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

FORM 10-Q

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

For the quarterly period ended **July 31, 2004**

Commission file number **0-29230**

TAKE-TWO INTERACTIVE SOFTWARE, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

As of September 7, 2004, there were 45,128,703 shares of the Registrant's Common Stock outstanding.

TAKE-TWO INTERACTIVE SOFTWARE, INC.
QUARTER ENDED JULY 31, 2004

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Balance Sheets
As of July 31, 2004 and October 31, 2003 (unaudited)
(In thousands, except share data)

	July 31, 2004	October 31, 2003
ASSETS		
Current assets		
Cash and cash equivalents	**$ 197,951**	$ 183,477
Accounts receivable, net of allowances of $51,970 and $62,817 at July 31, 2004 and October 31, 2003, respectively	**79,486**	166,536
Inventories, net	**96,882**	101,748
Prepaid royalties	**40,602**	12,196
Prepaid expenses and other current assets	**56,909**	41,112
Deferred tax asset	**8,333**	8,333
Total current assets	**480,163**	513,402
Fixed assets, net	**30,589**	22,260
Prepaid royalties	**3,333**	8,439
Capitalized software development costs, net	**25,792**	16,336
Goodwill	**123,703**	101,498
Intangibles, net	**33,586**	44,836
Other assets, net	**413**	527
Total assets	**$ 697,579**	$ 707,298
LIABILITIES and STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	**$ 63,275**	$ 106,172
Accrued expenses and other current liabilities	**65,857**	56,883
Income taxes payable	**167**	2,265
Total current liabilities	**129,299**	165,320
Deferred tax liability	**8,486**	8,486
Total liabilities	**137,785**	173,806
Stockholders' equity		
Common stock, par value $.01 per share; 100,000,000 shares authorized; 45,048,528 and 44,227,215 shares issued and outstanding at July 31, 2004 and October 31, 2003, respectively	**450**	442
Additional paid-in capital	**372,034**	350,852
Deferred compensation	**(2,644)**	(1,890)
Retained earnings	**187,771**	185,024
Accumulated other comprehensive income (loss)	**2,183**	(936)
Total Stockholders' Equity	**559,794**	533,492
Total Liabilities and Stockholders' Equity	**$ 697,579**	$ 707,298

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

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TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Operations
For the three and nine months ended July 31, 2004 and 2003 (unaudited)
(In thousands, except per share data)

	Three months ended July 31,		Nine months ended July 31,	
	2004	2003	2004	2003
		(Restated)		(Restated)
Net sales	**$ 160,858**	$ 152,055	**$ 689,738**	$ 756,086
Cost of sales				
Product costs	**101,156**	81,642	**430,107**	384,984
Royalties	**14,600**	10,052	**47,614**	66,595
Software development costs	**2,242**	1,842	**7,797**	8,558
Total cost of sales	**117,998**	93,536	**485,518**	460,137
Gross profit	**42,860**	58,519	**204,220**	295,949
Operating expenses				
Selling and marketing	**24,677**	20,013	**82,850**	76,928
General and administrative	**24,685**	19,372	**72,775**	67,701
Research and development	**10,529**	7,043	**32,186**	17,419
Depreciation and amortization	**4,327**	2,930	**11,982**	13,689
Total operating expenses	**64,218**	49,358	**199,793**	175,737
Income (loss) from operations	**(21,358)**	9,161	**4,427**	120,212
Interest income, net	**530**	625	**1,604**	1,713
Gain on Internet investments	**—**	—	**—**	39
Total non-operating income	**530**	625	**1,604**	1,752
Income (loss) before income taxes	**(20,828)**	9,786	**6,031**	121,964
Provision (benefit) for income taxes	**(6,393)**	4,090	**3,284**	50,110
Net income (loss)	**$ (14,435)**	$ 5,696	**$ 2,747**	$ 71,854
Per share data:				
Basic:				
Weighted average common shares outstanding	**44,840**	42,266	**44,615**	41,424
Net income (loss) per share	**$ (0.32)**	$ 0.13	**$ 0.06**	$ 1.73
Diluted:				
Weighted average common shares outstanding	**44,840**	43,548	**45,554**	42,701
Net income (loss) per share	**$ (0.32)**	$ 0.13	**$ 0.06**	$ 1.68

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

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TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Cash Flows
For the nine months ended July 31, 2004 and 2003 (unaudited)
(In thousands)

	Nine months ended July 31, 2004	Nine months ended July 31, 2003 (Restated)
Cash flows from operating activities:		
Net income	**$ 2,747**	$ 71,854
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**11,982**	9,281
Gain on disposal of fixed assets and sale of Internet investments	**(619)**	(95)
Amortization of intangible assets and other	**15,142**	5,741
Impairment of intellectual property and technology	**—**	7,892
Non-cash charges for consolidation of distribution facilities	**—**	5,474
Provision for doubtful accounts, returns and sales allowances	**94,194**	82,421
Write off of prepaid royalties and capitalized software	**2,404**	6,712
Tax benefit from exercise of stock options	**1,820**	11,931
Compensatory stock and stock options	**1,938**	2,173
Foreign currency transaction loss (gain)	**1,344**	(88)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Decrease (increase) in accounts receivable	**1,015**	(34,216)
Decrease in inventories	**5,320**	1,798
Increase in prepaid royalties	**(23,827)**	(12,038)
Increase in prepaid expenses and other current assets	**(11,448)**	(8,149)
Increase in capitalized software development costs	**(8,899)**	(3,113)
Decrease in accounts payable	**(38,132)**	(30,300)
Decrease in accrued expenses and other current liabilities	**(12,870)**	(7,537)
(Decrease) increase in income taxes payable	**(764)**	14,767
Net cash provided by operating activities	**41,347**	124,508
Cash flows from investing activities:		
Purchase of fixed assets	**(16,368)**	(11,359)
Proceeds from sale of fixed assets and investments	**871**	114
Payments for intangible assets	**(3,500)**	—
Acquisitions, net of cash acquired	**(19,654)**	(27,966)
Other	**—**	(490)
Net cash used in investing activities	**(38,651)**	(39,701)
Cash flows from financing activities:		
Proceeds from exercise of stock options and warrants	**11,518**	30,341
Other financing	**(83)**	(280)
Net cash provided by financing activities	**11,435**	30,061
Effect of foreign exchange rates	**343**	2,622
Net increase in cash for the period	**14,474**	117,490
Cash and cash equivalents, beginning of the period	**183,477**	108,369
Cash and cash equivalents, end of the period	**$ 197,951**	$ 225,859

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

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Cash Flows (continued)
For the nine months ended July 31, 2004 and 2003 (unaudited)
(In thousands)

	Nine months ended July 31,	
	2004	**2003**
Supplemental information on businesses acquired:		
Fair value of assets acquired		
Cash	**$ 800**	$ 1,284
Other current assets	**2,148**	437
Property and equipment, net	**761**	507
Intangible assets	**6,423**	4,720
Goodwill	**22,205**	38,683
Less, liabilities assumed		
Current liabilities	**(13,864)**	(3,574)
Stock issued	**(5,160)**	(6,557)
Intercompany payables and advances	**7,141**	(6,250)
Cash paid	**20,454**	29,250
Less cash acquired	**(800)**	(1,284)
Net cash paid	**$ 19,654**	$ 27,966

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

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Stockholders’ Equity
For the year ended October 31, 2003 and the nine months ended July 31, 2004 (unaudited)
(In thousands)

	Common Stock						
	Shares	**Amount**	**Additional Paid-in Capital**	**Deferred Compen-sation**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Total**
Balance, November 1, 2002	40,362	$ 404	$ 273,502	$ (227)	$ 86,906	$ (5,041)	$ 355,544
Foreign currency translation adjustment	—	—	—	—	—	4,119	4,119
Net unrealized loss on investment, net of taxes of $9	—	—	—	—	—	(14)	(14)
Net income	—	—	—	—	98,118	—	98,118
Comprehensive income							102,223
Proceeds from exercise of stock options and warrants	3,404	34	44,831	—	—	—	44,865
Amortization of deferred compensation	—	—	—	3,427	—	—	3,427
Issuance of common stock in connection with acquisition	236	2	6,555	—	—	—	6,557
Issuance of compensatory stock and stock options	225	2	5,106	(5,090)	—	—	18
Tax benefit in connection with the exercise of stock options	—	—	20,858	—	—	—	20,858
Balance, October 31, 2003	44,227	442	350,852	(1,890)	185,024	(936)	533,492
Foreign currency translation adjustment	—	—	—	—	—	3,119	3,119
Net income	—	—	—	—	2,747	—	2,747
Comprehensive income							5,866
Proceeds from exercise of stock options	571	6	11,512	—	—	—	11,518
Amortization of deferred compensation	—	—	—	1,938	—	—	1,938
Issuance of common stock in connection with acquisition	164	2	5,158	—	—	—	5,160
Issuance of compensatory stock and stock options	87	—	2,692	(2,692)	—	—	—
Tax benefit in connection with the exercise of stock options	—	—	1,820	—	—	—	1,820
Balance, July 31, 2004	**45,049**	**$ 450**	**$ 372,034**	**$ (2,644)**	**$ 187,771**	**$ 2,183**	**$ 559,794**

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

(Dollars in thousands, except per share amounts)

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1. ORGANIZATION

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

2. RESTATEMENT OF FINANCIAL STATEMENTS

The Company restated its previously issued financial statements for the fiscal years ended October 31, 1999, 2000, 2001, 2002, the interim quarters of fiscal 2002 and the first three quarters of fiscal 2003 to reflect its revised revenue recognition policy. Under this policy, the Company recognizes as a reduction of net sales a reserve for estimated future price concessions in the period in which the sale is recorded. Measurement of the reserve is based on, among other factors, an historical analysis of price concessions, an assessment of field inventory levels and sell-through for each product, current industry conditions and other factors affecting the estimated timing and amount of concessions management believes will be granted. The Company previously recognized price concession reserves in the period in which it communicated the price concessions to its customers.

The Company's July 31, 2003 financial statements have been restated as follows:

	Three Months Ended July 31, 2003	
	As Reported	**As Restated**
Statement of Operations Data:		
Net sales	$ 155,587	$ 152,055
Royalties	$ 10,434	$ 10,052
Total cost of sales	$ 93,918	$ 93,536
Gross profit	$ 61,669	$ 58,519
Income from operations	$ 12,311	$ 9,161
Income before provision for income taxes	$ 12,936	$ 9,786
Provision for income taxes	$ 5,287	$ 4,090
Net income	$ 7,649	$ 5,696
Basic net income per share	$ 0.18	$ 0.13
Diluted net income per share	$ 0.18	$ 0.13

	Nine Months Ended July 31, 2003	
	As Reported	**As Restated**
Statement of Operations Data:		
Net sales	$ 758,594	$ 756,086
Royalties	$ 66,782	$ 66,595
Total cost of sales	$ 460,324	$ 460,137
Gross profit	$ 298,270	$ 295,949
Income from operations	$ 122,533	$ 120,212
Income before provision for income taxes	$ 124,285	$ 121,964
Provision for income taxes	$ 50,935	$ 50,110
Net income	$ 73,350	$ 71,854
Basic net income per share	$ 1.77	$ 1.73
Diluted net income per share	$ 1.72	$ 1.68

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

	As of July 31, 2003	
	As Reported	As Restated
Balance Sheet Data (Not Presented Herein):		
Accounts receivable, net	$ 65,996	$ 60,997
Prepaid royalties, current	$ 15,576	$ 16,256
Prepaid expenses and other current assets	$ 30,055	$ 30,880
Deferred tax asset	$ 5,392	$ 6,245
Total current assets	$ 416,780	$ 414,139
Total assets	$ 608,557	$ 605,916
Income taxes payable	$ 15,458	$ 15,211
Total current liabilities	$ 117,975	$ 117,728
Retained earnings	$ 161,154	$ 158,760
Total liabilities and stockholders' equity	$ 608,557	$ 605,916

3. SIGNIFICANT ACCOUNTING POLICIES AND TRANSACTIONS

Basis of Presentation

The unaudited Consolidated Condensed Financial Statements of the Company have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not include all information and disclosures necessary for a presentation of the Company's financial position, results of operations and cash flows in conformity with generally accepted accounting principles in the United States of America. In the opinion of management, the financial statements reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the Company's financial position, results of operations and cash flows. The results of operations for any interim periods are not necessarily indicative of the results for the full year. The financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2003.

Estimates

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

Reclassifications

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

Recently Issued Accounting Pronouncements

In December 2003, the SEC issued Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition," which supercedes SAB No. 101, "Revenue Recognition in Financial Statements." The primary purpose of SAB No. 104 is to rescind accounting guidance contained in SAB No. 101 related to multiple element revenue arrangements, superceded as a result of the issuance of Emerging Issues Task Force ("EITF") Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Additionally, SAB No. 104 rescinds the SEC's Revenue Recognition in Financial Statements Frequently Asked Questions and Answers ("FAQ") issued with SAB No. 101. The adoption of SAB No. 104 in the first quarter of 2004 did not have a material impact on the Company's consolidated financial statements.

