Foreign Currency Translation

The functional currency for the Company's foreign operations is the applicable local currency. Accounts of foreign operations are translated into U.S. dollars using quarter or year-end exchange rates for assets and liabilities at the balance sheet date and average prevailing exchange rates for the period for revenue and expense accounts. Adjustments resulting from translation are included in other comprehensive income (loss).

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate fair value because of their short maturities. The carrying amount of prepaid royalties and investments approximate fair value based upon the recoverability of these assets. The carrying amount of the Company's lines of credit approximates fair value because the interest rates of the lines of credit are based on floating rates identified by reference to market rates. The carrying amounts of the Company's loan payable and capital lease obligations approximate the fair value of such instruments based upon management's best estimate of interest rates that would be available to the Company for similar debt obligations at October 31, 2001.

The Company enters into forward foreign exchange contracts to a limited extent to manage the risk associated with currency fluctuations on certain sales and purchase commitments denominated in foreign currencies. The Company's forward foreign exchange contracts are primarily denominated in certain European currencies and are for periods consistent with the terms of the underlying transactions, which is less than one year. Gains and losses resulting from the impact of currency exchange rate movements on contracts that qualify, as effective hedges are not recognized in operations until the underlying hedged transactions are recognized. Upon recognition, such gains and losses are recorded in operations as an adjustment to the carrying amount of the underlying transactions in the period in which these transactions are recognized. As of October 31, 2001, there are no forward foreign exchange contracts outstanding. As of October 31, 2000, the contract amount of forward foreign exchange contracts outstanding was approximately $678,000.

Recently Issued Accounting Pronouncements

In July 2001, the FASB issued Statement of Financial Accounting Standard No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142").

SFAS 141 establishes accounting and reporting for business combinations by requiring that all business combinations be accounted for under the purchase method. Use of the pooling-of-interests method is no longer permitted. SFAS 141 also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. SFAS 141 requires that the purchase method be used for business combinations initiated after June 30, 2001.

SFAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Upon adoption of SFAS 142, amortization of goodwill recorded for business combinations consummated prior to July 1, 2001 will cease, and intangible assets acquired prior to July 1, 2001 that do not meet the criteria for recognition under SFAS 141 will be reclassified to goodwill. Goodwill will be subject to an annual impairment test, including a transitional impairment test required upon adoption of SFAS 142 for which companies have six months to complete. The provisions of SFAS 142 will be effective for fiscal years beginning after December 15, 2001; however, early adoption is permitted. The Company anticipates the early adoption of SFAS 142 as of the beginning of fiscal 2002. The Company is still in the process of reallocating previously identifiable intangibles that do not meet the criteria of SFAS 141 into Goodwill and evaluating the useful lives of its remaining identifiable intangibles. However, the Company currently estimates that unaudited pro forma income (loss) before extraordinary item and cumulative effect of change in accounting principle and the respective diluted EPS and net income and diluted EPS would have been approximately $2.9 million and $0.08 and ($4.4 million) and ($0.13), respectively for the year ended October 31, 2001 had the provisions of the new standards been applied in that year. The Company is in the process of completing its step one transition assessment of goodwill. However, it does not currently anticipate having to record transition impairment of goodwill or other intangible assets as a cumulative effect as a result of these new standards.

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

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

4. Business Acquisitions (See Note 5)

The Company acquired a number of companies that develop, publish or distribute interactive software games during the three-year period ended October 31, 2001. The aggregate purchase price, including cash payments and issuance of its common stock was $28.1 million, $65.4 million, and $9.7 million in 2001, 2000 and, 1999, respectively. The value of the Company's common stock issued in connection with these acquisitions has been based on the market price of the Company's common stock at the time such proposed transactions were agreed and announced. The aggregate purchase price excludes the value of stock issued for acquisitions accounted for as pooling of interests.

In 1999, 1,033,000 shares of the Company's common stock were issued for the acquisition of Talonsoft, Inc. ("Talonsoft") accounted for as pooling of interests. The Company's consolidated financial statements including the related notes had been restated as of the earliest period presented to include the results of operations, financial position and cash flows of Talonsoft.

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

2001 transactions

In July 2001, the Company acquired all of the outstanding capital stock of Techcorp Limited ("Techcorp"), a Hong Kong based design and engineering firm specializing in video game accessories. In consideration, the Company issued 30,000 shares of the Company's restricted common stock (valued at $572,000), paid $100,000 in cash and assumed net liabilities of approximately $2.9 million. In connection with the acquisition, the Company recorded goodwill of $3,558,000 on a

preliminary basis. The Company is in the process of obtaining an independent third party valuation in support of its preliminary purchase price allocation. The Company will make the required adjustments, if any, upon completion of such valuation. In accordance with SFAS 141, the Company is not amortizing the goodwill recorded in connection with this acquisition.

In November 2000, the Company acquired all of the outstanding capital stock of VLM Entertainment Group, Inc. ("VLM"), a company engaged in the distribution of third-party software products. In connection with this transaction, the Company paid the former stockholders of VLM $2 million in cash and issued 875,000 shares of the Company's common stock (valued at $8.0 million) and assumed net liabilities of approximately $10.6 million. In connection with this transaction, the Company recorded intangible assets of approximately $20.7 million on a preliminary basis. The Company is in the process of obtaining an independent third party valuation in support of its preliminary purchase price allocation. The Company will make the required adjustments, if any, upon completion of such valuation.

In connection with the sale of Toga to Gameplay in October 2000, the Company agreed to acquire Gameplay's game software development and publishing business - Neo Software Produktions GMBH ("Neo"). Such acquisition was completed in January of 2001. See Note 5 for further discussion of this transaction.

The following table sets forth the components of the purchase price of the 2001 acquisitions (in thousands):

	Neo	VLM	Techcorp	Total
Cost of the acquisition:				
Value of business sold (Prepaid purchase price-Neo) or stock issued	$ 17,266	$ 8,039	$ 572	$ 25,877
Cash	--	2,000	100	2,100
Transaction Costs	109	27	30	166
Total	$ 17,375	$ 10,066	$ 702	$ 28,143
Allocation of purchase price:				
Current Assets	$ 2	$ 9,852	$ 894	$ 10,748
Non-Current Assets	71	201	498	770
Liabilities	(881)	(20,680)	(4,248)	(25,809)
Goodwill	7,282	12,362	3,558	23,202
Customer Lists	--	8,331	--	8,331
Technology	8,037	--	--	8,037
Trademarks	1,939	--		1,939
Workforce	925	--	--	925
Total	$ 17,375	$ 10,066	$ 702	$ 28,143

Certain of Neo's internet-related technology assets were determined to be impaired in April 2001. Accordingly, the Company recorded as cost of sales a non-cash impairment charge of $3,786,000 consisting of $2,350,000 relating to server maintenance technologies and $1,047,000 relating to multiplayer technologies developed by Neo's development studio in connection with Online Pirates and $389,000 of capitalized software relating to other products to be developed by Neo. In addition, the Company recorded as selling and marketing expenses an impairment charge of $401,000 related to online sales promotions.

2000 Transactions

In August 2000, the Company acquired all of the outstanding capital stock of PopTop Software, Inc. ("PopTop") for 559,100 shares of its Common Stock (valued at $5.8 million) and assumed net liabilities of approximately $88,000.

In April 2000, the Company acquired the remaining 80.1% of the equity interest of Gathering of Developers, Ltd ("Gathering") for 1,060,000 shares of its Common Stock (valued at $10.4 million) and assumed liabilities of approximately $3 million. In accordance with the provisions of EITF 99-10, the Company recorded an additional charge of $19,206,000 (see Notes 2 and 7) which effectively reduced the cost of the acquisition of Gathering by the same amount. The result was a net reduction for post acquisition amortization of $710,000 comprised of a $1,125,000 reduction of the amortization of intangible assets offset by an increase of $415,000 in the amortization of prepaid royalties.

In March 2000, the Company acquired all of the outstanding capital stock of Toga, the parent company of Pixel Broadband Studios, Ltd. ("Pixel"). In connection with this acquisition, the Company paid $4.5 million in cash, issued 2,561,000 shares of its Common Stock (valued at $38.6 million), issued a warrant to purchase the stock of Pixel to the founder of Pixel (valued at $1.75 million based on the Black-Scholes pricing model) and assumed net liabilities of approximately $3.3 million. Toga was sold in October 2000 to Gameplay.com PLC ("Gameplay") (See Note 5).

The following table sets forth the components of the purchase prices of the 2000 acquisitions (net of the disposition of Toga) (in thousands):

	Gathering	Pop Top	Toga	Total
Cost of the acquisition:				
Value of stock issued	$ 10,402	$ 5,836	$ 38,578	$ 54,816
Value of warrants issued	--	--	1,750	1,750
Cash	--	--	4,458	4,458
Investments and advances at time of acquisition	3,964	--	--	3,964
Transaction Costs	48	32	320	400
Total	$ 14,414	$ 5,868	$ 45,106	$ 65,388
Allocation of purchase price:				
Current Assets	$ 4,063	$ --	$ --	$ 4,063
Non-Current Assets	72	66	--	138
Liabilities	(6,675)	(154)	(3,279)	(10,108)
Goodwill	8,128	$ 5,110	$ --	13,238
Trademarks	8,826	846	--	9,672
Prepaid purchase price - Neo	--	--	17,266	17,266
Gameplay Investment	--	--	31,119	31,119
Total	$ 14,414	$ 5,868	$ 45,106	$ 65,388

Unaudited proforma information

The unaudited pro forma data below for the years ended October 31, 2001 and 2000 is presented as if purchase acquisitions for fiscal 2000 and 2001 had been made as of November 1, 1999. The unaudited pro forma financial information is based on management's estimates and assumptions and does not purport to represent the results that actually would have occurred if the acquisitions had, in fact, been completed on the dates assumed, or which may result in the future. The unaudited pro forma financial information includes purchase acquisitions that are significant to the Company's operations.

	Unaudited Pro forma (in thousands, except for per share data) October 31, 2001	October 31, 2000
Total Revenues	$ 458,665	$ 424,809
Income before extraordinary item and cumulative effect of change in accounting:	$ (4,079)	$ 1,187
Net income per share - Basic	$ (0.12)	$ 0.03
Net income per share - Diluted	$ (0.12)	$ 0.03

Included in the unaudited pro forma information is amortization of goodwill of approximately $7,320,000 and $7,744,000 net of taxes of $2,799,000 and $3,081,000 for the years ended October 31, 2001 and 2000, respectively.

1999 transactions

In 1999, the Company paid $1.2 million in cash, issued 638,000 shares of its common stock (valued at $6.1 million), incurred direct transaction costs of approximately $400,000 and assumed liabilities of approximately $15.9 million for all acquisitions accounted for as purchases. These acquisitions were LDA Distribution Limited, Joytech Europe Limited, DVDWave.com, Funsoft Nordic A.S., Triad Distributors, Inc., Global Star Software Ltd., DMA Design Holdings Limited, DMA Design Limited and CD Verte, S.p.A. ("CD Verte") and a minority interest in Bungie Software. In addition, for CD Verte, the Company paid $800,000 on December 1, 1999 and will pay an additional $1.2 million, subject to a potential downward adjustment based on net income of the acquired entity, over a three-year period.

5. Disposition of Assets

In July 2001, the Company sold all of the outstanding capital stock of Jack of All Games UK, a video game distributor, to Jay Two Limited, an unaffiliated third-party controlled by Freightmasters Ltd., for approximately $215,000. In connection with the sale, the purchaser assumed net liabilities of $436,000. The Company recorded a non-operating gain of $651,000 net of taxes relating to the sale.

In October 2000, the Company sold all of the outstanding shares of Toga to Gameplay and simultaneously entered into a license agreement with Gameplay for the online distribution of certain of the Company's PC games. Toga had been purchased in March 2000 (see Note 4). The Company received (i) 15,371,698 shares of Gameplay's common stock (valued at approximately $31.1 million); (ii) a warrant to purchase 1,000,000 shares of Gameplay stock (the Company assigned no value to the warrant); and (iii) a joint exploitation agreement with Gameplay under which the Company acquired rights to the software development business of Neo - a subsidiary of Gameplay (valued at approximately $17.3 million). The value of such right was recorded as prepaid purchase price at the time of Toga's sale and has been included in intangible assets at October 31, 2000.

The Company recognized a loss of $286,000 on the sale of Toga, which was recorded as a component of "gain on sale of subsidiary, net" on the 2000 Consolidated Statement of Operations. The Company obtained an independent third party valuation in support of the value assigned to its right to acquire Neo. In January 2001, the Company completed the acquisition of Neo and assumed net liabilities of approximately $808,000, in addition to the prepaid purchase price of $17.3 million noted above.

In June 2000, the Company sold its 19.9% equity interest in Bungie Software ("Bungie") to Microsoft Corporation for approximately $5 million in cash. The Company did not realize any gain or loss on this transaction. Separately, the Company sold its exclusive Halo publishing and distribution rights to Bungie for $4 million in cash, a royalty free license to Bungie's Halo technology in connection with the development of two original products and all right, title and interest to the Myth franchise and the PC and Playstation(R) 2 game, Oni. The Company recorded this transaction as net sales of $5.5 million after giving effect to the receipt of $9 million in cash and $5.8 million of assets (consisting of $2.8 million relating to Oni, $1.5 million relating to Myth and $1.5 million relating to the license to use Halo game engine technology for two original products), net of $9.3 million of assets sold. The Company obtained independent third party valuations in support of the transaction.

In February 2000, the Company sold all of its interest in Falcon Ventures Corporation d/b/a DVDWave.com to eUniverse, Inc. ("eUniverse") in exchange for 310,000 shares of eUniverse's common stock. The Company recognized a gain of $1,976,000 and recorded such gain as a component of "Gain on sale of subsidiary, net" on the Consolidated Statement of Operations.

6. Intangible Assets

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

In December 2000, the Company acquired the exclusive worldwide publishing rights to the franchise of Duke Nukem PC and video games, including the PC, console and sequel rights to Duke Nukem Forever. In connection with the transaction, the Company paid $2.3 million in cash and issued 557,103 shares of its common stock (valued at approximately $5.4 million). In addition, the Company is contingently liable to make a further payment of $6 million upon delivery of the gold master of Duke Nukem Forever. The Company recorded an intangible asset of $7.7 million related to the intellectual property purchased in this transaction on a preliminary basis. The Company is in the process of obtaining an independent third party valuation in support of its preliminary valuation. The Company will make the required adjustments, if any, upon completion of such valuation. The additional $6 million will be recorded as an additional intangible asset upon resolution of the contingency.

The following table sets forth the components of the intantgible assets as of October 31, 2001 and 2000 (in thousands):

	October 31, 2001	October 31, 2000
Goodwill	$ 70,191	$ 45,183
Prepaid purchase price -Neo (Note 5)	--	17,266
Trademarks	13,922	11,983
Customer lists	9,081	803
Intellectual property	8,527	--
Technology	4,640	--
Workforce	925	--
	107,286	75,235
Less - accumulated amortization	19,111	8,673
	$ 88,175	$ 66,562

Amortization expense for the years ended October 31, 2001, 2000, and 1999, amounted to $9,309,000, $6,919,000, and $1,662,000, respectively.

7. Investment in Affiliate

In May 1998, the Company entered into a distribution agreement with Gathering, a publisher of PC and video games. Pursuant to the agreement, the Company agreed to pay Gathering advance royalty payments of up to $7.5 million for the rights to distribute certain PC titles. In February 1999, the Company amended the May 1998 distribution agreement under which the Company agreed to pay Gathering advance royalty payments of up to $12.5 million (inclusive of the payments under the May 1998 agreement). The Company's advance royalty payments under the February 1999 agreement were to be recouped from royalties due to Gathering under the distribution agreement after payment of the Company's distribution fee. The Company also made advance royalty payments to Gathering in a similar arrangement under various publishing agreements for video games.

In February 1999, the Company purchased a 19.9% equity interest in Gathering for approximately $4 million. The investment was accounted for by the equity method due to the Company having significant influence over Gathering. The difference between the carrying value of the investment and the underlying equity in the net assets of approximately $4,377,000, was attributed to goodwill and was amortized using the straight-line method over the period of expected benefit of seven years. Such amortization has been included in the equity in loss of affiliate.

In addition, the equity holders of Gathering granted the Company an option to purchase all of their interests, exercisable on two separate occasions during the six-month periods ending April 30, 2001 and 2002 based on a fixed formula. In consideration of the option grant, the Company issued to Gathering's equity holders 125,000 shares of common stock, valued at $1,275,000, which was amortized over the term of the purchase option, which expired unexercised in April 2000 upon acquisition of the remaining 80% equity interest in Gathering (see Note 4).

Until October 31, 1999, the Company recognized its proportionate share of the losses in Gathering using the equity method of accounting. Effective November 1, 1999, the Company recognized its share of losses in accordance with the provisions of EITF 99-10, "Percentage Used to Determine the Amount of Equity Method Losses." This resulted in an additional charge of $19,206,000 (See Note 2).

8. Investments

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

During 2001, the Company recorded an impairment charge of $21,477,000, consisting of approximately $19,171,000 relating to its investment in Gameplay, $2,000,000 relating to its investment in eUniverse, Inc. based on the quoted market prices and $306,000 relating to its investment in a privately-held company, which is included in other non-current assets. All of these investments were deemed to be other than temporarily impaired. In addition, the Company recorded unrealized gains and losses on its remaining investments through other comprehensive income (loss).

As of October 31, 2001 and 2000, investments consist of (in thousands):

	2001		2000	
	Current	Non Current	Current	Non Current
Average cost	$ 5,988	$ 75	$ 2,896	$ 33,084
Unrealized gains (losses)	$ 253	$ --	30	(4,597)
Fair value	$ 6,241	$ 75	$ 2,926	$ 28,487

For the fiscal years ended October 31, 2001 and 2000, the gross proceeds from the sale of investments were $11,000 and $639,000, respectively. The gross realized losses from these sales totaled $69,000 and $180,000, respectively. The loss on sale of securities is based on the average cost of the individual securities sold.

9. Inventories

As of October 31, 2001 and 2000, inventories consist of (in thousands):

	2001	2000
Parts and supplies	$ 1,468	$ 496
Finished products	60,469	53,302
	$61,937	$53,798

10. Fixed Assets

As of October 31, 2001 and 2000, fixed assets consist of (in thousands):

	2001	2000
Computer equipment	$ 5,705	$ 3,737
Office equipment	1,583	816
Computer software	4,357	537
Furniture and fixtures	1,876	1,710
Automobiles	438	305
Leasehold improvements	2,209	1,086
Capital leases	398	348
	16,566	8,539
Less: accumulated depreciation and Amortization	(5,533)	(3,279)
	$ 11,033	$ 5,260

In 2001, the Company capitalized costs of approximately $2.8 million associated with software and hardware upgrades to its accounting systems.

Depreciation expense for the years ended October 31, 2001, 2000, and 1999, amounted to $3,731,000, $1,761,000, and $1,160,000, respectively.

11. Lines of Credit

As of October 31, 2001 and 2000, lines of credit consist of (in thousands):

	2001	2000
Line of credit with Bank of America - 4.94% to 6.01% (8.38 to 9.23% in 2000)	$48,701	$70,599
Line of credit with Barclays' Bank - 5.25% to 5.75% (7.4% in 2000)	--	14,006
Line of credit with Lloyds TSB Bank plc - 4.5% to 5.75%	5,372	--
	$54,073	$84,605

In February 2001, five of the Company's European subsidiaries entered into a credit facility agreement with Lloyds TSB Bank plc ("Lloyds") under which Lloyds agreed to make available borrowings of up to $19 million linked to the British Pound Sterling. Borrowings under the line of credit are collaterized by: (i) a guarantee by the Company for approximately $23 million, plus interest and other costs, as defined; (ii) an unlimited debenture by the European subsidiaries and (iii) an assignment of the proceeds of the insurance policies, as defined, taken out in respect of the Europeans subsidiaries accounts receivables. The outstanding balance and available credit under the revolving line of credit were $5,372,000 and $15,076,000 respectively, as of October 31, 2001. Advances under the credit facility bear interest at the rate of 1.25% per annum over the bank's base rate. The credit facility originally expired in December 2001 but has been extended through March 31, 2002.

In December 1999, the Company entered into a credit agreement with a group of lenders led by Bank of America, N.A., as agent, which provides for borrowings of up to $75,000,000. The Company may increase the credit line up to $85,000,000 subject to certain conditions. Interest accrues on such advances at the bank's prime rate plus 0.5% or at LIBOR plus 2.5%. Borrowings under the line of credit are collaterized by all of the Company's accounts receivable, inventory, equipment, general intangibles, securities and other personal property, including the capital stock of the Company's domestic subsidiaries. The outstanding balance and available credit under this facility were $48,701,000 and $26,299,000, respectively at October 31, 2001. The line of credit expires on December 7, 2002. Under the terms of the credit agreement, the Company is required to comply with certain financial, affirmative and negative covenants, including consolidated net worth, consolidated leverage ratio and consolidated fixed charge ratio. In addition, the credit 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 agreement was amended in February 2002 to provide for borrowings of up to $15,000,000 through February 20, 2002; $22,500,000 through February 28, 2002; $30,000,000 through April 13, 2002; and $50,000,000 through the remaining term of the agreement. Generally, advances under the line of credit are based on a borrowing formula equal to the lesser of (1) the borrowing limit or (2) 70% of eligible accounts receivable, plus 25% of eligible inventory. In addition, certain financial covenants and several other covenants were amended retroactively. Accordingly, as of October 31, 2001, the Company was in compliance with the covenants, as amended.

In December 1999, Take-Two Interactive Software Europe Limited entered into a line of credit agreement with Barclays' Bank. The line of credit provided for borrowings of up to approximately $25,000,000. Advances under the line of credit bore interest at the rate of 1.4% over the bank's base rate per annum, payable quarterly. Borrowings were collateralized by receivables of the Company's European subsidiaries, and guaranteed by the Company. The available credit under this facility expired in February 2001.

12. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities as of October 31, 2001 and 2000 consist of (in thousands):

	2001	2000
Accrued co-op advertising and product rebates	$ 4,514	$ 1,801
Accrued VAT and payroll taxes	5,214	539
Income taxes payable	--	5,410
Royalties payable	3,829	4,866
Deferred revenue	748	--
Other	5,945	3,573
Total	$20,250	$16,189

13. Extraordinary Loss on Early Extinguishment of Debt

In July 2000, the Company entered into a subordinated loan agreement with Finova Mezzanine Capital Inc. ("Finova") in the principal amount of $15 million. The loan was payable in full in July 2005, and bore interest at the rate of 12.5% per annum, payable monthly. In connection with the loan, the Company issued to Finova a five year warrant to purchase approximately 452,000 shares of common stock exercisable at a price of $11.875 per share. The warrant was valued at approximately $2.9 million, using the Black-Scholes pricing model with the following weighted average assumptions: expected volatility of 55.0%; a risk-free interest rate of 6.1%; dividend rate of 0.0% and an expected term of 5.2 years. Subject to the outstanding loan balance, the warrant entitled Finova to receive additional shares of the Company's Common Stock for three consecutive years commencing July 2003, and contained certain anti-dilution provisions. The Company had recorded the loan net of a discount of approximately $2.9 million to reflect an allocation of the proceeds to the estimated value of the warrant. The discount was amortized using the "interest method" over the term of the financing.

In July 2001, the Company prepaid the outstanding subordinated loan and recorded an extraordinary loss of $1,948,000, net of $1,217,000 of income taxes, related to the deferred financing costs and the unamortized discount associated with the loan. In accordance with its terms, the contingent warrant for additional shares of the Company's Common Stock was terminated.

14. Commitments and Contingencies

Capital Leases

The Company leases equipment under capital lease agreements, which extend through fiscal year 2006. Future minimum lease payments under these capital leases, and the present value of such payments as of October 31, 2001 is as follows:

Year ending October 31:	(in thousands)
2002	$ 120
2003	117
2004	117
2005	67
2006	1
Thereafter	--
Total minimum lease payments	422
Less: amounts representing interest	(32)
Present value of minimum obligations under capital leases	$ 390

Lease Commitments

The Company leases 28 office and warehouse facilities. The corporate headquarters are leased under a noncancelable operating lease with a company controlled by the father of the chairman of the board and expires in March 2004. Rent expense and certain utility expenses under this lease amounted to $474,000, $419,000, and $302,000, for the years ended October 31, 2001, 2000, and 1999, respectively. The other offices are under noncancelable operating leases expiring at various times from July 2001 to October 2011. In addition, the Company has leased certain equipment, furniture and auto leases under noncancelable operating leases, which expire through July 2005.

Future minimum rentals required as of October 31, 2001 are as follows:

Year ending October 31:	(in thousands)
2002	$ 3,879
2003	3,363
2004	2,662
2005	1,998
2006	1,282
Thereafter	3,572
Total minimum lease payments	$ 16,756

Rent expense (including the corporate headquarters) amounted to $3,553,000, $2,303,000, and $1,544,000, for the years ended October 31, 2001, 2000, and 1999, respectively.

Legal and Other Proceedings

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 litigation will have a material adverse effect on the Company's consolidated financial condition, cash flows or results of operations.

In December 2001 and January 2002, six purported class action lawsuits have been filed in the United States District Court for the Southern District of New York by Peter Fischbein, Drimal Ltd., Corado Petruzzelli, Michael Lucas, Israel M. Zacks and Eliot Gersten against the Company and certain of its officers or directors asserting damages on behalf of all persons or entities who purchased or otherwise acquired the Company's common stock in the open market during the period commencing on February 24, 2000 through December 17, 2001. These complaints allege violations of Section 10 (b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by the Company and the individual defendants and violations of Section 20 (a) of the Exchange Act by the individual defendants.

In the foregoing complaints, the plaintiffs allege that, among other things, because the Company's financial statements issued during the class period were not prepared in conformity with generally accepted accounting principles, the defendants concealed adverse material information and made or participated in the making of untrue statements of material facts and omitted to state material facts concerning the business, financial condition, operations and future prospects of the Company. The plaintiffs, in each of the complaints, seek compensatory damages, including interest, against all of the defendants, recovery of their reasonable litigation costs, and expenses. The Company intends to vigorously defend the claims against it. Although it cannot predict the ultimate outcome of these actions, an unfavorable resolution could have a material adverse effect on the Company's financial condition, cash flows and results of operations.

