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

FORM 10-Q/A

(Mark One)
[x] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended April 30, 2001

OR

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from __________to__________

Commission File Number 0-29230

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

DELAWARE	51-0350842
(State of incorporation or organization)	(IRS Employer Identification No.)
575 Broadway, New York, NY	10012
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes X No__

As of June 4, 2001, there were 34,077,834 shares of the registrant's Common Stock outstanding.

TAKE-TWO INTERACTIVE SOFTWARE, INC.
QUARTER ENDED APRIL 30, 2001

INDEX

* This amended form 10-Q is being filed as the result of the following:
On February 12, 2002, the Company restated its financial statements for the fiscal year ended October 31, 2000, each of the quarters of fiscal 2000 and the three fiscal quarters of fiscal 2001. All financial data in this report reflects this restatement. See Note 2 of Notes to Unaudited Consolidated Condensed Financial Statements.

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Balance Sheets
As of April 30, 2001 and October 31, 2000 (unaudited)
(In thousands, except share data)

ASSETS:	April 30, 2001 Restated	October 31, 2000
Current assets:		
Cash and cash equivalents	$ 6,886	$ 5,245
Accounts receivable, net of provision for doubtful accounts and sales allowances of $16,990 and $11,615 at April 30, 2001 and October 31, 2000, respectively	95,021	115,927
Inventories, net	52,647	53,798
Prepaid royalties	28,412	24,093
Prepaid expenses and other current assets	14,460	6,551
Investments	1,714	2,926
Deferred tax asset	16,922	9,243
Total current assets	216,062	217,783
Fixed assets, net	8,606	5,260
Prepaid royalties	3,828	1,303
Capitalized software development costs, net	9,753	9,613
Investments	5,078	28,487
Intangibles, net	90,298	66,562
Other assets, net	1,840	1,565
Total assets	$ 335,465	$ 330,573
LIABILITIES and STOCKHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 43,860	$ 47,972
Accrued expenses	19,603	15,099
Lines of credit, current portion	77,630	84,605
Current portion of capital lease obligation	93	89
Total current liabilities	141,186	147,765
Loan payable, net of discount	12,561	12,268
Notes Payable	691	-
Capital lease obligation, net of current portion	308	348
Total liabilities	$ 154,746	$ 160,381
Commitments and contingencies		
Stockholders' equity		
Common stock, par value $.01 per share; 50,000,000 shares authorized; 32,855,959 and 31,172,866 shares issued and outstanding	329	312
Additional paid-in capital	168,888	157,738
Deferred compensation	-	(5)
Retained earnings	21,584	24,819
Accumulated other comprehensive loss	(10,082)	(12,672)
Total stockholders' equity	180,719	170,192
Total liabilities and stockholders' equity	$ 335,465	$ 330,573

The accompanying notes are an integral part of the consolidated condensed financial statements. Certain amounts have been reclassified for comparative purposes.

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Operations
For the three months ended April 30, 2001 and 2000 (unaudited)
and the six months ended April 30, 2001 and 2000 (unaudited)
(In thousands, except per share data)

	Three months ended April 30, 2001 Restated	Three months ended April 30, 2000	Six months ended April 30, 2001 Restated	Six months ended April 30, 2000
Net sales	$ 88,617	$ 69,519	$ 246,470	$ 189,766
Cost of sales (includes impairment charge on Internet gaming assets of $3,786)	57,396	40,412	161,656	125,367
Gross profit	31,221	29,107	84,814	64,399
Operating expenses:				
Selling and marketing (includes impairment charge on Internet gaming assets of $401)	12,015	9,912	24,829	25,188
General and administrative	9,107	8,196	19,618	17,491
Research and development costs	1,601	1,364	3,001	2,989
Depreciation and amortization	3,538	2,173	5,960	3,576
Total operating expenses	26,261	21,645	53,408	49,244
Income from operations	4,960	7,462	31,406	15,155
Interest expenses, net	2,355	1,375	5,285	2,881
Gain on sale of subsidiary, net	-	(871)	-	(871)
Loss on available-for-sale Internet securities	20,754	-	20,754	-
Equity in loss of affiliate	-	19,813	-	19,969
Total non-operating expenses	23,109	20,317	26,039	21,979
(Loss) income before income taxes and cumulative effect of change in accounting principle	(18,149)	(12,855)	5,367	(6,824)
(Benefit) provision for income taxes	(6,682)	(4,395)	3,265	(2,330)
(Loss) income before cumulative effect of change in accounting principle	(11,467)	(8,460)	2,102	(4,494)
Cumulative effect of change in accounting principle, net of taxes of $3,558	-	-	5,337	-
Net loss	$ (11,467)	$ (8,460)	$ (3,235)	$ (4,494)
Per share data:				
Basic:				
Weighted average common shares outstanding	32,641	25,699	32,491	24,424
(Loss) income before cumulative effect of change in accounting principle per share	(0.35)	(0.33)	0.06	(0.18)
Cumulative effect of change in accounting principle per share	-	-	(0.16)	-
Net loss - Basic	$ (0.35)	$ (0.33)	$ (0.10)	$ (0.18)
Diluted:				
Weighted average common shares outstanding	32,641	25,699	33,345	24,424
(Loss) income before cumulative effect of change in accounting principle per share	(0.35)	(0.33)	0.06	(0.18)
Cumulative effect of change in accounting principle per share	-	-	(0.16)	-
Net loss - Diluted	$ (0.35)	$ (0.33)	$ (0.10)	$ (0.18)

The accompanying notes are an integral part of the consolidated condensed financial statements. Certain amounts have been reclassified for comparative purposes

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Cash Flows
For the six months ended April 30, 2001 and 2000 (unaudited)

(In thousands)