(Dollars in thousands, except per share amounts)

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4. STOCK-BASED COMPENSATION

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

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

	Three months ended July 31, 2004	Three months ended July 31, 2003	Nine months ended July 31, 2004	Nine months ended July 31, 2003
		(Restated)		(Restated)
Net income (loss), as reported	**$ (14,435)**	$ 5,696	**$ 2,747**	$ 71,854
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	**515**	799	**1,321**	1,341
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(4,255)**	(5,528)	**(10,731)**	(12,965)
Pro forma, net income (loss)	**$ (18,175)**	$ 967	**$ (6,663)**	$ 60,230
Earnings (loss) per share:				
Basic – as reported	**$ (0.32)**	$ 0.13	**$ 0.06**	$ 1.73
Basic – pro forma	**$ (0.41)**	$ 0.02	**$ (0.15)**	$ 1.45
Diluted – as reported	**$ (0.32)**	$ 0.13	**$ 0.06**	$ 1.68
Diluted – pro forma	**$ (0.41)**	$ 0.02	**$ (0.15)**	$ 1.41

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

5. BUSINESS ACQUISITIONS AND CONSOLIDATION

In March 2004, the Company acquired all the outstanding capital stock of Mobius Entertainment Limited ("Mobius"), a United Kingdom based developer of titles for handheld platforms, including Sony's proposed PSP platform. The purchase price was approximately $4,599, consisting of $3,689 which was paid in cash and a payment of approximately $910 due March 2005. In connection with the acquisition, the Company recorded identifiable intangibles of $96 (non-competition agreements) and goodwill of $4,669, on a preliminary basis. The Company is in the process of completing the purchase price allocation. The Company also agreed to make additional contingent payments of approximately $2,000 based on delivery of products, which will be recorded as additional purchase price when the conditions requiring their payment are met. The pro forma impact of this acquisition for fiscal 2003 and 2004 periods was not material. The Company does not expect that the final purchase price allocation will be materially different.

In December 2003, the Company acquired all of the outstanding capital stock and assumed certain liabilities of TDK Mediactive, Inc. ("TDK Mediactive"). The purchase price of approximately $14,105 consisted of $16,996 in cash and issuance of 163,641 restricted shares of the Company's common stock (valued at $5,160), reduced by approximately $8,051 previously due to TDK Mediactive under a distribution agreement. In connection with the acquisition, the Company recorded intellectual property of $6,326 and goodwill of $17,536, on a preliminary basis. The Company is in the process of completing the purchase price allocation. The Company does not expect that the final purchase price allocation will be materially different.

During the quarter ended July 31, 2003, the Company acquired the assets of Frog City, Inc. ("Frog City"), the developer of *Tropico 2*: *Pirate Cove*, and the outstanding membership interests of Cat Daddy Games LLC ("Cat Daddy"), another development studio.The total purchase price for both studios consisted of $757 in cash and $319 of prepaid royalties previously advanced to Frog City. The Company also agreed to make additional payments of up to $2,500 to the former owners of Cat Daddy, based on a percentage of Cat Daddy's profits for the first three years after acquisition, which will be recorded as compensation expense if the targets are met. In connection with the acquisitions, the Company recorded goodwill of $1,267 and net liabilities of $191.

In November 2002, the Company acquired all of the outstanding capital stock of Angel Studios, Inc. ("Angel"), the developer of the *Midnight Club* and *Smuggler's Run* franchises. The purchase price consisted of 235,679 shares of restricted common stock (valued at $6,557), $28,512 in cash and $5,931 (net of $801 of royalties payable to Angel) of prepaid royalties previously advanced to Angel. In connection with the acquisition, the Company recorded identifiable intangibles of $4,720 (comprised of intellectual property of $2,810, technology of $1,600 and non-competition agreements of $310), goodwill of $37,425 and net liabilities of $1,145.

The acquisitions have been accounted for as purchase transactions in accordance with SFAS 141 and, accordingly, the results of operations and financial position of the acquired businesses are included in the Company's consolidated condensed financial statements from the respective dates of acquisition.

In April 2003, the Company entered into an agreement with Destineer Publishing Corp. ("Destineer") under which Destineer granted the Company exclusive distribution rights to eight PC games and two console ports to be published by Destineer. The Company agreed to make recoupable advances to Destineer of approximately $6,700 and to pay Destineer with respect to product sales under the distribution agreement. In addition, the Company agreed to make a loan to Destineer of $1,000. Destineer granted the Company an immediately exercisable option to purchase a 19.9% interest in Destineer and a second option to purchase the remaining interest for a price equal to a multiple of Destineer's EBIT, exercisable during a period following April 2005. The fair value of these options was not significant. Pursuant to the requirements of Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), since Destineer is a variable interest entity and the Company is considered to be the primary beneficiary (as defined in FIN 46), the results of Destineer's operations have been consolidated in the accompanying financial statements.

(Dollars in thousands, except per share amounts)

The unaudited pro forma data below for the three and nine months ended July 31, 2003 is presented as if the purchase of TDK Mediactive had been made as of November 1, 2002. 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 acquisition had, in fact, been completed on the date assumed, or which may result in the future. Pro forma financial information for fiscal 2004 is not presented since the impact is not material as the acquisition was made near the beginning of the first quarter.

	Unaudited Pro Forma	
	Three months ended July 31, 2003	Nine months ended July 31, 2003
	(Restated)	(Restated)
Net sales	$ 156,915	$ 770,672
Net income	$ 1,160	$ 60,992
Net income per share – Basic	$ 0.03	$ 1.47
Net income per share – Diluted	$ 0.03	$ 1.42

6. INCOME TAXES

The provisions (benefit) for income taxes for the three and nine months ended July 31, 2004 and 2003 are based on the Company's estimated annualized tax rate for the respective years after giving effect to the utilization of available tax credits and tax planning strategies. During the three months ended July 31, 2004, the estimated annualized tax rate for fiscal 2004, including the reserves discussed below, was reduced from 36% to 34% primarily as a result of the forecasted change in the mix of income from higher tax to lower tax jurisdictions. The tax benefit recorded in the third quarter was 30.7% of pre tax loss and reflects additional provisions recorded, as a result of changes in the estimate of tax reserve requirements.

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7. NET INCOME (LOSS) PER SHARE

The following table provides a reconciliation of basic net income (loss) per share to diluted net income (loss) per share for the three and nine months ended July 31, 2004 and 2003:

	Net Income (Loss)	Shares (in thousands)	Per Share Amount
Three Months Ended July 31, 2004:			
Basic and Diluted	**$ (14,435)**	**44,840**	**$ (0.32)**
Three months ended July 31, 2003 (Restated):			
Basic	$ 5,696	42,266	$ 0.13
Effect of dilutive securities- Stock options, restricted stock and warrants	—	1,282	
Diluted	$ 5,696	43,548	$ 0.13
Nine months Ended July 31, 2004:			
Basic	**$ 2,747**	**44,615**	**$ 0.06**
Effect of dilutive securities- Stock options and restricted stock	**—**	**939**	
Diluted	**$ 2,747**	**45,554**	**$ 0.06**
Nine months ended July 31, 2003 (Restated):			
Basic	$ 71,854	41,424	$ 1.73
Effect of dilutive securities- Stock options, restricted stock and warrants	—	1,277	
Diluted	$ 71,854	42,701	$ 1.68

The computation of diluted number of shares excludes 955,500 unexercised stock options for the nine months ended July 31, 2004, which are anti-dilutive. Since a net loss was reported for the three months ended July 31, 2004, the diluted number of shares excludes 5,284,084 unexercised options and unvested restricted shares, which are anti-dilutive. The computation of diluted number of shares excludes 845,000 and 1,119,000 unexercised stock options for the three and nine months ended July 31, 2003, respectively, which are anti-dilutive.

In January 2003, the Board of Directors authorized a stock repurchase program under which the Company may repurchase up to $25,000 of its common stock from time to time in the open market or in privately negotiated transactions. To date, the Company has not repurchased any shares under this program.

8. INVENTORIES, NET

As of July 31, 2004 and October 31, 2003, inventories consist of:

	July 31, 2004	October 31, 2003
Parts and supplies	**$ 4,024**	$ 4,793
Finished products	**92,858**	96,955
	$ 96,882	$ 101,748

Amounts for estimated product returns, which are included in the inventory balance at their average cost, were $5,587 and $7,994 at July 31, 2004 and October 31, 2003, respectively.

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

9. PREPAID ROYALTIES

The Company's agreements with licensors and developers generally provide it with exclusive publishing rights and require it to make advance royalty payments that are recouped against royalties due to the licensor or developer based on product sales. The Company continually evaluates the recoverability of prepaid royalties and charges to cost of sales the amount that management determines is probable that will not be recouped at the contractual royalty rate in the period in which such determination is made or if the Company determines that it will cancel a development project.

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

	Fiscal 2004	Fiscal 2003
		(Restated)
Balance at November 1	**$ 20,635**	$ 26,418
Additions	**9,134**	3,855
Amortization	**(6,135)**	(2,135)
Reclassification	**—**	(6,932)
Write down	**(1,300)**	(6,649)
Acquisition	**1,073**	—
Foreign exchange	**323**	17
Balance at January 31	**23,730**	14,574
Additions	**10,725**	10,114
Amortization	**(3,323)**	(4,643)
Write down	**(878)**	—
Foreign exchange	**(246)**	3
Balance at April 30	**30,008**	20,048
Additions	**20,521**	7,121
Amortization	**(6,584)**	(2,252)
Reclassification	**—**	(319)
Write down	**(226)**	—
Foreign exchange	**216**	(160)
Balance at July 31	**43,935**	24,438
Less current balance	**40,602**	16,256
Non-current balance	**$ 3,333**	$ 8,182

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

(Dollars in thousands, except per share amounts)

10. CAPITALIZED SOFTWARE DEVELOPMENT COSTS

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

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

	Fiscal 2004	Fiscal 2003
Balance at November 1	**$ 16,336**	$ 10,385
Additions	**3,816**	3,444
Amortization	**(3,982)**	(3,288)
Write down	**—**	(63)
Foreign exchange	**112**	150
Balance at January 31	**16,282**	10,628
Additions	**6,410**	4,390
Amortization	**(1,573)**	(3,365)
Foreign exchange	**(337)**	127
Balance at April 30	**20,782**	11,780
Additions	**6,853**	3,937
Amortization	**(2,242)**	(1,842)
Foreign exchange	**399**	111
Balance at July 31	**$ 25,792**	$ 13,986

11. LINES OF CREDIT

In December 1999, the Company entered into a credit agreement, as amended and restated in August 2002, with a group of lenders led by Bank of America, N.A., as agent. The agreement provides for borrowings of up to $40,000 through the expiration of the line of credit on August 28, 2005. Generally, advances under the line of credit are based on a borrowing formula equal to 75% of eligible accounts receivable plus 35% of eligible inventory. Interest accrues on such advances at the bank's prime rate plus 0.25% to 1.25%, or at LIBOR plus 2.25% to 2.75% depending on the Company's consolidated leverage ratio (as defined). The Company is required to pay a commitment fee to the bank equal to 0.5% of the unused loan balance. Borrowings under the line of credit are collateralized by the Company's accounts receivable, inventory, equipment, general intangibles, securities and other personal property, including the capital stock of the Company's domestic subsidiaries. Available borrowings under the agreement are reduced by the amount of outstanding letters of credit, which were $5,160 at July 31, 2004. The loan agreement contains certain financial and other covenants, including the maintenance of consolidated net worth, consolidated leverage ratio and consolidated fixed charge coverage ratio. As of July 31, 2004, the Company was in compliance with such covenants. The loan agreement limits or prohibits the Company from declaring or paying cash dividends, merging or consolidating with another corporation, selling assets (other than in the ordinary course of business), creating liens and incurring additional indebtedness. The Company had no outstanding borrowings under the revolving line of credit as of July 31, 2004.

In February 2001, the Company's United Kingdom subsidiary entered into a credit facility agreement, as amended in March 2002 and April 2004, with Lloyds TSB Bank plc ("Lloyds") under which Lloyds agreed to make available borrowings of up to approximately $23,846. Advances under the credit facility bear interest at the rate of 1.25% per annum over the bank's base rate, and are guaranteed by the Company. Available borrowings under the agreement are reduced by the amount of outstanding guarantees. The facility expires on March 31, 2005. The Company had $30 of outstanding guarantees and no borrowings under this facility as of July 31, 2004.

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

12. INTANGIBLE ASSETS

Intangible assets consist of trademarks, intellectual property, customer lists and acquired technology in connection with acquisitions. Intangible assets are amortized under the straight-line method over the period of expected benefit ranging from three to ten years, except for intellectual property, which is amortized based on the shorter of the useful life or expected revenue stream.