The Securities and Exchange Commission 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.

15. Employee Savings Plans

The Company maintains a 401(k) profit sharing plan and trust (the "401(k) Plan"). The 401(k) Plan is offered to all eligible employees and participants may make voluntary contributions up to 15% of their salary. The Company does not match employee contributions.

16. Income Taxes

The Company is subject to foreign withholding taxes in certain countries where it does business. Domestic and foreign (loss) income before income taxes, extraordinary loss and cumulative effect of change in accounting principle is as follows (in thousands):

	Years ended October 31,		
	2001	2000	1999
Domestic	$ (29,322)	$ (5,507)	$ 228
Foreign	25,827	14,468	24,198
Total	$ (3,495)	$ 8,961	$ 24,426

Income tax expense (benefit) is as follows (in thousands):

	Years ended October 31,		
	2001	2000	1999
Current:			
Federal	$ -	$ -	$ -
State and local	500	500	22
Foreign	5,607	3,345	8,002
Deferred	(8,307)	(1,301)	70
Total	$ (2,200)	$ 2,544	$ 8,094

The differences between the provision for income taxes and the income tax computed using the U.S. statutory federal income tax rate to pretax income are as follows:

(in thousands)	Years ended October 31,		
	2001	2000	1999
Statutory federal tax expense (benefit)	$ (1,223)	$ 3,136	$ 8,305
Changes in expenses resulting from:			
State taxes, net of federal benefit	(652)	369	1,539
Foreign tax expense differential	(3,433)	(1,359)	(1,807)
Goodwill amortization	1,656	592	244
Other permanent items	123	(194)	(187)
Impairment of intangibles	1,329	-	
Income tax expense (benefit)	$ (2,200)	$ 2,544	$ 8,094

The components of the net deferred tax asset as of October 31, 2001 and 2000 consists of the following:

(in thousands)	2001	2000
Current:		
Deferred tax asset:		
Bad debt allowance	$ 4,356	$ 3,329
Sales and inventory reserves	1,539	1,404
Unrealized (gains) losses	(96)	1,736
Tax credit carryforward	552	552
Depreciation and amortization	745	(149)
Net operating loss carryforward	11,598	6,025
Total current deferred tax assets	18,694	12,897
Deferred tax liability -		
Capitalized software	(4,821)	(3,654)
Total net current deferred tax assets	13,873	9,243
Non-current deferred tax asset -		
Capital Loss carryforward	7,892	-
Net deferred tax asset	$ 21,765	$ 9,243

Management believes that it is more likely than not that the Company will generate sufficient levels of taxable income in the future to realize the $21,765,000 of reported net deferred tax assets. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. 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 net appreciated assets of the Company to the extent required (if any) to generate sufficient taxable income prior to the expiration of these benefits.

The deferred tax asset relating to the Company's net operating loss carryforwards includes tax assets of approximately $10.5 million relating to cumulative tax deductions for dispositions of employees incentive stock options, the benefit of which has been included in additional paid in capital.

At October 31, 2001, the Company had net operating loss carryforwards and capital loss carryforwards totaling approximately $30.5 million and $20.8 million, respectively. The net operating loss carryforwards expire at various times between fiscal 2012 and fiscal 2021 and the capital loss carryforwards expire at fiscal 2006. In addition, at October 31, 2001, the Company had a $552,000 tax credit carryforward, which will expire at fiscal 2019.

The total amount of undistributed earnings of foreign subsidiaries for income tax purposes was approximately $36 million and $10 million for the years ended October 31, 2001 and 2000, respectively. It is the Company's intention to reinvest undistributed earnings of its foreign subsidiaries and thereby indefinitely postpone their remittance. Accordingly, no provision has been made for foreign withholding taxes or United States Income taxes which may become payable if undistributed earnings of foreign subsidiaries were paid as dividends to the Company.

17. Stockholders' Equity

Private Placement

In July 2001, the Company issued 1,300,000 shares of common stock in a private placement to institutional investors and received proceeds of $20.9 million net of $1.4 million of selling commissions and offering expenses.

In April and July 2000, the Company issued an aggregate 2,422,000 shares of the Company's Common Stock in private placements to institutional investors and received proceeds of $21,285,000, net of commissions and offering expenses of $2,432,000.

18. Public Offering

In July 2000, the Company incurred a charge of $1,103,000 relating to an abandoned public offering of a subsidiary.

In May 1999, the Company consummated a secondary public offering of 3,005,000 shares of Common Stock, including 255,000 shares issued pursuant to an over-allotment option. The proceeds from the offering were $21,852,000, net of discounts and commissions and offering expenses of $2,187,000.

Retirement of Common Stock

In February 2001, certain stockholders of the Company exchanged and surrendered for cancellation 564,212 shares of the Company's Common Stock (valued at $7,310,000) for shares of Gameplay having an equal value.

In October 2000, a stockholder of the Company exchanged and surrendered for cancellation 98,000 shares of the Company's common stock (valued at $1,250,000) for shares of Gameplay having an equal value.

Warrants

As of October 31, 2001 and 2000, there are outstanding common stock purchase warrants for an aggregate of 128,000 and 829,000 shares of the Company's Common Stock, respectively, at prices ranging from $ 2.41 to $11.85 and expiring from 2003 to 2005.

19. Incentive Plans

Stock Option Plan

In January 1997, the stockholders of the Company approved the Company's 1997 Stock Option Plan, as previously adopted by the Company's Board of Directors (the "1997 Plan"), pursuant to which officers, directors, key employees and consultants of the Company may receive incentive stock options ("ISO") to purchase up to an aggregate of 6,500,000 shares of the Company's Common Stock.

The 1997 Plan is administered by the Board of Directors. Subject to the provisions of the 1997 Plan, the Board of Directors or any Committee appointed by the Board of Directors, has the authority to determine the individuals to whom the stock options are to be granted, the number of shares to be covered by each option, the option price, the type of option, the option period, restrictions, if any, on the exercise of the option, the terms for the payment of the option price and other terms and conditions.

As of October 31, 2001 and 2000, the 1997 Plan had outstanding stock options for an aggregate of 2,631,000 and 1,973,000 shares of the Company's Common Stock, respectively, vesting at various times from 1997 to 2004 and expiring at various times from 2002 to 2008. Options granted generally vest over a period of three to five years.

Non-Plan Stock Options

As of October 31, 2001 and 2000, there are non-plan stock options outstanding for an aggregate of 1,848,000 and 2,226,000 shares of the Company's Common Stock, respectively, vesting from 1999 to 2004 and expiring at various times from 2003 to 2007.

For those options with exercise prices less than fair value of the underlying shares at the measurement date, the difference is recorded as deferred compensation and is amortized over the vesting period. Compensation expense for the years ended October 31, 2001, 2000, and 1999 was approximately $5,000, $43,000, and $181,000, respectively.

The following table summarizes the activity in options under the plans inclusive of non-plan options:

	Shares (in thousands)	Weighted Average Exercise Price
Options outstanding - November 1, 1998	2,631	$4.02
Granted-exercise price equal to fair value	2,506	$7.94
Exercised	(1,101)	$2.85
Forfeited	(311)	$5.07
Options outstanding - October 31, 1999	3,725	$6.96
Granted-exercise price equal to fair value	2,073	$10.14
Granted-exercise price less than fair value	14	$8.23
Exercised	(1,270)	$6.44
Forfeited	(343)	$5.89
Options outstanding - October 31, 2000	4,199	$8.72
Granted-exercise price equal to fair value	3,351	$9.94
Granted-exercise price less than fair value	500	$13.91
Exercised	(3,327)	$9.00
Forfeited	(244)	$10.09
Options outstanding - October 31, 2001	4,479	$9.93

At October 31, 2001 and 2000 the number of options exercisable are 2,113,000 and 2,119,000, respectively, and their related weighted average exercise prices are $9.61 and $8.36, respectively.

The following summarizes information about stock options outstanding and exercisable at October 31, 2001:

Exercise Price Shares	Shares (in thousands)	Weighted Average Exercise Price	Average Remaining Contractual Life
$5.19 - $8.63	1,375	$ 7.38	3.65
$9.09 - $12.50	2,657	$ 10.59	4.19
$13.00 - $14.86	447	$ 13.91	3.58
Options outstanding - October 31, 2001	4,479	$ 9.93	3.97
$5.19 - $8.63	814	$ 7.34	2.32
$9.09 - $12.50	1,148	$ 10.64	3.96
$13.00 - $14.86	151	$ 14.04	2.26
Options exercisable- October 31, 2001	2,113	$ 9.61	3.53

Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant date for awards in 2001, 2000 and 1999 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 (in thousands).

	2001	2000 (As Restated)	1999
Net (loss) income			
As reported	$ (8,580)	$ 6,417	$ 16,332
Pro-forma	$ (18,927)	$ (4,714)	$ 12,769
Net income per share			
As reported-Basic	$ (0.25)	$ 0.23	$ 0.79
Pro-forma-Basic	$ (0.56)	$ (0.17)	$ 0.62
As reported-Diluted	$ (0.25)	$ 0.23	$ 0.76
Pro-forma-Diluted	$ (0.56)	$ (0.17)	$ 0.59

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

The fair value of the Company's stock options used to compute pro-forma net income and the net income per share disclosures is the estimated present value at the grant date using the Black-Scholes option-pricing model. The following weighted average assumptions for 2001 were used to value grants: expected volatility of 85% for grants with a holding period of 2 years, 79% for a holding period of 3 years and 75% for holding periods of 4 to 5 years; a risk-free interest rate of generally 4.85% to 5.0%; and an expected holding period of two to five years. The following weighted average assumptions were used to value grants for 2000 and 1999, respectively; expected volatility of 96% for grants with a holding period of two years, and expected volatility of 60% for grants with a holding period of three to four years and 65% for holding periods of five years or more; a risk-free interest rate of generally 5.5% to 6.7% and 4% to 6%; and an expected holding period of two to five and three to five years.

20. Results By Quarter (Unaudited)

The following tables set forth quarterly supplementary data for each of the years in the two-year period ended October 31, 2001 (in thousands except per share data).

The unaudited quarterly results of operations for each of the quarters in the fiscal year ended October 31, 2000 and for each of the three quarters in the period ended July 31, 2001 have been restated for the matters identified in Note 2.

In addition, the unaudited quarterly results of operations for the three quarters in the period ended July 31, 2001 have been restated as follows:

- The cumulative effect in the first quarter of the change in accounting related to the adoption of SAB 101 Revenue Recognition" (see Note 3). In fiscal 2001, the Company implemented changes to its practices to significantly reduce shipment time near quarter and year end. Accordingly, the adoption of SAB 101 did not have a significant impact on previously reported interim results for the first three quarters of 2001.

- The recognition in the first quarter of net sales of $3,780,000 and related cost of sales of $2,236,000 for transactions that did not qualify for revenue recognition in the fourth quarter of fiscal 2000.

- Additional charge of $438,000, net of taxes of $292,000 in the third quarter for an extraordinary loss on early extinguishment of debt.

- Adjustment in the first two quarters for income related to the reversal of revenue related to a business acquired during the year and a corresponding adjustment to the purchase price. The adjustment was a reduction of revenue of $721,000 in the first quarter and $956,000 in the second quarter, net of expense reductions of $29,000 and $44,000 in the first and second quarters, respectively.

	As Restated			
2001	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	$ 157,853	$ 88,617	$ 81,327	$ 123,259
Gross profit	53,593	30,940	33,038	27,221
Income (loss) before extraordinary item and cumulative effect of adopting SAB 101	13,569	(11,636)	2,077	(5,305)
Extraordinary item, net of taxes	--	--	1,948	--
Cumulative effect of adopting SAB 101	(5,337)	--	--	--
Net income	$ 8,232	$ (11,636)	$ 129	$ (5,305)
Per share data:				
Basic EPS	$ 0.25	$ (0.36)	$ 0.00	$ (0.15)
Diluted EPS	$ 0.25	$ (0.36)	$ 0.00	$ (0.15)

	As Restated			
2000	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	$120,247	$ 69,519	$ 66,093	$108,142
Gross profit	35,292	29,107	28,829	34,795
Net income (a)	$ 3,966	$ (8,460)	$ 2,221	$ 8,690
Per share data:				
Basic EPS	$ 0.17	$ (0.33)	$ 0.08	$ 0.28
Diluted EPS	$ 0.16	$ (0.33)	$ 0.07	$ 0.27

(a) Included in the third quarter of fiscal 2000 is an after-tax loss of $695,000 ($.02 per diluted share) for the charge for abandoned offering described in Note 17.

The following table summarizes the increase (decrease) in the results of operations for the reported 2001 and 2000 fiscal quarters as a result of the restatement discussed above (in thousands except per share data):

	As Reported	Restatement	Effect of Adopting SAB 101	As Restated
Quarter ended January 31, 2001:				
Net Sales	$ 131,226	$ (603)	$ 27,230	$ 157,853
Gross Profit	43,004	1,694	8,895	53,593
Income before cumulative effect of adopting SAB 101	7,750	482	5,337	13,569
Cumulative effect of adopting SAB 101, net of taxes	--	--	(5,337)	(5,337)
Net income	$ 7,750	$ 482	$ --	$ 8,232
Per share data:				
Basic -				
Income per share before adoption of SAB 101	$ 0.24	$ 0.01	$ 0.16	$ 0.41
Cumulative effect of adopting SAB 101, net of taxes	$ --	$ --	$ (0.16)	$ (0.16)
Net income per share	$ 0.24	$ 0.01	$ --	$ 0.25
Diluted -				
Income per share before adoption of SAB 101	$ 0.24	$ 0.01	$ 0.16	$ 0.41
Cumulative effect of adopting SAB 101, net of taxes	$ --	$ --	$ (0.16)	$ (0.16)
Net income per share	$ 0.24	$ 0.01	$ --	$ 0.25
Quarter ended April 30, 2001:				
Net Sales	$ 93,320	$ (4,703)	$ --	$ 88,617
Gross Profit	31,162	(222)	$ --	30,940
Net income	$ (11,924)	$ 288	$ --	$ (11,636)
Per share data:				
Basic -	$ (0.37)	$ 0.01	$ --	$ (0.36)
Diluted -	$ (0.37)	$ 0.01	$ --	$ (0.36)

	As Reported	Restatement	Reclassifications	As Restated
Quarter ended July 31, 2001:				
Net Sales	$ 84,502	$ (3,175)	--	$ 81,327
Gross Profit	33,273	(235)	--	33,038
Income before Extraordinary item	1,919	158	--	2,077
Extraordinary item, net of taxes	1,510	438	--	1,948
Net income	$ 409	$ (280)	--	$ 129
Per share data:				
Basic -				
Income before Extraordinary item	$ 0.06	$ 0.00	--	$ 0.06
Extraordinary item, net of taxes	$ (0.05)	$ (0.01)	--	$ (0.06)
Net income per share	$ 0.01	$ (0.01)	--	$ 0.00
Diluted -				
Income before Extraordinary item	$ 0.05	$ 0.00	--	$ 0.05
Extraordinary item, net of taxes	$ (0.04)	$ (0.01)	--	$ (0.05)
Net income per share	$ 0.01	$ (0.01)	--	$ 0.00
Quarter ended January 31, 2000:				
Net Sales	$ 122,890	$ (2,195)	(448)	$ 120,247
Gross Profit	36,616	(1,324)	--	35,292
Net income	$ 4,787	$ (821)	--	$ 3,966
Per share data:				
Basic -	$ (0.21)	$ (0.04)	--	$ 0.17
Diluted -	$ (0.20)	$ (0.04)	--	$ 0.16
Quarter ended April 30, 2000:				
Net Sales	$ 70,036	$ (286)	(231)	$ 69,519
Gross Profit	28,255	852	--	29,107
Net income	$ 3,354	$ (11,814)	--	$ (8,460)
Per share data:				
Basic -	$ 0.13	$ (0.46)	--	$ (0.33)
Diluted -	$ 0.13	$ (0.46)	--	$ (0.33)
Quarter ended July 31, 2000:				
Net Sales	$ 71,473	$ (5,330)	(50)	$ 66,093
Gross Profit	31,372	(2,543)	--	28,829
Net income	$ 3,449	$ (1,228)	--	$ 2,221
Per share data:				
Basic -	$ 0.12	$ (0.04)	--	$ 0.08
Diluted -	$ 0.12	$ (0.04)	--	$ 0.08
Quarter ended October 31, 2000:				
Net Sales	$ 122,607	$ (13,899)	(566)	$ 108,142
Gross Profit	42,967	(8,172)	--	34,795
Net income	$ 13,373	$ (4,683)	--	$ 8,690
Per share data:				
Basic -	$ 0.43	$ (0.15)	--	$ 0.28
Diluted -	$ 0.42	$ (0.15)	--	$ 0.27

21. Segment Information

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

For the years ended October 31, 2001, 2000, and 1999, the Company's net sales in domestic markets accounted for approximately 76.4%, 71.6% and 67.0% respectively, and net sales in international markets accounted for 23.6%, 28.4%, and 33.0%, respectively.

As of October 31, 2001 and 2000, the Company's net property, plant and equipment in domestic markets accounted for approximately $7,710,000 and $2,436,000, respectively, and net property, plant and equipment in international markets accounted for $3,323,000 and $2,824,000, respectively.

Information about the Company's non-current assets in the United States and international areas as of October 31, 2001 and 2000 are presented below (in thousands):

	2001	2000
Total Non-current Assets:		
United States	$ 81,243	$ 82,904
International		
United Kingdom	21,128	21,410
All other Europe	21,405	5,748
Other	8,347	3,721
	$ 132,123	$ 113,783

Information about the Company's net sales in the United States and international areas for the years ended October 31, 2001, 2000 and 1999 are presented below (net sales are attributed to geographic areas based on product destination, (in thousands):

	2001	2000	1999
Net Sales:			
United States	$ 324,412	$ 250,278	$ 198,801
Canada	20,080	10,408	5,393
International			
United Kingdom	32,225	25,968	53,101
All other Europe	61,187	60,814	37,304
Asia Pacific	12,478	15,505	9,366
Other	674	1,028	749
	$ 451,056	$ 364,001	$ 304,714

Information about the Company's net sales by product platforms for the years ended October 31, 2001, 2000 and 1999 are presented below (in thousands):

	2001	2000	1999
Platforms:			
PC	$ 103,656	$ 89,927	$ 75,947
Sony PlayStation 2	130,172	29,374	-
Sony PlayStation	75,044	76,353	103,543
Nintendo GameBoy Color, GameBoy Advance and 64	37,703	58,919	61,033
Sega Dreamcast	11,366	20,991	4,984
X Box	2,432	-	-
Accessories	31,648	29,178	22,187
Hardware	59,035	59,259	37,020
	$ 451,056	$ 364,001	$ 304,714

22. Net (Loss) Income Per Share

The computation for diluted number of shares excludes those unexercised stock options and warrants which are antidilutive. The number of such shares was 222,000, 73,000, and 470,000 for the years ended October 31, 2001, 2000, 1999, respectively.

The following table provides a reconciliation of basic earnings per share to dilutive earnings per share for the years ended October 31, 2001, 2000, and 1999.

(in thousands, except per share data)	Net (Loss) Income	Shares	Per Share Amount
Year Ended October 31, 2001			
Basic and Diluted EPS	$ (8,580)	33,961	$ (0.25)
Year Ended October 31, 2000 (As Restated)			
Basic EPS	$ 6,417	27,307	$ 0.23
Effect of dilutive securities - Stock options and warrants	--	1,023	--
Diluted EPS	$ 6,417	28,330	$ 0.23
Year Ended October 31, 1999			
Basic EPS	$ 16,332	20,690	$ 0.79
Effect of dilutive securities - Stock options and warrants	--	825	(0.03)
Diluted EPS	$ 16,332	21,515	$ 0.76

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly signed this report on its behalf by the undersigned, thereunto duly authorized on the 11th day of February 2002.

TAKE-TWO INTERACTIVE SOFTWARE, INC.

By: /s/ Kelly Sumner

Kelly Sumner,
Chief Executive Officer

In accordance with the requirements of the Securities Exchange Act of 1934, this report was signed by the following persons in the capacities and on the dates stated.

Signature	Title	Date
/s/ Kelly Sumner Kelly Sumner	Chief Executive Officer and Director (Principal Executive Officer)	February 11, 2002
/s/ Ryan A. Brant Ryan A. Brant	Chairman and Director	February 11, 2002
/s/ Paul Eibeler Paul Eibeler	President and Director	February 11, 2002
/s/ Patti Tay Patti Tay	Chief Accounting Officer (Principal Financial and Accounting Officer)	February 11, 2002
/s/ Mark Lewis Mark Lewis	Director	February 11, 2002
/s/ Oliver R. Grace, Jr. Oliver R. Grace, Jr.	Director	February 11, 2002
/s/ Don Leeds Don Leeds	Director	February 11, 2002
/s/ Robert Flug Robert Flug	Director	February 11, 2002

SCHEDULE II

Take-Two Interactive Software, Inc.
Valuation and Qualifying Accounts

(In thousands)

Description	Balance at Beginning of Period	Additions (A)		Deductions (B)	Other (C)	Balance at End of Period
		Sales and returns allowance	Provision for bad debts			
Year Ended October 31, 2001						
Allowance for doubtful accounts & Returns	$11,615	$71,481	$ 3,838	$64,366	$3,538	$26,106
Year Ended October 31, 2000						
Allowance for doubtful accounts & Returns	$ 9,039	$41,159	$ 931	$39,514	--	$11,615
Year Ended October 31, 1999						
Allowance for doubtful accounts & Returns	$ 1,473	$26,131	$ 1,272	$20,070	$ 233	$ 9,039

(A) Includes increases in allowance for sales returns and doubtful accounts due to normal reserving terms.

(B) Includes actual write-offs of uncollectible accounts receivable or sales returns and recoveries of previously written off receivables.

(C) Includes allowance accounts acquired in conjunction with acquisitions.

EXHIBIT 10.3

SEVENTH AMENDMENT

THIS SEVENTH AMENDMENT (this "Amendment") dated as of February 6, 2002, to the Credit Agreement referenced below, is by and among Take-Two Interactive Software, Inc., a Delaware corporation (the "Borrower"), certain Subsidiaries of the Borrower identified as "Guarantors" on the signature pages hereto, the Lenders identified herein and Bank of America, N.A., as Administrative Agent (in such capacity, the "Administrative Agent").

W I T N E S S E T H

WHEREAS, a $75 million credit facility has been extended to the Borrower pursuant to the Credit Agreement (as amended, modified and supplemented, the "Credit Agreement") dated as of December 7, 1999 among the Borrower, the Guarantors identified therein, the Lenders identified therein and Bank of America, N.A., as Administrative Agent;

WHEREAS, the Borrower has requested certain modifications to the Credit Agreement; and

WHEREAS, the Required Lenders have agreed to the requested modifications on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Defined Terms. Terms used herein but not otherwise defined herein shall have the meanings provided to such terms in the Credit Agreement.

2. Amendments. The Credit Agreement is amended in the following respects:

2.1 The definition of "Aggregate Revolving Committed Amount" in Section 1.1 of the Credit Agreement is amended to read as follows:

> "Aggregate Revolving Committed Amount" means, at any time, FIFTY MILLION DOLLARS ($50,000,000), as such amount may be reduced from time to time in accordance with the provisions hereof.

2.2 The definition of "North American Borrowing Base" in Section 1.1 of the Credit Agreement is amended to read as follows:

> "North American Borrowing Base" means the sum of:
>
> (a) the sum of seventy percent (70%) of U.S. Eligible Receivables plus twenty-five percent (25%) of U.S. Eligible Inventory, plus
>
> (b) the lesser of (A) $5,000,000 and (B) the sum of (x) seventy percent (70%) of Canadian Eligible Receivables plus (y) twenty-five percent (25%) of Canadian Eligible Inventory;
>
> in each case as set forth in the most recent of North American Borrowing Base Certificate delivered to the Administrative Agent and the Lenders in accordance with the terms of Section 7.1(d);

provided, however, that (i) the North America Borrowing Base shall not exceed $15,000,000 at any time during the period commencing on the effective date of the Seventh Amendment to the Credit Agreement and ending on the date six (6) Business Days after the Borrower (A) delivers to the Administrative Agent and the Lenders the officer's certificate required under Section 7.1(c) for the fiscal year ended October 31, 2001 and (B) the Borrower files its annual financial statements for the fiscal year ended October 31, 2001 on Form 10K with the Securities and Exchange Commission (such ending date the "First End Date"), (ii) the North America Borrowing Base shall not exceed $22,500,000 at any time during the period commencing on the First End Date and ending on March 1, 2002, (iii) the North America Borrowing Base shall not exceed $30,000,000 at any time during the period commencing on March 1, 2002 and ending on the date sixty (60) days after the effective date of the Seventh Amendment to the Credit Agreement, and (iv) the sum of (a) twenty-five percent (25%) of U.S. Eligible Inventory plus (b) twenty-five percent (25%) of Canadian Eligible Inventory shall not at any time comprise more than an amount equal to thirty percent (30%) of the North American Borrowing Base.

2.3 Effective December 7, 1999, the "North American Borrowing Base" in Section 1.1 of the Credit Agreement is retroactively amended for any day prior to the date hereof to increase the amount of the "North American Borrowing Base" in effect on such day by $5 million. The amendments set forth in this Section 2.3 are intended to retroactively amend the definition of "North American Borrowing Base" solely for any day prior to the date hereof and solely as expressly set forth herein. The amendments set forth in this Section 2.3 do not affect the North American Borrowing Base for any day from and after the date hereof and in any other manner except as expressly provided herein.

2.4 Effective as of April 30, 2000, the definition of "Consolidated EBITDA" in Section 1.1 of the Credit Agreement is amended by the addition of the following sentence at the end of such definition:

Notwithstanding anything herein to the contrary, for the applicable period ended April 30, 2000 and the applicable period ended October 31, 2000, "Consolidated EBITDA" shall be calculated without giving effect to a one-time charge to earnings of up to $20 million relating to the write-off of goodwill as an equity loss in an affiliate in connection with the acquisition of Gathering of Developers, Inc.