	Six months ended April 30, 2001 Restated	2000
Cash flows from operating activities:		
Net loss	$ (3,235)	$ (4,494)
Adjustment to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,960	3,576
Loss on disposal of fixed assets	-	99
Gain on sale of subsidiary, net	-	(871)
Stock received in consideration of license revenues	-	(1,905)
Loss on available-for-sale Internet securities	20,754	-
Impairment charge on Internet assets	4,187	-
Equity in loss of affiliate	-	19,969
Change in deferred tax asset	(7,679)	-
Provision for doubtful accounts	5,375	(1,349)
Provision for inventory	7	(42)
Amortization of various expenses and discounts	522	226
Tax benefit from exercise of stock options	1,057	1,941
Changes in operating assets and liabilities, net of effects of acquisitions:		
Decrease in accounts receivable	25,503	27,288
Decrease (increase) in inventories, net	4,854	(777)
Increase in prepaid royalties	(8,950)	(18,061)
Increase in prepaid expenses and other current assets	(8,724)	(419)
Increase in capitalized software development costs	(529)	(1,189)
Decrease in accounts payable	(16,559)	(38,918)
Increase (decrease) in accrued expenses	779	(4,564)
Net cash provided by (used in) operating activities	23,322	(19,490)
Cash flows from investing activities:		
Purchase of fixed assets	(2,777)	(1,225)
Other investments	-	(5,975)
Acquisitions, net of cash acquired	(4,300)	(4,274)
Additional cash paid for prior acquisition	-	(1,277)
Net cash used in investing activities	(7,077)	(12,751)
Cash flows from financing activities:		
Proceeds from private placements	-	10,016
Net (repayments) borrowings under lines of credit	(17,815)	12,036
Proceeds on notes payable	40	-
Proceeds from exercise of stock options and warrants	4,011	5,398
Repayment of capital lease obligation	(36)	(45)
Net cash (used in) provided by financing activities	(13,800)	27,405
Effect of foreign exchange rates	(804)	(2,352)
Net increase (decrease) in cash for the period	1,641	(7,188)
Cash and cash equivalents, beginning of the period	5,245	10,374
Cash and cash equivalents, end of the period	$ 6,886	$ 3,186
Supplemental disclosure of non-cash operating activities:		
Gain on sale of subsidiary, net	$ -	$ (871)
Stock received in consideration of license revenues	$ -	$ (1,905)
Supplemental information on businesses acquired:		
Fair value of assets acquired		
Cash	$ -	$ 195
Accounts receivable, net	9,973	390
Inventories, net	3,710	-
Prepaid royalties	(707)	-
Prepaid expenses and other assets	34	4,899
Property and equipment, net	272	1,012
Intangible asset	7,705	-
Goodwill	40,288	60,785
Less, liabilities assumed		
Line of credit	(10,841)	-
Accounts payable	(12,447)	(7,268)
Accrued expenses	(2,219)	(1,060)
Other current liabilities	(651)	(1,540)
Stock issued	(13,380)	(48,980)
Value of asset recorded	(17,266)	-
Direct transaction costs	(171)	-

Investment interest and purchase option	-	(3,964)
Cash paid	4,300	4,469
Less, cash acquired	-	(195)
Net cash paid	$ 4,300	$ 4,274

During the six months ended April 30, 2000, the Company paid $1,277,000 in cash and issued $161,000 in common stock related to a prior period acquisition. Such payments were capitalized and recorded as Goodwill.

The accompanying notes are an integral part of the consolidated condensed financial statements. Certain amounts have been reclassified for comparative purposes

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Stockholders' Equity
For the year ended October 31, 2000 and the six months ended April 30, 2001
(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Deferred Compensation
Balance, November 1, 1999	23,086	$ 231	$ 67,345	$ (48)
Issuance of compensatory stock options	-	-	55	-
Proceeds from exercise of stock options and warrants	1,373	13	6,908	-
Amortization of deferred compensation	-	-	-	43
Issuance of common stock in connection with acquisitions	4,222	43	55,218	-
Issuance of common stock in connection with private placements, net of issuance costs	2,422	24	21,261	-
Issuance of warrants in connection with a debt financing	-	-	2,927	-
Issuance of common stock in lieu of repayment of debt	168	2	2,528	-
Retirement of common stock	(98)	(1)	(1,249)	-
Tax benefit in connection with the exercise of stock options	-	-	2,745	-
Foreign currency translation adjustment	-	-	-	-
Net unrealized loss on investments	-	-	-	-
Net income	-	-	-	-
Balance, October 31, 2000	31,173	$ 312	$ 157,738	$ (5)
Proceeds from exercise of stock options and warrants	811	8	4,003	-
Amortization of deferred compensation	-	-	-	5
Issuance of common stock in connection with acquisitions	1,436	14	13,395	-
Acquisition of Treasury shares	(564)	(5)	(7,305)	-
Tax benefit in connection with the exercise of stock options	-	-	1,057	-
Foreign currency translation adjustment	-	-	-	-
Net unrealized gain on investments	-	-	-	-
Net loss - Restated	-	-	-	-
Balance, April 30, 2001 - Restated	32,856	$ 329	$ 168,888	$ -

	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income (Loss)
Balance, November 1, 1999	$ 18,402	$ (827)	$ 85,103	$ 15,512
Issuance of compensatory stock options	-	-	55	-
Proceeds from exercise of stock options and warrants	-	-	6,921	-
Amortization of deferred compensation	-	-	43	-
Issuance of common stock in connection with acquisitions	-	-	55,261	-
Issuance of common stock in connection with private placements, net of issuance costs	-	-	21,285	-
Issuance of warrants in connection with a debt financing	-	-	2,927	-
Issuance of common stock in lieu of repayment of debt	-	-	2,530	-
Retirement of common stock	-	-	(1,250)	-
Tax benefit in connection with the exercise of stock options	-	-	2,745	-

Foreign currency translation adjustment	-	(9,014)	(9,014)	(9,014)
Net unrealized loss on investments	-	(2,831)	(2,831)	(2,831)
Net income	6,417	-	6,417	6,417
Balance, October 31, 2000	$ 24,819	$ (12,672)	$ 170,192	$ (5,428)
Proceeds from exercise of stock options and warrants	-	-	4,011	-
Amortization of deferred compensation	-	-	5	-
Issuance of common stock in connection with acquisitions	-	-	13,409	-
Acquisition of Treasury shares	-	-	(7,310)	-
Tax benefit in connection with the exercise of stock options	-	-	1,057	-
Foreign currency translation adjustment	-	(520)	(520)	(520)
Net unrealized gain on investments	-	3,110	3,110	3,110
Net loss - Restated	(3,235)	-	(3,235)	(3,235)
Balance, April 30, 2001 - Restated	$ 21,584	$ (10,082)	$ 180,719	$ (645)

The accompanying notes are an integral part of the consolidated condensed financial statements. Certain amounts have been reclassified for comparative purposes

1. Organization

Take-Two Interactive Software, Inc. (the "Company") is a leading global developer, publisher and distributor of interactive software games designed for PCs and video game console platforms.

2. Restatement of Financial Statements

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

As a result of the investigation, the Company restated its previously issued consolidated financial statements for fiscal 2000 and each of the quarters in fiscal 2000 and the first three quarters in fiscal 2001. The amounts presented herein for the year ended October 31, 2000 and the three and six months ended April 30, 2000 reflect the restated financial statements, which have been filed with the SEC. The restatement of the financial statements for the three and six months ended April 30, 2001 relates to the elimination of $3,703,000 and $7,336,000, respectively, of net sales made to independent third party distributors and related cost of sales of $5,113,000 and $9,828,000, respectively, and the related tax effect, which were improperly recognized as revenue since the products were later returned or repurchased by the Company.