		As of July 31, 2004			As of October 31, 2003		
	Range of Useful Life	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trademarks	7-10 years	**$ 23,742**	**$ (9,557)**	**$ 14,185**	$ 23,342	$ (7,391)	$ 15,951
Customer lists and relationships	5-10 years	**4,673**	**(2,939)**	**1,734**	4,673	(2,733)	1,940
Intellectual property	2-6 years	**38,248**	**(23,467)**	**14,781**	31,823	(8,737)	23,086
Non-competition agreements	3-6 years	**4,887**	**(2,746)**	**2,141**	4,790	(2,311)	2,479
Technology	3 years	**4,192**	**(3,447)**	**745**	4,192	(2,812)	1,380
		$ 75,742	**$ (42,156)**	**$ 33,586**	$ 68,820	$ (23,984)	$ 44,836

Amortization expense for the three and nine months ended July 31, 2004 and 2003 is as follows:

	Three months ended July 31,		Nine months ended July 31,	
	2004	2003	2004	2003
Included in:				
Cost of sales – product costs	**$ 2,479**	$ 1,489	**$ 14,966**	$ 5,042
Depreciation and amortization	**1,080**	723	**3,206**	2,783
Total amortization expense	**$ 3,559**	$ 2,212	**$ 18,172**	$ 7,825

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

2004	$23,661
2005	7,759
2006	7,068
2007	2,681
2008	1,706
Total	$42,875

During the nine months ended July 31, 2004, the increase in intellectual property resulted primarily from the acquisition of TDK Mediactive. (See Note 5.) During the nine months ended July 31, 2003, the Company recorded a charge of $4,407 related to the impairment of a customer list, which was included in depreciation and amortization. (See Note 15.) In addition, cost of sales – product costs include $7,892 of intellectual property and technology written off during the nine months ended July 31, 2003, of which $5,499 related to *Duke Nukem Forever* and a sequel, reflecting the continued product development delays for these products.

13. LEGAL AND OTHER PROCEEDINGS

The Company received a Wells Notice from the Staff of the Securities and Exchange Commission stating the Staff's intention to recommend that the SEC bring a civil action seeking an injunction and monetary damages against the Company alleging that it violated certain provisions of the federal securities laws. The proposed allegations stem from the previously disclosed SEC investigation into certain accounting matters related to the Company's financial statements, periodic reporting and internal accounting controls. The Company's former Chairman, an employee and two former officers also received Wells Notices. The SEC's Staff also raised issues with respect to the Company's revenue recognition policies and their impact on its current and historical financial statements. The Company has entered into discussions with the Staff to address the issues raised in the Wells Notice. The Company is unable to predict the outcome of these matters.

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

14. COMMITMENTS AND CONTINGENCIES

The Company periodically enters into distribution agreements to purchase various software games that require the Company to make minimum guaranteed payments. These agreements, which expire between July 2004 and September 2005, require remaining aggregate minimum guaranteed payments of $11,362 at July 31, 2004. These agreements are collateralized by a standby letter of credit of $3,600 at July 31, 2004. Additionally, assuming performance principally by third-party developers, the Company has outstanding commitments under various software development agreements to pay developers an aggregate of $54,269 over the twelve months ending July 31, 2005.

In connection with the Company's acquisition of the publishing rights to the franchise of *Duke Nukem* PC and video games in December 2000, the Company is contingently obligated to pay $6,000 in cash upon delivery of the final PC version of *Duke Nukem Forever*. In May 2003, the Company agreed to make payments of up to $6,000 in cash upon the achievement of certain sales targets for *Max Payne 2* (which are not expected to be achieved). The Company also agreed to make additional payments of up to $2,500 to the former owners of Cat Daddy based on a percentage of Cat Daddy's future profits for the first three years after acquisition. (See Note 5.) The payables will be recorded when the conditions requiring their payment are met.

Effective May 2004, the Company entered into agreements with SEGA Corporation, whereby the Company co-publishes and exclusively distributes all of SEGA's ESPN sports franchise properties: *NFL Football*; *NHL Hockey*; *NBA Basketball*; *NCAA College Hoops*; and *Major League Baseball*. The transaction requires the Company to reimburse SEGA for the development and marketing of SEGA's sports titles over a three-year period, with the right for the Company to extend its participation in the sports game business and the intellectual property rights associated with the sports titles. The reimbursement of development costs are reflected as prepaid royalties and the marketing costs will be expensed as incurred.

(Dollars in thousands, except per share amounts)

15. CONSOLIDATION OF DISTRIBUTION FACILITIES

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

As a result of the closures, the Company recorded a charge of $7,028. The charge to general and administrative expense of $2,621 consisted of: (1) $1,607 of lease termination costs, representing the fair value of remaining lease payments, net of estimated sublease rent; (2) $999 of disposition of fixed assets, representing the net book value of fixed assets and leasehold improvements; and (3) $15 of other exit costs. The charge to depreciation and amortization expense of $4,407 reflected an impairment charge with respect to an intangible asset, representing a customer list relating to the business conducted at the Illinois facility. The consolidation activity and settlement of accruals were completed by July 31, 2003.

16. SEGMENT REPORTING

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

Information about the Company's non-current assets in the United States and international areas as of July 31, 2004 and October 31, 2003 are presented below:

	July 31, 2004	October 31, 2003
Total non-current assets:		
United States	**$ 135,525**	$ 118,523
International		
United Kingdom	**31,632**	25,739
All other Europe	**18,776**	19,275
Other	**31,483**	30,359
	$ 217,416	$ 193,896

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

Information about the Company's net sales in the United States and international areas for the three and nine months ended July 31, 2004 and 2003 are presented below (net sales are attributed to geographic areas based on product destination):

	Three months ended July 31, 2004	Three months ended July 31, 2003 (Restated)	Nine months ended July 31, 2004	Nine months ended July 31, 2003 (Restated)
Net Sales:				
United States	**$ 108,251**	$ 99,157	**$ 453,953**	$ 486,668
Canada	**11,634**	14,484	**68,905**	59,401
International				
United Kingdom	**9,820**	7,834	**55,405**	71,797
All other Europe	**22,165**	26,036	**87,878**	122,302
Asia Pacific	**8,988**	4,034	**22,650**	14,810
Other	**—**	510	**947**	1,108
	$ 160,858	$ 152,055	**$ 689,738**	$ 756,086

Information about the Company's net sales by product platforms for the three and nine months ended July 31, 2004 and 2003 are presented below:

	Three months ended July 31, 2004	Three months ended July 31, 2003 (Restated)	Nine months ended July 31, 2004	Nine months ended July 31, 2003 (Restated)
Platforms:				
Sony PlayStation 2	**$ 78,876**	$ 53,495	**$ 322,445**	$ 486,472
Sony PlayStation	**3,841**	8,948	**21,677**	43,864
Microsoft Xbox	**34,286**	20,332	**175,774**	46,824
PC	**16,324**	42,216	**44,338**	76,795
Nintendo GameBoy Color, GameBoy Advance and N64	**11,983**	7,884	**47,025**	31,449
Nintendo GameCube	**4,840**	5,480	**29,937**	19,268
Hardware	**6,821**	9,404	**30,788**	37,239
Accessories and other	**3,887**	4,296	**17,754**	14,175
	$ 160,858	$ 152,055	**$ 689,738**	$ 756,086

17. RELATED PARTY TRANSACTION

Effective June 2004, warehouse operations services for our Italian subisidiary were provided by a company owned by the Managing Director of our subsidiary. For the three months ended July 31, 2004, the Company paid this entity $52 for these services. The Company believes that this arrangement is on terms no less favorable than could be obtained from an unaffiliated third-party.

(Dollars in thousands, except per share amounts)

Restatement of Financial Statements

We restated our previously issued financial statements for the fiscal years ended October 31, 1999, 2000, 2001, 2002, the interim quarters of fiscal 2002 and the first three quarters of fiscal 2003 to reflect our revised revenue recognition policy. Under this policy, we recognize as a reduction of net sales a reserve for estimated future price concessions in the period in which the sale is recorded. Measurement of the reserve is based on, among other factors, an historical analysis of price concessions, an assessment of field inventory levels and sell-through for each product, current industry conditions and other factors affecting the estimated timing and amount of concessions management believes will be granted. We previously recognized price concession reserves in the period in which we communicated the price concessions to our customers.

Our July 31, 2003 financial statements have been restated as follows:

	Three Months Ended July 31, 2003	
	As Reported	As Restated
Statement of Operations Data:		
Net sales	$ 155,587	$ 152,055
Royalties	$ 10,434	$ 10,052
Total cost of sales	$ 93,918	$ 93,536
Gross profit	$ 61,669	$ 58,519
Income from operations	$ 12,311	$ 9,161
Income before provision for income taxes	$ 12,936	$ 9,786
Provision for income taxes	$ 5,287	$ 4,090
Net income	$ 7,649	$ 5,696
Basic net income per share	$ 0.18	$ 0.13
Diluted net income per share	$ 0.18	$ 0.13

	Nine Months Ended July 31, 2003	
	As Reported	As Restated
Statement of Operations Data:		
Net sales	$ 758,594	$ 756,086
Royalties	$ 66,782	$ 66,595
Total cost of sales	$ 460,324	$ 460,137
Gross profit	$ 298,270	$ 295,949
Income from operations	$ 122,533	$ 120,212
Income before provision for income taxes	$ 124,285	$ 121,964
Provision for income taxes	$ 50,935	$ 50,110
Net income	$ 73,350	$ 71,854
Basic net income per share	$ 1.77	$ 1.73
Diluted net income per share	$ 1.72	$ 1.68

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
(Dollars in thousands, except per share amounts)

	As of July 31, 2003	
	As Reported	As Restated
Balance Sheet Data (Not Presented Herein):		
Accounts receivable, net	$ 65,996	$ 60,997
Prepaid royalties, current	$ 15,576	$ 16,256
Prepaid expenses and other current assets	$ 30,055	$ 30,880
Deferred tax asset	$ 5,392	$ 6,245
Total current assets	$ 416,780	$ 414,139
Total assets	$ 608,557	$ 605,916
Income taxes payable	$ 15,458	$ 15,211
Total current liabilities	$ 117,975	$ 117,728
Retained earnings	$ 161,154	$ 158,760
Total liabilities and stockholders' equity	$ 608,557	$ 605,916

All applicable amounts relating to the aforementioned restatements have been reflected in the unaudited consolidated financial statements, notes thereto and management's discussion and analysis.

Overview

We are a leading global publisher of interactive software games designed for personal computers, video game consoles and handheld platforms manufactured by Sony, Microsoft and Nintendo. We also distribute our products as well as third-party products, hardware and accessories to retail outlets in North America through our Jack of All Games subsidiary, and we have sales, marketing and/or publishing operations in the United Kingdom, France, Spain, Germany, Holland, Austria, Italy, Australia, New Zealand and Canada.

Our principal sources of revenue 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. Operating margins in our publishing business are dependent upon our ability to continually release new, commercially successful products. We develop most of our front-line products internally, and we own all of our major intellectual properties, which we believe permits us to maximize profitability.

Our distribution revenues are derived from the sale of third-party software titles, accessories and hardware. Operating margins in our distribution business are dependent on the mix of software and hardware sales, with software generating higher margins than hardware. Publishing activities generate significantly higher margins than distribution activities, with sales of PC software titles resulting in higher margins than sales of products designed for video game consoles.

We have pursued a growth strategy by capitalizing on the widespread market acceptance of video game consoles and the growing popularity of innovative gaming experiences that appeal to more mature audiences. We have established a portfolio of successful proprietary software content, including our premier brands: *Grand Theft Auto* and *Midnight Club,* for the major hardware platforms. We expect to continue to be the leader in the mature, action product category by leveraging our existing franchises and developing new brands, such as *Manhunt* and *Red Dead Revolver.*

We currently anticipate that the release of the next installments of *Grand Theft Auto* and *Midnight Club*, along with the introduction of new brands, such as *The Warriors*, will generate significant cash flow from our publishing business. Additionally, we expect to continue to diversify our product offerings by expanding into the sports genre, initially through our arrangement with SEGA. We also believe that we will be able to continue to grow our distribution business through a combination of our retail relationships and our value priced product offerings.

Critical Accounting Policies

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America 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 net sales and expenses during the reporting periods. The most significant estimates and assumptions relate to the adequacy of allowances for returns, price concessions and doubtful accounts, the recoverability of prepaid royalties, capitalized software development costs and other intangibles, valuation of inventories and realization of deferred income taxes. Actual amounts could differ significantly from these estimates.

Revenue Recognition

We recognize revenue upon the transfer of title and risk of loss to our customers. We apply the provisions of Statement of Position 97-2, "*Software Revenue Recognition*" in conjunction with the applicable provisions of Staff Accounting Bulletin No. 104, "*Revenue Recognition*." Accordingly, we recognize revenue for software when there is (1) persuasive evidence that an arrangement with our customer exists, which is generally a customer purchase order, (2) the software is delivered, (3) the selling price is fixed or determinable and (4) collection of the customer receivable is deemed probable. Our payment arrangements with customers typically provide net 30 and 60-day terms.

Revenue is recognized after deducting estimated reserves for returns and price concessions. In specific circumstances when we do not have a reliable basis to estimate returns and price concessions or are unable to determine that collection of receivables is probable, we defer the sale until such time as we can reliably estimate any related returns and allowances and determine that collection of the receivables is probable.

Allowances for Returns and Price Concessions

We generally accept returns and grant price concessions in connection with our publishing arrangements. Following reductions in the price of our products, we grant price concessions to permit customers to take credits against amounts they owe us for future orders with respect to merchandise unsold by them. Our customers must satisfy certain conditions to entitle them to return products or receive price concessions, including compliance with applicable payment terms and confirmation of field inventory levels.

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 from our distribution customers for stock balancing and make accommodations to customers, which includes credits and returns, when demand for specific titles falls below expectations.

We make estimates of future product returns and price concessions related to current period product revenue. We estimate the amount of future returns and price concessions for published titles based upon, among other factors, historical experience, customer inventory levels, analysis of sell-through rates and changes in demand and acceptance of our products by consumers.