2.5 Effective as of October 31, 2001, Section 7.11 of the Credit Agreement is amended to read as follows:

(a) Consolidated Net Worth. As of the end of each fiscal quarter, Consolidated Net Worth shall be not less than the sum of $67.1 million, plus on the last day of each fiscal quarter to end after the Closing Date, an amount equal to seventy-five percent (75%) of Consolidated Net Income for the fiscal quarter then ending (but not less than zero), such increases to be cumulative, plus an amount equal to one hundred percent (100%) of the net proceeds received from any Equity Transactions occurring after the Closing Date.

(b) Consolidated Leverage Ratio. As of the end of each fiscal quarter set forth below, the Consolidated Leverage Ratio shall not be greater than the ratio set forth below opposite such fiscal quarter:

Quarter End	Maximum Consolidated Leverage Ratio
October 31, 2001	4.70:1.00
January 31, 2002 and each fiscal quarter end thereafter	4.00:1.00

(c) Consolidated Fixed Charge Coverage Ratio. As of the end of each fiscal quarter set forth below, the Consolidated Fixed Charge Coverage Ratio shall not be less than the ratio set forth below opposite such fiscal quarter:

Quarter End	Minimum Consolidated Fixed Charge Coverage Ratio
October 31, 2001	0.50:1.00
January 31, 2002 and each fiscal quarter end thereafter	2.00:1.00

(d) Consolidated Senior Leverage Ratio. As of the end of each fiscal quarter set forth below, the Consolidated Senior Leverage Ratio shall not be greater than the ratio set forth below opposite such fiscal quarter:

Quarter End	Maximum Consolidated Senior Leverage Ratio
October 31, 2001	4.70:1.00
January 31, 2002 and each fiscal quarter end thereafter	3.00:1.00

3. Certification as to Compliance with Financial Covenants. The Borrower hereby represents and warrants that, after giving effect to this Amendment, the Borrower was in compliance with each of the financial covenants set forth in Section 7.11 as of the end of each fiscal quarter ended during the period from the Closing Date to the date hereof.

4. Covenant to Deliver Financial Information. The Borrower covenants and agrees that to furnish to the Administrative Agent and each Lender the following (the financial statements described in clauses (a) through (f) below are, collectively, the "Financial Statements"):

(a) on or before February 15, 2002, the annual financial statements required under Section 7.1(a) for the fiscal year ended October 31, 2001 (and the auditor's opinion accompanying such financial statements shall meet the requirements set forth in Section 7.1(a) (including, without limitation, that such opinion shall not be limited as to the scope of the audit or qualified as to the status of the members of the Consolidated Group as a going concern or any other material qualifications or exceptions));

(b) on or before February 22, 2002, the monthly financial statements required under Section 7.1(b-1) for the calendar months ended October 31, 2001, November 30, 2001 and December 31, 2001;

(c) on or before February 15, 2002, the officer's certificate required under Section 7.1(c) for the fiscal year ended October 31, 2001;

(d) on or before February 15, 2002, the North America Borrowing Base Certificates required under Section 7.1(d) for the period ended January 31, 2002;

(e) on or before February 22, 2002, the North America Borrowing Base Certificates required under Section 7.1(d) for the periods ended November 30, 2001 and December 31, 2001;

(f) on or before February 22, 2002, the officer's certificate required under Section 7.1(c) for the fiscal periods ended April 30, 2000 and October 31, 2000, in each case demonstrating compliance with the financial covenants as of the end of such fiscal period after giving effect to this Amendment;

(g) on or before March 1, 2002, the annual business plan and budget required under Section 7.1(f) for the fiscal year ending October 31, 2002; and

(h) the "management letter" submitted by the Borrower's independent accountants in connection with the annual audit of the books of the Consolidated Group for the fiscal year ended October 31, 2001 within three (3) Business Days of receipt of such management letter by the Borrower.

Each of Section 7.1(a), Section 7.1(b-1), Section 7.1(c) and Section 7.1(d) and Section 7.1(f) are hereby amended solely with respect to the Financial Statements to require that the Financial Statements shall be delivered by the date set forth above. With respect to each of the Financial Statements, effective as of the date such Financial Statement is required to be delivered under the Credit Agreement (as in effect immediately prior to this Amendment), the date of delivery thereof is amended to be the date set forth above with respect to such Financial Statement. The failure by the Borrower to deliver any of the Financial Statements prior to the date set forth above shall not constitute an Event of Default, provided that the failure by the Borrower to provide any of the Financial Statements by the date set forth above shall constitute an immediate Event of Default.

In addition, effective January 31, 2000, Section 7.1(c) is amended to waive the requirement that the Borrower deliver the North American Borrowing Base Certificates for the following dates: January 31, 2000, February 29, 2000, February 28, 2001, May 31, 2001, November 15, 2001, December 15, 2001 and January 15, 2002. The failure by the Borrower to deliver the North America Borrowing Base Certificate for such dates shall not constitute an Event of Default.

The amendments set forth in this Section 4 shall not apply to any financial statements other than the Financial Statements and the North American Borrowing Base Certificates expressly described above and shall not affect the Borrower's obligation to deliver any other financial statements.

5. Covenant to File 10K. The Borrower covenants and agrees that on or before February 13, 2002 the Borrower will file its annual financial statements for the fiscal year ended October 31, 2001 on Form 10K with the Securities and Exchange Commission. Effective as of January 29, 2002, the Required Lenders hereby agree that the failure to file such annual financial statements prior to February 13, 2002 shall not constitute an Event of Default provided that the failure by the Borrower to file such annual financial statements by February 13, 2002 shall constitute an immediate Event of Default.

6. Covenant to Assist in Communications with Auditors. The Borrower acknowledges and agrees that the Administrative Agent and the Lenders may communicate directly with the independent accounting firm engaged by the Borrower to audit its financial statements for the fiscal year ended October 31, 2001 regarding the financial statements of the Borrower for the fiscal year ended October 31, 2001 and any prior period and the transactions contained therein. The Borrower acknowledges and agrees that the Administrative Agent and the Lenders may ask questions regarding such financial statements and transactions. The Borrower covenants and agrees to use its reasonable best efforts to cause such accounting firm to communicate directly with the Administrative Agent and the Lenders regarding such financial statements and transactions (including, without limitation, answer the questions of the Administrative Agent and the Lenders).

7. Covenant to Provide Additional Items. The Borrower covenants and agrees that on or before March 1, 2002 the Borrower shall deliver to the Administrative Agent the following items:

(a) the stock certificate(s) evidencing the shares of capital stock of T2 Developer, Inc., together with undated stock power(s) executed in blank;

(b) trademark and copyright filings reasonably deemed necessary by the Administrative Agent to perfect its security interest in Trademarks and Copyrights granted under the Security Agreement;

(c) evidence that the security interest filings described on Schedule A hereto have been terminated; and

(d) an officer's certificate in substantially the form of Schedule 5.1(g)(v) to the Credit Agreement for each of T2 Developer, Inc., Poptop Software, Inc., VLM Entertainment Group, Inc., Gathering of Developers, Inc. and Rockstar Games, Inc.), in each case with the appropriate insertions and attachments.

8. Conditions Precedent. This Amendment shall be effective as of the date hereof upon satisfaction of the following conditions precedent:

(a) receipt by the Administrative Agent of multiple counterparts of this Amendment executed by the Credit Parties and the Required Lenders;

(b) receipt by the Administrative Agent, for the ratable benefit of the Lenders that execute and deliver this Amendment on or before February 6, 2002 (the "Approving Lenders"), of an amendment fee of 25 basis points (0.25%) on the aggregate Revolving Commitments (as in effect immediately prior to this Amendment) of the Approving Lenders;

(c) receipt by the Administrative Agent, for its own account and not for sharing with the Lenders, of the arrangement fee set forth in the fee letter entered into in connection with this Amendment by the Administrative Agent and the Borrower (the "Amendment Fee Letter");

(d) receipt by the Administrative Agent of its field exam expenses in the amount set forth in the Amendment Fee Letter;

(e) receipt by the Administrative Agent, for its own account and not for sharing with the Lenders, of the administrative fee of $25,000 owing under the Administrative Agent's Fee Letter;

(f) receipt by Moore & Van Allen, PLLC, counsel to the Administrative Agent, of the unpaid fees and expenses in the amount set forth in the Amendment Fee Letter and all other fees and expenses incurred in connection with this Amendment (that are not reflected in the Amendment Fee Letter); and

(g) receipt by the Administrative Agent of an officer's certificate regarding the representations and warranties set forth in Section 6 of the Credit Agreement in form and substance satisfactory to the Administrative Agent.

9. Representations and Warranties. The Credit Parties hereby affirm that, after giving effect to this Amendment, the representations and warranties set forth in the Credit Agreement and the other Credit Documents are true and correct in all material respects as of the date hereof (except those which expressly relate to an earlier period).

10. Reaffirmation of Guaranty. Each of the Guarantors (i) acknowledges and consents to all of the terms and conditions of this Amendment, (ii) affirms all of its obligations under the Credit Documents and (iii) agrees that this Amendment and all documents executed in connection herewith do not operate to reduce or discharge such Guarantor's obligations under the Credit Agreement or the other Credit Documents.

11. Reaffirmation by Mission Studios Corporation. Mission Studios Corporation, an Illinois corporation and a Wholly Owned Subsidiary of the Borrower, executed the Credit Agreement, each of the other Credit Documents and each amendment to the Credit Agreement under the name Mission Studios, Inc. By execution hereof, Mission Studios Corporation affirms, agrees and ratifies all of its obligations under the Credit Agreement and the other Credit Documents including, without limitation, (i) its guaranty obligations set forth in Section 4 of the Credit Agreement and (ii) its grant of a security interest in all of its Collateral (as defined in the Security Agreement) pursuant to the terms of the Security Agreement.

12. No Other Modifications. Except as modified hereby, all of the terms and provisions of the Credit Agreement and the other Credit Documents (including schedules and exhibits thereto) shall remain in full force and effect.

13. Counterparts. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original and it shall not be necessary in making proof of this Amendment to produce or account for more than one such counterpart.

14. Governing Law. This Amendment shall be deemed to be a contract made under, and for all purposes shall be construed in accordance with the laws of, the State of North Carolina.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Third Amendment to be duly executed and delivered as of the date first above written.

BORROWER: TAKE-TWO INTERACTIVE SOFTWARE, INC.,
a Delaware Corporation

By: /s/ Barry Rutcofsky

Name: Barry Rutcofsky
Title: Executive Vice President

GUARANTORS: GEARHEAD ENTERTAINMENT, INC.,
a Pennsylvania corporation
MISSION STUDIOS CORPORATION,
an Illinois corporation
INVENTORY MANAGEMENT SYSTEMS, INC.,
a Delaware corporation
JACK OF ALL GAMES, INC.,
a New York corporation
TALONSOFT, INC.,
a Delaware Corporation
VLM ENTERTAINMENT GROUP, INC.,
a Delaware corporation
ROCKSTAR GAMES, INC.,
a Delaware corporation
POPTOP SOFTWARE, INC.,
a Missouri corporation
GATHERING OF DEVELOPERS, INC.,
a Texas corporation
T2 DEVELOPER, INC.,
a Delaware corporation

By: /s/ Barry Rutcofsky

Name: Barry Rutcofsky
Title: Executive Vice President of each Guarantor

[Signature Pages Continue]

ADMINISTRATIVE AGENT:

BANK OF AMERICA, N.A.,
in its capacity as Administrative Agent
and individually in its capacity as a Lender

By: /s/ Robert M. Searson

Name: Robert M. Searson
Title: Senior Vice President

COMERICA BANK

By: /s/ Paul Durosko

Name: Paul Durosko
Title: Vice President

THE PROVIDENT BANK

By:

Name:
Title:

SUMMIT BANK

By: /s/ Robert Munns

Name: Robert Munns
Title: Vice President

EXHIBIT 10.4

LLOYDS TSB
COMMERCIAL

24th October 2001

The Directors
Take-Two Interactive Software Europe Limited
Saxon House
2-4 Victoria Street
Windsor
Berks
SL4 1EN

Dear Sirs:

OVERDRAFT AND OTHER FACILITIES

We Lloyds TSB Bank plc (the "Bank") are pleased to offer to Take Two Interactive Software Europe Limited (the "Company") and to each of Jack of All Games (UK) Limited, Take Two Interactive France SA, and Joytech Europe Limited an overdraft facility in sterling and/or in US dollars and Euro on the following terms and conditions.

Amount

The Gross Borrowing shall not at any time exceed (pound)19,100,000 and the Net Borrowing shall not at any time exceed (pound)13,100,000. For the purposes of this letter "Gross Borrowing" means the aggregate of all amounts outstanding under the facility (calculated on the basis of cleared funds) and "Net Borrowing" means Gross Borrowing less the aggregate of all cleared credit balances that may in the Bank's opinion be legally set off against the Gross Borrowing (such credit balances that may in the Bank's opinion be legally set off against the Gross Borrowing less the aggregate of all cleared balances that may in the Bank's opinion be legally set off against the Gross Borrowing (such credit balances being referred to below as the "credit balances").

For the purposes of determining whether the total amount owing is at any particular time within or in excess of the agreed limit, credit balances in a currency other than sterling shall be nationally converted into sterling on the basis of the rate at which the Bank would sell sterling for that currency at that time and amounts owing in a currency other than sterling shall be notionally converted into sterling on the basis of the rate at which the Bank would sell that currency for sterling at that time.

You should note that the above limit applies collectively to the overdraft facility and to the indemnity line, and the documentary credit facility included in the other facilities referred to below. Because of this, utilizations of each such facility will be taken into account to determine the amount available for utilization by the other facilities.

Utilizations of the indemnity line, and the documentary credit facility are also subject to the lower limit set out in the Schedule of Other Facilities.

Availability

The Bank's present intention is to make the facility available until 31st March 2002 and all moneys from time to time owing to the Bank under the facility shall be repaid no later than this date or such later date as may from time to time be advised in writing by the Bank. The Bank may, nevertheless, terminate the facility at any time and may, at such time or at any time thereafter, demand immediate payment of all amounts owing under or in connection with the facility. The amounts owing at any time may include interest or charges which have been debited to one or more of the accounts in accordance with the terms of this letter.

The Bank shall have the right at the time of making demand or at any time thereafter to convert all amounts then due and payable in a currency other than sterling into sterling at the Bank's exchange rate for selling that currency against sterling at that time. The Bank shall as soon as possible after such conversion advise you of the sterling amount then owing.

Interest

Interest shall be calculated on a daily basis and will be payable on amounts owing as follows:

(a) if the sterling credit balances are equivalent to or greater than the total owing under the facility in that currency (being the aggregate cleared daily overdrawn balance of the relevant sterling account or accounts), at 1% per annum on the total amount owing in that currency, or

(b) if the sterling credit balances are less than the total amount owing under the facility in that currency, at (i) 1.25% per annum over the Bank's Base Rate from time to time (currently 5.75% per annum in total) on the net overdraft, and (ii) 1% per annum on an amount equivalent to the credit balances in that currency,

and, in each case, at 1.25% per annum over the Bank's relevant short term offered rate from time to time in the case of amounts owing in any other currency on the total amount owing in that currency.

For the purposes of the above, the net overdraft on any day is the total amount owing under the facility in sterling less the credit balances in that currency and the "credit balances" are the aggregate of all non-interest bearing cleared credit balances in the same currency that may in the Bank's opinion be legally set off against amounts owing under the facility.

Interest will be debited to the relevant account monthly in arrears (normally on the 10th of each month or on the next working day) in the case of sterling and quarterly in arrears (normally on the 10th of each of March, June, September and December or on the next working day) in the case of any other currency, interest may also be debited on the date upon which the facility ceases to be available.

The Bank's Base Rate may be varied (either up or down) by the Bank at any time. Notice of changes will be displayed in branches of the Bank, although the Bank's short term offered rate for each currency may vary from day to day and upon request the Bank will advise you of the rates then applicable.

Interest will be calculated on the basis of the actual number of days elapsed and a 360 day year or a 365 day year as is in the Bank's reasonable opinion usual market practice for the relevant currency.

Costs and Charges

Charges will be payable on each sterling account monthly in accordance with the itemised tariff detailed on the enclosed factsheet.

In addition further charges will be payable for other services provided, as shown in the enclosed tariff leaflet or as otherwise advised by the Bank from time to time.

Letters of Credit fees

Opening Fee:	8.5 pence per (pound)100
Acceptance:	10 pence per (pound)100
Extension/Increase:	8.5 pence per (pound)100 (min (pound)40)
Payment:	12.5 pence per (pound)100 (min (pound)40; max (pound)110)
Amendment:	(pound)30 per amendment
Cancellation:	(pound)30 per Letter of Credit

These charges will be debited to the relevant account and may be varied by the Bank at any time and notice of changes will be advised to you. All costs and expenses incurred by the Bank in creating, preserving or enforcing the security referred to below shall be debited to account number 0208105 of the Company under advice.

An arrangement fee of (pound)5,000 is payable. This will be debited to the account number 0208125 of the Company in the next few days.

All costs and expenses incurred by the Bank in creating, preserving, or enforcing the security referred to below shall be debited to account number 0208125 of the Company under advice.

Security

It is a condition of the facility (and of the other facilities referred to below) that amounts owing shall be secured by the following. Any security which is not already in place is to be provided to the Bank in a form acceptable to the Bank and, if so requested by the Bank, shall be accompanied by evidence of the value of the security.

(a) an all moneys guarantee dated 5th January 2001 from Take Two Interactive Software Inc. for a principal amount of (pound)15,788,000 plus interest and other costs as detailed in the guarantee and in respect of the debts and liabilities to the Bank of Take Two Interactive Software Europe Limited, respect of the debts and liabilities to the Bank of Take Two Interactive Software Europe Limited,

(b) an unlimited debenture from Take Two Interactive France SA,

(c) an assignment of the proceeds of COFACE debtor insurance policies number 66925/00 GBI, 68923/000 GBI, 68899/00 GBI and 7338/02 taken out in respect of Take Two Interactive Software Europe Limited, Jack of All Games UK Limited, Joytech Europe Limited, Take Two Interactive France SA and Take Two Interactive Germany GmbH with assurers acceptable to the Bank,

(d) an unlimited debenture from Take Two Interactive Germany GmbH

(e) an omnibus guarantee and set off agreement dated 7th February 2001 among the Bank, Take Two Interactive Software Europe Limited, Jack of All Games UK Limited, Take Two Interactive France SA, Take Two International Germany GmbH and Joytech Europe Limited,

(f) an unlimited debenture dated 24th January 2001 from Take Two Interactive Software Europe Limited,

(g) an unlimited debenture dated 24th January 2001 from Jack of All Games UK Limited, and

(h) an unlimited debenture date 24th January 2001 from Joytech Europe Limited.

Financial Information

Whilst the facility and/or any of the other facilities remain available each of you should provide to the Bank as soon as possible after the end of the period to which they relate copies of any financial information that the Bank may from time to time reasonably request, including:

a) your audited annual accounts within 90 days of the end of your financial year, and

b) your monthly management accounts together with or including an age analysis of debtors, and within 30 days of the end of each month, and

c) our rolling monthly forecast balance sheet to be revised quarterly within 30 days of the end of each quarter.

The figures so provided should demonstrate that the group's good book debts (over which a charge or security interest has been given to the Bank and after taking into account any charges or security interests that rank in priority to the Bank, any inter group debts, and any credit notes) are not less than 170% of the group's utilization of all overdraft facilities, the documentary credit facility, and the indemnity line provided by the Bank with any breach identified to be corrected by means of a cash injection by Take Two Interactive Software Inc.

Other Facilities

In addition to the overdraft facility we are pleased to offer the facilities detailed in the Schedule of other Facilities. Except when reference is made to another agreement, each additional facility will be available upon such terms and conditions as shall from time to time be specified by the Bank. The facilities may be cancelled by the Bank at any time, but it is the Bank's present intention to keep the facilities in place for the period of availability of the overdraft facility and the liability in respect of any utilization may extend beyond such period of availability.

Amounts outstanding in connection with the foreign exchange facility, the indemnity line, and the documentary credit facility may be in sterling and/or any other currency. For the purpose of determining whether there is sufficient availability within the specified limit for any particular utilization, amounts outstanding in a currency other than sterling shall be notionally converted into sterling on the date of the proposed utilisation on the basis of the rate at which the Bank would sell the relevant currency for sterling at that time.

If upon termination of the overdraft facility there are any foreign exchange contracts outstanding or any contingent liabilities existing under these additional facilities (or any of them) the Bank shall have the right at any time to close out any such foreign exchange contracts and upon any request from the Bank:

(a) an amount sufficient to indemnify the Bank for all costs and losses incurred by the Bank in or in connection with closing out such foreign exchange contracts shall be paid to the Bank, and

(b) an amount equal to the value of any such contingent liabilities existing at such time shall be deposited with the Bank with the intent that such deposit shall be held by the Bank as security for those liabilities and that such documentation and other things (including the payment of any associated costs) as the Bank may require in order to perfect such security shall be completed.

For the purposes of the above, the Bank shall have the right at the time of making demand or at any time thereafter to convert all amounts then due and payable in connection with any of those additional facilities in a currency other than sterling at the Bank's exchange rate for selling that currency against sterling at that time. The Bank shall as soon as possible after such conversion advise the sterling amount then owing.

The Bank may debit any amount owing in connection with these additional facilities to the account of the relevant company with the Bank whether or not that would cause the account to become overdrawn or the agreed overdraft limit on the account to be breached.

Other Terms of Offer

This letter is for the benefit of the contracting parties only and shall not confer any benefit on or be enforceable by a third party.

Please confirm your acceptance of the facilities offered by returning the attached duplicate of this letter with the acknowledgement signed in accordance with the bank mandate currently held by the Bank. If such confirmation is not received by the Bank (at the address given at the heading of this letter) by 24th November 2001 the offer will lapse.

Yours faithfully,
For and on behalf of Lloyds TSB Bank plc

/s/ Paul Notarbartolo

Paul Notarbartolo
Senior Manager
Lloyds TSB Commercial

We hereby acknowledge and accept the terms of your offer dated 24th October 2001 of which this is a duplicate and agree all the terms and conditions therein contained. In accepting this letter we all confirm (as regards ourselves) that neither the execution by us of this letter nor the utilization by us of the facilities being made available will conflict with or breach any requirement or limitation set out in our Memorandum and Articles of Association.

For and on behalf of Take Two Interactive Software Europe Limited (company registered under 2739756)

Signed by (name) (name)

(signature) (signature)

2001 (date) 2001 (date)

For and on behalf of Jack of All Games (UK) Limited (company registered number 2981108)

Signed by (name)

(signature)

2001 (date)

For and on behalf of Take Two Interactive France SA

Signed by (name)

(signature)

2001 (date)

For and on behalf of Joytech Europe Limited (company registered number 3376299)

Signed by (name)

(signature)

2001 (date)

This letter creates legal obligations. Before signing you may wish to take independent advice

EXHIBIT 10.5

EMPLOYMENT AGREEMENT

AGREEMENT dated as of July 21, 2000 between Take-Two Interactive Software, Inc., a Delaware corporation (the "Employer" or the "Company"), and Paul Eibeler (the "Employee").

W I T N E S S E T H :

WHEREAS, the Employer desires to employ the Employee as its President and to be assured of his services as such on the terms and conditions hereinafter set forth; and

WHEREAS, the Employee is willing to accept such employment on such terms and conditions;

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, and intending to be legally bound hereby, the Employer and the Employee hereby agree as follows:

1. Term. Employer hereby agrees to employ Employee, and Employee hereby agrees to serve Employer for a three-year period commencing effective as of the date first written above (the "Effective Date") (such period being herein referred to as the "Initial Term," and any year commencing on the Effective Date or any anniversary of the Effective Date being hereinafter referred to as an "Employment Year"). After the Initial Term, this Agreement shall be renewable automatically for successive one year periods (each such period being referred to as a "Renewal Term"), unless, more than ninety days prior to the expiration of the Initial Term or any Renewal Term, either the Employee or the Company give written notice that employment will not be renewed.

2. Employee Duties.

(a) During the term of this Agreement, the Employee shall have the duties and responsibilities of President of the Employer, reporting directly to the Chief Executive Officer of Employer and the Board of Directors of the Employer (the "Board"). It is understood that such duties and responsibilities shall be reasonably related to the Employee's position.

(b) The Employee shall devote substantially all of his business time, attention, knowledge and skills faithfully, diligently and to the best of his ability, in furtherance of the business and activities of the Company. The principal place of performance by the Employee of his duties hereunder shall be the Company's principal executive offices in New York, although the Employee may be required to travel outside of the area where the Company's principal executive offices are located in connection

with the business of the Company.

3. Compensation.

(a) During the term of this Agreement, the Employer shall pay the Employee a salary (the "Salary") at a rate of $275,000 per annum in respect of each Employment Year, payable in equal installments bi-weekly, or at such other times as may mutually be agreed upon between the Employer and the Employee. The Salary shall be increased by at least 5% of each Employment Year, provided that the Company's net income per share for the one-year period then ended exceeds the Company's net income per share for the prior one-year period. Such Salary shall be subject to an annual review by the Board and may be increased from time to time at the discretion of the Board.

(b) The Employee shall be entitled to an immediate signing bonus equal to $50,000, and an additional bonus of $50,000 payable on February 1, 2001 if Employee is employed by the Company on that date.

(c) The Employee shall be paid a bonus equal to (i) $20,000 in respect of each fiscal quarter, commencing with the quarter ending October 31, 2000; provided that the net income per share in any such quarter exceeds the Company's net income per share in the comparable quarter for the prior year and (ii) options to purchase 15,000 shares of Common Stock in respect of each fiscal quarter commencing with the quarter ending October 31, 2000, provided that net income per share in any such quarter exceeds the Company's net income per share in the comparable quarter for the prior year. Any such options shall vest immediately following the end of each fiscal quarter and shall be exercisable at an exercise price equal to the fair market value of the Common Stock on the date of grant.

(d) The Employee shall be entitled to receive seven-year options to purchase 275,000 shares of Common Stock at an exercise price per share equal to the fair market value of the Common Stock on the date hereof (vesting as to one-third of the shares covered thereby on October 20, 2000 and the second and third anniversaries of the date of grant, respectively).

(e) The Employee shall be entitled to receive a car allowance in the amount of $800 per month.

(f) The Employee shall be entitled to receive a $1 million in life insurance policy, the premiums for which shall be paid by the Company.