In addition, the Company reviewed its revenue recognition policy, reserve policies and its accounting for certain other transactions. As a result of this review, the Company restated its previously issued unaudited consolidated condensed financial statements for the three and six months ended April 30, 2001 for the following transactions and the related tax effect:

- For the six months ended April 30, 2001, the recognition of net sales of $3,780,000 and related cost of sales of $2,236,000 for transactions that did not qualify for revenue recognition in the fourth quarter of fiscal 2000.

- An adjustment of $1,000,000 and $1,750,000, respectively, for the three and six months ended April 30, 2001 for the reduction of revenue related to adjustment of the purchase price of an acquired business, and a related reduction of amortization expense of $44,000 and $73,000, respectively, for the three and six months ended April 30, 2001 (see Note 5). Additionally, the Company recorded a net reduction for post acquisition amortization of $276,000 and $657,000, respectively, comprised of a $627,000 and $1,190,000, respectively, reduction of amortization of intangible assets offset by an increase of $351,000 and $533,000 in the amortization of prepaid royalities for the three and six months ended April 30, 2001 from purchase allocation adjustments made relating to acquisitions consummated in fiscal 2000 as a result of restatements made to the 2000 financial statements.

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

The effect of the restatement for the three and six months ended April 30, 2001 is as follows (certain amounts have been reclassified and are presented in thousands, except per share data):

	Three months ended April 30, 2001			Six months ended April 30, 2001			
	As Reported	Restatement	As Restated	As Reported	Restatement	Effect of SAB 101	As Restated
Statement of Operations Data:							
Net sales	$ 93,320	$ (4,703)	$ 88,617	$ 224,546	$ (5,306)	$ 27,230	$ 246,470
Cost of sales	62,158	(4,762)	57,396	150,380	(7,059)	18,335	161,656
Depreciation and amortization	4,208	(670)	3,538	7,222	(1,262)	-	5,960
Income from operations	4,231	729	4,960	19,496	3,015	8,895	31,406
(Loss) income before provision for income taxes and cumulative effect of change in accounting principle	(18,878)	729	(18,149)	(6,543)	3,015	8,895	5,367
Cumulative effect of change in accounting principle	-	-	-	-	-	5,337	5,337
(Benefit) provision for income taxes	(6,954)	272	(6,682)	(2,369)	2,076	3,558	3,265
Net loss	$ (11,924)	$ 457	$ (11,467)	$ (4,174)	$ 939	$ -	$ (3,235)
Basic loss per share	$ (0.37)	$ 0.02	$ (0.35)	$ (0.13)	$ 0.03	$ -	$ (0.10)
Diluted loss per share	$ (0.37)	$ 0.02	$ (0.35)	$ (0.13)	$ 0.03	$ -	$ (0.10)

	April 30, 2001	
	As Reported	As Restated
Balance Sheet Data		
Accounts receivable	$104,219	$ 95,021
Inventories, net	48,454	52,647
Prepaid royalties - current	25,479	28,412
Deferred tax asset	8,345	16,922
Intangibles, net	114,729	90,298
Total assets	353,391	335,465
Accrued expenses and other current liabilities	19,751	19,603
Total liabilities	154,894	154,746
Retained earnings	39,191	21,584
Accumulated other comprehensive loss	(9,911)	(10,082)
Total liabilities and stockholders' equity	353,391	335,465

Amendment of Credit Agreement

As a result of the restatement, in February 2002, the Company retroactively amended its covenants under the credit agreement with Bank of America N.A. to December 1999. Accordingly, as of April 30, 2001, the Company was in compliance with the covenants, as amended.

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

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 opinion of management, the financial statements reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the Company's financial position, results of operations and cash flows. The results of operations for any interim periods are not necessarily indicative of the results for the full year. The financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company's Annual Report on Form 10-K/A for the fiscal year ended October 31, 2000.

Risk and Uncertainties

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

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

Prepaid Royalties and Capitalized Software Development Costs

The Company's agreements with licensors and developers generally require it to make advance royalty payments and pay royalties based on product sales. Prepaid royalties are amortized at the contractual royalty rate as cost of sales based on actual net product sales. The Company continually evaluates the future realization of prepaid royalties, and charges to cost of sales any amount that management deems unlikely to be realized at the contractual royalty rate. Prepaid royalties are classified as current and non-current assets based upon estimated net product sales within the next year. Prepaid royalties were written down by $75,000 for the three and six months ended April 30, 2001, to estimated net realizable value. For the three and six months ended April 30, 2000, prepaid royalties were written down by $109,000 to estimated net realizable value. For the three and six months ended April 30 2001, amortization of prepaid royalties amounted to $2,649,000 and $8,669,000, respectively, which is included in total royalty expense of $2,905,000 and $9,305,000, respectively. For the three and six months ended April 30, 2000, royalty expense was comprised solely of amortization of prepaid royalties, which amounted to $1,856,000 and $4,861,000, respectively.

The Company capitalizes internal software development costs subsequent to establishing technological feasibility of a title. Amortization of such costs as cost of sales is based on the greater of the proportion of current year sales to total estimated sales commencing with the title's release or the straight-line method. The Company continually evaluates the recoverability of capitalized costs. For the three and six months ended April 30, 2001, capitalized software costs of $389,000 were written off as cost of sales as part of the impairment charge as described in Note 8. For the three and six months ended April 30, 2000, capitalized software costs were written off by $240,000 and $249,000, respectively, to estimated net realizable value. Amortization of capitalized software costs amounted to $1,049,000 and $260,000 for the three months ended April 30, 2001 and 2000, respectively, and $1,941,000 and $329,000 for the six months ended April 30, 2001 and 2000, respectively.

Revenue Recognition

Distribution revenue is derived from the sale of third-party software products and hardware and is recognized when the ownership and risk of loss pass to customers which is generally upon receipt of products by customers. Distribution revenue was $40,272,000 and $33,215,000 for the three months ended April 30, 2001 and 2000, respectively, and $120,206,000 and $93,160,000 for the six months ended April 30, 2001 and 2000, respectively.

Publishing revenue is derived from the sale of internally developed software products or from the sale of products licensed from third-party developers and is recognized when the ownership and risk of loss pass to customers which is generally upon receipt of products by customers. Publishing revenue was $48,345,000 and $36,304,000 for the three months ended April 30, 2001 and 2000, respectively, and $126,264,000 and $96,606,000 for the six months ended April 30, 2001 and 2000, respectively.