Significant management judgments and estimates must be made and used in connection with establishing the allowance for returns and price concessions in any accounting period. We believe we can make reliable estimates of returns and price concessions. However, actual results may differ from initial estimates as a result of changes in circumstances, market conditions and assumptions. Adjustments to estimates are recorded in the period in which they become known.

(Dollars in thousands, except per share amounts)

Prepaid Royalties

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

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

	Fiscal 2004	Fiscal 2003
		(Restated)
Balance at November 1	**$ 20,635**	$ 26,418
Additions	**9,134**	3,855
Amortization	**(6,135)**	(2,135)
Reclassification	**—**	(6,932)
Write down	**(1,300)**	(6,649)
Acquisition	**1,073**	—
Foreign exchange	**323**	17
Balance at January 31	**23,730**	14,574
Additions	**10,725**	10,114
Amortization	**(3,323)**	(4,643)
Write down	**(878)**	—
Foreign exchange	**(246)**	3
Balance at April 30	**30,008**	20,048
Additions	**20,521**	7,121
Amortization	**(6,584)**	(2,252)
Reclassification	**—**	(319)
Write down	**(226)**	—
Foreign exchange	**216**	(160)
Balance at July 31	**43,935**	24,438
Less current balance	**40,602**	16,256
Non-current balance	**$ 3,333**	$ 8,182

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

(Dollars in thousands, except per share amounts)

Capitalized Software Development Costs

We capitalize internal software development costs subsequent to establishing technological feasibility of a title. Capitalized software development costs represent the costs associated with the internal development of our publishing products. Amortization of such costs as a component of cost of sales is recorded on a title-by-title basis based on the greater of the proportion of current year sales to total of current and estimated future sales for the title or the straight-line method over the remaining estimated useful life of the title. We continually evaluate the recoverability of capitalized software development costs and will charge to cost of sales any amounts that are deemed unrecoverable or for projects that we abandon.

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

	Fiscal 2004	Fiscal 2003
Balance at November 1	**$ 16,336**	$ 10,385
Additions	**3,816**	3,444
Amortization	**(3,982)**	(3,288)
Write down	**—**	(63)
Foreign exchange	**112**	150
Balance at January 31	**16,282**	10,628
Additions	**6,410**	4,390
Amortization	**(1,573)**	(3,365)
Foreign exchange	**(337)**	127
Balance at April 30	**20,782**	11,780
Additions	**6,853**	3,937
Amortization	**(2,242)**	(1,842)
Foreign exchange	**399**	111
Balance at July 31	**$ 25,792**	$ 13,986

Recently Issued Accounting Pronouncements

In December 2003, the SEC issued Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition," which supercedes SAB No. 101, "Revenue Recognition in Financial Statements." The primary purpose of SAB No. 104 is to rescind accounting guidance contained in SAB No. 101 related to multiple element revenue arrangements, superceded as a result of the issuance of Emerging Issues Task Force ("EITF") Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Additionally, SAB No. 104 rescinds the SEC's Revenue Recognition in Financial Statements Frequently Asked Questions and Answers ("FAQ") issued with SAB No. 101. The adoption of SAB No. 104 in the first quarter of 2004 did not have a material impact on our consolidated financial statements.

(Dollars in thousands, except per share amounts)

Results of Operations

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

	Three months ended July 31,		Nine months ended July 31,	
Operating data:	**2004**	**2003**	**2004**	**2003**
		(Restated)		(Restated)
Net sales	**100.0%**	100.0%	**100.0%**	100.0%
Cost of sales				
Product costs	**62.9**	53.7	**62.4**	50.9
Royalties	**9.1**	6.6	**6.9**	8.8
Software development costs	**1.4**	1.2	**1.1**	1.1
Total cost of sales	**73.4**	61.5	**70.4**	60.9
Selling and marketing	**15.3**	13.2	**12.0**	10.2
General and administrative	**15.3**	12.7	**10.6**	9.0
Research and development	**6.5**	4.6	**4.7**	2.3
Depreciation and amortization	**2.7**	1.9	**1.7**	1.8
Interest income, net	**0.3**	0.4	**0.2**	0.2
Provision (benefit) for income taxes	**(4.0)**	2.7	**0.5**	6.6
Net income (loss)	**(9.0)**	3.7	**0.4**	9.5
Net Sales by Territory:				
North America	**74.5%**	74.7%	**75.8%**	72.2%
International	**25.5**	25.3	**24.2**	27.8
Net Sales Mix:				
Publishing	**61.4%**	58.8%	**60.8%**	69.1%
Distribution	**38.6**	41.2	**39.2**	30.9
Platform Mix (publishing):				
Console	**89.3%**	58.0%	**92.1%**	87.5%
PC	**6.3**	40.7	**2.7**	11.1
Handheld	**2.3**	0.3	**2.7**	0.3
Accessories	**2.1**	1.0	**2.5**	1.1
Principal Products:				
Red Dead Revolver, PS2 (released April 2004)	**14.0%**	—%	**3.5%**	—%
Red Dead Revolver, Xbox (released April 2004)	**7.7**	—	**2.0**	—
ESPN NFL 2K5, PS2 (released July 2004)	**6.9**	—	**1.6**	—
ESPN NFL 2K5, Xbox (released July 2004)	**5.8**	—	**1.4**	—
Grand Theft Auto: Vice City, PS2 (released October - November 2002)	**7.0**	9.7	**4.4**	43.9
Grand Theft Auto Double Pack, Xbox (released October 2003)	**1.3**	—	**8.8**	—
Grand Theft Auto: Vice City, PC (released May 2003)	**0.8**	18.4	**0.5**	3.7
Midnight Club 2, PS2 (released April 2003)	**1.3**	7.1	**1.0**	5.0
Manhunt, PS2 (released November 2003)	—	—	**4.9**	—
Ten largest titles	**48.4%**	51.9%	**40.4%**	61.0%

Business Acquisitions

In March 2004, we acquired all the outstanding capital stock of Mobius Entertainment Limited ("Mobius"), a United Kingdom based developer of titles for handheld platforms, including Sony's proposed PSP platform. The purchase price was approximately $4,599, consisting of $3,689 which was paid in cash and a payment of approximately $910 due March 2005. In connection with the acquisition, we recorded identifiable intangibles of $96 (non-competition agreements) and goodwill of $4,669, on a preliminary basis. We are in the process of completing the purchase price allocation. We also agreed to make additional contingent payments of approximately $2,000 based on delivery of products, which will be recorded as additional purchase price when the conditions requiring their payment are met. The pro forma impact of this acquisition for fiscal 2003 and 2004 periods was not material. We do not expect that the final purchase price allocation will be materially different.

In December 2003, we acquired all of the outstanding capital stock and assumed certain liabilities of TDK Mediactive, Inc. ("TDK Mediactive"). The purchase price of approximately $14,105 consisted of $16,996 in cash and issuance of 163,641 restricted shares of our common stock (valued at $5,160), reduced by approximately $8,051 previously due to TDK Mediactive under a distribution agreement. In connection with the acquisition, we recorded intellectual property of $6,326 and goodwill of $17,536, on a preliminary basis. We are in the process of completing the purchase price allocation. We do not expect that the final purchase price allocation will be materially different.

During the quarter ended July 31, 2003, we acquired the assets of Frog City, Inc. ("Frog City"), the developer of *Tropico 2*: *Pirate Cove*, and the outstanding membership interests of Cat Daddy Games LLC ("Cat Daddy"), another development studio.The total purchase price for both studios consisted of $757 in cash and $319 of prepaid royalties previously advanced to Frog City. We also agreed to make additional payments of up to $2,500 to the former owners of Cat Daddy, based on a percentage of Cat Daddy's profits for the first three years after acquisition, which will be recorded as compensation expense if the targets are met. In connection with the acquisitions, we recorded goodwill of $1,267 and net liabilities of $191.

In November 2002, we acquired all of the outstanding capital stock of Angel Studios, the developer of the *Midnight Club* and *Smuggler's Run* franchises. The purchase price consisted of 235,679 shares of restricted shares of our common stock (valued at $6,557), $28,512 in cash and $5,931 (net of $801 of royalties payable to Angel) of prepaid royalties previously advanced to Angel. In connection with the acquisition, we recorded identifiable intangibles of $4,720 (comprised of intellectual property of $2,810, technology of $1,600 and non-competition agreements of $310), goodwill of $37,425 and net liabilities of $1,145.

The acquisitions have been accounted for as purchase transactions in accordance with SFAS 141 and, accordingly, the results of operations and financial position of the acquired businesses are included in our consolidated financial statements from the respective dates of acquisition.

(Dollars in thousands, except per share amounts)

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Three Months ended July 31, 2004 and 2003

Net Sales

	Three months ended July 31,					
	2004	%	2003	%	$ Increase (Decrease)	% Incr (Decr)
Publishing	**$ 98,821**	**61.4**	$ 89,406	58.8	$ 9,415	10.5
Distribution	**62,037**	**38.6**	62,649	41.2	(612)	(1.0)
Net sales	**$ 160,858**	**100.0**	$ 152,055	100.0	$ 8,803	5.8

Net Sales. The increase in net sales principally reflects higher publishing revenues during the current period.

The increase in publishing revenues for the three months ended July 31, 2004 reflects the sales of *Red Dead Revolver* and *ESPN NFL 2K5*, both for the PlayStation 2 and Xbox in the current quarter.

Products designed for video game console platforms accounted for 89.3% of publishing revenues as compared to 58.0% for the comparable period last year. Products designed for PC platforms accounted for 6.3% of publishing revenues as compared to 40.7% for the prior comparable period, which included *Grand Theft Auto: Vice City*.

Distribution revenues are derived from the sale of third-party software titles, accessories and hardware. Such revenues decreased slightly for the three months ended July 31, 2004 from the prior comparable period.

International operations accounted for approximately $40,973, or 25.5% of net sales for the three months ended July 31, 2004 compared to $38,414 or 25.3% of net sales for the three months ended July 31, 2003. The increases were primarily attributable to increased license income from the sales of *Grand Theft Auto: Vice City* in Japan. The increase included approximately $2,400 benefit from higher foreign exchange rates.

(Dollars in thousands, except per share amounts)

Cost of Sales

	Three months ended July 31,					
	2004	% of Sales	2003	% of Sales	$ Increase	% Incr
Product costs	**$ 101,156**	**62.9**	$ 81,642	53.7	$ 19,514	23.9
Royalties	**14,600**	**9.1**	10,052	6.6	4,548	45.2
Software development costs	**2,242**	**1.4**	1,842	1.2	400	21.7
Total cost of sales	**$ 117,998**	**73.4**	$ 93,536	61.5	$ 24,462	26.2

Product costs. The increase in product costs was attributable to increased sales of products designed for console platforms during the quarter, which have higher costs.

Royalties. The increase in royalties was due to the higher mix of licensed products in the current quarter resulting in higher amortization of prepaid royalties and higher external royalty payments. However, our internal royalty program resulted in lower expense due to the elimination of $3,700 of royalties as a result of our performance.

Software development costs. Software development costs increased due primarily to sales of *Red Dead Revolver*. These software development costs principally relate to our internally developed titles.

In future periods, cost of sales may be adversely affected by manufacturing and other costs, price competition and by changes in product and sales mix and distribution channels.

Operating Expenses

	Three months ended July 31,					
	2004	% of Sales	2003	% of Sales	$ Increase	% Incr
Selling and marketing	**$ 24,677**	**15.3**	$ 20,013	13.2	$ 4,664	23.3
General and administrative	**24,685**	**15.3**	19,372	12.7	5,313	27.4
Research and development	**10,529**	**6.5**	7,043	4.6	3,486	49.5
Depreciation and amortization	**4,327**	**2.7**	2,930	1.9	1,397	47.7
Total operating expenses	**$ 64,218**	**39.9**	$ 49,358	32.5	$ 14,860	30.1

Selling and marketing. Selling and marketing expense increased due to higher advertising and promotional support for our products, primarily expenditures for *ESPN NFL 2K5* .

General and administrative. The general and administrative expense increase was principally attributable to increased professional fees and rent expense. The higher professional fees were incurred in connection with legal and regulatory matters. The higher rent expense included costs associated with relocating a European office. The three months ended July 31, 2003 included the reimbursement of $300 of legal fees from insurance proceeds and a $473 reversal principally related to the settlement of lease termination costs recorded for the consolidation of distribution facilities.

Research and development. Research and development costs increased primarily due to the acquisitions of the development studios, as well as increased personnel costs. The higher personnel costs are due to increased staffing in the development area, reflecting our strategy of bringing more of our development in-house. Once software development projects reach technological feasibility, which is relatively early in the development process, a substantial portion of our research and development costs are capitalized and subsequently amortized as cost of goods sold.

Depreciation and amortization. Depreciation and amortization expense increased principally due to higher depreciation related to the implementation of accounting software systems.

Income (loss) from operations. Income (loss) from operations decreased by $30,519, or 333.1%, to a loss of $21,358 for the three months ended July 31, 2004 from income of $9,161 for the three months ended July 31, 2003, due to the changes referred to above. Higher foreign exchange rates in our foreign operations benefited income from operations by approximately $880.

Interest income, net. Interest income decreased by $95, or 15.2% to $530 for the three months ended July 31, 2004 from $625 for the prior comparable period.