(g) In addition to the foregoing, the Employee shall be entitled to such other cash bonuses and such other compensation in the form of stock, stock options or other property or rights as may from time to time be awarded to him by

the Board during or in respect of his employment hereunder.

4. Benefits.

(a) During the term of this Agreement, the Employee shall have the right to receive or participate in all benefits and plans which the Company may from time to time institute during such period for its employees and for which the Employee is eligible. Nothing paid to the Employee under any plan or arrangement presently in effect or made available in the future shall be deemed to be in lieu of the salary or any other obligation payable to the Employee pursuant to this Agreement.

(b) During the term of this Agreement, the Employee will be entitled to the number of paid holidays, personal days off, vacation days and sick leave days in each calendar year as are determined by the Company from time to time (provided that in no event shall vacation time be fewer than four weeks per year). Such vacation may be taken in the Employee's discretion with the prior approval of the Employer, and at such time or times as are not inconsistent with the reasonable business needs of the Company.

5. Travel Expenses. All travel and other expenses incident to the rendering of services reasonably incurred on behalf of the Company by the Employee during the term of this Agreement shall be paid by the Employer. If any such expenses are paid in the first instance by the Employee, the Employer shall reimburse him therefor on presentation of appropriate receipts for any such expenses.

6. Termination. Notwithstanding the provisions of Section 1 hereof, the Employee's employment with the Employer may be earlier terminated as follows:

(a) By action taken by the Board, the Employee may be discharged for cause (as hereinafter defined), effective as of such time as the Board shall determine. Upon discharge of the Employee pursuant to this Section 6(a), the Employer shall have no further obligation or duties to the Employee, except for payment of Salary through the effective date of termination, and the Employee shall have no further obligations or duties to the Employer, except as provided in Section 7.

(b) In the event of (i) the death of the Employee or (ii) by action of the Board and the inability of the Employee, by reason of physical or mental disability, to continue substantially to perform his duties hereunder for a period of 180 consecutive days, during which 180 day period Salary and any other benefits hereunder shall not be suspended or diminished. Upon any termination of the Employee's employment under this Section 6(b), the Employer shall have no further obligations or duties to the Employee. Employer may obtain disability insurance

naming Employee as an insured, which Employee shall pay for.

(c) In the event that Employee's employment with the Employer is terminated by action taken by the Board without cause (as defined below), then the Employer shall have no further obligation or duties to Employee, except for payment of the amounts described below, and Employee shall have no further obligations or duties to the Employer, except as provided in Section 7. In the event of such termination, the Employer shall continue to pay Salary to the Employee for the remainder of the Initial Term, or the remainder of the current Renewal Term if this Agreement has been renewed; provided, however, that if such termination occurs during the third year of the Initial Term or the final year of any Renewal Term, the Employer shall also pay to the Employee an amount equal to the total Salary and bonus received by the Employee during the 18 months prior to the date of termination.

(d) For purposes of this Agreement, the Company shall have "cause" to terminate the Employee's employment under this Agreement upon (i) the failure by the Employee to substantially perform his duties under this Agreement, (ii) the engaging by the Employee in criminal misconduct (including embezzlement and criminal fraud) which is materially injurious to the Company, monetarily or otherwise, (iii) the conviction of the Employee of a felony or (iv) gross negligence on the part of the Employee. The Company shall give written notice to the Employee, which notice shall specify the grounds for the proposed termination and the Employee shall be given thirty (30) days to cure if the grounds arise under clauses (i) or (v) above.

(e) In the event that Employee's employment with the Employer is terminated upon a Change in Control (as hereinafter defined), then the Employer shall have no further obligation or duties to Employee, except for payment of the amounts described below, and Employee shall have no further obligations or duties to the Employer, except as provided in Section 7. In the event of such termination, the Employer shall pay the Employee an amount equal to 1.5 times the total Salary and bonus received by the Employee during the 12 months prior to the date of termination. All amounts payable to the Employee pursuant to this Section 6(e) shall be paid in one lump-sum payment payable immediately upon such termination, and all options granted to Employee shall vest.

(f) For purposes of this Agreement a "Change in Control" shall be deemed to occur (i) upon the election of directors constituting a change in a majority of the Board; (ii) upon the acquisition by any person, entity or group of beneficial ownership of 20 percent or more of either the outstanding shares of common stock of the company or the combined voting power of the then outstanding voting securities of the company entitled to vote generally in the election of directors; (iii)upon a merger

or consolidation of the Company with any other corporation, which results in the stockholders of the Company prior thereto continuing to represent less than 80 percent of the combined voting power of the voting securities of the Company or the surviving entity after the merger; or (iv) upon the liquidation of the company or the sale of all, or substantially all, of the assets of the Company.

(g) For the purposes of this Agreement, Employee shall be deemed to have been terminated without cause if the Company terminates his employment for any reason other than for Cause in strict accordance with Section 6(d) above or if Employee terminates his employment after (i) a material diminution in his title, status, position or responsibilities or his reporting responsibility as specified in Section 2(a) or the assignment to employee of duties that are inconsistent with employee's title, position or responsibilities; or (ii) the Company's requiring, without the written consent of Employee, that he be based at any office or location outside the City of New York or the counties of Westchester, Nassau or Suffolk, New York.

(h) In the event that this Agreement is not renewed or the Employee is terminated without cause, the Company may either waive the provisions of Section 7(b) or pay the Salary to the Employee during the term of the non-compete provision of Section 7(b).

7. Confidentiality; Noncompetition.

(a) The Employer and the Employee acknowledge that the services to be performed by the Employee under this Agreement are unique and extraordinary and, as a result of such employment, the Employee will be in possession of confidential information relating to the business practices of the Company. The term "confidential information" shall mean any and all information (verbal and written) relating to the Company or any of its affiliates, or any of their respective activities, other than such information which can be shown by the Employee to be in the public domain (such information not being deemed to be in the public domain merely because it is embraced by more general information which is in the public domain) other than as the result of breach of the provisions of this Section 7(a), including, but not limited to, information relating to: trade secrets, personnel lists, financial information, research projects, services used, pricing, customers, customer lists and prospects, product sourcing, marketing and selling and servicing. The Employee agrees that he will not, during or for a period of two years after the termination of employment, directly or indirectly, use, communicate, disclose or disseminate to any person, firm or corporation any confidential information regarding the clients, customers or business practices of the Company acquired by the Employee during his employment by

Employer, without the prior written consent of Employer; provided, however, that the Employee understands that Employee will be prohibited from misappropriating any trade secret at any time during or after the termination of employment.

(b) The Employee hereby agrees that he shall not, during the period of his employment and for a period of one (1) year following such employment, directly or indirectly, within any county (or adjacent county) in any State within the United States or territory outside the United States in which the Company is engaged in business during the period of the Employee's employment or on the date of termination of the Employee's employment, engage, have an interest in or render any services to any business (whether as owner, manager, operator, licensor, licensee, lender, partner, stockholder, joint venturer, employee, consultant or otherwise) competitive with the Company's business activities.

(c) The Employee hereby agrees that he shall not, during the period of his employment and for a period of one (1) year following such employment, directly or indirectly, take any action which constitutes an interference with or a disruption of any of the Company's business activities including, without limitation, the solicitations of the Company's customers, or persons listed on the personnel lists of the Company. At no time during the term of this Agreement, or thereafter shall the Employee directly or indirectly, disparage the commercial, business or financial reputation of the Company.

(d) For purposes of clarification, but not of limitation, the Employee hereby acknowledges and agrees that the provisions of subparagraphs 7(b) and (c) above shall serve as a prohibition against him, during the period referred to therein, directly or indirectly, hiring, offering to hire, enticing, soliciting or in any other manner persuading or attempting to persuade any officer, employee, agent, lessor, lessee, licensor, licensee or customer who has been previously contacted by either a representative of the Company, including the Employee, (but only those suppliers existing during the time of the Employee's employment by the Company, or at the termination of his employment), to discontinue or alter his, her or its relationship with the Company.

(e) Upon the termination of the Employee's employment for any reason whatsoever, all documents, records, notebooks, equipment, price lists, specifications, programs, customer and prospective customer lists and other materials which refer or relate to any aspect of the business of the Company which are in the possession of the Employee including all copies thereof, shall be promptly returned to the Company.

(f) (i) The Employee agrees that all processes, technologies and inventions ("Inventions"), including new

contributions, improvements, ideas and discoveries, whether patentable or not, conceived, developed, invented or made by him during his employment by Employer shall belong to the Company, provided that such Inventions grew out of the Employee's work with the Company are related in any manner to the business (commercial or experimental) of the Company or are conceived or made on the Company's time or with the use of the Company's facilities or materials. The Employee shall further: (a) promptly disclose such Inventions to the Company; (b) assign to the Company, without additional compensation, all patent and other rights to such Inventions for the United States and foreign countries; (c) sign all papers necessary to carry out the foregoing; and (d) give testimony in support of his inventorship;

(ii) If any Invention is described in a patent application or is disclosed to third parties, directly or indirectly, by the Employee within two years after the termination of his employment by the Company, it is to be presumed that the Invention was conceived or made during the period of the Employee's employment by the Company; and

(iii) The Employee agrees that he will not assert any rights to any Invention as having been made or acquired by him prior to the date of this Agreement, except for Inventions, if any, disclosed to the Company in writing prior to the date hereof.

(g) The Company shall be the sole owner of all products and proceeds of the Employee's services hereunder, including, but not limited to, all materials, ideas, concepts, formats, suggestions, developments, arrangements, packages, programs and other intellectual properties that the Employee may acquire, obtain, develop or create in connection with and during the term of the Employee's employment hereunder, free and clear of any claims by the Employee (or anyone claiming under the Employee) of any kind or character whatsoever (other than the Employee's right to receive payments hereunder). The Employee shall, at the request of the Company, execute such assignments, certificates or other instruments as the Company may from time to time deem necessary or desirable to evidence, establish, maintain, perfect, protect, enforce or defend its right, or title and interest in or to any such properties.

(h) The parties hereto hereby acknowledge and agree that (i) the Company would be irreparably injured in the event of a breach by the Employee of any of his obligations under this Section 7, (ii) monetary damages would not be an adequate remedy for any such breach, and (iii) the Company shall be entitled to injunctive relief, in addition to any other remedy which it may have, in the event of any such breach.

(i) The parties hereto hereby acknowledge that, in addition to any other remedies the Company may have under

Section 7(h) hereof, the Company shall have the right and remedy to require the Employee to account for and pay over to the Company all compensation, profits, monies, accruals, increments or other benefits (collectively, "Benefits") derived or received by the Employee as the result of any transactions constituting a breach of any of the provisions of Section 7, and the Employee hereby agrees to account for any pay over such Benefits to the Company.

(j) Each of the rights and remedies enumerated in Section 7(h) and 7(i) shall be independent of the other, and shall be severally enforceable, and all of such rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to the Company under law or in equity.

(k) If any provision contained in this Section 7 is hereafter construed to be invalid or unenforceable, the same shall not affect the remainder of the covenant or covenants, which shall be given full effect, without regard to the invalid portions.

(l) If any provision contained in this Section 7 is found to be unenforceable by reason of the extent, duration or scope thereof, or otherwise, then the court making such determination shall have the right to reduce such extent, duration, scope or other provision and in its reduced form any such restriction shall thereafter be enforceable as contemplated hereby.

(m) It is the intent of the parties hereto that the covenants contained in this Section 7 shall be enforced to the fullest extent permissible under the laws and public policies of each jurisdiction in which enforcement is sought (the Employee hereby acknowledging that said restrictions are reasonably necessary for the protection of the Company). Accordingly, it is hereby agreed that if any of the provisions of this Section 7 shall be adjudicated to be invalid or unenforceable for any reason whatsoever, said provision shall be (only with respect to the operation thereof in the particular jurisdiction in which such adjudication is made) construed by limiting and reducing it so as to be enforceable to the extent permissible, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of said provision in any other jurisdiction.

8. General. This Agreement is further governed by the following provisions:

(a) Notices. All notices relating to this Agreement shall be in writing and shall be either personally delivered, sent by telecopy (receipt confirmed) or mailed by certified mail, return receipt requested, to be delivered at such

address as is indicated below, or at such other address or to the attention of such other person as the recipient has specified by prior written notice to the sending party. Notice shall be effective when so personally delivered, one business day after being sent by telecopy or five days after being mailed.

To the Employer:

Take Two Interactive Software, Inc.
575 Broadway
New York, New York 10012
Attention: Ryan A. Brant

To the Employee:

Paul Eibeler
41 Frost Creek Drive
Lattingtown, NY 11560

(b) Parties in Interest. Employee may not delegate his duties or assign his rights hereunder. This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their respective heirs, legal representatives, successors and permitted assigns.

(c) Entire Agreement. This Agreement supersedes any and all other agreements, either oral or in writing, between the parties hereto, with respect to the employment of the Employee by the Employer and contains all of the covenants and agreements between the parties with respect to such employment in any manner whatsoever. Any modification or termination of this Agreement will be effective only if it is in writing signed by the party to be charged.

(d) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York. Employee agrees to and hereby does submit to jurisdiction before any state or federal court of record in New York County or in the state and county in which such violation may occur, at Employer's election.

(e) Warranty. Employee hereby warrants and represents as follows:

(i) That the execution of this Agreement and the discharge of Employee's obligations hereunder will not breach or conflict with any other contract, agreement, or understanding between Employee and any other party or parties.

(ii) Employee has ideas, information and know-how relating to the type of business conducted by Employer, and Employee's disclosure of such ideas, information and know-how to Employer will not conflict with or violate the rights of any

third party or parties.

(iii) Employee will not disclose any trade secrets relating to the business conducted by any previous employer and agrees to indemnify and hold Employer harmless for any liability arising out of Employee's use of any such trade secrets.

(f) Severability. In the event that any term or condition in this Agreement shall for any reason be held by a court of competent jurisdiction to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other term or condition of this Agreement, but this Agreement shall be construed as if such invalid or illegal or unenforceable term or condition had never been contained herein.

(g) Execution in Counterparts. This Agreement may be executed by the parties in one or more counterparts, each of which shall be deemed to be an original but all of which taken together shall constitute one and the same agreement, and shall become effective when one or more counterparts has been signed by each of the parties hereto and delivered to each of the other parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first above written.

TAKE TWO INTERACTIVE SOFTWARE, INC.

By: /s/ Ryan A. Brant

Name: Ryan A. Brant
Title: Chief Executive Officer

/s/ Paul Eibeler

Paul Eibeler

Amendment No. 1 to Employment Agreement dated as of July 31, 2000 (the "Agreement") between Take-Two Interactive Software, Inc. (the "Employer" or the "Company") and Paul Eibeler ("Employee").

WHEREAS, the Company and Employee desire to amend the terms of the Agreement.

NOW, THEREFORE, in consideration of their mutual promises, the Company and Employee hereby agree as follows:

1. Section 3(a) of the Agreement is hereby amended by substituting $375,000 for $275,000.

2. Section 3(b) of the Agreement is hereby amended by substituting $25,000 for $20,000 in clause (i).

3. Section 3(d) of this Agreement is hereby amended by substituting 375,000 for 275,000 and by changing the vesting period to read as follows (vesting as to one-third of the shares covered thereby on October 21, 2000, one-third on October 21, 2001 and one-third on February 28, 2002.

4. Section paragraph 6(h) is hereby amended to the Agreement to read as follows:

"In the event that this Agreement is not renewed, the Employee is terminated without cause or Employee voluntarily terminates his employment hereunder, the Employer shall have no further obligation to Employee, and Employee shall have no further obligation to Employer, except for paragraph 7, provided that Employer may either waive the provisions of Section 7(b)or pay the Salary to the Employee during the term of the non-compete provisions of Section 7(b), and in the event Employee voluntarily terminates his employment hereunder, Employee may exercise the options granted under Section 3(d) during the ninety (90) day period following the date of termination to the extent such options are exercisable as of the date of termination."

All other terms and provisions of the Agreement remain unchanged in full force and effect.

Dated: January 17, 2001

TAKE-TWO INTERACTIVE SOFTWARE, INC.

By: /s/ Ryan Brant

Name:
Title:

/s/ Paul Eibeler

Paul Eibeler

EXHIBIT 10.6

EMPLOYMENT AGREEMENT

AGREEMENT dated as of February 15, 2001 between Take-Two Interactive Software, Inc., a Delaware corporation (the "Employer" or the "Company"), and Kelly Galvin Sumner (the "Employee").

W I T N E S S E T H :
- - - - - - - - - - -

WHEREAS, the Employer desires to employ the Employee as its Chief Executive Officer and to be assured of his services as such on the terms and conditions hereinafter set forth; and

WHEREAS, the Employee is willing to accept such employment on such terms and conditions;

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, and intending to be legally bound hereby, the Employer and the Employee hereby agree as follows:

1. Term. Employer hereby agrees to employ Employee, and Employee hereby agrees to serve Employer for a three-year period commencing effective as of the date first written above (the "Effective Date") (such period being herein referred to as the "Initial Term," and any year commencing on the Effective Date or any anniversary of the Effective Date being hereinafter referred to as an "Employment Year"). After the Initial Term, this Agreement shall be renewable automatically for successive one year periods (each such period being referred to as a "Renewal Term"), unless, more than ninety days prior to the expiration of the Initial Term or any Renewal Term, either the Employee or the Company give written notice that employment will not be renewed.

2. Employee Duties.

(a) During the term of this Agreement, the Employee shall have the duties and responsibilities of Chief Executive Officer of the Employer, reporting directly to the Chairman of Employer and the Board of Directors of the Employer (the "Board"). It is understood that such duties and responsibilities shall be reasonably related to the Employee's position.

(b) The Employee shall devote substantially all of his business time, attention, knowledge and skills faithfully, diligently and to the best of his ability, in furtherance of the business and activities of the Company. The principal place of performance by the Employee of his duties hereunder shall be the Company's principal executive offices in New York, although the Employee may be required to travel outside of the area where the Company's principal executive offices are located in connection

with the business of the Company.

3. Compensation.

(a) During the term of this Agreement, the Employer shall pay the Employee a salary (the "Salary") at a rate of $425,000 per annum in respect of each Employment Year, payable in equal installments bi-weekly, or at such other times as may mutually be agreed upon between the Employer and the Employee. The Salary shall be increased by at least 7.5% of each Employment Year, provided that the Company's net income per share for the one-year period then ended exceeds both first call estimates and the Company's net income per share for the prior one-year period.

(b) The Employee shall be entitled to reimbursement of reasonable expenses incurred in connection with relocating to the United States. The Employee shall also be entitled to a reasonable housing allowance (i.e., rent) during the Initial Term and any Renewal Term while the Employee is employed by the Company and resides in the United States.

(c) The Employee shall be paid a bonus equal to $25,000 in respect of each fiscal quarter, commencing with the quarter ending January 31, 2001; provided that net income per share in any such quarter exceeds both first call estimates and the Company's net income per share in the comparable quarter for the prior year.

(d) The Employee shall be entitled to incentive options previously granted on December 20, 2000 to purchase 250,000 shares of Common Stock, at an exercise price equal to $9.1562 per share, representing the fair market value of the Common Stock on the date of grant (vesting as to one-half of the shares covered thereby nine months from the date of grant and one-half of the shares eighteen months from the date of grant).

(e) The Employee shall be entitled to receive an automobile allowance of $1,500 per month.

(f) In addition to the foregoing, the Employee shall be entitled to such other cash bonuses and such other compensation in the form of stock, stock options or other property or rights as may from time to time be awarded to him by the Board during or in respect of his employment hereunder.

4. Benefits.

(a) During the term of this Agreement, the Employee shall have the right to receive or participate in all benefits and plans which the Company may from time to time institute during such period for its employees and for which the Employee is eligible. Nothing paid to the Employee under any plan or arrangement presently in effect or made available in the future shall be deemed to be in lieu of the salary or any other

obligation payable to the Employee pursuant to this Agreement.

(b) During the term of this Agreement, the Employee will be entitled to the number of paid holidays, personal days off, vacation days and sick leave days in each calendar year as are determined by the Company from time to time (provided that in no event shall vacation time be fewer than four weeks per year). Such vacation may be taken in the Employee's discretion with the prior approval of the Employer, and at such time or times as are not inconsistent with the reasonable business needs of the Company.

5. Travel Expenses. All travel and other expenses incident to the rendering of services reasonably incurred on behalf of the Company by the Employee during the term of this Agreement shall be paid by the Employer. If any such expenses are paid in the first instance by the Employee, the Employer shall reimburse him therefor on presentation of appropriate receipts for any such expenses. In addition, Employee and family shall be entitled to reasonable round-trip airfare to visit the United Kingdom on two (2) separate occasions per annum.

6. Termination. Notwithstanding the provisions of Section 1 hereof, the Employee's employment with the Employer may be earlier terminated as follows:

(a) By action taken by the Board, the Employee may be discharged for cause (as hereinafter defined), effective as of such time as the Board shall determine. Upon discharge of the Employee pursuant to this Section 6(a), the Employer shall have no further obligation or duties to the Employee, except for payment of Salary through the effective date of termination, and the Employee shall have no further obligations or duties to the Employer, except as provided in Section 7.

(b) In the event of (i) the death of the Employee or (ii) by action of the Board and the inability of the Employee, by reason of physical or mental disability, to continue substantially to perform his duties hereunder for a period of 180 consecutive days, during which 180 day period Salary and any other benefits hereunder shall not be suspended or diminished. Upon any termination of the Employee's employment under this Section 6(b), the Employer shall have no further obligations or duties to the Employee.

(c) In the event that Employee's employment with the Employer is terminated by action taken by the Board without cause (as defined below), then the Employer shall have no further obligation or duties to Employee, except for payment of the amounts described in the following sentence, and Employee shall have no further obligations or duties to the Employer, except as provided in Section 7. In the event of such termination, the Employer shall continue to pay Salary to the Employee for a period of twelve (12) months from the date of termination.

(d) For purposes of this Agreement, the Company shall have "cause" to terminate the Employee's employment under this Agreement upon (i) the failure by the Employee to substantially perform his duties under this Agreement, (ii) the engaging by the Employee in criminal misconduct (including embezzlement and criminal fraud) which is materially injurious to the Company, monetarily or otherwise, (iii) the conviction of the Employee of a felony or (iv) gross negligence on the part of the Employee. The Company shall give written notice to the Employee, which notice shall specify the grounds for the proposed termination and the Employee shall be given thirty (30) days to cure if the grounds arise under clause (i) above.

(e) In the event that Employee's employment with the Employer is terminated by Employer without cause upon a Change in Control (as hereinafter defined), then the Employer shall have no further obligation or duties to Employee, except for payment of the amounts described below, and Employee shall have no further obligations or duties to the Employer, except as provided in Section 7. In the event of such termination, the Employer shall pay the Employee an amount equal to 1.5 times the total current Salary and cash bonus. All amounts payable to the Employee pursuant to this Section 6(e) shall be paid in one lump-sum payment payable immediately upon such termination, and all options granted to Employee prior to such date shall vest.

(f) For purposes of this Agreement a "Change in Control" shall be deemed to occur (i) upon the election of directors constituting a change in a majority of the Board, which directors were not nominated by the Board immediately in place prior to such change; (ii) upon the acquisition by any person, entity or group of beneficial ownership of 50 percent or more of either the outstanding shares of common stock of the company or the combined voting power of the then outstanding voting securities of the company entitled to vote generally in the election of directors; (iii)upon a merger or consolidation of the Company with any other corporation, which results in the stockholders of the Company prior thereto continuing to represent less than 50 percent of the combined voting power of the voting securities of the Company or the surviving entity after the merger; or (iv) upon the sale of all, or substantially all, of the assets of the Company.

(g) In the event that this Agreement is not renewed or the Employee is terminated without cause, the Company may either waive the provisions of Section 7(b) or pay the Salary to the Employee during the term of the non-compete provision of Section 7(b).

7. Confidentiality; Noncompetition.

(a) The Employer and the Employee acknowledge that the

services to be performed by the Employee under this Agreement are unique and extraordinary and, as a result of such employment, the Employee will be in possession of confidential information relating to the business practices of the Company. The term "confidential information" shall mean any and all information (oral and written) relating to the Company or any of its affiliates, or any of their respective activities, other than such information which can be shown by the Employee to be in the public domain (such information not being deemed to be in the public domain merely because it is embraced by more general information which is in the public domain) other than as the result of breach of the provisions of this Section 7(a), including, but not limited to, information relating to: trade secrets, personnel lists, financial information, research projects, services used, pricing, customers, customer lists and prospects, product sourcing, marketing and selling. The Employee agrees that he will not, during or for a period of two years after the termination of employment, directly or indirectly, use, communicate, disclose or disseminate to any person, firm or corporation any confidential information regarding the clients, customers or business practices of the Company acquired by the Employee during his employment by Employer, without the prior written consent of Employer; provided, however, that the Employee understands that Employee will be prohibited from misappropriating any trade secret at any time during or after the termination of employment.

(b) The Employee hereby agrees that he shall not, during the period of his employment and for a period of one (1) year following such employment, directly or indirectly, within any county (or adjacent county) in any State within the United States or territory outside the United States in which the Company is engaged in business during the period of the Employee's employment or on the date of termination of the Employee's employment, engage, have an interest in or render any services to any business (whether as owner, manager, operator, licensor, licensee, lender, partner, stockholder, joint venturer, employee, consultant or otherwise) competitive with the Company's business activities; provided, however, that it is acknowledged that Employee is a non-executive director of Runecraft.

(c) The Employee hereby agrees that he shall not, during the period of his employment and for a period of one (1) year following such employment, directly or indirectly, take any action which constitutes an interference with or a disruption of any of the Company's business activities including, without limitation, the solicitations of the Company's customers, or persons listed on the personnel lists of the Company. At no time during the term of this Agreement, or thereafter shall the Employee directly or indirectly, disparage the commercial, business or financial reputation of the Company.

(d) For purposes of clarification, but not of limitation, the Employee hereby acknowledges and agrees that the

provisions of subparagraphs 7(b) and (c) above shall serve as a prohibition against him, during the period referred to therein, directly or indirectly, hiring, offering to hire, enticing, soliciting or in any other manner persuading or attempting to persuade any officer, employee, agent, lessor, lessee, licensor, licensee or customer who has been previously contacted by either a representative of the Company, including the Employee, (but only those suppliers existing during the time of the Employee's employment by the Company, or at the termination of his employment), to discontinue or alter his, her or its relationship with the Company.