In October 1997, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 97-2 "Software Revenue Recognition." SOP 97-2 provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions. The Company has adopted SOP 97-2 and such adoption did not have a material impact on the Company's financial statements. The Company recognizes revenue upon persuasive evidence of an arrangement, the Company's fulfillment of its obligations under any such arrangement, and determination that collection is probable. The Company's payment arrangements with its customers are fixed at the time of sale with 30, 60, 90 or 120 day terms. The AICPA has also issued SOP 98-9, a modification of SOP 97-2, "Software Revenue Recognition with respect to Certain Transactions." SOP 98-9 deals with the determination of vendor specific objective evidence of fair value in multiple element arrangements, such as maintenance agreements sold in conjunction with software packages. The adoption of SOP 98-9 did not have a material impact on the Company's financial statements.

The Company's distribution arrangements with customers generally do not give them the right to return products; however, the Company accepts product returns for stock balancing or defective products. In addition, the Company sometimes negotiates accommodations to customers, including price discounts, credits and product returns, when demand for specific products falls below expectations. The Company's publishing arrangements require the Company to accept product returns. The Company establishes a reserve for future returns based primarily on its return policies, markdown allowances and historical return rates, and recognizes sales net of product returns.

Effective November 1, 2000, the Company adopted Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." Consistent with the guidelines provided in SAB No. 101, the Company changed its revenue recognition policy to recognize revenue as noted above. Prior to the adoption of SAB 101, the Company recognized revenue upon shipment. The cumulative effect of the application of the revenue recognition policies set forth in SAB 101 for the period ended January 31, 2001 was approximately $5.3 million, or $0.16 per share, net of tax benefit of approximately $3.6 million. As a result of adopting SAB 101, net sales and cost of sales of approximately $27.2 million and $18.3 million, respectively, which were originally recognized in the year ended October 31, 2000 were also recognized in the six months ended April 30, 2001. This adoption had no effect on net income for the six months ended April 30, 2001. It is impracticable for the Company to present pro forma information for quarters prior to fiscal 2001.

4. (Loss) Income before Cumulative Effect of Change in Accounting Principle per Share

The following table provides a reconciliation of basic earnings per share to dilutive earnings per share for the three and six months ended April 30, 2001 and 2000.

	(Loss) Income before cumulative effect of change in accounting principle	Shares	Per Share Amount
(in thousands, except per share data)			
Three Months Ended April 30, 2001-Restated:			
Basic and Diluted	$(11,467)	32,641	$ (.35)
Three Months Ended April 30, 2000:			
Basic and Diluted	$ (8,460)	25,699	$ (.33)
Six Months Ended April 30, 2001- Restated			
Basic effect of dilutive securities	$ 2,102	32,491	$ 0.06
Stock options and warrants	--	854	--
Diluted	$ 2,102	33,345	$ 0.06
Six Months Ended April 30, 2000:			
Basic and Diluted	$ (4,494)	24,424	$ (.18)

As the Company reported losses before cumulative effect of change in accounting principle for the three months ended April 30, 2001 and the three and six months ended April 30, 2000, all 1,015,000 and all 1,120,000 and 1,208,000 of the options and warrants outstanding, respectively, were anti-dilutive, and therefore, there were no reconciling items between basic and diluted loss per share. For the six months ended April 30, 2001, the computation for diluted number of shares excludes unexercised stock options and warrants which are anti-dilutive.

5. Business Acquisitions

In connection with the sale of Toga Holdings to Gameplay.com plc ("Gameplay") in October 2000, the Company agreed to acquire Gameplay's game software development and publishing business--NEO Software Produktions GMBH ("Neo"). The Company obtained an independent third party valuation in support of the value assigned to its right to acquire Neo. In January 2001, the Company completed the acquisition of Neo and assumed net liabilities of approximately $808,000, in addition to the prepaid purchase price of $17.3 million.

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

The acquisitions have been accounted for as a purchase. The unaudited Consolidated Condensed Statements of Operations includes the operating results of each business from the date of acquisition. The following unaudited pro forma results below assumes the acquisitions of VLM and Neo occurred on November 1, 1999 (in thousands, except per share data),

	Six Months Ended April 30, 2001	Six Months Ended April 30, 2000
Net Sales	$251,017	$212,888
Net Loss	(3,836)	(5,689)
Net Loss per share (basic)	(0.12)	(0.22)
Net Loss per share (fully diluted)	(0.12)	(0.22)

6. Acquisition of Treasury Shares

In February 2001, certain stockholders of the Company exchanged and surrendered for cancellation for no additional consideration 564,212 shares of the Company's Common Stock for shares of Gameplay.com plc ("Gameplay") having an equal value.

7. Inventory

As of April 30, 2001 and October 31, 2000, inventories consist of (in thousands):

	April 30, 2001	October 31, 2000
Parts and supplies	$ 666	$ 496
Finished products	51,981	53,302
	$ 52,647	$ 53,798

8. Impairment charge on Internet assets

For the three months ended April 30, 2001, the Company recorded as cost of sales a non-cash impairment charge of $3,786,000 consisting of $2,350,000 relating to server maintenance technologies and $1,047,000 relating to multiplayer technologies developed by the Company's Neo Software ("Neo") development studio in connection with Online Pirates and $389,000 of capitalized software relating to other products to be developed by Neo, which the Company expected to deliver to Gameplay for online distribution. In addition, the Company recorded as selling and marketing expenses an impairment charge of $401,000 related to online sales promotions for our products to be delivered by Gameplay. Based on the substantial decline in the value of Gameplay shares, as well as a substantial deterioration in Gameplay's financial condition and business prospects, the Company determined that the software technologies and products that were to be delivered by Neo to Gameplay were impaired at April 30, 2001. The write-off of the impaired assets is not expected to have a material effect on our future revenues and results of operations.

9. Investments

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

During the three months ended April 30, 2001, the Company recorded an impairment charge of $20,754,000, consisting of approximately $18,448,000 relating to its investment in Gameplay, $2,000,000 relating to its investment in eUniverse, Inc. ("eUniverse") and $306,000 relating to its investment in Entertainment Brands, a privately-held company, to reflect other than temporary declines in value. See Item 3 "Quantitative and Qualitative Disclosures about Market Risk."