Provision (benefit) for income taxes. Income tax benefit was $6,393 for the three months ended July 31, 2004 as compared to income tax expense of $4,090 for the three months ended July 31, 2003. The decrease was primarily attributable to our net loss for the period. The effective tax rate benefit was 30.7% for the three months ended July 31, 2004, as compared to an effective tax rate provision of 41.8% for the comparable period in fiscal 2003. The higher effective tax rate for the 2004 period, reflected as a lower benefit on the loss, includes an increase in the estimate of tax reserve requirements, partly offset by a lower estimated annualized tax rate. The lower annual estimated tax rate for the fiscal 2004 period, as compared to the annual estimated tax rate for the fiscal 2003 period, is primarily due to changes in the forecasted mix of income from higher tax to lower tax jurisdictions. For similar reasons, from the three month period ending April 30, 2004 to the three month period ending July 31, 2004, the estimated annualized tax rate for fiscal 2004, including the aforementioned tax reserves, was reduced from 36% to 34%. The effective income tax rate differs from the statutory rate primarily as a result of certain non-taxable income, non-deductible expenses and the mix of foreign and domestic taxable income or loss, the effect of a lower annual estimated tax rate, as well as an additional tax provision resulting from changes in the estimate of tax reserve requirements.

***Net income (loss)*.** For the three months ended July 31, 2004, we recognized a net loss of $14,435 as compared to net income of $5,696 for the three months ended July 31, 2003, a decrease of $20,131, or 353.4%.

Diluted net income (loss) per share. Diluted net loss per share for the three months ended July 31, 2004 of $0.32, decreased $0.45, or 346.2%, as compared to net income per share of $0.13 for the three months ended July 31, 2003, principally due to the loss for the period**.**

(Dollars in thousands, except per share amounts)

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Nine months ended July 31, 2004 and 2003

Net Sales

	Nine months ended July 31,					
	2004	**%**	**2003**	**%**	**$ Increase (Decrease)**	**% Incr (Decr)**
Publishing	**$ 419,062**	**60.8**	$ 522,556	69.1	$ (103, 494)	(19.8)
Distribution	**270,676**	**39.2**	233,530	30.9	37,146	15.9
Net sales	**$ 689,738**	**100.0**	$ 756,086	100.0	$ (66,348)	(8.8)

Net Sales. The decrease in net sales was attributable to lower publishing revenues, partly offset by increased distribution revenues.

The decrease in publishing revenues for the nine months ended July 31, 2004 principally reflects an unfavorable comparison to a period with strong sales of *Grand Theft Auto: Vice City* for PlayStation 2 and PC and *Midnight Club 2* for PlayStation 2.

Products designed for video game console platforms accounted for 92.1% of publishing revenues as compared to 87.5% for the comparable period last year. Products designed for PC platforms accounted for 2.7% of publishing revenues as compared to 11.1% for the prior comparable period as the 2003 period benefited from the release of *Grand Theft Auto: Vice City*. We anticipate our product mix will remain relatively constant for the foreseeable future but may fluctuate from period to period.

Distribution revenues are derived from the sale of third-party software titles, accessories and hardware. The increase in distribution revenues was primarily attributable to increased consumer demand for budget titles in North American retail channels.

International operations accounted for approximately $166,679, or 24.2% of net sales for the nine months ended July 31, 2004 compared to $210,107 or 27.8% of net sales for the nine months ended July 31, 2003. The decrease was primarily attributable to lower publishing revenues in Europe, which reflected the unfavorable comparison to last year's significant sales of *Grand Theft Auto: Vice City* for PlayStation 2 and PC, which was launched in Europe during fiscal 2003. The decrease was partly offset by approximately a $18,700 benefit from higher foreign exchange rates. We expect international sales to continue to account for a significant portion of our revenues.

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
(Dollars in thousands, except per share amounts)

Cost of Sales

	Nine months ended July 31,					
	2004	% of Sales	2003	% of Sales	$ Increase (Decrease)	% Incr (Decr)
Product costs	**$ 430,107**	**62.4**	$ 384,984	50.9	$ 45,123	11.7
Royalties	**47,614**	**6.9**	66,595	8.8	(18,981)	(28.5)
Software development costs	**7,797**	**1.1**	8,558	1.1	(761)	(8.9)
Total cost of sales	**$ 485,518**	**70.4**	$ 460,137	60.9	$ 25,381	5.5

Product costs. The increase in product costs is primarily attributable to expanded distribution operations, which have higher product costs than publishing operations, and amortization of intellectual property related to *Max Payne 2: The Fall of Max Payne*, partly offset by decreased publishing activities. The increase in costs was also attributable to decreased sales of PC products that have lower costs than console products. Product costs for the nine months ended July 31, 2003 included a charge of $7,892 relating to the impairment of intangibles for certain products in development, including *Duke Nukem Forever* and its sequel. The impairment was based on continued product development delays and our assessment of current market acceptance and projected cash flows for these products.

Royalties. The decrease in royalties was primarily attributable to lower expenses under our internal royalty program, as the fiscal 2003 period reflected the significant volume of *Grand Theft Auto: Vice City* and the elimination of $3,700 of internal royalties due to our performance in the current period, and lower write downs of prepaid royalties. These decreases were partly offset by higher amortization of prepaid royalties on licensed products and higher external royalty payments.

Software development costs. Software development costs decreased as a result of lower development costs associated with internally developed titles sold during the period. These software development costs relate to our internally developed titles.

In future periods, cost of sales may be adversely affected by manufacturing and other costs, price competition and by changes in product and sales mix and distribution channels.

Operating Expenses

	Nine months ended July 31,					
	2004	% of Sales	2003	% of Sales	$ Increase (Decrease)	% Incr (Decr)
Selling and marketing	**$ 82,850**	**12.0**	$ 76,928	10.2	$ 5,922	7.7
General and administrative	**72,775**	**10.6**	67,701	9.0	5,074	7.5
Research and development	**32,186**	**4.7**	17,419	2.3	14,767	84.8
Depreciation and amortization	**11,982**	**1.7**	13,689	1.8	(1,707)	(12.5)
Total operating expenses	**$ 199,793**	**28.9**	$ 175,737	23.2	$ 24,056	13.7

Selling and marketing. The increase in selling and marketing expense was attributable to higher personnel expenses and increased levels of advertising and promotional support for new products and catalog titles, partly offset by lower commissions.

General and administrative. The general and administrative expense increase was principally attributable to higher personnel expenses, rent and professional fees, partly offset by the absence of last year's charge associated with the consolidation of our distribution operations and lower bad debt expenses. The nine months ended July 31, 2003 consolidation charge of $2,621 consisted of: lease termination costs, representing the fair value of remaining lease payments, net of estimated sublease rent; disposition of fixed assets, representing the net book value of fixed assets and leasehold improvements; and other exit costs. Personnel expenses for the 2004 period included approximately $3,365 of severance charges, signing bonuses and restricted stock expenses, principally in connection with senior management changes. The 2004 period also included a $871 gain on sale of European property.

Research and development. Research and development costs increased primarily due to the acquisitions of the development studios, as well as increased personnel costs. The higher personnel costs are due to increased staffing in the development area, reflecting our strategy of bringing more of our development in-house. Once software development projects reach technological feasibility, which is relatively early in the development process, a substantial portion of our research and development costs are capitalized and subsequently amortized as cost of goods sold.

Depreciation and amortization. Depreciation and amortization expense decreased principally due to the $4,407 related to the impairment of a customer list as a result of the consolidation of our distribution operations included in the nine months ended July 31, 2003, partly offset by higher amortization of intangible assets as a result of acquisitions and higher depreciation related to the implementation of accounting software systems.

Income from operations. Income from operations decreased by $115,785, or 96.3%, to $4,427 for the nine months ended July 31, 2004 from $120,212 for the nine months ended July 31, 2003, due to the changes referred to above. Higher foreign exchange rates in our foreign operations benefited income from operations by approximately $1,500.

Interest income, net. Interest income decreased by $109, or 6.4% to $1,604 for the nine months ended July 31, 2004 from $1,713 for the prior comparable period.

Provision for income taxes. Income tax expense was $3,284 for the nine months ended July 31, 2004 as compared to $50,110 for the nine months ended July 31, 2003. The decrease was primarily attributable to lower taxable income. The effective tax rate was 54.5% for the nine months ended July 31, 2004, as compared to an effective tax rate of 41.1% for the comparable period in fiscal 2003. The higher effective tax rate for the fiscal 2004 period reflects an increase in the estimate of tax reserve requirements, partly offset by the lower estimated annual tax rate. The lower estimated annualized tax rate is primarily due to changes in the forecasted mix of income from higher tax to lower tax jurisdictions. The effective income tax rate differs from the statutory rate primarily as a result of non-taxable foreign income, non-deductible expenses and the mix of foreign and domestic taxes as applied to the income.

***Net income*.** For the nine months ended July 31, 2004, we achieved net income of $2,747, as compared to net income of $71,854 for the nine months ended July 31, 2003, a decrease of $69,107, or 96.2%.

Diluted net income per share. Diluted net income per share decreased $1.62, or 96.49%, to $0.06 for the nine months ended July 31, 2004 from $1.68 for the nine months ended July 31, 2003, due to the decrease in net income and the higher weighted average shares outstanding. The increase in weighted shares outstanding resulted from the issuance of shares underlying stock options and for acquisitions.

Liquidity and Capital Resources

Our primary cash requirements are to fund the development and marketing of our products. We satisfy our working capital requirements primarily through cash flow from operations. At July 31, 2004, we had working capital of $350,864 as compared to working capital of $348,082 at October 31, 2003.

Cash and cash equivalents increased $14,474 to $197,951 at July 31, 2004, from $183,477 at October 31, 2003. The increase is primarily attributable to $47,347 of cash provided by operating activities and $11,435 provided by financing activities, partly offset by $38,651 used in investing activities.

Cash provided by operating activities for the nine months ended July 31, 2004 was $41,347 compared to $124,508 for the nine months ended July 31, 2003. The decrease principally reflects the lower net income.

Net cash used in investing activities for the nine months ended July 31, 2004 was $38,651 compared to net cash used in investing activities of $39,701 for the nine months ended July 31, 2003. The cash used in the current fiscal period reflects the acquisition of TDK Mediactive and Mobius while the prior year reflected the acquisition of Angel, Frog City and Cat Daddy Studios. The current year also reflects payments of $3,500 for intangible assets.

Net cash provided by financing activities for the nine months ended July 31, 2004 was $11,435, as compared to net cash provided by financing activities of $30,061 for the nine months ended July 31, 2003. The decrease was primarily attributable to lower proceeds from the exercise of stock options.

In December 1999, we entered into a credit agreement, as amended and restated in August 2002, with a group of lenders led by Bank of America, N.A., as agent. The agreement provides for borrowings of up to $40,000 through the expiration of the line of credit on August 28, 2005. Generally, advances under the line of credit are based on a borrowing formula equal to 75% of eligible accounts receivable plus 35% of eligible inventory. Interest accrues on such advances at the bank's prime rate plus 0.25% to 1.25%, or at LIBOR plus 2.25% to 2.75% depending on our consolidated leverage ratio (as defined). We are required to pay a commitment fee to the bank equal to 0.5% of the unused loan balance. Borrowings under the line of credit are collateralized by our accounts receivable, inventory, equipment, general intangibles, securities and other personal property, including the capital stock of our domestic subsidiaries. Available borrowings under the agreement are reduced by the amount of outstanding letters of credit, which were $5,160 at July 31, 2004. The loan agreement contains certain financial and other covenants, including the maintenance of consolidated net worth, consolidated leverage ratio and consolidated fixed charge coverage ratio. As of July 31, 2004, we were in compliance with such covenants. The loan agreement limits or prohibits us from declaring or paying cash dividends, merging or consolidating with another corporation, selling assets (other than in the ordinary course of business), creating liens and incurring additional indebtedness. We had no outstanding borrowings under the revolving line of credit as of July 31, 2004.

In February 2001, the Company's United Kingdom subsidiary entered into a credit facility agreement, as amended in March 2002 and April 2004, with Lloyds TSB Bank plc ("Lloyds") under which Lloyds agreed to make available borrowings of up to approximately $23,846. Advances under the credit facility bear interest at the rate of 1.25% per annum over the bank's base rate, and are guaranteed by the Company. Available borrowings under the agreement are reduced by the amount of outstanding guarantees. The facility expires on March 31, 2005. The Company had $30 of outstanding guarantees and no borrowings under this facility as of July 31, 2004.

For the nine months ended July 31, 2004 and 2003, we received proceeds of $11,518 and $30,341, respectively, relating to the exercise of stock options and warrants.

Our accounts receivable before allowances at July 31, 2004 was $131,456. One retail customer accounted for 13.2% of the receivable balance at July 31, 2004. As of October 31, 2003, most of our receivables had been covered by insurance, with certain limits and deductibles, in the event of a customer's bankruptcy or insolvency. In November 2003, we terminated our domestic receivables insurance. Generally, we have been able to collect our receivables in the ordinary course of business. We do not hold any collateral to secure payment from customers. As a result, we are subject to credit risks, particularly in the event that any of the receivables represent a limited number of retailers or are concentrated in foreign markets. If we are unable to collect our accounts receivable as they become due, we could be required to increase our allowance for doubtful accounts, which could adversely affect our liquidity and working capital position.