(e) Upon the termination of the Employee's employment for any reason whatsoever, all documents, records, notebooks, equipment, price lists, specifications, programs, customer and prospective customer lists and other materials which refer or relate to any aspect of the business of the Company which are in the possession of the Employee including all copies thereof, shall be promptly returned to the Company.

(f) (i) The Employee agrees that all processes, technologies and inventions ("Inventions"), including new contributions, improvements, ideas and discoveries, whether patentable or not, conceived, developed, invented or made by him during his employment by Employer shall belong to the Company, provided that such Inventions grew out of the Employee's work with the Company and are related in any manner to the business (commercial or experimental) of the Company or are conceived or made on the Company's time or with the use of the Company's facilities or materials. The Employee shall further: (a) promptly disclose such Inventions to the Company; (b) assign to the Company, without additional compensation, all patent and other rights to such Inventions for the United States and foreign countries; (c) sign all papers necessary to carry out the foregoing; and (d) give testimony in support of his inventorship;

(ii) If any Invention is described in a patent application or is disclosed to third parties, directly or indirectly, by the Employee within one year after the termination of his employment by the Company, it is to be presumed that the Invention was conceived or made during the period of the Employee's employment by the Company; and

(iii) The Employee agrees that he will not assert any rights to any Invention as having been made or acquired by him prior to the date of this Agreement, except for Inventions, if any, disclosed to the Company in writing prior to the date hereof.

(g) The Company shall be the sole owner of all products and proceeds of the Employee's services hereunder, including, but not limited to, all materials, ideas, concepts, formats, suggestions, developments, arrangements, packages, programs and other intellectual properties that the Employee may

acquire, obtain, develop or create in connection with and during the term of the Employee's employment hereunder, free and clear of any claims by the Employee (or anyone claiming under the Employee) of any kind or character whatsoever (other than the Employee's right to receive payments hereunder). The Employee shall, at the request of the Company, execute such assignments, certificates or other instruments as the Company may from time to time deem necessary or desirable to evidence, establish, maintain, perfect, protect, enforce or defend its right, or title and interest in or to any such properties.

(h) The parties hereto hereby acknowledge and agree that (i) the Company would be irreparably injured in the event of a breach by the Employee of any of his obligations under this Section 7, (ii) monetary damages would not be an adequate remedy for any such breach, and (iii) the Company shall be entitled to injunctive relief, in addition to any other remedy which it may have, in the event of any such breach.

(i) The parties hereto hereby acknowledge that, in addition to any other remedies the Company may have under Section 7(h) hereof, the Company shall have the right and remedy to require the Employee to account for and pay over to the Company all compensation, profits, monies, accruals, increments or other benefits (collectively, "Benefits") derived or received by the Employee as the result of any transactions constituting a breach of any of the provisions of Section 7, and the Employee hereby agrees to account for any pay over such Benefits to the Company.

(j) Each of the rights and remedies enumerated in Section 7(h) and 7(i) shall be independent of the other, and shall be severally enforceable, and all of such rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to the Company under law or in equity.

(k) If any provision contained in this Section 7 is hereafter construed to be invalid or unenforceable, the same shall not affect the remainder of the covenant or covenants, which shall be given full effect, without regard to the invalid portions.

(l) It is the intent of the parties hereto that the covenants contained in this Section 7 shall be enforced to the fullest extent permissible under the laws and public policies of each jurisdiction in which enforcement is sought (the Employee hereby acknowledging that said restrictions are reasonably necessary for the protection of the Company). Accordingly, it is hereby agreed that if any of the provisions of this Section 7 shall be adjudicated to be invalid or unenforceable for any reason whatsoever, said provision shall be (only with respect to the operation thereof in the particular jurisdiction in which such adjudication is made) construed by limiting and reducing it

so as to be enforceable to the extent permissible, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of said provision in any other jurisdiction.

8. General. This Agreement is further governed by the following provisions:

(a) Notices. All notices relating to this Agreement shall be in writing and shall be either personally delivered, sent by telecopy (receipt confirmed) or mailed by certified mail, return receipt requested, to be delivered at such address as is indicated below, or at such other address or to the attention of such other person as the recipient has specified by prior written notice to the sending party. Notice shall be effective when so personally delivered, one business day after being sent by telecopy or five days after being mailed.

To the Employer:

Take Two Interactive Software, Inc.
575 Broadway
New York, New York 10012
Attention: Ryan A. Brant

To the Employee:

_____
_____
_____

(b) Parties in Interest. Employee may not delegate his duties or assign his rights hereunder. This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their respective heirs, legal representatives, successors and permitted assigns.

(c) Entire Agreement. This Agreement supersedes any and all other agreements, either oral or in writing, between the parties hereto, with respect to the employment of the Employee by the Employer (including the Agreement dated July 29, 1997, as amended) and contains all of the covenants and agreements between the parties with respect to such employment in any manner whatsoever. Any modification or termination of this Agreement will be effective only if it is in writing signed by the party to be charged.

(d) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York. Employee agrees to and hereby does submit to jurisdiction before any state or federal court of record in New York County or in the state and county in which such violation may occur, at Employer's election.

(e) Severability. In the event that any term or condition in this Agreement shall for any reason be held by a court of competent jurisdiction to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other term or condition of this Agreement, but this Agreement shall be construed as if such invalid or illegal or unenforceable term or condition had never been contained herein.

(f) Execution in Counterparts. This Agreement may be executed by the parties in one or more counterparts, each of which shall be deemed to be an original but all of which taken together shall constitute one and the same agreement, and shall become effective when one or more counterparts has been signed by each of the parties hereto and delivered to each of the other parties hereto.

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IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first above written.

TAKE TWO INTERACTIVE SOFTWARE, INC.

By: /s/ Ryan A. Brant

Name: Ryan A. Brant
Title: Chairman

/s/ Kelly Galvin Sumner

Kelly Galvin Sumner

EXHIBIT 10.9

Portions of this document indicated by an * have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment of such omitted information.

MICROSOFT CORPORATION
XBOX(TM) PUBLISHER LICENSE AGREEMENT

This License Agreement (the "Agreement") is entered into and effective as of December 14, 2000 (the "Effective Date") by and between MICROSOFT CORPORATION, a Washington corporation ("Microsoft"), and TAKE-TWO INTERCATIVE SOFTWARE, INC. ("Licensee").

A. Whereas, Microsoft develops and licenses a computer game system, known as the Xbox(TM)gamE system; and

B. Whereas, Licensee is an experienced publisher of software products that wishes to develop and/or publish one or more software products running on the Xbox game system, and to license proprietary materials from Microsoft, on the terms and conditions set forth herein.

Accordingly, for and in consideration of the mutual covenants and conditions contained herein, and for other good and valuable consideration, receipt of which each party hereby acknowledges, Microsoft and Licensee agree as follows:

1. DEFINITIONS. For the purposes of this Agreement, the following terms will have the respective indicated meanings.

1.1 "Art & Marketing Materials" shall mean art and mechanical formats for a Software Title including the retail packaging, end user instruction manual with end user license agreement and warranties, Finished Product Unit media label, and any promotional inserts and other materials that are to be included in the retail packaging, as well as all press releases, marketing, advertising or promotional materials related to the Software Title and/or Finished Product Units (including without limitation web advertising and Licensee's web pages to the extent they refer to the Software Title(s) or the Finished Product Units).

1.2 "Authorized Replicator" shall mean a software replicator certified and approved by Microsoft for replication of games that run on Xbox. Upon Licensee's written request, Microsoft will provide Licensee with a copy of the then-current list of Authorized Replicators, but the status of a particular replicator and such list may change from time to time in Microsoft's sole and absolute discretion.

1.3 "Branding Specifications" shall mean the specifications in Exhibit C, and such other design specifications as Microsoft may hereafter provide from time to time, for using the Licensed Trademarks on a Software Title and/or on related product packaging, documentation, and other materials.

1.4 "Commercial Release" shall mean (a) with respect to Xbox, the first distribution of an Xbox to the public for payment, and (b) with respect to a Software Title, the earlier of the first distribution of the Software Title for payment or distribution of Finished Product Units that are not designated as beta or prerelease versions.

1.5 "Finished Product Unit" shall mean a DVD-9 copy, in software object code only, of a Software Title, in whole or in part.

1.6 "Licensed Trademarks" shall mean the Microsoft trademarks depicted in Exhibit B (which Microsoft unilaterally may modify from time to time during the term of this Agreement upon written notice to Licensee).

1.7 "Software Title" shall mean the single software product as described in the applicable Exhibit A (i.e., Exhibit A-1, Exhibit A-2, or Exhibit A-n, as the case may be), developed by Licensee, and running on Xbox. A Software Title shall include the improvements and patches thereto (if and to the extent approved by Microsoft), but shall not include any "prequel" or "sequel." If Microsoft approves one or more additional concept(s) for another single software product proposed by Licensee to run on Xbox, pursuant to the procedure set forth in Section 2.1.1 below and the Xbox Guide (as defined in Section 2.1), then upon Microsoft's written approval of such concept, this Agreement, and the term "Software Title," shall be broadened automatically to cover the respective new software product and the parties will prepare, initial and append to this Agreement a new Exhibit A-n for each such additional new software product.

1.8 "Certification Requirements" shall mean the requirements specified in this Agreement (including without limitation the Xbox Guide) for quality, compatibility, and/or performance of a Software Title, and, to the extent not inconsistent with the foregoing standards, the standards of quality and performance generally accepted in the console game industry.

1.9 "Territory" shall be determined on a Software Title-by-Software Title basis, and shall mean such countries as may be specified in writing by Microsoft when the concept of the applicable Software Title is approved pursuant to Section 2.1.1 below.

1.10 "Xbox" shall mean the first version (as of the Commercial Release) of Microsoft's Xbox game system, including operating system software and hardware design specifications.

2. DEVELOPMENT; DELIVERY; APPROVAL

2.1 Software Title Development. Licensee's development activities with respect to each Software Title shall be in accordance with the development schedule set forth in the applicable Exhibit A-n. Furthermore, Licensee agrees to be bound by all provisions contained in the then-applicable version of the "Xbox Guide", the current version of which Microsoft or its affiliate will deliver to Licensee when it is completed, after the execution of this Agreement. Licensee understands and agrees that Microsoft may, in its discretion, supplement, revise and update the Xbox Guide from time to time and that upon Licensee's receipt of the applicable supplement, revision or updated version, Licensee automatically shall be bound by all provisions of the then-current Xbox Guide; Microsoft will specify in each such supplement, revision or updated version a reasonable effective date of each change if such change or revision is not required to be effective immediately. If Licensee proceeds with the development of a Software Title, Licensee shall deliver each milestone (as described in this Section 2.1) to Microsoft for approval in writing. All certification and playtesting (and applicable fees therefor, if any) will be in accordance with the then-applicable version of the Xbox Guide. If Microsoft does not approve Licensee's submission for a given milestone then Licensee shall either correct the problems that contributed to the lack of approval or, if Microsoft gives Licensee written notice to cease development, Licensee shall immediately cease all development activities for the applicable Software Title's subsequent milestones. Each successive milestone shall comply in all material respects with the characteristics of previously approved milestones. Each software milestone shall be delivered in compiled object code form.

2.1.1 Concept. Licensee shall deliver to Microsoft a written and completed concept submission form (in the form provided by Microsoft to Licensee), including without limitation: (a) a detailed description of the Software Title, including but not limited to (to the extent applicable) title, theme, plot, characters, play elements, and technical specifications; (b) the identities of any proposed subcontractors, and general information about the principal team of individual developers, and (c) an explanation of the design, technical and marketing suitability of the Software Title. Evaluation of the proposed design will be based on criteria including, but not necessarily limited to, the following: (i) originality; (ii) play breadth and depth; (iii) playability; (iv) replayability and long-term interest; and (v) theme, characters and storyline. Technical evaluation of the concept will be based on criteria including, but not necessarily limited to, feasibility of execution and usage of system capabilities (such as graphics, audio, hard drive, play control, online capabilities and peripherals). Marketing suitability will be evaluated based on criteria including, but not necessarily limited to, the following: (i) market viability; (ii) Licensee's marketing commitment (if any); (iii) suitability to the target demographic; and (iv) overall fit with the Xbox certified software products portfolio.

2.1.2 Preliminary Versions. Licensee may, but will not be required to, deliver to Microsoft certain preliminary versions of the Software Title, as addressed in the Xbox Guide.

2.1.3 Feature-Complete Version. Licensee shall deliver to Microsoft a feature-complete version of the Software Title (the "Beta Version"), which includes all features of the Software Title and such other content as may be required under the Xbox Guide. Concurrently with delivery of the Beta Version, Licensee will disclose in writing to Microsoft the details about any and all so-called "hidden characters," "cheats," "easter eggs," "bonus video and/or audio," and similar elements included in the Beta Version and/or intended to be included in the final release version of the Software Title.

2.1.4 Final Release Version. Licensee shall deliver to Microsoft, Licensee's proposed final release version of the applicable Software Title that is complete and ready for manufacture and commercial distribution, with the final content rating certification, with identified program errors corrected, and with any and all changes previously requested by Microsoft implemented. However, nothing herein will be deemed to relieve Licensee of its obligation to correct program bugs and errors, whenever discovered (including without limitation after Commercial Release), and Licensee agrees to correct such bugs and errors as soon as possible after discovery (provided that, with respect to bugs or errors discovered after Commercial Release of the applicable Software Title, Licensee will use commercially reasonable efforts to correct the bug/error in all Finished Product Units manufactured after discovery). In addition, Licensee will comply with all certification procedures, guidelines and standards set forth in the then-applicable version of the Xbox Guide. Licensee shall not distribute the Software Title, nor manufacture any Finished Product Units intended for distribution, unless and until Microsoft shall have given its final certification and approval of the final release version of the Software Title, and Microsoft shall have provided the code for the final release version to the applicable Authorized Replicator(s).

2.1.5 Playtesting. Microsoft will playtest the Beta Version and proposed final release version of each Software Title; if Licensee delivers preliminary versions of a Software Title, Microsoft may (but will not be obligated to) playtest such versions. Microsoft will provide written comments to Licensee regarding the results of its playtest results, and Licensee shall comply with any requests made by Microsoft to improve the applicable Software Title based on such playtest results. Licensee acknowledges that, notwithstanding its receipt of approvals from Microsoft for prior milestones or versions during the development process, Licensee's proposed final release version of each Software Title must be approved by Microsoft, as set forth in the Xbox Guide. In addition to conforming with the approved concept, with all technical specifications, and with all other requirements set by Microsoft during the development and approval process, each Software Title must achieve a satisfactory rating in final playtesting. Notwithstanding anything to the contrary contained herein, Licensee acknowledges and understands that, in part, the results of playtesting will be subjective, that Microsoft will have the right to deny final approval based on its determination, and that Licensee has and will have no expectation of final approval of any Software Title regardless of any approvals or assessments given or made by Microsoft, informally or formally, at any time.

2.1.6 Art & Marketing Materials. Licensee shall deliver to Microsoft for approval all Art & Marketing Materials as and when developed, whether during development activities or thereafter. Licensee shall not distribute any specific Art & Marketing Materials unless and until Microsoft shall have given its final certification and approval of the specific item.

2.2 Content Rating. Licensee understands and agrees that, without limitation, Microsoft will not give final certification and approval of a Software Title unless and until Licensee shall have obtained, at Licensee's sole cost, a rating of no higher than "Mature (17+)" or its equivalent from the appropriate rating bodies for the applicable Territory (such as, ESRB, ELSPA, etc.) and/or any and all other independent content rating authority/authorities reasonably designated by Microsoft. Licensee shall make any changes to the Software Title required to obtain a rating of no higher than "Mature (17+)" (or its equivalent). In no event shall Licensee distribute any Software Title under an "Adults Only" or higher rating (or equivalent rating). Licensee shall include the applicable rating(s) prominently on Finished Product Units, in accordance with the applicable rating body guidelines.

2.3 Development Kit License. Microsoft or its affiliate will offer to Licensee the opportunity to enter into one or more development kit license(s) (each an "XDK License") pursuant to which Microsoft would license to Licensee software development tools and hardware to assist Licensee in the development of Software Titles, including without limitation certain sample code and other redistributable code which Licensee could incorporate into Software Titles, on such terms and conditions as are contained in the XDK License.

2.4 Subcontractors. Licensee shall not use any subcontractors or any other third parties to perform software development work in connection with a Software Title unless and until (i) the proposed subcontractor or other third party and (ii) Microsoft shall have executed an XDK license; provided that nothing contained herein will be deemed to require Microsoft or its affiliate to execute an XDK License with any particular person or entity if Microsoft or its affiliate determines that it is not appropriate to execute such an XDK License.

2.5 Changes of Requirements by Microsoft. Unless otherwise reasonably specified by Microsoft at the respective time: (a) after approval by Microsoft of the Beta Version of a Software Title, Licensee will not be obligated to comply, with respect to such Software Title only, with any subsequent changes made by Microsoft to the technical or content requirements for Software Titles generally in the Xbox Guide; and (b) subject to the immediately preceding clause (a), any changes made by Microsoft in Branding Specifications or other requirements after final certification of a Software Title by Microsoft will be effective as to such Software Title only on a "going forward" basis (i.e., only to such Art & Marketing Materials and/or Finished Product Units as are manufactured after Microsoft notifies Licensee of the change), unless (i) the change can be accommodated by Licensee with insignificant added expense, or (ii) Microsoft pays for Licensee's direct, out-of-pocket expenses necessarily incurred as a result of its retrospective compliance with the change.

3. RIGHTS AND RESTRICTIONS

3.1 Trademarks.

3.1.1 License. In each Software Title, and on each Finished Product Unit (and the packaging therefor), Licensee shall incorporate the Licensed Trademarks and include credit and acknowledgement to Microsoft as set forth in the Branding Specifications and the Xbox Guide. Microsoft grants to Licensee a non-exclusive, non-transferable, personal license to use the Licensed Trademarks, according to the Branding Specifications and other conditions herein, and solely in connection with marketing, sale, and distribution in the Territory of Finished Product Units that meet the Certification Requirements.

3.1.2 Limitations. Licensee is granted no right, and shall not purport, to permit any third party to use the Licensed Trademarks in any manner without Microsoft's prior written consent. Licensee's license to use Licensed Trademarks in connection with the Software Title and Finished Product Units shall not extend to the merchandising or sale of related or promotional products under the Licensed Trademarks.

3.1.3 Branding Specifications. Licensee's use of the Licensed Trademarks (including without limitation in Finished Product Unit and Art & Marketing Materials) shall comply with the Branding Specifications in Exhibit C. Licensee shall not use Licensed Trademarks in association with any third party trademarks in a manner that might suggest co-branding or otherwise create potential confusion as to source or sponsorship of the Software Title or Finished Product Units or ownership of the Licensed Trademarks. Upon notice or other discovery of any non-conformance with the requirements or prohibitions of this section, Licensee shall promptly remedy such non-conformance and notify Microsoft of the non-conformance and remedial steps taken.

3.1.4 Certification Requirements. Licensee may use the Licensed Trademarks only in connection with the copies of the Software Title that meet the Certification Requirements. Licensee shall test the Software Title and Finished Product Units for conformance with the Certification Requirements according to generally accepted and best industry practices, and shall keep written or electronic records of such testing during the term of this Agreement and for no less than two (2) years thereafter ("Test Records"). Upon Microsoft's request, Licensee shall provide Microsoft with copies of or reasonable access to inspect the Test Records, Finished Product Units and Software Title (either in pre-release or commercial release versions, as Microsoft may request). Upon notice or other discovery of any non-conformance with the Certification Requirements, Licensee shall promptly remedy such non-conformance in all Finished Product Units wherever in the chain of distribution (subject to Sections 2.1.4 and 2.5 above), and shall notify Microsoft of the non-conformance and remedial steps taken.

3.1.5 Protection of Licensed Trademarks. Licensee shall assist Microsoft in protecting and maintaining Microsoft's rights in the Licensed Trademarks, including preparation and execution of documents necessary to register the Licensed Trademarks or record this Agreement, and giving immediate notice to Microsoft of potential infringement of the Licensed Trademarks. Microsoft shall have the sole right to and in its sole discretion may commence, prosecute or defend, and control any action concerning the Licensed Trademarks, either in its own name or by joining Licensee as a party thereto. Licensee shall not during the Term of this Agreement contest the validity of, by act or omission jeopardize, or take any action inconsistent with, Microsoft's rights or goodwill in the Licensed Trademarks in any country, including attempted registration of any Licensed Trademark, or use or attempted registration of any mark confusingly similar thereto.

3.1.6 Ownership. Licensee acknowledges Microsoft's ownership of all Licensed Trademarks, and all goodwill associated with the Licensed Trademarks. Use of the Licensed Trademarks shall not create any right, title or interest therein in Licensee's favor. Licensee's use of the Licensed Trademarks shall inure solely to the benefit of Microsoft.

3.1.7 No Bundling with Unapproved Peripherals, Products or Software. Licensee shall not market or distribute any Finished Product Unit bundled with a peripheral product software or other products, nor shall Licensee knowingly permit or assist any third party in such bundling, without Microsoft's prior written consent.

3.2 EULA. Licensee shall distribute (directly or indirectly) the Software Title to end users subject to an end user license agreement ("EULA") in a form to be approved by Microsoft prior to any distribution of the Software Title; provided that, in any event, Licensee's EULA for the Software Title shall (a) name Microsoft as a third party beneficiary, with the right to enforce the agreement, (b) grant the end user the right to use the Software Title on only one Xbox console at a time, and (c) forbid the end user from reverse engineering or decompiling the Software Title or Xbox. Microsoft will have the right to modify its requirements for the EULA at any time, in its discretion, and Licensee shall implement, at its sole cost, all such new requirements as soon as reasonably possible after receiving written notice from Microsoft of such required modifications.

3.3 No Electronic Transmission; No Online Activities. Licensee shall distribute the Software Title only as embodied in Finished Product Units; specifically, but without limitation, Licensee shall not distribute the Software Title by any means of electronic transmission without the prior written approval of Microsoft, which Microsoft may grant or withhold in its discretion. Furthermore, Licensee will not authorize or permit any online activities involving the Software Title, including without limitation multiplayer, peer-to-peer and/or online play, without the prior written approval of Microsoft, which Microsoft may grant or withhold in its discretion.

3.4 No Distribution Outside the Territory. Licensee shall distribute Finished Product Units only in the Territory. Licensee shall not directly or indirectly export any Finished Product Units from the Territory nor shall Licensee knowingly permit or assist any third party in doing so, nor shall Licensee distribute Finished Product Units to any person or entity that it has reason to believe may re-distribute or sell such Finished Product Units outside the Territory.

3.5 No Reproduction of Finished Product Units Except by Microsoft or Authorized Replicators. Licensee acknowledges that this Agreement does not grant Licensee the right to reproduce or otherwise manufacture Finished Product Units itself, or on its behalf, other than with Microsoft or an Authorized Replicator. Licensee must use Microsoft or an Authorized Replicator to produce Finished Product Units, pursuant to Section 4.

3.6 No Reverse Engineering. Licensee may utilize and study the design, performance and operation of Xbox solely for the purposes of developing the Software Title. Notwithstanding the foregoing, Licensee shall not, directly or indirectly, reverse engineer or aid or assist in the reverse engineering of all or any part of Xbox except and only to the extent that such activity is expressly permitted by applicable law notwithstanding this limitation. Reverse engineering includes, without limitation, decompiling, disassembly, sniffing, peeling semiconductor components, or otherwise deriving source code. In addition to any other rights and remedies that Microsoft may have under the circumstances, Licensee shall be required in all cases to pay royalties to Microsoft in accordance with Section 6 below with respect to any games or other products that are developed, marketed or distributed by Licensee, and derived in whole or in part from the reverse engineering of Xbox or any Microsoft data, code or other material.

3.7 Reservation of Rights. Microsoft reserves all rights not explicitly granted herein.

3.8 Ownership of the Software Titles. Except for the intellectual property supplied by Microsoft to Licensee (including without limitation the licenses in the Licensed Trademarks hereunder and the licenses in certain software and hardware granted by an XDK License), ownership of which is retained by Microsoft, insofar as Microsoft is concerned, Licensee will own all rights in and to the Software Titles.

4. MANUFACTURING

4.1 Approved Replicators. Licensee shall retain only an Authorized Replicator to manufacture all Finished Product Units.

4.2 Terms of Use of Authorized Replicator. Licensee will notify Microsoft in writing of the identity of the applicable Authorized Replicator and unless Microsoft agrees otherwise, the agreement for such manufacturing/replication services shall be as negotiated by Licensee and the applicable Authorized Replicator, subject to the following requirements:

4.2.1 Microsoft, and not Licensee, will provide to the single applicable Authorized Replicator the final release version of the Software Title and all specifications required by Microsoft for the manufacture of the Finished Product Units (including without limitation the Security Technology (as defined in Section 4.4 below); Licensee will be responsible for preparing and delivering to the Authorized Replicator all other items required for manufacturing Finished Product Units; and Licensee agrees that all Finished Product Units must be replicated in conformity with all of the quality standards and manufacturing specifications, policies and procedures that Microsoft requires of its Authorized Replicators, and that all so-called "adders" must be approved by Microsoft prior to packaging (in accordance with Section 2.1.6 above);

4.2.2 Microsoft will have the right, but not the obligation, to be supplied with up to fifty (50) Finished Product Units (including pre-production samples and random units manufactured during production runs) at Licensee's cost but without royalties, for quality assurance and archival purposes;

4.2.3 the initial manufacturing order for Finished Product Units of each Software Title may not be less than a number specified by Microsoft in the Xbox Guide; although such number may change from time to time during the term of this Agreement, initially it will be *;

4.2.4 as between Licensee and Microsoft, Licensee shall be responsible for ensuring that all Finished Product Units are free of all defects;

4.2.5 Licensee will use commercially reasonable efforts to cause the Authorized Replicator to deliver to Microsoft true and accurate monthly statements of Finished Product Units manufactured in each calendar month, on a Software Title-by-Software Title basis and in sufficient detail to satisfy Microsoft, within fifteen (15) days after the end of the applicable month, and Microsoft will have reasonable audit rights to examine the records of the Authorized Replicator regarding the number of Finished Product Units manufactured;

4.2.6 Microsoft will have the right to have included in the packaging of Finished Product Units such marketing materials for Xbox and/or other Xbox products or services as Microsoft may determine in its reasonable discretion. Microsoft will be responsible for delivering to the Authorized Replicator all such marketing materials as it desires to include with Finished Product Units, and any incremental insertion costs relating to such marketing materials will be borne by Microsoft;

4.2.7 Microsoft does not guarantee any level of performance by its Authorized Replicators, and Microsoft will have no liability to Licensee for any Authorized Replicator's failure to perform its obligations under any applicable agreement between Microsoft and such Authorized Replicator and/or between Licensee and such Authorized Replicator;

4.2.8 Prior to placing an order with a replicator/manufacturer for Finished Product Units, Licensee shall confirm with Microsoft that such entity is an Authorized Replicator; Microsoft will endeavor to keep an up-to-date list of Authorized Replicators in the Xbox Guide. Licensee will not place any order for Finished Product Units with any entity that is not at such time an Authorized Replicator.