As of April 30, 2001 and October 31, 2000, investments were summarized as follows (in thousands):

	April 30, 2001		October 31, 2000	
	Current	Non-Current	Current	Non-Current
Average cost	$ 2,206	$ 4,136	$ 2,896	$ 33,084
Unrealized (losses) gains	(492)	942	30	(4,597)
Fair value	$ 1,714	$ 5,078	$ 2,926	$ 28,487

10. Segment Reporting

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

Information about the Company's non-current assets in the United States and international areas as of April 30, 2001 and October 31, 2000 are presented below:

(in thousands)	April 30, 2001	October 31, 2000
Total Non-current Assets:		
United States	$ 71,639	$ 82,904
International		
United Kingdom	20,111	20,418
All other Europe	23,574	5,748
Other	4,079	3,720
	$119,403	$112,790

Information about the Company's net sales in the United States and international areas for the three and six months ended April 30, 2001 and 2000 are presented below (net sales are attributed to geographic areas based on product destination):

	Three Months Ended April 30		Six Months Ended April 30	
(in thousands)	2001	2000	2001	2000
Net Sales:				
United States	$ 64,536	$ 41,848	$178,161	$116,685
Canada	2,247	2,711	8,872	6,467
International				
United Kingdom	6,046	4,799	23,496	12,656
All other Europe	13,053	18,041	29,503	48,893
Asia Pacific	2,574	2,021	6,137	4,866
Other	161	99	301	199
	$ 88,617	$ 69,519	$246,470	$189,766

Information about the Company's net sales by product platforms for the three and six months ended April 30, 2001 and 2000 are presented below:

(in thousands)	Three Months Ended April 30		Six Months Ended April 30	
	2001	2000	2001	2000
Platforms:				
PC	$ 20,401	$ 22,902	$ 50,918	$ 42,053
Sony PlayStation 2	25,490	-	61,758	-
Sony PlayStation	19,743	13,447	50,374	66,460
Nintendo GameBoy Color and 64	2,986	8,853	18,900	31,789
Sega Dreamcast	1,351	3,072	9,264	9,457
Accessories	5,233	13,591	25,132	21,632
Hardware	13,413	7,654	30,124	18,375
	$ 88,617	$ 69,519	$246,470	$189,766

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Restatement of Historical Financial Statements.

In November 2001, in connection with an informal and voluntary request from the SEC to provide documents, the Company engaged outside counsel to conduct an investigation into the Company's accounting treatment of certain transactions in fiscal 2000 and 2001. Counsel retained advisors to perform a forensic accounting investigation.

As a result of the investigation, the Company restated its previously issued consolidated financial statements for fiscal 2000 and each of the quarters in fiscal 2000 and the first three quarters in fiscal 2001. The amounts presented herein for the year ended October 31, 2000 and the three and six months ended April 30, 2000 reflect the restated financial statements, which have been filed with the SEC. The restatement of the financial statements for the three and six months ended April 30, 2001 relates to the elimination of $3,703,000 and $7,336,000, respectively, of net sales made to independent third party distributors and related cost of sales of $5,113,000 and $9,828,000, respectively, and the related tax effect, which were improperly recognized as revenue since the products were later returned or repurchased by the Company.

In addition, the Company reviewed its revenue recognition policy, reserve policies and its accounting for certain other transactions. As a result of this review, the Company restated its previously issued unaudited consolidated condensed financial statements for the three and six months ended April 30, 2001 for the following transactions and the related tax effect:

- For the six months ended April 30, 2001, the recognition of net sales of $3,780,000 and related cost of sales of $2,236,000 for transactions that did not qualify for revenue recognition in the fourth quarter of fiscal 2000.

- An adjustment of $1,000,000 and $1,750,000, respectively, for the three and six months ended April 30, 2001 for the reduction of revenue related to adjustment of the purchase price of an acquired business, and a related reduction of amortization expense of $44,000 and $73,000, respectively, for the three and six months ended April 30, 2001 (see Note 5 of Notes to Unaudited Consolidated Condensed Financial Statements). Additionally, the Company recorded a net reduction for post acquisition amortization of $276,000 and $657,000, respectively, comprised of a $627,000 and $1,190,000, respectively, reduction of amortization of intangible assets offset by an increase of $351,000 and $533,000 in the amortization of prepaid royalities for the three and six months ended April 30, 2001 from purchase allocation adjustments made relating to acquisitions consummated in fiscal 2000 as a result of restatements made to the 2000 financial statements.

Additionally, the Company restated its first quarter fiscal 2001 financial statements to record the cumulative effect of the change in accounting related to the adoption of SAB 101 "Revenue Recognition." In fiscal 2001, the Company implemented changes to its practices to significantly reduce shipment time near quarter and year end. Accordingly, the adoption of SAB 101 did not have a significant impact on previously reported interim net income for the first two quarters of 2001. See Notes 2 and 3 of Notes to Unaudited Consolidated Condensed Financial Statements.

Safe Harbor Statement under the Securities Litigation Reform Act of 1995: The Company makes statements in this report that are considered forward looking statements under federal securities laws. Such forward looking statements are based on the beliefs of management as well as assumptions made by and information currently available to them. The words "expect," "anticipate," "believe," "may," "estimate," "intend," "guidance," and similar expressions are intended to identify such forward looking statements. Forward looking statements involve risks, uncertainties and assumptions including, but not limited to: risks associated with future growth and operating results; the Company's ability to continue to successfully manage growth and integrate the operations of acquired businesses; the availability of adequate financing to fund periodic cash flow shortages; credit risks; seasonal factors; inventory obsolescence; technological change; competitive factors; product returns; failure of retailers to sell-through the Company's products; the timing of the introduction and availability of new hardware platforms; market and industry factors adversely affecting the carrying value of the Company's investments; and unfavorable general economic conditions, any or all of which could have a material adverse effect on the Company's business, operating results and financial condition. Actual operating results may vary significantly from such forward looking statements.

Overview

The Company is a leading global developer, publisher and distributor of interactive software games. The Company's software operates on PCs and video game consoles manufactured by Sony, Nintendo and Sega. The following table sets forth the percentages of publishing revenues derived from sales of titles for specific platforms during the periods indicated:

	Three Months Ended April 30		Six Months Ended April 30	
	2001	2000	2001	2000
Platforms				
PC..................................	33.9	49.4%	34.0%	36.7%
Sony PlayStation 2..................	37.7	-	39.7	-
Sony PlayStation....................	25.0	23.7	17.5	36.5
Nintendo GameBoy Color and 64.......	(0.3)	11.6	1.8	12.8
Sega Dreamcast......................	0.2	8.1	1.9	5.7
Accessories.........................	3.5	7.2	5.1	8.3
	100.0%	100.0%	100.0%	100.0%

Revenue Recognition. The Company's principal sources of revenues are derived from publishing and distribution operations. Publishing revenues are derived from the sale of internally developed software or software licensed from third parties. Distribution revenues are derived from the sale of third-party software and hardware. Publishing activities generally generate higher margins than distribution activities, with sales of PC software resulting in higher margins than sales of CDs or cartridges designed for video game consoles. Effective November 1, 2000, the Company recognizes net revenue when title and risk of loss pass to customers (generally, upon receipt of products by customers.) Prior to that date, we recognized revenue upon shipment.