We had accounts receivable days outstanding of 44 days for the three months ended July 31, 2004, as compared to 36 days for the three months ended July 31, 2003.

We intend to relocate our warehouse operations in Cincinnati, Ohio to a larger facility and anticipate spending approximately $5,900 for capital expenditures for equipment, logistical operations software and leasehold improvements. As of the date of this report, we have no other material commitments for capital expenditures.

In January 2003, the Board of Directors authorized a stock repurchase program under which we may repurchase up to $25,000 of our common stock from time to time in the open market or in privately negotiated transactions. To date, we have not repurchased any shares under this program.

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

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

Effective May 2004, we entered into agreements with SEGA Corporation, whereby we co-publish and exclusively distribute all of SEGA's ESPN sports franchise properties: *NFL Football; NHL Hockey; NBA Basketball; NCAA College Hoops;* and *Major League Baseball*. The transaction requires us to reimburse SEGA for the development and marketing of SEGA's sports titles over a three-year period, with the right for us to extend our participation in the sports game business and the intellectual property rights associated with the sports titles. The reimbursement of development costs are reflected as prepaid royalties and the marketing costs will be expensed as incurred.

Contractual Obligations and Contingent Liabilities and Commitments

Our offices and warehouse facilities are occupied under non-cancelable operating leases expiring at various times from May 2004 to October 2013. We also lease certain furniture, equipment and automobiles under non-cancelable leases expiring through October 2007.

We periodically enter into distribution agreements to purchase various software games that require us to make minimum guaranteed payments. These agreements, which expire between July 2004 and September 2005, require remaining aggregate minimum guaranteed payments of $11,362 at July 31, 2004. These agreements are collateralized by a standby letter of credit of $3,600 at July 31, 2004. Additionally, assuming performance principally by third-party developers, we have outstanding commitments under various software development agreements to pay developers an aggregate of $54,269 over the twelve months ending July 31, 2005.

In connection with our acquisition of the publishing rights to the *Duke Nukem* franchise for PC and video games in December 2000, we are obligated to pay $6,000 contingent upon delivery of the final version of *Duke Nukem Forever* for the PC. In May 2003, we agreed to pay up to $6,000 upon the achievement of certain sales targets for *Max Payne 2* (which are not expected to be achieved). We also agreed to make additional payments of up to $2,500 to the former owners of Cat Daddy based on a percentage of Cat Daddy's profits for the first three years after acquisition. In connection with the acquisition of Mobius, we agreed to make contingent payments of approximately $2,000 based on delivery of products. The payables will be recorded when the conditions requiring their payment are met.

Fluctuations in Operating Results and Seasonality

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

International Operations

Sales in international markets, principally in the United Kingdom and other countries in Europe, have accounted for a significant portion of our net sales. For the nine months ended July 31, 2004 and 2003, sales in international markets accounted for approximately 24.2% and 27.8%, respectively, of our net sales. We are subject to risks inherent in foreign trade, including increased credit risks, tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays and international political, regulatory and economic developments, all of which can have a significant impact on our operating results.

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Cautionary Statement and Risk Factors

***Safe Harbor Statement under the Securities Litigation Reform Act of 1995*:** We make statements in this report that are considered forward-looking statements under federal securities laws. Such forward-looking statements are based on the beliefs of management as well as assumptions made by and information currently available to them. The words "expect," "anticipate," "believe," "may," "estimate," "intend" and similar expressions are intended to identify such forward-looking statements. Forward-looking statements involve risks, uncertainties and assumptions including, but not limited to, the following which could cause our actual results, performance or achievements to be materially different from results, performance or achievements, expressed or implied by such forward-looking statements.

The market for interactive entertainment software titles is characterized by short product life cycles. The interactive entertainment software market is characterized by short product life cycles and frequent introductions of new products. New products introduced by us may not achieve significant market acceptance or achieve sufficient sales to permit us to recover development, manufacturing and marketing costs. Historically, few interactive entertainment software products have achieved sustained market acceptance. Even the most successful titles remain popular for only limited periods of time, often less than nine months, although sales of certain products may extend for significant periods of time, including through our election to participate in Sony's Greatest Hits and Microsoft's Platinum Hits programs.

The life cycle of a game generally involves a relatively high level of sales during the first few months after introduction followed by a decline in sales. Because net sales associated with the initial shipments of a new product generally constitute a high percentage of the total net sales associated with the life of a product, any delay in the introduction of one or more new products could adversely affect our operating results. Additionally, because we introduce a relatively limited number of new products in any period, the failure of one or more of our products to achieve market acceptance could adversely affect our operating results.

A significant portion of our net sales is derived from a limited number of titles. For the nine months ended July 31, 2004, our ten best selling titles accounted for approximately 40.4% of our revenues, with *Grand Theft Auto* Double Pack for the Xbox accounting for 8.8% of our revenues, *Max Payne 2: The Fall of Max Payne* for PlayStation 2 accounting for 5.8% of our revenues, and *Manhunt* for PlayStation 2 accounting for 4.9% of our revenues. For the nine months ended July 31, 2003, our ten best selling titles accounted for approximately 61.0% of our revenues, with *Grand Theft Auto: Vice City* for PlayStation 2 accounting for 43.9% of our revenues, *Midnight Club 2* for PlayStation 2 accounting for 5.0% of our revenues, and *Grand Theft Auto: Vice City* for PC accounting for 3.7% of our revenues. For the year ended October 31, 2003, our ten best selling titles accounted for approximately 50.5% of our net sales. If we fail to continue to develop and sell new, commercially successful titles, our net sales 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 calendar quarter (our fourth and first fiscal quarters), due primarily to the increased demand for games during the holiday buying season. Our failure or inability to introduce products on a timely basis to meet seasonal fluctuations in demand will harm our business and operating results. These fluctuations could also cause our stock price to decline. Other factors that cause fluctuations include:

- delays in the introduction of new titles;
- the size and timing of product and business acquisitions;
- variations in sales of titles designed to operate on particular platforms;
- development and promotional expenses relating to the introduction of new titles;
- availability of hardware platforms;
- the timing and success of title introductions by our competitors;
- product returns and price concessions;
- 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, 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 market price of our common stock could significantly decline.

The interactive entertainment software industry is cyclical, and we may fail to anticipate changing consumer preferences. Our business is subject to all of the risks generally associated with the interactive entertainment software industry, which has been cyclical in nature and has been characterized by periods of significant growth followed by rapid declines. Our future operating results will depend on numerous factors beyond our control, including:

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

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

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Rapidly changing technology and platform shifts could hurt our operating results. The interactive entertainment industry in general is associated with rapidly changing technology. As more advanced platforms achieve market acceptance, consumer demand for software for older platforms declines.

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

A number of software publishers who compete with us have developed or are currently developing software for use by consumers over the Internet. Future increases in the availability of such software or technological advances in such software or the Internet could result in a decline in platform-based software and impact our sales. Direct sales of software by major publishers over the Internet would materially adversely affect our distribution business.

It is difficult to anticipate hardware development cycles and we must make substantial development and investment decisions well in advance of the introduction of new hardware products. If new hardware products are delayed or do not meet our expectations for consumer acceptance we may not be able to recover our investment and our business and financial results could be adversely affected.

Our business is dependent on publishing arrangements with third parties. Our success depends on our ability to identify and develop new titles on a timely basis. We have entered into agreements with third parties to acquire the rights to publish and distribute interactive entertainment software. These agreements typically require us to make advance payments, pay royalties and satisfy other conditions. Our advance payments may not be sufficient to permit developers to develop new software successfully. In addition, software development costs, promotion and marketing expenses and royalties payable to software developers have increased significantly in recent years and reduce the potential profits derived from sales of our software. Future sales of our titles may not be sufficient to recover advances to software developers, and we may not have adequate financial and other resources to satisfy our contractual commitments. If we fail to satisfy our obligations under these license agreements, the agreements may be terminated or modified in ways that may be burdensome to us.

Returns of our published titles and price concessions may adversely affect our operating results. We are exposed to the risk of product returns and price concessions with respect to our customers. Our distribution arrangements with customers generally do not give them the right to return titles to us or to cancel firm orders. However, we sometimes accept product returns from our distribution customers for stock balancing and negotiate accommodations to customers which include credits and returns, when demand for specific products falls below expectations. We accept returns and grant price concessions in connection with our publishing arrangements. Revenue is recognized after deducting estimated reserves for returns and price concessions. We believe that we can reliably estimate future returns and price concessions. However, if return rates and price concessions for our published titles exceed our reserves, our net sales will decline.

The interactive entertainment software industry is highly competitive. We compete for both licenses to properties and the sale of interactive entertainment software with Sony, Microsoft and Nintendo, each of which is a large developer and marketer of software for its own platforms. Each of these competitors has the financial resources to withstand significant price competition and to implement extensive advertising campaigns, particularly for prime-time television spots. These companies may also increase their own software development efforts or focus on developing software products for third-party platforms. We also compete with domestic companies such as Electronic Arts, Activision, THQ, Midway Games and Atari and international companies such as Sega, Vivendi, Ubi Soft, Eidos, Capcom, Konami and Namco. Some of our competitors have greater financial, technical, personnel and other resources than we do, and are able to carry larger inventories and make higher offers to licensors and developers for commercially desirable properties than we can. Our titles also compete with other forms of entertainment such as motion pictures, television and audio and video products featuring similar themes, online computer programs and forms of entertainment which may be less expensive or provide other advantages to consumers.

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

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

A limited number of customers account for a significant portion of our sales. Sales to our five largest customers accounted for approximately 35.6% and 40.5%, respectively, of our revenues for the nine months ended July 31, 2004 and 2003. Sales to our five largest customers accounted for approximately 38.6% of our net sales for the year ended October 31, 2003. For the year ended October 31, 2003, sales of our products to Wal-Mart accounted for 11.4% of our net sales. Our sales are made primarily pursuant to purchase orders without long-term agreements or other commitments. Our customers may terminate their relationship with us at any time. The loss of our relationships with principal customers or a decline in sales to principal customers could harm our operating results. Bankruptcies or consolidations of certain large retail customers could also seriously hurt our business.

We are subject to credit and collection risks. Our sales are typically made on credit. 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. We recently terminated our domestic receivables insurance. Although we continually assess the creditworthiness of our customers, which are principally large, national retailers, if we are unable to collect our accounts receivable as they become due, it could adversely affect our financial condition.

Rating systems for interactive entertainment software, potential legislation and consumer opposition could inhibit sales of our products. Trade organizations within the video game industry require interactive entertainment software publishers to provide consumers with information relating to graphic violence, profanity or sexually explicit material contained in software titles, and impose penalties for noncompliance. Certain countries have also established similar rating systems as prerequisites for sales of interactive entertainment software in such countries. In some instances, we may be required to modify our products to comply with the requirements of such rating systems, which could delay the release of those products in such countries. Our software titles receive a rating of "E" (age 6 and older), "T" (age 13 and over) or "M" (age 17 and over). Most of our new titles (including *Grand Theft Auto 3*, *Grand Theft Auto: Vice City*, *Max Payne 2: The Fall of Max Payne*, *Manhunt* and *Mafia*) have received an M rating. We believe that we comply with such rating systems and properly display the ratings and content descriptions received for our titles.

Several proposals have been made for federal legislation to regulate the interactive entertainment software, motion picture and recording industries, including a proposal to adopt a common rating system for interactive entertainment software, television and music containing violence or sexually explicit material, and the Federal Trade Commission has issued reports with respect to the marketing of such material to minors. Consumer advocacy groups have also opposed sales of interactive entertainment software containing graphic violence or sexually explicit material by pressing for legislation in these areas (including legislation prohibiting the sale of certain "M" rated video games to minors) and by engaging in public demonstrations and media campaigns. Retailers may decline to sell interactive entertainment software containing graphic violence or sexually explicit material, which may limit the potential market for our "M" rated products, and adversely affect our operating results. If any groups (including international, national and local political and regulatory bodies) were to target our "M" rated titles, we might be required to significantly change or discontinue a particular title, which in the case of our best selling titles could seriously hurt our business. Although lawsuits seeking damages for injuries allegedly suffered by third parties as a result of video games have been unsuccessful, a claim of this kind has been asserted against us.

We cannot publish our console titles without the approval of hardware manufacturers. We are required to obtain a license from Sony, Microsoft and Nintendo, our principal competitors, to develop and publish titles for their respective hardware platforms. Our existing hardware console platform licenses require that we obtain approval for the publication of new titles on a title-by-title basis. As a result, the number of titles we are able to publish for these hardware platforms, along with our ability to time the release of these titles and, accordingly, our net sales 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. Termination of any such agreements would seriously hurt our business.

License agreements relating to these rights generally extend for a term of three or four years and are automatically renewable for successive one-year terms. 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.

Sony and Nintendo are the sole manufacturers of the titles we publish under license from them. Games for the Xbox must be manufactured by pre-approved manufacturers. Each platform license provides that the manufacturer may raise prices for the titles at any time and grants the manufacturer substantial control over the release of new titles. Each of these manufacturers also publishes software for its own platforms and manufactures titles for all of its other licensees and may choose to give priority to its own titles or those of other publishers if it has insufficient manufacturing capacity or if there is increased demand for its or other publishers' products.