4.3 Approval of New Authorized Replicator. If Licensee requests that Microsoft certify and approve a third party replicator that is not then an Authorized Replicator, Microsoft will consider such request in good faith. Licensee acknowledges and agrees that Microsoft may condition certification and approval of such third party on the execution of an agreement in a form satisfactory to Microsoft pursuant to which such third party agrees to strict quality standards, non-disclosure requirements, license fees for use of Microsoft intellectual property and trade secrets, and procedures to protect Microsoft's intellectual property and trade secrets. Notwithstanding anything contained herein, Licensee acknowledges that Microsoft is not required to certify or approve any particular third party as an Authorized Replicator, and that the certification and approval process may be time-consuming.

4.4 Security. Microsoft will have the right to add to the final release version of the Software Title delivered by Licensee to Microsoft, and to all Finished Product Units, such digital signature technology and other security technology and copyright management information (collectively, "Security Technology") as Microsoft may determine to be necessary, and/or Microsoft may modify the signature included in any Security Technology included in the Software Title by Licensee at Microsoft's direction. Additionally, Microsoft may add Security Technology that prohibits the play of Software Titles on Xbox units manufactured in a region or country different from the location of manufacture of the respective Finished Product Units.

5. MARKETING, SALES AND SUPPORT

5.1 Licensee Responsible. As between Microsoft and Licensee, Licensee shall be solely responsible for marketing and sales of the Software Title, and for providing technical and all other support to the end users of the Finished Product Units. Licensee will provide all end users of Software Titles contact information (including without limitation Licensee's street address and telephone number, and the applicable individual/group responsible for customer support). Such end user support will be consistent with the then-applicable console game industry standards. Licensee acknowledges and agrees that Microsoft will have no support responsibilities whatsoever to end users of the Software Title or with respect to Finished Product Units.

5.2 Art & Marketing Materials. In accordance with Section 2.1.6 above, Licensee shall submit all Art & Marketing Materials to Microsoft, and Licensee shall not distribute such Art & Marketing Materials unless and until Microsoft has approved them in writing. Prior to publication of any Art & Marketing Materials, Licensee agrees to incorporate all changes relating to use of the Licensed Trademarks that Microsoft may request, and will use its commercially reasonable efforts to incorporate other changes reasonably suggested by Microsoft (provided, however, that Licensee shall at all times comply with the requirements set forth in the Branding Specifications and/or the Xbox Guide).

5.3 Warranty. Licensee shall provide the original end user of any Finished Product Unit a minimum ninety (90) day limited warranty that the Finished Product Unit will perform in accordance with its user documentation or Licensee will provide a replacement Finished Product Unit at no charge.

5.4 Recall. Notwithstanding anything to the contrary contained in this Agreement (including without limitation Section 2.1.4), in the event of a material defect in a Software Title and/or any Finished Product Units, which defect in the reasonable judgement of Microsoft would significantly impair the ability of an end user to play such Software Title or Finished Product Unit, Microsoft may require Licensee to recall Finished Product Units and undertake prompt repair or replacement of such Software Title and/or Finished Product Units.

5.5 Software Title License. Subject to third party rights of which Licensee shall have informed Microsoft in writing at the time of delivery of the feature-complete version of the applicable Software Title, Licensee hereby grants to Microsoft a fully-paid, royalty-free, non-exclusive license (i) to publicly perform the Software Titles at conventions, events, trade shows, press briefings, and the like; and (ii) to use the title of the Software Title, and screen shots from the Software Title, in advertising and promotional material relating to Xbox and related Microsoft products and services, as Microsoft may reasonably deem appropriate.

6. PAYMENTS

6.1 Royalties. Licensee shall pay Microsoft royalties, on a Software Title-by-Software Title basis, for each Finished Product Unit manufactured, in accordance with the following table:

Finished Product Units Manufactured	Royalty per Applicable Finished Product Unit
	US Dollars Yen Euros
Units 1 - *	* * *

Finished Product Units Manufactured	Royalty per Applicable Finished Product Unit
	US Dollars Yen Euros
Units *---*	* * *
Units *--*	* * *
Units * and above	* * *

Notwithstanding the foregoing, no royalties will be payable hereunder with respect to any Demo Finished Product Units. For the purposes hereof, a "Demo Finished Product Unit" will mean a Finished Product Unit that (i) contains only a small portion of the applicable Software Title, (ii) is provided to end users only to advertise or promote the applicable Software Title (although it may include demonstration versions of other games for Xbox published by Licensee), (iii) is manufactured in a number of units that has been approved in advance by Microsoft, which approval Microsoft agrees not to unreasonably withhold, and (iv) is distributed free or with a suggested retail price of not more than US$*.

6.2 Royalty Payments. Licensee shall have the option of paying the above royalties in US Dollars, Japanese Yen or Euros, according to the terms of this Section. By designating the appropriate box below, Licensee may choose to pay royalties on either a "Worldwide" or "Regional" basis. Such designation shall be binding throughout the term of this Agreement for all of Licensee's Software Titles. If Licensee elects to pay on a Worldwide basis, it shall pay royalties in US Dollars regardless of where the Finished Product Units are distributed or manufactured. If Licensee elects to pay on a Regional basis, it shall pay royalties in US Dollars, Japanese Yen or Euros in accordance with the table set forth in Section 6.1 but subject to the rest of this Section 6.2:

(i) If the Authorized Replicator manufacturing the Finished Product Units is located in Japan, Singapore, Malaysia or Taiwan, Licensee shall pay its royalty denominated in Japanese Yen for such Finished Product Units.

(ii) If the Authorized Replicator manufacturing the Finished Product Units is located in a member country of the European Union, Licensee shall pay its royalty denominated in Euros for such Finished Product Units.

(iii) If the Authorized Replicator manufacturing the Finished Product Units is located in any other country or region of the world, Licensee shall pay its royalty denominated in US Dollars for such Finished Product Units.

Notwithstanding the foregoing, in the event the conversion ratio for either Yen or Euros to Dollars, as described in the US edition of the Wall Street Journal, falls outside the foreign exchange trading range as set forth in the chart below, for a period of time greater than 30 consecutive days, Microsoft may then readjust the royalty amounts set forth in Section 6.1 for that currency. Such readjustments shall be made in Microsoft's good faith discretion according to its normal practices.

Yen/Euro to US Dollar Trading Range

	Minimum	Maximum
Yen	*	*
Euros	*	*

Worldwide /s/ PE (initials)

Regional _____ (initials)

6.3 Payment Process. After its receipt from the applicable Authorized Replicator(s) of each monthly statement of Finished Product Units manufactured, Microsoft will invoice Licensee for the amount owed to Microsoft pursuant to Section 6.1 above based upon the applicable statement. Licensee shall pay to Microsoft the full amount invoiced within thirty (30) calendar days after the date of the respective invoice. Payment will be made by wire transfer, in immediately available funds, to an account, and in accordance with a reasonable procedure, to be specified in writing by Microsoft.

6.4 Audit. Licensee shall keep all usual and proper records related to its performance (and any subcontractor's performance) under this Agreement, including support for any cost borne by or income due to Microsoft, for a minimum period of three (3) years from the date they are created. Such records, books of account, and entries shall be kept in accordance with generally accepted accounting principles. Microsoft reserves the right, upon twenty-four (24) hours' notice, to audit Licensee's records and consult with Licensee's accountants for the purpose of verifying Licensee's compliance with the terms of this Agreement and for a period of two (2) years thereafter. Any such audit shall be made by Microsoft's internal audit team or any Microsoft designee, and shall be conducted during regular business hours at the Licensee's (or any applicable subcontractor's) offices. Any such audit shall be paid for by Microsoft unless material discrepancies are disclosed. "Material" shall mean * percent (*%) of the royalties due to Microsoft within the audit period. If material discrepancies are disclosed, Licensee agrees to pay Microsoft for the costs associated with the audit, as well as reimburse Microsoft for all over-charged amounts, plus interest at a rate of *% per annum.

6.5 Taxes.

6.5.1 The royalties to be paid by Licensee to Microsoft herein do not include any foreign, U.S. federal, state, local, municipal or other governmental taxes, customs and other duties, levies, fees, excises or tariffs, arising as a result of or in connection with the transactions contemplated under this Agreement including, without limitation, any state or local sales or use taxes or consumption tax or any value added tax or business transfer tax now or hereafter imposed on the provision of goods and services to Licensee by Microsoft under this Agreement, regardless of whether the same are separately stated by Microsoft (all such taxes and other charges being referred to herein as "Taxes"). All Taxes (and any penalties, interest, or other additions to any Taxes), with the exception of taxes imposed on Microsoft's net income or with respect to Microsoft's property ownership, shall be the financial responsibility of Licensee. Licensee agrees to indemnify, defend and hold Microsoft harmless from any such Taxes or claims, causes of action, costs (including, without limitation, reasonable attorneys' fees) and any other liabilities of any nature whatsoever related to such Taxes.

6.5.2 Licensee will pay all applicable value added, sales and use taxes and other taxes levied on it by a duly constituted and authorized taxing authority on the XDKs or any transaction related thereto in each country in which the services and/or property are being provided or in which the transactions contemplated hereunder are otherwise subject to tax, regardless of the method of delivery. Any taxes that are owed by Licensee, (i) as a result of entering into this Agreement and the payment of the fees hereunder, (ii) are required or permitted to be collected from Licensee by Microsoft under applicable law, and (iii) are based upon the amounts payable under this Agreement (such taxes described in (i), (ii), and (iii) above the "Collected Taxes"), shall be remitted by Licensee to Microsoft, whereupon, upon request, Microsoft shall provide to Licensee tax receipts or other evidence indicating that such Collected Taxes have been collected by Microsoft and remitted to the appropriate taxing authority. Licensee may provide to Microsoft an exemption certificate acceptable to Microsoft and to the relevant taxing authority (including without limitation a resale certificate) in which case, after the date upon which such certificate is received in proper form, Microsoft shall not collect the taxes covered by such certificate.

6.5.3 If, after a determination by foreign tax authorities, any taxes are required to be withheld, on payments made by Licensee to Microsoft, Licensee may deduct such taxes from the amount owed Microsoft and pay them to the appropriate taxing authority; provided however, that Licensee shall promptly secure and deliver to Microsoft an official receipt for any such taxes withheld or other documents necessary to enable Microsoft to claim a U.S. Foreign Tax Credit. Licensee will make certain that any taxes withheld are minimized to the extent possible under applicable law.

6.5.4 This tax Section 6.5 shall govern the treatment of all taxes arising as a result of or in connection with this Agreement notwithstanding any other section of this Agreement.

7. NON-DISCLOSURE; ANNOUNCEMENTS

7.1 Non-Disclosure Agreement. The information, materials and software exchanged by the parties hereunder or under an XDK License, including the terms and conditions hereof and of the XDK License, shall be subject to the Non-Disclosure Agreement between the parties attached hereto and incorporated herein by reference as Exhibit D.

7.2 Public Announcements. The parties contemplate that they will coordinate the issuance of initial press releases, or a joint press release, announcing the relationship established by the execution of this Agreement. However, neither party shall issue any such press release or make any such public announcement(s) without the express prior consent of the other party, which consent will not be unreasonably withheld or delayed. Furthermore, the parties agree to use their commercially reasonable efforts to coordinate in the same manner any subsequent press releases and public announcements relating to their relationship hereunder prior to the issuance of the same. Nothing contained in this Section 7.2 will relieve Licensee of any other obligations it may have under this Agreement, including without limitation its obligations to seek and obtain Microsoft approval of Art & Marketing Materials.

7.3 Required Public Filings. Notwithstanding Sections 7.1 and 7.2, the parties acknowledge that this Agreement, or portions thereof, may be required under applicable law to be disclosed, as part of or an exhibit to a party's required public disclosure documents. If either party is advised by its legal counsel that such disclosure is required, it will notify the other in writing and the parties will jointly seek confidential treatment of this Agreement to the maximum extent reasonably possible, in documents approved by both parties and filed with the applicable governmental or regulatory authorities, and/or Microsoft will prepare a redacted version of this Agreement for filing.

8. TERM AND TERMINATION

8.1 Term. The term of this Agreement shall commence on the Effective Date and unless terminated earlier as provided herein, shall continue until * (*) _____ after *.

8.2 Termination for Breach. In the event either party shall materially fail to perform or comply with this Agreement or any provision thereof, and fail to remedy the default within fifteen (15) days after the receipt of notice to that effect, then the other party shall have the right, at its sole option and upon written notice to the defaulting party, to terminate this Agreement upon written notice. Any notice of default hereunder shall be prominently labeled "NOTICE OF DEFAULT"; provided, however, that if the default is of Section 3 or 7.1 above, or an XDK License, then the non-defaulting party may terminate this Agreement immediately upon written notice, without being obligated to provide a fifteen-day cure period. The rights and remedies provided in this Section shall not be exclusive and are in addition to any other rights and remedies provided by law or this Agreement. If the uncured default is related to a particular Software Title, then the party not in default will have the right, in its discretion, to terminate this Agreement in its entirety or with respect to the applicable Software Title.

8.3 Termination for Creative Reasons. In the event that Microsoft determines, at any time prior to the Commercial Release of a Software Title, that such Software Title does not comply with the requirements set forth in the Xbox Guide, then Microsoft will have the right to terminate this Agreement, without cost or penalty, upon written notice to Licensee solely with respect to such Software Title, in Microsoft's sole discretion and notwithstanding any prior approvals given by Microsoft pursuant to Section 2 above.

8.4 Effect of Termination; Sell-off Rights. Upon termination or expiration of this Agreement, Licensee shall have no further right to exercise the rights licensed hereunder or otherwise acquired in relation to this Agreement and shall promptly return any and all copies of the Licensed Trademarks. Licensee shall have a period of * (*) months following expiration of this Agreement, or termination for a reason other than Licensee's breach, to sell-off its inventory of Finished Product Units existing as of the date of termination or expiration, after which sell-off period Licensee immediately shall destroy all Finished Product Units then in its possession or under its control. All of Licensee's obligations under this Agreement shall continue to apply during such * sell-off period. If this Agreement is terminated due to Licensee's breach, Licensee shall immediately destroy all Finished Product Units not yet distributed to Licensee's distributors, dealers and/or end users. If requested by Microsoft in writing, Licensee will deliver to Microsoft the written certification by an officer of Licensee confirming the destruction of Finished Product Units required hereunder.

8.5 Survival. The following provisions shall survive termination of this Agreement: 1, 3.6, 5.1, 5.3, 5.4, 6, 7, 8.4, 8.5, 9, 10, 11 and 12.

9. WARRANTIES

9.1 Licensee. Licensee warrants and represents that:

9.1.1 It has the full power to enter into this Agreement;

9.1.2 It has not previously and will not grant any rights to any third party that are inconsistent with the rights granted to Microsoft herein; and

9.1.3 The Software Title, Finished Product Units, Art & Marketing Materials (excluding those portions that consist of the Licensed Material, Licensed Trademarks, and redistributable components of the so-called "XDK" in the form as delivered to Licensee by Microsoft pursuant to an XDK License) do not and will not infringe upon or misappropriate any third party trade secrets, copyrights, trademarks, patents, publicity, privacy or other proprietary rights.

9.2 Microsoft. Microsoft warrants and represents that:

9.2.1 It has the full power to enter into this Agreement; and

9.2.2 It has not previously and will not grant any rights to any third party that are inconsistent with the rights granted to Licensee herein.

9.3 DISCLAIMER. EXCEPT AS EXPRESSLY STATED IN THIS SECTION 9, MICROSOFT PROVIDES ALL MATERIALS (INCLUDING WITHOUT LIMITATION THE SECURITY TECHNOLOGY) AND SERVICES HEREUNDER ON AN "AS IS" BASIS, AND MICROSOFT DISCLAIMS ALL OTHER WARRANTIES UNDER THE APPLICABLE LAWS OF ANY COUNTRY, EXPRESS OR IMPLIED, REGARDING THE MATERIALS AND SERVICES IT PROVIDES HEREUNDER, INCLUDING ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, OR WARRANTY OF FREEDOM FROM COMPUTER VIRUSES. WITHOUT LIMITATION, MICROSOFT PROVIDES NO WARRANTY OF NON-INFRINGEMENT.

9.4 LIMITATION OF LIABILITY. THE MAXIMUM LIABILTY OF MICROSOFT TO LICENSEE OR ANY THIRD PARTY ARISING OUT OF THIS AGREEMENT SHALL BE THE TOTAL AMOUNTS RECEIVED BY MICROSOFT HEREUNDER. FURTHERMORE, UNDER NO CIRCUMSTANCES SHALL MICROSOFT BE LIABLE TO LICENSEE FOR ANY DAMAGES WHATSOEVER WITH RESPECT TO ANY CLAIMS RELATING TO THE SECURITY TECHNOLOGY AND/OR ITS AFFECT ON ANY SOFTWARE TITLE.

10. INDEMNITY

10.1 Indemnification. A claim for which indemnity may be sought hereunder shall be referred to as a "Claim."

10.1.1 Mutual Indemnification. Each party hereby agrees to indemnify, defend, and hold the other party harmless from any and all claims, demands, costs, liabilities, losses, expenses and damages (including reasonable attorneys' fees, costs, and expert witnesses' fees) arising out of or in connection with any claim that, taking the claimant's allegations to be true, would result in a breach by the indemnifying party of any of its warranties and covenants set forth in Section 9.

10.1.2 Additional Licensee Indemnification Obligation. Licensee further agrees to indemnify, defend, and hold Microsoft harmless from any and all claims, demands, costs, liabilities, losses, expenses and damages (including reasonable attorneys' fees, costs, and expert witnesses' fees) arising out of or in connection with any claim regarding any Software Title or Finished Product Unit, including without limitation any claim relating to quality, performance, safety or conformance with the Certification Requirements, or arising out of Licensee's use of the Licensed Trademarks in breach of this Agreement.

10.2 Notice and Assistance. The indemnified party shall: (i) provide the indemnifying party reasonably prompt notice in writing of any Claim and permit the indemnifying party to answer and defend such Claim through counsel chosen and paid by the indemnifying party; and (ii) provide information, assistance and authority to help the indemnifying party defend such Claim. The indemnified party may participate in the defense of any Claim at its own expense. The indemnifying party will not be responsible for any settlement made by the indemnified party without the indemnifying party's written permission, which will not be unreasonably withheld or delayed. In the event the indemnifying party and the indemnified party agree to settle a Claim, the indemnified party agrees not to publicize the settlement without first obtaining the indemnifying party's written permission.

10.3 Insurance. Prior to distribution of any Software Title, Licensee at its sole cost and expense shall have endorsed Microsoft as an additional insured on Licensee's media perils errors and omissions liability policy for claims arising in connection with production, development and distribution of each Software Title in an amount no less than $ * on a per occurrence or per incident basis. Coverage provided to Microsoft under the policy shall be primary to and not contributory with any insurance maintained by Microsoft. Upon request, Licensee agrees to furnish copies of the additional insured endorsement and/or a certificate of insurance evidencing compliance with this requirement.

11. PROTECTION OF PROPRIETARY RIGHTS

11.1 Microsoft Intellectual Property. In the event Licensee learns of any infringement or imitation of the Licensed Trademarks, the Software Title or the Finished Product Units, or the proprietary rights in or related to any of them, it will promptly notify Microsoft thereof. Microsoft may take such action as it deems advisable for the protection of its rights in and to such proprietary rights, and Licensee shall, if requested by Microsoft, cooperate in all reasonable respects therein at Microsoft's expense. In no event, however, shall Microsoft be required to take any action if it deems it inadvisable to do so. Microsoft will have the right to retain all proceeds it may derive from any recovery in connection with such actions.

11.2 Licensee Intellectual Property. Licensee, without the express written permission of Microsoft, may bring any action or proceeding relating to this infringement or potential infringement, to the extent such infringement involves any proprietary rights of Licensee (provided that Licensee will not have the right to bring any such action or proceeding involving Microsoft's intellectual property). Licensee shall make reasonable efforts to inform Microsoft regarding such actions in a timely manner. Licensee will have the right to retain all proceeds it may derive from any recovery in connection with such actions. Licensee agrees to use all commercially reasonable efforts to protect and enforce its proprietary rights in the Software Title.

11.3 Joint Actions. Licensee and Microsoft may agree to jointly pursue cases of infringement involving the Software Titles (since such products will contain intellectual property owned by each of them). Unless the parties otherwise agree, or unless the recovery is expressly allocated between them by the court (in which case the terms of Sections 11.1 and 11.2 will apply), in the event Licensee and Microsoft jointly prosecute an infringement lawsuit under this provision, any recovery shall be used first to reimburse Licensee and Microsoft for their respective reasonable attorneys' fees and expenses, pro rata, and any remaining recovery shall also be given to Licensee and Microsoft pro rata based upon the fees and expenses incurred in bringing such action.

12. GENERAL

12.1 Governing Law; Venue; Attorneys Fees. This Agreement shall be construed and controlled by the laws of the State of Washington, U.S.A., and Licensee consents to exclusive jurisdiction and venue in the federal courts sitting in King County, Washington, U.S.A., unless no federal jurisdiction exists, in which case Licensee consents to exclusive jurisdiction and venue in the Superior Court of King County, Washington, U.S.A. Licensee waives all defenses of lack of personal jurisdiction and forum non conveniens. Process may be served on either party in the manner authorized by applicable law or court rule. If either party employs attorneys to enforce any rights arising out of or relating to this Agreement, the prevailing party shall be entitled to recover its reasonable attorneys' fees, costs and other expenses. This choice of jurisdiction provision does not prevent Microsoft from seeking injunctive relief with respect to a violation of intellectual property rights or confidentiality obligations in any appropriate jurisdiction.

12.2 Notices; Requests. All notices and requests in connection with this Agreement shall be deemed given as of the day they are (i) deposited in the U.S. mails, postage prepaid, certified or registered, return receipt requested; or (ii) sent by overnight courier, charges prepaid, with a confirming fax; and addressed as follows:

Licensee:	Take-2 Interactive 575 Broadway 3rd Floor New York, NY 10012
Attention:	Paul Eibeler
Fax:	(212) 224 6644
Phone:	(212) 334 6633, Ext. 202
Microsoft:	MICROSOFT CORPORATION One Microsoft Way Redmond, WA 98052-6399
Attention:	John Smith (Xbox)

with a cc to:	MICROSOFT CORPORATION One Microsoft Way Redmond, WA 98052-6399
Attention:	Law & Corporate Affairs Department Product Development & Marketing
Fax:	(425) 936-7329

or to such other address as the party to receive the notice or request so designates by written notice to the other.

12.3 Assignment. Licensee may not assign this Agreement or any portion thereof, to any third party unless Microsoft expressly consents to such assignment in writing. Microsoft will have the right to assign this Agreement and/or any portion thereof as Microsoft may deem appropriate. For the purposes of this Agreement, a merger, consolidation, or other corporate reorganization, or a transfer or sale of a controlling interest in a party's stock, or of all or substantially all of its assets shall be deemed to be an assignment. This Agreement will inure to the benefit of and be binding upon the parties, their successors, administrators, heirs, and permitted assigns.

12.4 No Partnership. Microsoft and Licensee are entering into a license pursuant to this Agreement and nothing in this Agreement shall be construed as creating an employer-employee relationship, a partnership, or a joint venture between the parties.

12.5 Severability. In the event that any provision of this Agreement is found invalid or unenforceable pursuant to judicial decree or decision, the remainder of this Agreement shall remain valid and enforceable according to its terms. The parties intend that the provisions of this Agreement be enforced to the fullest extent permitted by applicable law. Accordingly, the parties agree that if any provisions are deemed not enforceable, they shall be deemed modified to the extent necessary to make them enforceable.

12.6 Injunctive Relief. The parties agree that Licensee's threatened or actual unauthorized use of the Licensed Trademarks whether in whole or in part, may result in immediate and irreparable damage to Microsoft for which there is no adequate remedy at law, and that either party's threatened or actual breach of the confidentiality provisions may cause like damage to the nonbreaching party, and in such event the nonbreaching party shall be entitled to appropriate injunctive relief, without the necessity of posting bond or other security.

12.7 Entire Agreement; Modification; No Offer. The parties hereto agree that this Agreement (including all Exhibits hereto, and the Microsoft Non-Disclosure Agreement to the extent incorporated herein) and the Xbox Guide (as applicable from time to time) constitute the entire agreement between the parties with respect to the subject matter hereof and merges all prior and contemporaneous communications. It shall not be modified except by a written agreement dated subsequent hereto signed on behalf of Licensee and Microsoft by their duly authorized representatives. Neither this Agreement nor any written or oral statements related hereto constitute an offer, and this Agreement shall not be legally binding until executed by both parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the Effective Date on the dates indicated below.

MICROSOFT CORPORATION	TAKE-TWO INTERACTIVE SOFTWARE, INC.
/s/ J. Allard	/s/ Paul Eibeler
By (sign)	By (sign)
/s/ J. Allard	/s/ Paul Eibeler
Name (Print)	Name (Print)
Gen Mgr	President
Title	Title
1-24-01	1-02-01
Date	Date

Portions of this document indicated by an * have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment of such omitted information.