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

Capitalized Costs. The Company's agreements with licensors and developers generally require it to make advance royalty payments and pay royalties based on product sales. Prepaid royalties are amortized at the contractual royalty rate as cost of sales based on actual net sales. At April 30, 2001, the Company had prepaid royalties of $32,240,000. The Company also capitalizes internal software development costs subsequent to establishing technological feasibility of a title. Amortization of such costs as cost of sales is based on the greater of the proportion of current year sales to total estimated sales commencing with the title's release or the straight-line method. At April 30, 2001, the Company had capitalized software development costs of $9,753,000. The Company continually evaluates the recoverability of capitalized costs. If the Company were required to write-off these payments or costs to a material extent in future periods, the Company's results of operations would be adversely affected.

Results of Operations

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2001	2000	2001	2000
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales (1)	64.8	58.1	65.6	66.1
Selling and marketing (2)	13.6	14.3	10.1	13.3
General and administrative	10.3	11.8	8.0	9.2
Research and development costs	1.8	2.0	1.2	1.6
Depreciation and amortization	4.0	3.1	2.4	1.9
Interest expense, net	2.7	2.0	2.1	1.5
Loss on available-for-sale Internet securities	23.4	-	8.4	-
(Provision) benefit for income taxes	(7.5)	(6.3)	1.3	(1.2)
Net loss	(12.9)	(12.2)	(1.3)	(2.4)

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

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

Three Months Ended April 30, 2001 and 2000

Net Sales. Net sales increased by $19,098,000, or 27.5%, to $88,617,000 for the three months ended April 30, 2001 from $69,519,000 for the three months ended April 30, 2000. The increase in net sales was attributable to growth in both the Company's publishing and distribution operations.

Publishing revenues increased by $12,041,000, or 33.2%, to $48,345,000 for the three months ended April 30, 2001 from $36,304,000 for the three months ended April 30, 2000. This increase was primarily attributable to increased sales of titles developed for the Sony PlayStation and PlayStation 2.

For the three months ended April 30, 2001, publishing activities accounted for approximately 54.6% of net sales. For this period, software products designed for PC platforms accounted for approximately 33.9% of the Company's publishing revenues as compared to 49.4% for the three months ended April 30, 2000. The Company anticipates that in the future, sales of PC products as a percentage of revenue will continue to decline, although the Company has several major PC releases planned for the upcoming quarters. Software products designed for video game console platforms accounted for 62.6% of the Company's publishing revenues as compared to 43.4% for the prior comparable quarter. The Company expects that sales of video game console products will continue to account for a significant portion of its publishing revenues.

Distribution revenues increased by $7,057,000, or 21.2%, to $40,272,000 for the three months ended April 30, 2001 from $33,215,000 for the three months ended April 30, 2000. This increase was primarily attributable to the acquisition of VLM Entertainment Group, Inc. in November 2000. The Company expects that its distribution operations will continue to expand largely as a result of the anticipated introduction of next-generation hardware platforms and the wide-scale rollout of PlayStation 2. For the three months ended April 30, 2001, distribution activities accounted for approximately 45.4% of net sales.

International operations accounted for approximately $21,834,000 or 24.6% of the Company's net sales for the three months ended April 30, 2001 compared to $24,960,000 or 35.9% for the three months ended April 30, 2000. The decrease was primarily attributable to the Company's increasing emphasis on expanding its publishing activities in Europe. The Company expects that international sales will continue to account for a significant portion of its revenue.

Cost of Sales. Cost of sales increased by $16,984,000, or 42.0%, to $57,396,000 for the three months ended April 30, 2001 from $40,412,000 for the three months ended April 30, 2000. The increase was attributable to the Company's expanded operations and commensurate with increased net sales. In addition, for this quarter the Company recorded as cost of sales royalty expenses of approximately $3.9 million from prepaid royalties and capitalized software costs as compared to $2.0 million in the prior comparable quarter. Excluding the charge described below, cost of sales as a percentage of net sales remained relatively constant. 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.

During the quarter, the Company also recorded as cost of sales a non-cash impairment charge of $3,786,000 relating to a reduction in the value of certain Internet assets, including software technologies and products developed by the Company's Neo Software development studio, which the Company expected to deliver to Gameplay for online distribution. The write-off of the impaired assets is not expected to have a material effect on our future revenues and results of operations.

Selling and Marketing. Selling and marketing expenses increased by $2,103,000, or 21.2%, to $12,015,000 for the three months ended April 30, 2001 from $9,912,000 for the three months ended April 30, 2000. The increase was primarily attributable to increased product offerings and a non-cash impairment charge of $401,000 relating to online sales promotions for our products to be delivered by Gameplay. Selling and marketing expenses as a percentage of net sales decreased to 13.6% for the three months ended April 30, 2001 from 14.3% for the three months ended April 30, 2000. The decrease reflects the Company's continued efforts to achieve cost efficiencies.

General and Administrative. General and administrative expenses increased by $911,000, or 11.1%, to $9,107,000 for the three months ended April 30, 2001 from $8,196,000 for the three months ended April 30, 2000. The increase was attributable to increased salaries, rent and insurance premiums to support the Company's expanded operations. General and administrative expenses as a percentage of net sales remained relatively constant.

Research and Development. Research and development costs increased by $237,000 to $1,601,000 for the three months ended April 30, 2001 from $1,364,000 for the three months ended April 30, 2000. Research and development costs as a percentage of net sales remained relatively constant. Additionally, certain product costs are amortized as cost of sales as described above.

Depreciation and Amortization. Depreciation and amortization expense increased by $1,365,000 or 62.8%, to $3,538,000 for the three months ended April 30, 2001 from $2,173,000 for the three months ended April 30, 2000. The increase was due to the amortization of intangible assets from acquisitions.

Interest Expenses, net. Interest expense increased by $980,000 or 71.3%, to $2,355,000 for the three months ended April 30, 2001 from $1,375,000 for the three months ended April 30, 2000. The increase resulted from increased borrowings.

Loss on Available-For-Sale Internet Securities. During the three months ended April 30, 2001, the Company incurred a non-cash impairment charge of $18,448,000 relating to its investment in Gameplay to reflect an other than temporary decline in the value of this investment. The Company also incurred a non-recurring non-cash impairment charge of $2,000,000 relating to its investment in eUniverse and $306,000 relating to its investment in Entertainment Brands.

Income Taxes. For the three months ended April 30, 2001, the Company recorded a net income tax benefit of $6,682,000 as compared to a net income tax benefit of $4,395,000 for the three months ended April 30, 2000. Income taxes as a percentage of net sales remained relatively constant.

Excluding the non-cash impairment charges described above, the Company achieved net income of $4,371,000 for the three months ended April 30, 2001, as compared to a net loss of $8,460,000 for the three months ended April 30, 2000. Including the impairment charges, the Company incurred a net loss of $11,467,000.