In addition, these manufacturers may not have sufficient production capacity to satisfy our scheduling requirements during any period of sustained demand. If manufacturers do not supply us with finished titles on favorable terms without delays, our operations would be materially interrupted, and we would be unable to obtain sufficient amounts of our product to sell to our customers. If we cannot obtain sufficient product supplies, our net sales 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 or are named in lawsuits by third parties alleging infringement of their proprietary rights. Although we believe that our software and technologies and the software and technologies of third-party developers and publishers with whom we have contractual relations do not and will not infringe or violate proprietary rights of others, it is possible that infringement of proprietary rights of others has or may occur. Any claims of infringement, with or without merit, could be time consuming, costly and difficult to defend. Moreover, intellectual property litigation or claims could require us to discontinue the distribution of products, obtain a license or redesign our products, which could result in additional substantial costs and material delays.

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

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

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

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

We may not be able to adequately adjust our cost structure in a timely fashion in response to a sudden decrease in demand. A significant portion of our selling and general and administrative expense is comprised of personnel and facilities. In the event of a significant decline in net sales, we may not be able to exit facilities, reduce personnel, or make other significant changes to our cost structure without significant disruption to our operations or without significant termination and exit costs. Management may not be able to implement such actions in a timely manner, if at all, to offset an immediate shortfall in net sales 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 concessions or return rights offered by publishers may have a bearing on the amount of product we may be willing to purchase. Our industry may experience significant hardware supply shortages from time to time due to the inability of certain manufacturers to supply certain products on a timely basis. As a result, we have experienced, and may in the future continue to experience, short-term hardware inventory shortages. In addition, manufacturers or publishers who currently distribute their products through us may decide to distribute, or to substantially increase their existing distribution, through other distributors, or directly to retailers.

We are subject to the risk that our inventory values may decline and protective terms under supplier arrangements may not adequately cover the decline in values. The interactive entertainment software and hardware industry is characterized by the introduction of 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 in our distribution business to the extent that supplier price concessions 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 concession obligations.

We are subject to risks and uncertainties of international trade. Sales in international markets, primarily in the United Kingdom and other countries in Europe, have accounted for a significant portion of our net sales. Sales in international markets accounted for approximately 24.2% and 27.8%, respectively, of our revenues for the nine months ended July 31, 2004 and 2003. Sales in international markets accounted for approximately 27.9% of our net sales for the year ended October 31, 2003. 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.

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

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

We are subject to SEC proceedings that may result in sanctions and monetary penalties. We received a Wells Notice from the Staff of the SEC stating the Staff's intention to recommend that the SEC bring an enforcement action seeking an injunction and monetary damages against us alleging that we violated certain provisions of the federal securities laws. The proposed allegations stem from the previously disclosed SEC investigation into certain accounting matters related to our financial statements, periodic reporting and internal accounting controls. The investigation is continuing and we may receive additional requests for information.

We recently restated our financial statements. The Staff of the SEC has raised issues with respect to our revenue recognition policies and certain sales transactions and their impact on our current and historical financial statements. After a detailed review, we restated our previously issued financial statements to reflect our revised revenue recognition policy with respect to establishing reserves for price concessions for our published products, as well as to increase our provision for returns at October 31, 2000 with respect to certain sales transactions primarily to retail customers with a corresponding reduction in the returns provision in 2001. Although we have entered into discussions with the Staff to address the issues raised in the Wells Notice, we are unable to predict the outcome of these discussions.

We are dependent on our management and key personnel. We rely on our management and other key personnel for the successful operation of our business. We are dependent upon the expertise and skills of certain of our Rockstar employees responsible for content creation and product development and marketing. Although we have employment agreements with each of these creative, development and marketing personnel, and we have granted them incentives in the form of an internal royalty program based on sales of Rockstar published products, there can be no assurance that we will be able to continue to retain these personnel at current compensation levels, or at all. Failure to continue to attract and retain qualified management, creative, development, financial, marketing, sales and technical personnel could materially adversely affect our business and prospects.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Historically, fluctuations in interest rates have not had a significant impact on our operating results. At July 31, 2004, we had no outstanding variable rate indebtedness.

We transact business in foreign currencies and are exposed to risks resulting from fluctuations in foreign currency exchange rates. Accounts relating to foreign operations are translated into United States dollars using prevailing exchange rates at the relevant fiscal quarter. Translation adjustments are included as a separate component of stockholders' equity. For the nine months ended July 31, 2004, our foreign currency translation adjustment gain was $3,119. Foreign exchange transaction loss for the nine months ended July 31, 2004 was $1,344. A hypothetical 10% change in applicable currency exchange rates at July 31, 2004 would result in a material translation adjustment.

Item 4. Controls and Procedures

Based on their evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective at the reasonable assurance level for recording, processing, summarizing and reporting the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934. There were no changes in our internal control over financial reporting during the fiscal quarter ended July 31, 2004 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The Company received a Wells Notice from the Staff of the Securities and Exchange Commission stating the Staff's intention to recommend that the SEC bring a civil action seeking an injunction and monetary damages against the Company alleging that it violated certain provisions of the federal securities laws. The proposed allegations stem from the previously disclosed SEC investigation into certain accounting matters related to the Company's financial statements, periodic reporting and internal accounting controls. The Company's former Chairman, an employee and two former officers also received Wells Notices. The SEC's Staff also raised issues with respect to the Company's revenue recognition policies and their impact on the Company's current and historical financial statements. The Company has entered into discussions with the Staff to address the issues raised in the Wells Notice.

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

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

During the three months ended July 31, 2004, the Company issued 4,000 shares of restricted stock under the Company's Incentive Stock Plan to Barbara A. Kaczynski, a director, and 75,000 restricted shares under such plan to two employees of the Company.

In connection with the above securities issuances, the Company relied on Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933, as amended, as offerings to a limited number of "accredited investors."

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

The Company held its Annual Meeting on June 17, 2004. At the meeting, Richard W. Roedel, Paul Eibeler, Oliver R. Grace, Jr., Robert Flug, Todd Emmel, Mark Lewis and Steven Tisch were elected as directors. Mr. Roedel received 37,196,033 votes for and 3,041,540 votes withheld; Mr. Eibeler received 37,605,799 votes for and 2,631,774 votes withheld; Mr. Grace received 35,761,675 votes for and 4,475,898 votes withheld; Mr. Flug received 35,702,356 votes for and 4,535,217 votes withheld; Mr. Emmel received 36,967,687 votes for and 3,269,886 votes withheld; Mr. Lewis received 37,519,798 votes for and 2,717,775 votes withheld: and Mr. Tisch received 36,385,206 votes for and 3,852,367 votes withheld.

In addition, the stockholders approved an amendment to the Company's 2002 Stock Option Plan to increase the number of shares of the Company's common stock reserved for issuance under the Option Plan by 2,000,000 shares with 26,648,746 votes for, 6,933,994 votes against and 26,509 abstentions and an amendment to the Company's Incentive Stock Plan to increase the number of shares of the Company's common stock reserved for issuance under the Incentive Plan by 500,000 shares with 27,100,678 votes for, 6,481,077 votes against and 27,494 abstentions.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

10.1 Agreement dated July 30, 2004 by and between the Company and Gary Lewis.

10.2 Agreement dated July 30, 2004 by and between the Company and Samuel A. Judd.

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

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

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

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

(b) Reports on Form 8-K:

On June 8, 2004, the Company furnished a Current Report on Form 8-K to report the Press Release dated June 8, 2004 relating to the Company's financial results for the second fiscal quarter ended January 31, 2004. (Items 7, 9 and 12)

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SIGNATURES

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

	TAKE-TWO INTERACTIVE SOFTWARE, INC. (Registrant)
Date: September 14, 2004	By: /s/ Richard W. Roedel Richard W. Roedel Chairman and Chief Executive Officer (Principal Executive Officer)
Date: September 14, 2004	By: /s/ Karl H. Winters Karl H. Winters Chief Financial Officer (Principal Financial Officer)

Exhibit 10.1

EMPLOYMENT AGREEMENT

AGREEMENT dated July 30, 2004 between Take-Two Interactive Software, Inc., a Delaware corporation (the "Employer" or the "Company"), and Gary Lewis (the "Employee").

W I T N E S S E T H :

WHEREAS, Employer and Employee have entered into a letter agreement dated April 14, 2004 (the "Letter Agreement"), which contemplates that Employer and Employee would enter into this Agreement; and

WHEREAS, the Employer desires to employ the Employee as its Global Chief Operating 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 April 14, 2004 (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 one hundred and eighty 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 Global Chief Operating Officer of the Employer, reporting directly to the Chief Executive Officer. It is understood that such duties and responsibilities shall be consistent with 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

(c) 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 and until October 13, 2004, Employee may also perform his duties at the Company's offices in Windsor, England.

3. Compensation.

(a) During the term of this Agreement, the Employer shall pay the Employee a salary (the "Salary") at a rate of $600,000 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 subject to annual review by the Board of directors (the "Board") and may be increased (but not decreased) at the discretion of the Board.

(b) The Employee shall be entitled to reimbursement of reasonable expenses incurred in connection with relocating to and from New York (not to exceed $50,000 for each move), and the costs associated with hiring a relocation professional, temporary housing and air fare (Business Class) for Employee and his family, which entitlement shall survive the termination of this Agreement solely with respect to Employee's relocation to the United Kingdom. Employer shall also pay Employee's reasonable housing allowance during the Initial Term (not to exceed $12,000 per month).

(c) The Employee shall be paid a cash bonus (the "Bonus") equal to $600,000 in respect of each fiscal year, commencing with the year ending October 31, 2004, provided that the Company achieves mutually agreeable reasonable quantitative and qualitative performance targets for each fiscal year (Employee's agreement with respect to such performance targets shall be deemed his agreement as to reasonableness). Of such Bonus, $150,000 shall be payable on November 1, 2004. In addition, the Employee shall be entitled to receive a cash signing bonus of $500,000, of which $250,000 was paid and $250,000 is payable on November 1, 2004. Except as provided above or as may otherwise be agreed between Employer and Employee, the Bonus hereunder shall be payable within sixty (60) days after the end of the applicable fiscal year.

(d) The Employee shall receive options to purchase 145,000 shares of Common Stock under the Company's 2002 Stock Option Plan, at an exercise price equal to $31.92 per share (vesting as to 25,000 shares on October 14, 2004; 60,000 shares on April 14, 2005; and 60,000 shares on April 14, 2006). In addition, Employee shall receive 20,000 shares of restricted stock under Employer's Incentive Stock Plan (with 10,000 shares vesting on April 14, 2005 and 10,000 shares vesting on April 14, 2006).

(e) The Employee shall be entitled to receive an automobile allowance of $1,300 per month as well as insurance, maintenance, repair, fuel and other incidental expenses.

(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 be awarded to him by the Board from time to time 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 senior executives (including health insurance and benefits for him and his family, 401(k) and insurance). Employee shall also be entitled to his United Kingdom pension benefits and shall be eligible to participate in the pension plan provided by Take-Two Interactive Software, Europe, Ltd. ("T2 Europe") by Royal & Sun Alliance and the Company shall contribute 7.5% of Employee's salary (out of Employee's salary) to such pension plan on behalf of Employee. 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, and vacation 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 five weeks per year). Such vacation may be taken in the Employee's discretion at such time or times as are not inconsistent with the reasonable business needs of the Company.

(c) The Employee shall be entitled to the benefits of all provisions of the Certificate of Incorporation of the Company, as amended, and the Bylaws of the Company, as amended, that provide for indemnification of officers and directors of the Company. In addition, without limiting the indemnification provisions of the Certificate of Incorporation or Bylaws, to the fullest extent permitted by law, the Company shall indemnify and save and hold harmless the Employee from and against any and all claims, demands, liabilities, costs and expenses, including judgments, fines or amounts paid on account thereof (whether in settlement or otherwise), and reasonable expenses, including attorneys' fees actually and reasonably incurred (except only if and to the extent that such amounts shall be finally adjudged to have been caused by Employee's willful misconduct or gross negligence, including the willful breach of the provisions of this Agreement) to the extent that the Employee is made a party to or witness in any action, suit or proceeding, or if a claim or liability is asserted against Employee (whether or not in the right of the Company), by reason of the fact that he was or is a director or officer, or acted in such capacity on behalf of the Company, or the rendering of services by the Employee pursuant to this Agreement, whether or not the same shall proceed to judgment or be settled or otherwise brought to a conclusion.

(d) The Company shall, at no cost to Employee, include the Employee during the term of this Agreement and for a period of not less than two (2) years thereafter, as an insured under the directors and officers liability insurance policy maintained by the Company, unless (despite best efforts of the Company) due to some unforeseeable reason it is not possible for the Employee to be so included, in which event the Company shall immediately notify the Executive.

5. 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 for such expenses on presentation of appropriate receipts for any such expenses. In addition, Employee and his family shall be entitled to be reimbursed for travel expenses (Business Class) to and from the United Kingdom three (3) times a year.

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 subject to the cure provisions of Section 6(d). 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 and benefits and expenses accrued under Sections 3(b) and (e), 4 and 5 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, except for the payment of Salary, Bonus (on a pro-rated basis) and benefits and expenses accrued under Sections 3, 4 and 5 through the effective date of termination and the provisions of Section 3(b), the cash signing bonus provisions of 3(c), 4(c) and (d) after termination and Employee shall have no further obligations or duties to Employer, except as provided in Section 7.