CONFIDENTIAL LICENSE AGREEMENT
FOR NINTENDO GAMECUBE
(Western Hemisphere)

THIS LICENSE AGREEMENT ("Agreement") is entered into between NINTENDO OF AMERICA INC. ("NOA") at 4820 150th Avenue N.E., Redmond, WA 98052 Attn: General Counsel (Fax: 425-882-3585) and Take Two Interactive Software, Inc. ("LICENSEE") at 575 Broadway, 3rd Floor, New York, NY 10012 Attn: Kristine Severson (Fax: (212) 334-6644). NOA and LICENSEE agree as follows:

1. RECITALS

1.1 NOA markets and sells advanced design, high-quality video game systems, including the "NINTENDO GAMECUBE(TM)" system.

1.2 LICENSEE desires use of the highly proprietary programming specifications, unique and valuable security technology, trademarks, copyrights and other valuable intellectual property rights of NOA and its parent company, Nintendo Co., Ltd., which rights are only available for use under the terms of a license agreement, to develop, have manufactured, advertise, market and sell video game software for play on the NINTENDO GAMECUBE system.

1.3 NOA is willing to grant a license to LICENSEE on the terms and conditions set forth in this Agreement.

2. DEFINITIONS

2.1 "Artwork" means the text and design specifications for the Game Disc label and the Printed Materials in the format specified by NOA in the Guidelines.

2.2 "Bulk Goods" means Game Discs that have been printed with the Game Disc label Artwork for delivery to LICENSEE without Printed Materials or other packaging.

2.3 "Check Disc(s)" means the pre-production Game Discs to be produced by Nintendo.

2.4 "Confidential Information" means the information described in Section 8.1.

2.5 "Development Tools" means the development kits, programming tools, emulators and other materials that may be used in the development of Games under this Agreement.

2.6 "Effective Date" means the last date on which all parties shall have signed this Agreement.

2.7 "Finished Goods" means Game Discs that have been fully assembled with the Printed Materials, cellophane wrapped and boxed for delivery to LICENSEE by NOA

2.8 "Game Discs(s)" means custom optical discs for play on the NINTENDO GAMECUBE system on which a Game has been stored.

2.9 "Game(s)" means interactive video game programs (including source and object/binary code) developed for play on the NINTENDO GAMECUBE system.

2.10 "Guidelines" means the then current version of the "NINTENDO GAMECUBE Development Manual," "NINTENDO GAMECUBE Packaging Guidelines," "Nintendo Trademark Guidelines" and the "Nintendo Game Content Guidelines", together with related guidelines provided by NOA to LICENSEE from time to time.

2.11 "Independent Contractor" means any individual or entity that is not an employee of LICENSEE, including any independent programmer, consultant, contractor, board member or advisor.

2.12 "Intellectual Property Rights" means individually, collectively or in any combination, Proprietary Rights owned, licensed or otherwise held by Nintendo that are associated with the development, manufacturing, advertising, marketing or sale of the Licensed Products, including, without limitation, (a) registered and unregistered trademarks and trademark applications used in connection with the NINTENDO GAMECUBE system including "Nintendo(R)", "NINTENDO GAMECUBE(TM)," "GCN" and "Official Nintendo Seal of Quality(R)", and (b) select trade dress associated with the NINTENDO GAMECUBE system and licensed video games for play thereon, (c) Proprietary Rights in the Security Technology employed in the Games or Game Discs by Nintendo, (d) rights in the Development Tools for use in developing the Games, excluding, however, rights to use, incorporate or duplicate select libraries, protocols and/or sound or graphic files associated with the Development Tools which belong to any third party, without obtaining any necessary licenses or consents, (e) patents, design registrations or copyrights which may be associated with the Game Discs or Printed Materials, (f) copyrights in the Guidelines, and (g) other Proprietary Rights of Nintendo in the Confidential Information.

2.13 "Licensed Products" means (a) Finished Goods, or (b) Bulk Goods after being assembled with the Printed Materials in accordance with the Guidelines by LICENSEE.

2.14 "Marketing Materials" means marketing, advertising or promotional materials developed by or for LICENSEE (or subject to LICENSEE's approval) that promote the sale of the Licensed Products, including but not limited to, television, radio and on-line advertising, point-of-sale materials (e.g., posters, counter-cards), package advertising, print media and all audio or video media other than the Game that is to be included on the Game Disc.

2.15 "NDA" means the non-disclosure agreement related to the NINTENDO GAMECUBE system previously entered into between NOA and LICENSEE.

2.16 "Nintendo" means NOA's parent company, Nintendo Co., Ltd., of Kyoto, Japan, individually or collectively with NOA.

2.17 "Notice" means any notice permitted or required under this Agreement. All notices shall be sufficiently given when (a) personally served or delivered, or (b) transmitted by facsimile, with an original sent concurrently by first class U.S. mail, or (c) deposited, postage prepaid, with a guaranteed air courier service, in each case addressed as stated herein, or addressed to such other person or address either party may designate in a Notice. Notice shall be deemed effective upon the earlier of actual receipt or two (2) business days after transmittal.

2.18 "Price Schedule" means the then current version of NOA's schedule of purchase prices and minimum order quantities for the Licensed Products.

2.19 "Printed Materials" means a plastic disc storage case, title page, instruction booklet, warranty card and poster incorporating the Artwork, together with a precautions booklet in the form specified by NOA.

2.20 "Promotional Disc(s)" means custom optical discs compatible with the NINTENDO GAMECUBE system that incorporate select game promotional or supplemental materials, as may be specified or permitted in the Guidelines.

2.21 "Proprietary Rights" means any rights or applications for rights owned, licensed or otherwise held in patents, trademarks, service marks, copyrights, mask works, trade secrets, trade dress, moral rights and publicity rights, together with all inventions, discoveries, ideas, technology, know-how, data, information, processes, formulas, drawings and designs, licenses, computer programs, software source code and object code, and all amendments, modifications, and improvements thereto for which such patent, trademark, service mark, copyright mask work, trade secrets, trade dress, moral rights or publicity rights may exist or may be sought and obtained in the future.

2.22 "Rebate Program" means any then current version of NOA's optional rebate program, establishing select terms for price rebates under this Agreement.

2.23 "Reverse Engineer(ing)" means, without limitation, (a) the x-ray, electronic scanning or physical or chemical stripping of semiconductor components, (b) the disassembly, decompilation, decryption or simulation of object code or executable code, or (c) any other technique designed to extract source code or facilitate the duplication of a program or product.

2.24 "Security Technology" means the highly proprietary security features incorporated by Nintendo into the Licensed Products to minimize the risk of unlawful copying and other unauthorized or unsafe usage, including, without limitation, any security signature, bios, data scrambling, password, hardware security apparatus, watermark, hologram, copyright management information system, proprietary manufacturing process or any feature which obstructs piracy, limits unlawful, unsafe or unauthorized use or facilitates or limits compatibility with other hardware or software outside of the Territory or on a different video game system.

2.25 "Term" means three (3) years from the Effective Date.

2.26 "Territory" shall mean all countries within the Western Hemisphere and their respective territories and possessions.

3. GRANT OF LICENSE; LICENSEE RESTRICTIONS

3.1 Limited License Grant. For the Term and for the Territory, NOA grants to LICENSEE a nonexclusive, nontransferable, limited license to use the Intellectual Property Rights to develop (or have developed on their behalf) Games for manufacture, advertising, marketing and sale as Licensed Products, subject to the terms and conditions of this Agreement. Except as permitted under a separate written authorization from Nintendo, LICENSEE shall not use the Intellectual Property Rights for any other purpose.

3.2 LICENSEE Acknowledgement. LICENSEE acknowledges (a) the value of the Intellectual Property Rights, (b) the right, title and interest of Nintendo in and to the Intellectual Property Rights, and (c) the right, title, and interest of Nintendo in and to the Proprietary Rights associated with all aspects of the NINTENDO GAMECUBE system. LICENSEE recognizes that the Games, Game Discs and Licensed Products will embody valuable rights of Nintendo and Nintendo's licensors. LICENSEE represents and warrants that it will not undertake any act or thing which in any way impairs or is intended to impair any part of the right, title, interest or goodwill of Nintendo in the Intellectual Property Rights. LICENSEE's use of the Intellectual Property Rights shall not create any right, title or interest of LICENSEE therein.

3.3 LICENSEE Restrictions and Prohibitions. LICENSEE represents and warrants that it will not at any time, directly or indirectly, do or cause to be done any of the following:

(a) grant access to, distribute, transmit or broadcast a Game by electronic means or by any other means known or hereafter devised, including, without limitation, by wireless, cable, fiber optic, telephone lines, microwave, radiowave, computer or other device network; provided, however, that limited transmissions may be made for the sole purpose of facilitating development under the terms of this Agreement, but no right of retransmission shall attach to any such authorized transmission and reasonable security measures, customary within the high technology industry, shall be utilized to reduce the risk of unauthorized interception or retransmission of any such authorized transmission,

(b) authorize or permit any online activities involving a Game, including, without limitation, multiplayer, peer-to-peer or online play,

(c) modify, install or operate a Game on any server or computing device for the purpose of or resulting in the rental, lease, loan or other grant of remote access to the Game,

(d) emulate, interoperate, interface or link a Game for operation or use with any hardware or software platform, accessory, computer language, computer environment, chip instruction set, consumer electronics device or device other than the NINTENDO GAMECUBE system or the Development Tools,

(e) embed, incorporate, or store a Game in any media or format except the optical disc format utilized by the NINTENDO GAMECUBE system, except as may be necessary as a part of the Game development process under this Agreement,

(f) design, implement or undertake any process, procedure, program or act designed to disable, obstruct, circumvent or otherwise diminish the effectiveness or operation of the Security Technology,

(g) utilize the Intellectual Property Rights to design or develop any interactive video game program, except as authorized under this Agreement,

(h) manufacture or reproduce a Game developed under this Agreement, except through Nintendo, or

(i) Reverse Engineer or assist in Reverse Engineering all or any part of the NINTENDO GAMECUBE system, including the hardware, software (embedded or not) or the Security Technology.

3.4 Nintendo Development Tools. NOA and Nintendo Co., Ltd. may lease, loan or sell Development Tools to LICENSEE to assist in the development of Games under this Agreement. LICENSEE acknowledges the exclusive interest of Nintendo in and to the Proprietary Rights associated with the Development Tools. LICENSEE's use of the Development Tools shall not create any right, title or interest of LICENSEE therein. LICENSEE shall not, directly or indirectly, (a) use the Development Tools for any purpose except the design and development of Games under this Agreement, (b) reproduce or create derivatives of the Development Tools, except in association with the development of Games under this Agreement, (c) Reverse Engineer the Development Tools, or (d) sell, lease, assign, lend, license, encumber or otherwise transfer the Development Tools. Any tools developed or derived by LICENSEE as a result of a study of the performance, design or operation of the Development Tools shall be considered a derivative work of the Intellectual Property Rights, but may be retained and utilized by LICENSEE in connection with this Agreement. In no event shall LICENSEE (i) seek, claim or file for any patent, copyright or other Proprietary Right with regard to any such derivative work, (ii) make available any such derivative work to any third party, or (iii) use any such derivative work except in connection with the design and development of Games under this Agreement.

3.5 Third Party Development Tools. NOA and Nintendo Co., Ltd. may authorize third parties to develop and market Development Tools to authorized developers of Games. Notwithstanding any referral or information provided or posted regarding such Development Tools, NOA and Nintendo Co., Ltd. make no representations or warranties with regard to any such third party Development Tools. Licensee acquires and utilizes such Development Tools at its own risk. LICENSEE shall not, directly or indirectly, use such Development Tools for any purpose except the design and development of Games under this Agreement. All Nintendo Proprietary Rights contained in or derived from such Development Tools shall remain owned by Nintendo.

3.6 Games Developed for Linked Play on Two Systems. In the event the Guidelines permit LICENSEE to develop a Game for simultaneous or linked play on the NINTENDO GAMECUBE system and on another Nintendo video game system, LICENSEE shall be required to acquire and maintain with NOA such additional licenses as are necessary for the use of the Proprietary Rights associated with such other Nintendo video game system.

4. SUBMISSION AND APPROVAL OF GAME AND ARTWORK

4.1 Submission of a Completed Game to NOA. Upon completion of a Game, LICENSEE shall deliver a prototype of the Game to NOA in a format specified in the Guidelines. Delivery shall be made in accordance with the methods approved in the Guidelines. Each Submission shall include such other information or documentation deemed necessary by NOA, including, without limitation, a complete set of written user instructions, a complete description of any security holes, backdoors, time bombs, cheats, "easter eggs" or other hidden features or characters in the Game and a complete screen text script. LICENSEE must establish that the Game and any other content included on the Game Disc complies with the Advertising Code of Conduct of the Entertainment Software Ratings Board ("ESRB") and has been rated EC, E, M or T by the ESRB.

4.2 Testing of a Completed Game. Upon submission of a completed Game, NOA and Nintendo Co, Ltd. shall promptly test the Game with regard to its technical compatibility with and error-free operation on the NINTENDO GAMECUBE system utilizing the lot check process. Within a reasonable period of time after receipt, NOA shall approve or disapprove such Game. If a Game is disapproved, NOA shall specify in writing the reasons for such disapproval and state what corrections are necessary. After making the necessary corrections, LICENSEE shall submit a revised Game to NOA for testing. NOA shall not unreasonably withhold or delay its approval of any Game. Neither the testing nor approval of a Game by NOA or Nintendo Co., Ltd. shall relieve LICENSEE of its sole responsibility for the development, quality and operation of the Game or in any way create any warranty for Licensed Product by NOA or Nintendo Co., Ltd.

4.3 Production of Check Discs. By submission of a completed Game to NOA in accordance with section 4.1, LICENSEE authorizes Nintendo to proceed with production of Check Discs for such Game. If NOA approves a Game, it shall promptly, and without further notification to or instruction from LICENSEE, submit such Game for the production of Check Discs. Unless otherwise advised by LICENSEE, following production of the Check Discs, NOA shall deliver to LICENSEE approximately ten (10) Check Discs for content verification, testing and final approval by LICENSEE.

4.4 Approval or Disapproval of Check Discs by LICENSEE. If, after review and testing, LICENSEE approves the Check Discs, it shall promptly transmit to NOA a signed authorization for production in the form specified in the Guidelines. If LICENSEE does not approve the sample Check Discs for any reason, LICENSEE shall advise NOA in writing and may, after undertaking any necessary changes or corrections, resubmit the Game to NOA for approval in accordance with the procedures set forth in this Section 4. The absence of a signed authorization form from LICENSEE within five (5) days after delivery of the Check Discs to LICENSEE shall be deemed disapproval of such Check Discs. Production of any order for Licensed Product shall not proceed without LICENSEE's signed authorization.

4.5 Cost of Disc Stamper Production. If LICENSEE (a) disapproves the Check Discs for any reason, or (b) fails to order the minimum order quantity of any Game approved by NOA, LICENSEE shall reimburse NOA (or its designee) for the reasonable estimated cost of the production of the Check Discs, including the cost of the disc stamper. The payment will be due upon the earlier of (a) the subsequent submission by LICENSEE of a revised version of the Game to NOA, or (b) six (6) months after the date the Game was first approved by NOA.

4.6 Submission and Approval of Artwork. Prior to submitting a completed Game to NOA under Section 4.1, LICENSEE shall submit to NOA all Artwork for the proposed Licensed Product. Within ten (10) business days of receipt, NOA shall approve or disapprove the Artwork. If any Artwork is disapproved, NOA shall specify in writing the reasons for such disapproval and state what corrections or improvements are necessary. After making the necessary corrections or improvements, LICENSEE shall submit revised Artwork to NOA for approval. NOA shall not unreasonably withhold or delay its approval of any Artwork. The approval of the Artwork by NOA shall not relieve LICENSEE of its sole responsibility for the development and quality of the Artwork or in any way create any warranty for the Artwork or the Licensed Product by NOA. All Artwork must be approved prior to submitting an order for the Licensed Product.

4.7 Artwork for Bulk Goods. If LICENSEE intends to submit an order for Bulk Goods, all Artwork shall be submitted to NOA in accordance with Section 4.6 herein. No Printed Materials shall be produced by LICENSEE until such Artwork has been approved by NOA.

4.8 Promotional Discs. In the event NOA issues Guidelines in the future that permit LICENSEE to develop and distribute Promotional Discs, either separately or as a part of the Licensed Product, the content and specifications of such Promotional Disc shall be subject to all of the terms and conditions of this Agreement, including, without limitation, the Guidelines, the Price Schedule and the submission and approval procedures provided for in this Section 4.

5. ORDER PROCESS, PURCHASE PRICE, PAYMENT AND DELIVERY

5.1 Submission of Orders by LICENSEE. After receipt of NOA's approval for a Game and Artwork, LICENSEE may at any time submit a written purchase order to NOA for such Game. The purchase order shall specify whether the order is for Finished Goods or Bulk Goods. The terms and conditions of this Agreement shall control over any contrary terms of such purchase order or any other written documentation or verbal instruction from LICENSEE. All orders shall be subject to acceptance by NOA in Redmond, WA.

5.2 Purchase Price and Minimum Order Quantities. The purchase price and minimum order quantities for the Licensed Products (both Finished Goods and Bulk Goods) shall be set forth in NOA's then current Price Schedule. Unless otherwise specifically provided for, the purchase price includes the cost of manufacturing a single Game Disc, together with a royalty for the use of the Intellectual Property Rights. No taxes, duties, import fees or other tariffs related to the development, manufacture, import, marketing or sale of the Licensed Products (except for taxes imposed on NOA's income) are included in the Purchase Price and all such taxes are the responsibility of LICENSEE. The Price Schedule is subject to change by NOA at any time without Notice.

5.3 Payment. Upon placement of an order with NOA, LICENSEE shall pay the full purchase price either (a) by tender of an irrevocable letter of credit in favor of NOA (or its designee) and payable at sight, issued by a bank acceptable to NOA and confirmed, if requested by NOA, at LICENSEE's expense, or (b) in cash, by wire transfer to an account designated by NOA. All letters of credit shall comply with NOA's written instructions and all associated banking charges shall be for LICENSEE's account.

5.4 Delivery of Finished Goods. Finished Goods shall be delivered to LICENSEE FCA North Bend, Washington USA, or such other delivery point within the continental United States as may be specified by NOA. Orders may be delivered in partial shipments, at NOA's option. Title to Finished Goods shall vest in LICENSEE at the point of delivery.

5.5 Delivery of Bulk Goods. Bulk Goods shall be delivered to LICENSEE FCA Torrance, California USA, or such other delivery point within the continental United States as may be specified by NOA. Orders may be delivered in partial shipments, at NOA's option. Title to Bulk Goods shall vest in LICENSEE at the point of delivery.

5.6 Rebate Program. NOA, at its sole option, may elect to offer LICENSEE a Rebate Program. The terms and conditions of any rebate program shall be subject to NOA's sole discretion. LICENSEE shall not be entitled to offset any claimed rebate amount against other amounts owing NOA. No interest shall be payable by NOA to LICENSEE on any claimed rebate. The Rebate Program is subject to change or cancellation by NOA at any time without Notice.

6. MANUFACTURE OF THE LICENSED PRODUCT

6.1 Manufacturing. Nintendo Co. Ltd. shall be the exclusive source for the manufacture of the Game Discs, Check Discs and Promotional Discs, with responsibility for all aspects of the manufacturing process, including the selection of the locations and specifications for any manufacturing facilities, determination of materials and processes, appointment of suppliers and subcontractors and management of all work-in-progress. Upon acceptance by NOA of a purchase order from LICENSEE and receipt of payment as provided for at Section 5.3 herein, NOA shall place the order with Nintendo Co., Ltd. who shall (through its suppliers and subcontractors) arrange for the manufacture of the Licensed Product.

6.2 Security Features. The final release version of the Game, the Game Disc and the Printed Materials shall include such Security Technology as Nintendo, in its sole discretion, deems necessary or appropriate to (a) reduce the risk of unlawful copying or other unlawful, unsafe or unauthorized uses, (b) protect the Proprietary Rights of Nintendo and of the LICENSEE, (c) promote consumer confidence, and (d) increase the quality, reliability or operation of the NINTENDO GAMECUBE system.

6.3 Bulk Goods Orders. LICENSEE may elect to order Bulk Goods under the terms of this Agreement, in which event LICENSEE shall arrange and pay for the production of the Printed Materials and the final assembly of the Licensed Product in accordance with the Guidelines.

6.4 Printed Materials for Bulk Goods. Upon delivery to LICENSEE of Bulk Goods, LICENSEE shall assemble the Printed Materials and Game Discs into the Licensed Products in accordance with the Guidelines. No other materials, items, products or packaging may be included in the assembled Bulk Goods without NOA's prior written consent. Bulk Goods may be sold or distributed by LICENSEE only when fully assembled in accordance with the Guidelines.

6.5 Prior Approval of LICENSEE's Independent Contractors. Prior to the placement of a purchase order for Bulk Goods, LICENSEE shall obtain NOA's approval of any Independent Contractors selected to perform the production and assembly operations. LICENSEE shall provide NOA with the names, addresses and all business documentation reasonably requested by NOA for such Independent Contractors. NOA may, prior to approval and at reasonable intervals thereafter, (a) require submission of additional business or financial information regarding the Independent Contractors, (b) inspect applicable facilities of the Independent Contractors, and (c) be present to supervise any work on the Licensed Products to be done by the Independent Contractors. If at any time NOA deems the Independent Contractor to be unable to meet quality, security or performance standards reasonably established by NOA, NOA may refuse to grant its approval or withdraw its approval upon Notice to LICENSEE. LICENSEE may not proceed with the production of the Printed Materials or assembly of the Licensed Product until NOA's concerns have been resolved to its satisfaction or until LICENSEE has selected and received NOA's approval of another Independent Contractor. NOA may establish preferred or required supply sources for select components of the Printed Materials, which sources shall be deemed preapproved in accordance with this Section 6.5. LICENSEE shall comply with all sourcing requirements established by NOA.

6.6 NOA Inserts for Bulk Goods. NOA, at its option, may provide LICENSEE with NOA produced promotional materials (as provided for at Section 7.7(a) herein), which LICENSEE agrees to include in the assembly of the Bulk Goods.

6.7 Sample Printed Materials for Bulk Goods. Within a reasonable period of time after LICENSEE's assembly of an initial order for a Bulk Goods title, LICENSEE shall provide NOA with (a) six (6) samples of the fully assembled Licensed Product, and (b) seventy (70) samples of the LICENSEE produced Printed Materials (excluding the plastic disc storage case, warranty card, poster and precautions booklet) for such Bulk Goods.

6.8 Retention of Sample Licensed Products by NOA. NOA or Nintendo may, at their own expense, manufacture reasonable quantities of the Game Discs, the Printed Materials or the Licensed Products to be used for archival purposes, legal proceedings against infringers of the Intellectual Property Rights and for other lawful purposes.

7. MARKETING AND ADVERTISING

7.1 Approval of Marketing Materials. LICENSEE represents and warrants that the Printed Materials and the Marketing Materials shall be of high quality and comply with (a) the Guidelines, (b) the Advertising Code of Conduct and the Principles and Guidelines for Responsible Advertising of the ESRB, and (c) all applicable laws and regulations in those jurisdictions in the Territory where they will be used or distributed. All LICENSEE controlled websites featuring the Games shall adopt a privacy policy that has been certified by the Federal Trade Commission to comply with the Children's Online Privacy Protection Act. Prior to actual use or distribution, LICENSEE shall submit to NOA for review samples of all proposed Marketing Materials. NOA shall, within ten (10) business days of receipt, approve or disapprove of the quality of such samples. If any of the samples are disapproved, NOA shall specify the reasons for such disapproval and state what corrections and/or improvements are necessary. After making the necessary corrections and/or improvements, LICENSEE shall submit revised samples for approval by NOA. No Marketing Materials shall be used or distributed by LICENSEE without NOA's prior written approval. NOA shall not unreasonably withhold or delay its approval of any proposed Marketing Materials.

7.2 No Bundling. LICENSEE shall not market or distribute any Finished Goods or Bulk Goods that have been bundled with (a) any peripheral designed for use with the NINTENDO GAMECUBE system that has not been licensed or approved in writing by NOA, or (b) any other product or service where NOA's association or endorsement might be suggested by bundling the products or services.

7.3 Warranty and Repair. LICENSEE shall provide the original consumer with a minimum ninety (90) day limited warranty on all Licensed Products. LICENSEE shall also provide reasonable product service, including out-of-warranty service, for all Licensed Products. LICENSEE shall make such warranty and repair information available to consumers as required by applicable federal and state law.

7.4 Business Facilities. LICENSEE agrees to develop and maintain (a) suitable office facilities within the United States, adequately staffed to enable LICENSEE to fulfill all responsibilities under this Agreement, (b) necessary warehouse, distribution, marketing, sales, collection and credit operations to facilitate proper handling of the Licensed Product, and (c) customer service and game counseling, including telephone service, to adequately support the Licensed Products.

7.5 No Sales Outside the Territory. LICENSEE represents and warrants that it shall not market, sell, offer to sell, import or distribute the Licensed Products outside the Territory, or within the Territory when with actual or constructive knowledge that a subsequent destination of the Licensed Product is outside the Territory.

7.6 Defects and Recall. In the event of a material programming defect in a Licensed Product that would, in NOA's reasonable judgment, significantly impair the ability of a consumer to play the Game, NOA may, after consultation with LICENSEE, require the LICENSEE to recall the Licensed Product and undertake suitable repairs or replacements.

7.7 NOA Promotional Materials, Publications and Events. At its option, NOA may (a) insert in the Printed Materials for the Licensed Products promotional materials concerning Nintendo Power magazine or other NOA products, services or programs, (b) utilize screen shots, Artwork and information regarding the Licensed Products in Nintendo Power, Nintendo Power Source or other advertising, promotional or marketing media, which promotes NOA products, services or programs, and (c) exercise public performance rights in the Games and use related trademarks and Artwork in connection with NOA sponsored contests, tours, conventions, trade shows, press briefings and similar events which promote the NINTENDO GAMECUBE system.

7.8 Nintendo Gateway System. To promote and increase demand for games on Nintendo video game systems, NOA licenses select games in various non-coin activated commercial settings such as commercial airlines, cruise ships, rail systems and hotels, where customers play games on specially adapted Nintendo video game hardware referred to as the "Nintendo Gateway System". If NOA identifies a Game for possible license on the Nintendo Gateway System, the parties agree to conduct good faith negotiations to determine commercially reasonable terms for such participation.