Results of Six Months Ended April 30, 2001 and 2000

Net Sales. Net sales increased by $56,704,000, or 29.9%, to $246,470,000 for the six months ended April 30, 2001 from $189,766,000 for the six months ended April 30, 2000. The increase in net sales was attributable to growth in both the Company's publishing and distribution operations. The adoption of SAB 101 effective November 2000 resulted in the recognition of revenue when both title and all risks of loss pass to customers which is generally upon receipt of products by customers. The effect of this adoption was an increase in net sales of $27 million for the six months ended April 30, 2001 for revenue that was previously recognized in the year ended October 31, 2000.

Publishing revenues increased by $29,658,000, or 30.7%, to $126,264,000 for the six months ended April 30, 2001 from $96,606,000 for the six months ended April 30, 2000. This increase included $21 million relating to the adoption of SAB 101 and increased sales of titles developed for the Sony PlayStation and PlayStation 2.

For the six months ended April 30, 2001, publishing activities accounted for approximately 51.2% of net sales. For this period, software products designed for PC platforms accounted for approximately 34.0% of the Company's publishing revenues as compared to 36.7% for the six months ended April 30, 2000. For the six months ended April 30, 2001, software products designed for video game console platforms accounted for 60.9% of the Company's publishing revenues as compared to 55.0% for the six months ended April 30, 2000. The Company expects that sales of video game console products will continue to account for a significant portion of its publishing revenues.

Distribution revenues increased by $27,046,000, or 29.0%, to $120,206,000 for the six months ended April 30, 2001 from $93,160,000 for the six months ended April 30, 2000. This increase was primarily attributable to the acquisition of VLM Entertainment Group, Inc. in November 2000 and included $6 million relating to adoption of SAB 101. For the six months ended April 30, 2001, distribution activities accounted for approximately 48.8% of net sales.

International operations accounted for approximately $59,438,000 or 24.1% of the Company's net sales for the six months ended April 30, 2001 compared to $66,613,000 or 35.1% for the six months ended April 30, 2000. The decrease was primarily attributable to the Company's increasing emphasis on expanding its publishing activities in Europe.

Cost of Sales. Cost of sales increased by $36,289,000 or 28.9%, to $161,656,000 for the six months ended April 30, 2001 from $125,367,000 for the six months ended April 30, 2000. The increase was commensurate with increased net sales and included $18 million resulting from the adoption of SAB 101. For this period the Company recorded as cost of sales royalty expenses of approximately $11.6 million from prepaid royalties and capitalized software costs as compared to $5.4 million in the prior comparable period. Cost of sales as a percentage of net sales remained relatively constant.

During the six months ended April 30, 2001, the Company also recorded as cost of sales a non-cash impairment charge of $3,786,000 relating to a reduction in the value of certain Internet assets.

Selling and Marketing. Selling and marketing expenses decreased by $359,000, or 1.4%, to $24,829,000 for the six months ended April 30, 2001 from $25,188,000 for the six months ended April 30, 2000. Selling and marketing expenses as a percentage of net sales decreased to 10.1% for the six months ended April 30, 2001 from 13.3% for the six months ended April 30, 2000. The decrease in both absolute dollars and as a percentage of net sales was primarily attributable to higher expenses incurred in the prior comparable period offset by a non-cash impairment charge of $401,000 relating to online sales promotions for our products to be delivered by Gameplay.

General and Administrative. General and administrative expenses increased by $2,127,000, or 12.2%, to $19,618,000 for the six months ended April 30, 2001 from $17,491,000 for the six months ended April 30, 2000. The increase was attributable to increased salaries, rent, insurance premiums and professional fees to support the Company's expanded operations. General and administrative expenses as a percentage of net sales remained relatively constant.

Research and Development. Research and development costs increased by $12,000 to $3,001,000 for the six months ended April 30, 2001 from $2,989,000 for the six months ended April 30, 2000 and remained relatively constant as a percentage of net sales. In addition, certain product costs are expensed as cost of sales as described above.

Depreciation and Amortization. Depreciation and amortization expense increased by $2,384,000 or 66.7%, to $5,960,000 for the six months ended April 30, 2001 from $3,576,000 for the six months ended April 30, 2000. The increase was due to the amortization of intangible assets from acquisitions.

Interest Expenses, net. Interest expense increased by $2,404,000, or 83.4%, to $5,285,000 for the six months ended April 30, 2001 from $2,881,000 for the six months ended April 30, 2000. The increase resulted primarily from increased borrowings to support the Company's expanded operations.

Loss on Available-For-Sale Internet Securities. During the six months ended April 30, 2001, the Company incurred a non-recurring non-cash impairment charge of $20,754,000 relating to its investments in Gameplay, eUniverse and Entertainment Brands. The loss was attributable to an other than temporary decline in the value of these investments.

Income Taxes. Income taxes increased by $5,595,000 to a tax provision of $3,265,000 for the six months ended April 30, 2001 from an income tax benefit of $2,330,000 for the six months ended April 30, 2000. The increase in absolute dollars resulted primarily from attainment of pre-tax income for the six months ended April 30, 2001 as compared to a pre-tax loss for the prior comparable quarter.

Cumulative effect of Change in Accounting Principle. In connection with the adoption of SAB 101, the Company recognized a cumulative effect of $5.3 million, net of taxes of $3.6 million.

Excluding the non-cash impairment charges described above, the Company achieved net income of $12,603,000 for the six months ended April 30, 2001, as compared to a net loss of $4,494,000 for the six months ended April 30, 2000. Including the impairment charges, the Company incurred a net loss of $3,235,000.

Liquidity and Capital Resources

The Company's primary capital requirements have been and will continue to be to fund the acquisition, development, manufacture and commercialization of its software products. The Company has historically financed its operations primarily through the issuance of debt and equity securities and bank borrowings. At April 30, 2001, the Company had working capital of $74,876,000 as compared to working capital of $70,018,000 at October 31, 2000.

The Company's cash and cash equivalents increased $1,641,000, to $6,886,000 at April 30, 2001, from $5,245,000 at October 31, 2000. The increase is primarily attributable to $23,322,000 of cash provided by operating activities, partially offset by $7,077,000 used in investing activities and $13,800,000 used in financing activities.

Net cash provided by operating activities for the six months ended April 30, 2001 was $23,322,000 compared to net cash used in operating activities of $19,490,000 for the six months ended April 30, 2000. The increase in net cash was primarily attributable to decreased accounts receivable and prepaid royalties as well as an increase in accounts payable. Net cash used in investing activities for the six months ended April 30, 2001 was $7,077,000 as compared to net cash used in investing activities of $12,751,000 for the six months ended April 30, 2000. The decrease is attributable to decreased acquisition activities. Net cash used in investing activities reflects the Company's continued investment in product development. Net cash used in financing activities for the six months ended April 30, 2001 was $13,800,000 as compared to net cash provided by financing activities of $27,405,000 for the six months ended April 30, 2000. The increase in net cash used in financing activities was primarily attributable to the repayment of indebtedness.