(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 to Employee Salary and cash signing bonus pursuant to clause 3(c) and Bonus if earned (provided that such Bonus shall not be less than $400,000 if Employee's employment is terminated during the first Employment Year and shall be no less than the Bonus earned in the previous year if terminated thereafter) and continue to provide the benefits in accordance with Sections 3(b) and (e) and (f) and 4(a), (c) and (d) and section 5 through the termination date and (other than Section 5) for a period of eighteen (18) months from the date of termination and the Employee shall receive his Bonus as if he were employed during such 18 month period within 60 days after the end of the applicable fiscal year and he shall be paid the Bonus after such 18 month period in respect of fiscal years completed prior to the end of such period or a pro rata Bonus in respect of fiscal years partly completed at the end of such period, and all options and shares of restricted stock granted to Employee prior to such date shall vest immediately.

(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 material duties under this Agreement (which is not cured pursuant to the provisions of the following sentence), (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) or (iv) above.

(e) In the event that Employee's employment with the Employer is terminated by Employer without cause following a Change in Control (as hereinafter defined), then the Employer shall have no further obligation or duties to Employee, except for payment of any outstanding cash signing bonus pursuant to clause 3(c) and payment of Salary and Bonus and the benefits in accordance with Sections 3(b) and (c) and 4(a), (c) and (d) and 5 through the effective date of termination and 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 Bonus (which bonus shall be deemed to be fully earned). Employer shall also continue to provide benefits in accordance with Sections 3 (b), (e), (f) and 4(a), (c) and (d) for a period of eighteen (18) months following termination. All amounts payable to the Employee pursuant to the second sentence of this Section 6(e) shall be paid in one lump-sum payment immediately upon such termination, and all options and shares of restricted stock granted to Employee prior to such date shall immediately 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 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; (iii) the sale of 50% or more of the Company's outstanding capital stock or (iv) upon the sale of all, or substantially all, of the assets of the Company.

(g) The Employee may terminate his employment with the Company with or without Good Reason upon thirty (30) days written notice, which notice, in the case of a termination with Good Reason, shall specifically set forth the nature of such Good Reason. The term "Good Reason" shall mean (i) the material diminution in the Employee's duties, responsibilities, reporting relationship or position, (ii) the relocation of Employee more than fifty (50) miles from the Company's New York headquarters or (iii) any material breach of this Agreement by the Company. Notwithstanding the occurrence of any such event or circumstance above, such occurrence shall not be deemed to constitute Good Reason hereunder if, within the thirty-day notice period, the event or circumstance giving rise to Good Reason has been fully corrected by the Company. In the event of a termination with Good Reason, the Employee shall be entitled to the same payment and benefits as provided in Section 6 (c) above for a termination without cause. In the event of a termination without Good Reason, Employee shall be entitled to payment of Salary and benefits and expenses accrued under Section 3(b), (c), (d) and (e) and 4 and 5 through the effective date of termination by Employee, and shall receive his Bonus within 60 days of the end of the applicable fiscal year after the effective date of termination in respect of any fiscal year completed prior to such date or a pro rata bonus in respect of a fiscal year partly completed at such date and shall have the duties and obligations in Section 7.

(h) In the event that this Agreement, is not renewed, or the Employee terminates without Good Reason or the Agreement is terminated pursuant to clause 6(b)(ii), the Company may either waive the provisions of Section 7(b) or pay Salary and benefits under Section 3(b) and (c), (d) and (e) and 4(a), (c) and (d) to the Employee during the term of the non-compete provision of Section 7(b).

(i) Notwithstanding anything to the contrary contained in this Agreement, in the event Employee terminates without Good Reason at any time after October 14, 2004, or notice is given that the employment will not be renewed pursuant to clause 1, Employee may return to his former position at Employer's wholly owned subsidiary, Take2 Europe, under the terms and conditions of the employment agreement attached hereto as Exhibit A. In such event, 30,000 options which have not vested at that time shall vest and become immediately exercisable, in addition to the 25,000 options that vest on October 14, 2004 (provided that the balance of the unvested options and any unvested restricted stock granted pursuant to this Agreement shall lapse) and Employee shall be entitled to an additional $100,000 of annual salary and an annual option grant of 30,000 shares under the terms of such employment agreement attached hereto as Exhibit A.

7. Confidentiality; Non-competition.

(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. Nothing contained herein shall prohibit Employee from disclosing confidential information if it is required by applicable law, court order or government or regulatory body.

(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, lender partner, stockholder, joint venturer, employee or consultant) 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 or the Company directly or indirectly, disparage the commercial, business or financial reputation of the other. Notwithstanding the foregoing, Employee may own up to 5% of the capital stock of any company that competes with Employer that is listed on a recognized national securities exchange.

(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 the course of 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.
622 Broadway
NEW YORK, NEW YORK 10012

To the Employee:

Gary Lewis
Take-Two Interactive Software, Inc.
622 Broadway
New York, NY 10012

(b) Parties in Interest. Neither the Employee nor the Company may 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. Except for the terms of any option or share grant, 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 Letter Agreement) 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.

(g) Costs. The Company shall pay the reasonable costs associated with professional, legal and tax advice incurred by Employee with respect to this Agreement.

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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/ Richard Roedel

Name: Richard Roedel

Title: Chief Executive Officer

/s/ Gary Lewis

Gary Lewis

Exhibit 10.2

EMPLOYMENT AGREEMENT

AGREEMENT dated as of July 30, 2004 between Take-Two Interactive Software, Inc., a Delaware corporation (the "Employer" or the "Company"), and Samuel A. Judd(the "Employee").

W I T N E S S E T H :

WHEREAS, the Employer desires to employ the Employee as its Senior Vice President of Planning and Administration 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 "Term," and any year commencing on the Effective Date or any anniversary of the Effective Date being hereinafter referred to as an "Employment Year").

2. Employee Duties.

(a) During the term of this Agreement, the Employee shall have the duties and responsibilities of Senior Vice President of Planning and Administration as more specifically identified on Exhibit A, reporting to the Chief Executive Officer of Employer or his designee. It is understood that such duties and responsibilities may be modified from time to time provided that such modified duties and responsibilities shall be reasonably related to the Employee's position, and shall not result in a material diminution of the Employee's position, responsibilities or authority.

(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 $385,000 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. Such salary shall be subject to an annual review and may be increased (but not decreased) from time to time at the discretion of the Employer.

(b) The Employee shall be entitled to receive a cash bonus ("Bonus"), with a target payment ("Target Bonus") of $275,000 in respect of each fiscal year (such bonus to be pro-rated to the extent a fiscal year incorporates only part of an Employment Year), based upon quantitative and qualitative performance targets for each fiscal year to be mutually agreed upon by the Employee and the Company. The actual bonus may be less than the target payment or more than the target payment based upon reasonable assessment of the Employee's performance against the mutually agreed targets and the results of operations of the Employer.

(c) The Employee shall be entitled to receive five-year incentive options to purchase 90,000 shares of the Company's common stock under the Company's 2002 Stock Option Plan (a copy of the plan to be provided to the Employee), at an exercise price equal to closing price of the Company's Common Stock on the Effective Date, which options shall vest as follows: 30,000 of such options shall vest on each of the first, second and third annual anniversaries of the Effective Date. In addition, Employee shall be entitled to receive 15,000 shares of restricted stock under Employer's Incentive Stock Plan (with 5,000 shares vesting on each of the first, second and third annual anniversaries of the Effective Date).

(d) The Employee shall be entitled to receive an automobile allowance of $800 per month.

(e) 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 Company 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 senior executives in particular or for its employees in general 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. ` (c) During the term of this agreement, the Employer shall pay the premium on Employee's life insurance (in the amount of $1 million); provided that coverage shall be subject to an examination required by the insurer and provided further that the cost of such insurance shall not exceed $5,000 per year. If such premium exceeds $5,000, Employee shall have the option to pay such excess; if Employee does not so elect, Employer's obligations shall be to provide life insurance obtainable for such $5,000 annual premium.

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 therefore on presentation of appropriate receipts for any such expenses. All travel and lodging arrangements shall be made in accordance with Employer's regular policies for senior executives, which are previously delivered or communicated to the Employee.

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 Company, the Employee may be discharged for cause (as hereinafter defined), effective as of such time as the Company 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 as provided in Section 8(g), 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) the inability of the Employee, by reason of physical or mental disability, to continue substantially to perform his duties hereunder for a period of 90 consecutive days, during which 90 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, except for payment of salary and benefits through the effective date of termination and as provided in Section 8(g).

(c) In the event that Employee's employment with the Employer is terminated by action taken by the Company 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 as provided in Section 8(g), 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 plus a payment in lieu of the Bonus and equal to the average of the previous two (2) Bonus payments (or if less than two Bonus Payments have been made the average of the prior year's Bonus and the Target Bonus for the current year). In the event of such termination, all options and restricted shares of stock granted hereunder which have not vested as of the date of such termination, shall be terminated or be forfeited. If such termination occurs within nine months following a Change in Control (as defined herein), Salary shall continued to be paid for a period of twelve months following such termination and the payment in lieu of the Bonus pursuant to this Section 6(c) shall be paid in one lump-sum payment immediately upon termination. Further, in the event of termination within nine months of a Change of Control (as defined herein), all of the options and restricted shares of stock granted hereunder shall vest and become immediately exercisable.

(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 injurious to the Company, monetarily or otherwise, (iii) the conviction of the Employee of a felony; (iv) gross negligence on the part of the Employee affecting the Company; or (v) failure of the Employee to adhere to the Company's written policies or to cooperate in any investigation or inquiry involving the Company. 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) 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.

(f) The Employee may terminate his employment with the Employer with or without Good Reason upon thirty (30) days written notice, which notice, in the case of a termination with Good Reason, shall specifically set forth the nature of such Good Reason. The term "Good Reason" shall mean (i) the material diminution in the Employee's duties, reporting relationship, position, responsibilities or authority, (ii) without the Employee's consent, the relocation of the Employee's principal office location more than fifty (50) miles from its current location, or (iii) any material breach of this Agreement by the Employer. Notwithstanding the occurrence of any such event or circumstance above, such occurrence shall not be deemed to constitute Good Reason hereunder if, within the thirty-day notice period, the event or circumstance giving rise to Good Reason has been fully corrected by the Employer. In the event of a termination with Good Reason, the Employee shall be entitled to the same payment and benefits as provided in Section 6(c) above for a termination without cause and Employee shall have no further obligations or duties to the Employer, except as provided in Section 7. In the event of a termination without Good Reason, Employee shall be entitled to payment and benefits through the effective date of termination and as provided in Section 8(g), and shall have the duties and obligations in Section 7.

(g) In the event of any termination of employment under this Section 6, the Employee shall be under no obligation to mitigate amounts payable hereunder by seeking other employment or otherwise and there shall be no offset against amounts due to the Employee hereunder on account of subsequent employment or otherwise.

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, compensation of employees, 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, guarantor, 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 or Employer directly or indirectly, disparage the commercial, business or financial reputation of the Company or Employee.

(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, employee lists, 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 nationally recognized overnight courier 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.
622 Broadway
New York, New York 10012
Attention: Chief Executive Officer

To the Employee:

Samuel A. Judd
One Smoke Hill Drive
Stamford, CT 06903

(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) 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.

(g) Indemnification. The Employer shall indemnify and hold harmless the Employee against any and all judgments, amounts incurred in settlement, fees and expenses reasonably incurred by Employee (including reasonable attorney's fees) in connection with or arising out of (i) in defense of any action, suit or proceeding in which he is a party by reason of or relating to his being or having been an employee or officer of the Company; (ii) or any claim asserted or threatened against him, in either case by reason of or relating to his being or having been an employee or officer of the Company, except in each of the foregoing clauses (i) and (ii) so far as such indemnification is prohibited by law. The foregoing is in addition to any indemnification and exculpation provisions contained in the Company's Certificate of Incorporation and Bylaws and shall survive the termination of this Agreement.

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/ Richard Roedel

Name: Richard Roedel
Title: Chief Executive Officer

/S/ Samuel A. Judd

Samuel A. Judd

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Section 302 Certification

I, Richard W. Roedel, Chief Executive Officer of Take-Two Interactive Software, Inc, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2004 of Take-Two Interactive Software, Inc.;

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

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

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

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

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

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

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

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

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

Date: September 14, 2004

/s/ Richard W. Roedel

Richard W. Roedel
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Section 302 Certification

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

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2004 of Take-Two Interactive Software, Inc.;

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

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

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

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

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

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

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

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

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

Date: September 14, 2004

/s/ Karl H. Winters

Karl H. Winters
Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Quarterly Report of Take-Two Interactive Software, Inc. (the "Company") on Form 10-Q for the period ended July 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard W. Roedel, as Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. SS 1350, as adopted pursuant to SS. 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Richard W. Roedel

Richard W. Roedel
Chairman and Chief Executive Officer

September 14, 2004

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

EXHIBIT 32.2

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

In connection with the Quarterly Report of Take-Two Interactive Software, Inc. (the "Company") on Form 10-Q for the period ended July 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Karl H. Winters, as Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. SS 1350, as adopted pursuant to SS. 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Karl H. Winters

Karl H. Winters
Chief Financial Officer

September 14, 2004

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