8. CONFIDENTIAL INFORMATION

8.1 Definition. Confidential Information means information provided to LICENSEE by Nintendo or any third party working with Nintendo relating to the hardware and software for the NINTENDO GAMECUBE system or the Development Tools, including, but not limited to, (a) all current or future information, know-how, techniques, methods, information, tools, emulator hardware or software, software development specifications, proprietary manufacturing processes and/or trade secrets, (b) any information on patents or patent applications, (c) any business, legal, marketing or sales data or information, and (d) any other information or data relating to development, design, operation, manufacturing, marketing or sales. Confidential Information shall include all confidential information disclosed, whether in writing, orally, visually, or in the form of drawings, technical specifications, software, samples, pictures, models, recordings, or other tangible items which contain or manifest, in any form, the above listed information. Confidential Information shall not include (i) data and information which was in the public domain prior to LICENSEE's receipt of the same hereunder, or which subsequently becomes part of the public domain by publication or otherwise, except by LICENSEE's wrongful act or omission, (ii) data and information which LICENSEE can demonstrate, through written records kept in the ordinary course of business, was in its possession without restriction on use or disclosure, prior to its receipt of the same hereunder and was not acquired directly or indirectly from Nintendo under an obligation of confidentiality which is still in force, and (iii) data and information which LICENSEE can show was received by it from a third party who did not acquire the same directly or indirectly from Nintendo and to whom LICENSEE has no obligation of confidentiality.

8.2 Disclosures Required by Law. LICENSEE shall be permitted to disclose Confidential Information if such disclosure is required by an authorized governmental or judicial entity, provided that LICENSEE shall notify NOA at least thirty (30) days prior to such disclosure. LICENSEE shall use its best efforts to limit the disclosure to the greatest extent possible consistent with LICENSEE's legal obligations, and if required by NOA, shall cooperate in the preparation and entry of appropriate protective orders.

8.3 Disclosure and Use. NOA may provide LICENSEE with highly confidential development information, Guidelines, Development Tools, systems, specifications and related resources and information constituting and incorporating the Confidential Information to assist LICENSEE in the development of Games. LICENSEE agrees to maintain all Confidential Information as strictly confidential and to use such Confidential Information only in accordance with this Agreement. LICENSEE shall limit access to the Confidential Information to LICENSEE's employees having a strict need to know and shall advise such employees of their obligation of confidentiality as provided herein. LICENSEE shall require each such employee to retain in confidence the Confidential Information pursuant to a written non-disclosure agreement between LICENSEE and such employee. LICENSEE shall use its best efforts to ensure that its employees working with or otherwise having access to Confidential Information shall not disclose or make any unauthorized use of the Confidential Information.

8.4 Independent Contractor Use. LICENSEE shall not disclose the Confidential Information, the Guidelines or the Intellectual Property Rights to any Independent Contractor, nor permit any Independent Contractor to perform or assist in development work for a Game, nor utilize any Development Tools without NOA's prior written consent. Each approved Independent Contractor shall be required to enter into a written non-disclosure agreement with NOA prior to receiving any access to or disclosure of such materials from either LICENSEE or NOA.

8.5 Agreement Confidentiality. LICENSEE agrees that the terms, conditions and contents of this Agreement shall be treated as Confidential Information. Any public announcement or press release regarding this Agreement or the release dates for Games developed by LICENSEE under this Agreement shall be subject to NOA's prior written approval. The parties may disclose this Agreement (a) to accountants, banks, financing sources, lawyers, parent companies and related parties under substantially equivalent confidentiality obligations, (b) in connection with any formal legal proceeding for the enforcement of this Agreement, (c) as required by the regulations of the Securities and Exchange Commission ("SEC"), provided that all Confidential Information regarding NOA shall be redacted from such disclosures to the maximum extent allowed by the SEC, and (d) in response to lawful process, subject to a written protective order approved in advance by NOA.

8.6 Notification Obligations. LICENSEE shall promptly notify NOA of the unauthorized use or disclosure of any Confidential Information and shall promptly act to recover any such information and prevent further breach of the obligations herein. The obligations of LICENSEE set forth herein are in addition to and not in lieu of any other legal remedy that may be available to NOA under this Agreement or applicable law.

8.7 Continuing Effect of the NDA. The terms of this Section 8 supplement the terms of the NDA, which shall remain in effect. In the event of a conflict between the terms of the NDA and this Agreement, the provisions of this Agreement shall control.

9. REPRESENTATIONS AND WARRANTIES

9.1 LICENSEE's Representations and Warranties. LICENSEE represents and warrants that:

(a) it is a duly organized and validly existing corporation and has full authority to enter into this Agreement and to carry out the provisions hereof,

(b) the execution, delivery and performance of this Agreement by LICENSEE does not conflict with any agreement or understanding to which LICENSEE may be bound, and

(c) excluding the Intellectual Property Rights, LICENSEE is either (i) the sole owner of all right, title and interest in and to the trademarks, copyrights and all other Proprietary Rights incorporated into the Game or the Artwork or used in the development, advertising, marketing and sale of the Licensed Products or the Marketing Materials, or (ii) the holder of such rights, including trademarks, copyrights and all other Proprietary Rights which belong to any third party but have been licensed from such third party by LICENSEE, as are necessary for incorporation into the Game or the Artwork or as are used in the development, advertising, marketing and sale of the Licensed Products or the Marketing Materials under this Agreement.

9.2 NOA's Representations and Warranties. NOA represents and warrants that:

(a) it is a duly organized and validly existing corporation and has full authority to enter into this Agreement and to carry out the provisions hereof, and

(b) the execution, delivery and performance of this Agreement by NOA does not conflict with any agreement or understanding to which NOA may be bound.

9.3 INTELLECTUAL PROPERTY RIGHTS DISCLAIMER. NOA (ON ITS OWN BEHALF AND ON BEHALF OF NINTENDO CO., LTD. AND ITS AFFILIATES, LICENSORS, SUPPLIERS AND SUBCONTRACTORS) EXPRESSLY DISCLAIMS ALL representationS AND warrantIES concerning the scope or validity of the Intellectual Property Rights. NOA (ON ITS OWN BEHALF AND ON BEHALF OF ninTENDO CO., LTD. AND ITS AFFILIATES, LICENSORS, SUPPLIERS AND SUBCONTRACTORS) EXPRESSLY DISCLAIMS ANY warrantY that the design, development, advertising, marketing or sale of the Licensed Products or the use of the Intellectual Property Rights by LICENSEE will not infringe upon ANY patent, copyright, trademark or other proprietary rights of a third party. any warranty that may be provided in any applicable provision of the uniform commerCIal code or any other comparable law or statute is expressly DISCLAIMED. licensee herEBY ASSUMES THE RISK OF INFRINGEMENT.

9.4 GENERAL DISCLAIMER. NOA (ON ITS OWN BEHALF AND ON BEHALF OF NINTENDO CO., LTD. AND ITS AFFILIATES, LICENSORS, SUPPLIERS AND SUBCONTRACTORS) EXPRESSLY DISCLAIMS ANY AND ALL WARRANTIES WITH RESPECT TO THE GAME DISCS AND THE LICENSED PRODUCTS, INCLUDING, WITHOUT LIMITATION, THE SECURITY TECHNOLOGY. LICENSEE PURCHASES AND ACCEPTS ALL GAME DISCS AND LICENSED PRODUCTS ON AN "AS IS" AND "WHERE IS" BASIS. NOA (ON ITS OWN BEHALF AND ON BEHALF OF NINTENDO CO., LTD. AND ITS AFFILIATES, LICENSORS, SUPPLIERS AND SUBCONTRACTOR) EXPRESSLY DISCLAIMS ALL WARRANTIES UNDER THE APPLICABLE LAWS OF ANY COUNTRY, EXPRESS OR IMPLIED, INCLUDING IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A GENERAL OR PARTICULAR PURPOSE.

9.5 LIMITATION OF LIABILITY. TO THE MAXIMUM EXTENT PERMITTED BY LAW, NEITHER NOA NOR NINTENDO CO., LTD. (NOR THEIR AFFILIATES, LICENSORS, SUPPLIERS OR SUBCONTRACTORS) SHALL BE LIABLE FOR LOSS OF PROFITS, OR FOR ANY SPECIAL, PUNITIVE, INCIDENTAL OR CONSEQUENTIAL DAMAGES OF LICENSEE OR ITS CUSTOMERS ARISING OUT OF OR RELATED TO THIS AGREEMENT, INCLUDING, WITHOUT LIMITATION, THE BREACH OF THIS AGREEMENT BY NOA, THE MANUFACTURE OF THE LICENSED PRODUCTS OR THE USE OF THE LICENSED PRODUCTS ON ANY NINTENDO VIDEO GAME SYSTEM BY LICENSEE OR BY ANY END USER.

10. INDEMNIFICATION

10.1 LICENSEE's Indemnification. LICENSEE shall indemnify and hold harmless NOA and Nintendo Co., Ltd. (and any of their respective affiliates, subsidiaries, licensors, suppliers, officers, directors, employees or agents) from any claims, losses, liabilities, damages, expenses and costs, including, without limitation, reasonable attorneys' fees and costs and any expenses incurred in the settlement or avoidance of any such claim, which result from or are in connection with:

(a) a breach of any of the provisions, representations or warranties undertaken by LICENSEE in this Agreement,

(b) any infringement of a third party's Proprietary Rights as a result of the design, development, advertising, marketing, sale or use of any aspect of the Licensed Products, Promotional Materials or the Marketing Materials,

(c) any claims alleging a defect, failure to warn, bodily injury (including death) or other personal or property damage arising out of, or in connection with, the design, development, advertising, marketing, sale or use of any of any aspect of the Licensed Products, and

(d) any federal, state or foreign civil or criminal actions relating to the design, development, advertising, marketing, sale or use of any aspect of the Licensed Products, Promotional Materials or the Marketing Materials.

NOA and LICENSEE shall give prompt Notice to the other of any claim which is or which may be subject to indemnification under this Section 10.1. With respect to any such third party claim, LICENSEE, as indemnitor, shall have the right to select counsel and to control the defense and/or settlement thereof. NOA may, at its own expense, participate in such action or proceeding with counsel of its own choice. LICENSEE shall not enter into any settlement of any matter in which (i) NOA or Nintendo Co., Ltd. has been named as a party, or (ii) claims relating to the Intellectual Property Rights have been asserted, without NOA's prior written consent. NOA shall provide reasonable assistance to LICENSEE in its defense of any such claim.

10.2 LICENSEE's Insurance. LICENSEE shall, at its own expense, obtain a comprehensive policy of general liability insurance (including coverage for advertising injury and product liability claims) from a recognized insurance company. Such policy of insurance shall be in an amount of not less than Five Million Dollars ($5,000,000 US) on a per occurrence basis and shall provide for adequate protection against any suits, claims, loss or damage by the Licensed Products. Such policy shall name NOA and Nintendo Co., Ltd. as additional insureds and shall specify it may not be canceled without thirty (30) days' prior written Notice to NOA. If LICENSEE fails to maintain such insurance at any time during the Term and for a period of two (2) years thereafter, NOA may secure such insurance at LICENSEE's expense.

10.3 Suspension of Production. In the event NOA deems itself at risk with respect to any claim, action or proceeding under this Section 10, NOA may, at its sole option, suspend production, delivery or order acceptance for any Licensed Products, in whole or in part, pending resolution of such claim, action or proceeding.

11. PROTECTION OF PROPRIETARY RIGHTS

11.1 Joint Actions against Infringers. LICENSEE and NOA may agree to jointly pursue cases of infringement involving of the Licensed Products, as such Licensed Products will contain Proprietary Rights owned by each of them. Unless the parties otherwise agree, or unless the recovery is expressly allocated between them by the court, in the event of such an action, any recovery shall be used first to reimburse LICENSEE and NOA for their respective reasonable attorneys' fees and costs, pro rata, and any remaining recovery shall be distributed to LICENSEE and NOA, pro rata, based upon the fees and costs incurred in bringing such action.

11.2 Actions by LICENSEE. LICENSEE, without the consent of NOA, may bring any action or proceeding relating to an infringement or potential infringement of LICENSEE's Proprietary Rights in the Licensed Products. LICENSEE shall make reasonable good faith efforts to inform NOA of such actions in a timely manner. LICENSEE will have the right to retain all proceeds it may derive from any recovery in connection with such actions.

11.3 Actions by NOA. NOA, without the consent of LICENSEE, may bring any action or proceeding relating to an infringement or potential infringement of NOA's Intellectual Property Rights in the Licensed Products. NOA shall make reasonable, good faith efforts to inform LICENSEE of such actions likely to affect LICENSEE's rights in a timely manner. NOA will have the right to retain all proceeds it may derive from any recovery in connection with such actions.

12. ASSIGNMENT

12.1 No Assignment by LICENSEE. This Agreement is personal to LICENSEE and may not be sold, assigned, delegated, sublicensed or otherwise transferred or encumbered, in whole or in part, without NOA's prior written consent, which consent may be withheld by NOA in its sole discretion. In the event of an assignment or other transfer in violation of this Agreement, NOA shall have the unqualified right to immediately terminate this Agreement without further obligation to LICENSEE.

12.2 Assignment by Operation of Law. In the event of an assignment by operation of law which purports to affect this Agreement, LICENSEE shall, not later than thirty (30) days thereafter, give Notice and seek consent thereto from NOA. Such Notice shall disclose the name of the assignee, the effective date and the nature and extent of the assignment. An assignment by operation of law includes, but is not limited to (a) a merger of LICENSEE into another business entity or a merger of another business entity into LICENSEE, (b) the sale, assignment or transfer of all or substantially all of the assets of LICENSEE to a third party, (c) the sale, assignment or transfer to a third party of any of the LICENSEE's intellectual property rights which are used in the development of or are otherwise incorporated into any Licensed Products, or (d) the sale, assignment or transfer of any of LICENSEE's stock resulting in the acquirer having management power over or voting control of LICENSEE. Following the later of (i) an assignment by operation of law, or (ii) receipt of Notice of an assignment by operation of law, NOA shall have the unqualified right for a period of ninety (90) days to immediately terminate this Agreement without further obligation to LICENSEE.

12.3 Non-Disclosure Obligation. In no event shall LICENSEE disclose or allow access to Nintendo's Confidential Information prior to or upon the occurrence of an assignment, whether by operation of law or otherwise, unless and until NOA gives its written consent to such disclosure.

13. TERM AND TERMINATION

13.1 Term. This Agreement shall commence on the Effective Date and continue for the Term, unless earlier terminated as provided for herein.

13.2 Default or Breach. In the event that either party is in default or commits a breach of this Agreement, which is not cured within thirty (30) days after Notice thereof, then this Agreement shall automatically terminate on the date specified in such Notice.

13.3 Bankruptcy. At NOA's option, this Agreement may be terminated immediately and without Notice in the event that LICENSEE (a) makes an assignment for the benefit of creditors, (b) becomes insolvent, (c) files a voluntary petition for bankruptcy, (d) acquiesces to any involuntary bankruptcy petition, (e) is adjudicated as a bankrupt, or (f) ceases to do business.

13.4 Termination Other Than by Breach. Upon the expiration of this Agreement or its termination other than by LICENSEE's breach, LICENSEE shall have a period of * (*) * to sell any unsold Licensed Products. All Licensed Products in LICENSEE's control following the expiration of such sell-off period shall be destroyed by LICENSEE within ten (10) days and Notice of such destruction (with proof certified by an officer of LICENSEE) shall be delivered to NOA.

13.5 Termination by LICENSEE's Breach. If this Agreement is terminated by NOA as a result of a breach of its terms and conditions by LICENSEE, LICENSEE shall immediately cease all distribution, advertising, marketing or sale of any Licensed Products. All Licensed Products in LICENSEE's control as of the date of such termination shall be destroyed by LICENSEE within ten (10) days and Notice of such destruction (with proof certified by an officer of LICENSEE) shall be delivered to NOA.

13.6 Breach of NDA or other NOA License Agreements. At NOA's option, any breach by LICENSEE of (a) the NDA, or (b) any other license agreement between NOA and LICENSEE relating to the development of games for any Nintendo video game system, which breach is not cured within the time period for cure allowed under the applicable agreement, shall be considered a material breach of this Agreement entitling NOA to terminate this Agreement in accordance with Section 13.5 herein.

13.7 No Further Use of the Intellectual Property Rights. Upon expiration and/or termination of this Agreement, LICENSEE shall cease all use of the Intellectual Property Rights for any purpose, except as may be required in connection with the sale of the Licensed Products authorized under Section 13.4 herein. LICENSEE shall, within thirty (30) days thereafter, (a) return to NOA all Development Tools, and (b) return to NOA or destroy all Guidelines, writings, drawings, models, data, tools and other materials and things in LICENSEE's possession or in the possession of any past or present employee, agent or contractor receiving the information through LICENSEE, which constitute or relate to or disclose any Confidential Information, without making copies or otherwise retaining any such information. Proof of such return or destruction shall be certified by an officer of LICENSEE and promptly provided to NOA.

13.8 Termination by NOA's Breach. If this Agreement is terminated by LICENSEE as a result of a breach of its terms or conditions by NOA, LICENSEE may continue to sell the Licensed Products in the Territory until the expiration of the Term, at which time the provisions of Section 13.4 shall apply.

14. GENERAL PROVISIONS

14.1 Export Control. LICENSEE agrees to comply with the export laws and regulations of the United States and any other country with jurisdiction over the Licensed Products or the Development Tools.

14.2 Force Majeure. Neither party shall be liable for any breach of this Agreement occasioned by any cause beyond the reasonable control of such party, including governmental action, war, riot or civil commotion, fire, natural disaster, labor disputes, restraints affecting shipping or credit, delay of carriers, inadequate supply of suitable materials, or any other cause which could not with reasonable diligence be controlled or prevented by the parties. In the event of material shortages, including shortages of materials or production facilities necessary for production of the Licensed Products, NOA reserves the right to allocate such resources among itself and its licensees.

14.3 Records and Audit. During the Term and for a period of two (2) years thereafter, LICENSEE agrees to keep accurate, complete and detailed records relating to the use of the Confidential Materials, the Development Tools and the Intellectual Property Rights. Upon reasonable Notice to LICENSEE, NOA may, at its expense, audit LICENSEE's records, reports and other information related to LICENSEE's compliance with this Agreement; provided, however, that NOA shall not, during the course of the audit, access LICENSEE's source code, development plans, marketing plans, internal business plans or other items deemed confidential by LICENSEE, except to the extent such materials incorporate, disclose or reference Nintendo's Confidential Information or Intellectual Property Rights.

14.4 Waiver, Severability, Integration, and Amendment. The failure of a party to enforce any provision of this Agreement shall not be construed to be a waiver of such provision or of the right of such party to thereafter enforce such provision. In the event that any term, clause or provision of this Agreement shall be construed to be or adjudged invalid, void or unenforceable, such term, clause or provision shall be construed as severed from this Agreement, and the remaining terms, clauses and provisions shall remain in effect. Together with the NDA, this Agreement constitutes the entire agreement between the parties relating to the subject matter hereof. All prior negotiations, representations, agreements and understandings are merged into, extinguished by and completely expressed by this Agreement and the NDA. Any amendment to this Agreement shall be in writing, signed by both parties.

14.5 Survival. In addition to those rights specified elsewhere in this Agreement, the rights and obligations set forth in Sections 3, 8, 9, 10, 11, 12 and 13 shall survive any expiration or termination of this Agreement to the degree necessary to permit their complete fulfilment or discharge.

14.6 Governing Law and Venue. This Agreement shall be governed by the laws of the State of Washington, without regard to its conflict of laws principles. Any legal actions (including judicial and administrative proceedings) with respect to any matter arising under or growing out of this Agreement, shall be brought in a court of competent jurisdiction in King County, Washington. Each party hereby consents to the jurisdiction and venue of such courts for such purposes.

14.7 Equitable Relief. LICENSEE acknowledges that in the event of its breach of this Agreement, no adequate remedy at law may be available to NOA and that NOA shall be entitled to seek injunctive or other equitable relief in addition to any relief available at law.

14.8 Attorneys' Fees. In the event it is necessary for either party to this Agreement to undertake legal action to enforce or defend any action arising out of or relating to this Agreement, the prevailing party in such action shall be entitled to recover from the other party all reasonable attorneys' fees, costs and expenses relating to such legal action or any appeal therefrom.

14.9 Counterparts and Signature by Facsimile. This Agreement may be signed in counterparts, which shall together constitute a complete Agreement. A signature transmitted by facsimile shall be considered an original for purposes of this Agreement.

IN WITNESS WHEREOF, the parties have entered into this Agreement on the dates set forth below.

NOA:	LICENSEE:
NINTENDO OF AMERICA INC.	TAKE TWO INTERACTIVE SOFTWARE, INC.
By: /s/ John H. Baum	By: /s/ Kelly Sumner
Title: Executive VP, Administration	Title: Chief Executive Officer
Date: 12-07-01	Date: 11-29-01

Portions of this document indicated by an *
have been omitted and filed separately with
the Securities and Exchange Commission
pursuant to a request for confidential
treatment of such omitted information.

NINTENDO OF AMERICA INC.
PRICE SCHEDULE
NINTENDO GAMECUBE LICENSED DISCS

PRICING
- -------

Single Game Discs	Licensee Price ($USD)
Finished Goods	$* (includes instruction booklet up to * pages)
Finished Goods	$* (includes instruction booklet up to * pages)
Bulk Goods	$*

Game Disc Payment Terms: Letter of Credit or Wire Transfer.
- -----------------------

Game Disc Minimum Order Quantities:
- ----------------------------------

	Finished Goods	Bulk Goods
Initial Order Minimum	*	*
Reorder Minimum	*	*

Game Disc Delivery Terms:
- ------------------------

Finished Goods - FCA North Bend, Washington. Includes Game disc, plastic disc case, title page, instruction booklet, precaution booklet, warranty card and poster.

Bulk Goods - FCA Torrance, California. Includes Game disc only.

Extra Packaging:
- ---------------

To order extra packaging for a Finished Goods title, please send a separate purchase order to NOA's Licensing Department, attention Kris Gustafson. Pricing is as follows:

Instruction Booklet (up to * pages)	$*
Instruction Booklet (up to * pages)	$*
Title Page	$*
Warranty Card	$*
Poster	$*

If an order for extra packaging is placed at the same time as an order for Finished Goods of the same Game title, there is no minimum order quantity. If an order for extra packaging is placed at any other time, the minimum order quantity is * per item.

Extra Packaging Terms: Net * days

ALL PRICES ARE SUBJECT TO CHANGE WITHOUT NOTICE BY NINTENDO
EFFECTIVE September 24, 2001

Portions of this document indicated by an * have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment of such omitted information.

NINTENDO OF AMERICA INC.
VOLUME DISCOUNT REBATE PROGRAM
NINTENDO GAMECUBE

Number of Game Discs Ordered	Rebate Amount ($USD)
*	*
*	*
*	*
*	*
*	*
*	*

Effective: Effective for * (*) * from the date of the first purchase order for a specific Game title.

QUALIFYING FOR ORDERS: Rebates under this Volume Discount Rebate Program are determined on a per title basis and do not include Promotional Discs or Check Discs. Finished Goods and Bulk Goods both qualify for this Rebate Program.

Terms: Volume discount unit prices may be reflected on licensee purchase orders and letters of credit immediately when earned. The cumulative calculation period will be in effect for * (*) * from the date of the initial order of each Game title. At the end of the * (*) * term, the price for all future orders of the specific Game title will be at the "Lowest Period Volume Price." This price will be indicated on a rebate report sent monthly to each licensee.

Since the Volume Discount Rebate Program affects all orders over * made within * (*) * for a specific Game title, rebates will be calculated each month back to the first quantity ordered. Each time a new tier of the volume breakdown is reached for a specific Game title, a licensee is immediately eligible for that unit price on all past, present and future orders. Nintendo will determine the rebate amount owed back to the first unit of a specific Game title ordered and will send payment to the licensee (by check or wire transfer) by approximately the * day of the month following eligibility.

THE VOLUME DISCOUNT REBATE PROGRAM IS SUBJECT TO CHANGE WITHOUT NOTICE BY NINTENDO

EFFECTIVE SEPTEMBER 24, 2001

EXHIBIT 21.1

Subsidiaries of the Company

Name	Jurisdiction of Incorporation
GearHead Entertainment, Inc.	Pennsylvania
Mission Studios, Inc.	Illinois
Take-Two Interactive Software Europe Limited	United Kingdom
Goldweb Services (1)	United Kingdom
Take-Two Interactive France F.A. (2)	France
Take-Two Interactive GMBH (2)	Germany
Inventory Management Systems, Inc.	Delaware
Jack of All Games, Inc. (3)	New York
DirectSoft Australia Pty. Limited	New South Wales, Australia
Talonsoft, Inc.	Delaware
Joytech Europe Limited	United Kingdom
Take-Two Interactive Software Canada, Inc.	Ontario
Triad Distributors, Inc. (4)	Ontario
Global Star Software Limited (4)	Ontario
DMA Design Holdings Limited	United Kingdom
DMA Design Limited (5)	United Kingdom
FunSoft Nordic A.S.	Norway
C.D. Verte Italia Spa	Italy
Gathering of Developers, Inc.	Texas
Rockstar Games, Inc.	Delaware
Wide Group Studios, Inc.	Delaware
VLM Entertainment Group, Inc.	Delaware
Neo Software Produktions GMBH	Austria

(1) Subsidiary of Take-Two Interactive Software Europe Limited
(2) Subsidiary of Goldweb Services
(3) Subsidiary of Inventory Management Systems, Inc.
(4) Subsidiary of Take-Two Interactive Software Canada, Inc.
(5) Subsidiary of DMA Design Holdings Limited

EXHIBIT 23.1

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (File Nos. 333-67306 and 333-67304) and Forms S-3 (File Nos. 333-58087; 333-50033; 333-83065; 333-45708; 333-36986 and 333-53514) of Take-Two Interactive Software, Inc. of our report dated February 11, 2002 relating to the financial statements and financial statement schedule which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

New York, New York
February 11, 2002