In February 2001, the Company's European subsidiary entered into a credit facility agreement with Lloyds TSB Bank plc ("Lloyds") under which Lloyds agreed to make available borrowings of up to $25,000,000. The outstanding balance and available credit under the revolving line of credit was $14,614,000 and $95,000, respectively, as of April 30, 2001. Advances under the credit facility bear interest at the rate of 1.25% per annum over the bank's base rate, and are guaranteed by the Company. The credit facility expires in December 2001.

In December 1999, the Company entered into a credit agreement with a group of lenders led by Bank of America, N.A., as agent, which currently provides for borrowings of up to $75,000,000. The Company may increase the credit line up to $85,000,000 subject to certain conditions. Interest accrues on advances at the bank's prime rate plus 0.5% or at LIBOR plus 2.5%. Borrowings under the line of credit are collaterized by all of the Company's assets. Under the terms of the credit agreement, the Company is required to comply with certain financial covenants, affirmative and negative covenants, including consolidated net worth, consolidated leverage ratio and consolidated fixed charge ratio. In addition, the credit agreement limits or prohibits the Company from declaring or paying cash dividends, merging or consolidating with another corporation, selling assets (other than in the ordinary course of business), creating liens and incurring additional indebtedness. In February 2002, certain financial covenants and several other covenants were amended retroactively to December 1999. Accordingly, as of April 30, 2001, the Company was in compliance with the covenants, as amended. The line of credit expires on December 7, 2002. The outstanding balance under the revolving line of credit was $63,016,000 as of April 30, 2001.

In July 2000, the Company entered into a subordinated loan agreement with Finova Mezzanine Capital Inc. under which the Company borrowed $15,000,000 evidenced by a five-year promissory note bearing interest at the rate of 12.5% per annum, payable monthly. In connection with the loan, the Company issued to Finova warrants to purchase 451,747 shares of common stock at an exercise price of $11.875 per share, subject to anti-dilution adjustments.

The Company's accounts receivable, less an allowance for doubtful accounts and returns of $16,990,000, at April 30, 2001, was $95,021,000. No single customer accounted for more than 10% of the receivable balance at April 30, 2001. Most of the Company's receivables are covered by insurance and generally the Company has been able to collect its receivables in the ordinary course of business. The Company's sales are typically made on credit, with terms that vary depending upon the customer and the demand for the particular title being sold. The Company does not hold any collateral to secure payment from customers. As a result, the Company is subject to credit risks, particularly in the event that any of the receivables represent a limited number of retailers or are concentrated in foreign markets. If the Company is unable to collect its accounts receivable as they become due and such accounts are not covered by insurance, the Company's liquidity and working capital position would be materially adversely affected.

The Company expects to incur costs and expenses of approximately $2 million during fiscal 2001 associated with software and hardware upgrades to its accounting systems. In addition, the Company expects to obtain mortgage financing of approximately $2 million in connection with the purchase of new warehouse and office facilities for its Jack of All Games distribution subsidiary in New York. The Company also expects to spend approximately $1 million in connection with various leasehold improvements to its facilities. Other than the foregoing, the Company has no material commitments for capital expenditures.

Based on its currently proposed operating plans and assumptions, the Company believes that projected sales from operations and available cash resources, including amounts available under its line of credit, will be sufficient to satisfy its cash requirements for the reasonably foreseeable future. Future expansion activities may require additional financing, and there can be no assurance that any such financing will be available to the Company if required.

Fluctuations in Operating Results and Seasonality

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

International Operations

Sales in international markets, principally in the United Kingdom and other countries in Europe, have accounted for a significant portion of the Company's net sales. For the three months ended April 30, 2001, and 2000, sales in international markets accounted for approximately 24.6% and 35.9%, respectively, of the Company's net sales. For the six months ended April 30, 2001, and 2000, sales in international markets accounted for approximately 24.1% and 35.1%, respectively, of the Company's net sales. The Company is subject to risks inherent in foreign trade, including increased credit risks, tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays and international political, regulatory and economic developments, all of which can have a significant impact on the Company's operating results.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Historically, fluctuations in interest rates have not had a significant impact on the Company's operating results. At April 30, 2001, the Company had $77,630,000 in outstanding variable rate indebtedness. A hypothetical 1% increase in the interest rate of the Company's variable rate debt would increase annual interest expense by approximately $776,000 as of April 30, 2001.

The Company transacts business in foreign currencies and is exposed to risk resulting from fluctuations in foreign currency exchange rates. Accounts relating to foreign operations are translated into United States dollars using prevailing exchange rates at the relevant fiscal quarter. Translation adjustments are included as a separate component of stockholders' equity. For the six months ended April 30, 2001, the Company's foreign currency translation adjustment loss was $520,000. A hypothetical 10% change in applicable currency exchange rates at April 30, 2001 would result in a material translation adjustment. The Company purchases currency forward contracts to a limited extent to seek to minimize the Company's exposure to fluctuations in foreign currency exchange rates.

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

For the three months ended April 30, 2001, the Company recorded a loss of $18,448,000 to reflect the other than temporary impairment of its investment relating to Gameplay. At April 30, 2001, the Company held 8,869,407 shares of common stock of Gameplay with a fair value of approximately $2,139,000 and was recorded as non-current. The Company recorded an unrealized gain of $1,107,000, net of taxes, as a separate component of accumulated other comprehensive income (loss) in stockholders' equity.

For the three months ended April 30, 2001, the Company recorded a loss of approximately $2,000,000 to reflect the other than temporary impairment of its investment in eUniverse. At April 30, 2001, the Company held 2,269,333 shares of eUniverse with fair value of approximately $4,653,000, $1,714,000 of which was recorded as current and $2,939,000 was recorded as non-current. The Company recorded an unrealized loss of $828,000, net of taxes, as a separate component of accumulated other comprehensive income (loss) in stockholders' equity.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is not involved in any material legal proceedings.

Item 2. Changes in Securities

From February 2001 to April 2001, 190,000 options from the 1997 Stock Option Plan and 73,000 non-plan options were granted at exercise prices ranging from $11.00 to $12.31.

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

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits
None

(b) Reports on Form 8-K
None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Take-Two Interactive Software, Inc. has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on this 16th day of April 2002.

TAKE-TWO INTERACTIVE SOFTWARE, INC.

By: /s/ Kelly Sumner

Kelly Sumner
Chief Executive Officer
(Principal Executive Officer)