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 l934.

For the quarterly period ended July 31, 2001

OR

[ ] TRANSISTION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from __________to__________

Commission file number 0-29230

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

Delaware	51-0350842
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
575 Broadway, New York, 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 September 12, 2001, there were 36,631,308 shares of the registrant's Common Stock outstanding.

TAKE-TWO INTERACTIVE SOFTWARE, INC.
QUARTER ENDED JULY 31, 2001

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* 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 July 31, 2001 and October 31, 2000 (unaudited)
(In thousands, except share data)

ASSETS:	July 31, 2001 Restated	October 31, 2000
Current assets:		
Cash and cash equivalents	$ 15,346	$ 5,245
Accounts receivable, net of provision for doubtful accounts and sales allowances of $15,735 and $11,615 at July 31, 2001 and October 31, 2000, respectively	77,750	110,783
Inventories, net	55,336	53,798
Prepaid royalties	28,760	24,093
Prepaid expenses and other current assets	14,987	10,386
Investments	3,177	2,926
Deferred tax asset	16,922	9,243
Total current assets	212,278	216,474
Fixed assets, net	10,397	5,260
Prepaid royalties	9,174	1,303
Capitalized software development costs, net	10,526	9,613
Investments	5,542	28,487
Intangibles, net	89,114	66,562
Other assets	5,399	2,558
Total assets	$ 342,430	$ 330,257
LIABILITIES and STOCKHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	35,275	46,566
Accrued expenses	15,740	16,278
Lines of credit, current portion	69,085	84,605
Total current liabilities	120,100	147,449
Loan payable, net of unamortized discount of $2,732 at October 31, 2000	-	12,268
Capital lease obligation, net of current portion	-	348
Total liabilities	120,100	160,065
Commitments and contingencies		
Stockholders' equity		
Common stock, par value $.01 per share; 50,000,000 shares authorized; 36,241,766 and 31,172,866 shares issued and outstanding	362	312
Additional paid-in capital	210,926	157,738
Deferred compensation	-	(5)
Retained earnings	20,919	24,819
Accumulated other comprehensive loss	(9,877)	(12,672)
Total stockholders' equity	222,330	170,192
Total liabilities and stockholders' equity	$ 342,430	$ 330,257

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 July 31, 2001 and 2000
(unaudited) and the nine months ended July 31, 2001
and 2000 (unaudited)
(In thousands, except per share data)

	Three months ended July 31, 2001 Restated	Three months ended July 31, 2000	Nine months ended July 31, 2001 Restated	Nine months ended July 31, 2000
Net sales	$ 81,327	$ 66,093	$ 327,797	$ 255,858
Cost of sales (includes impairment charge on Internet gaming assets of $3,786 for the nine months ended July 31, 2001)	49,612	37,264	211,268	162,630
Gross profit	31,715	28,829	116,529	93,228
Operating expenses:				
Selling and marketing (includes impairment charge on Internet gaming assets of $401 for the nine months ended July 31, 2001)	12,057	9,055	36,886	34,243
General and administrative	11,297	9,106	30,915	26,597
Research and development costs	1,984	1,657	4,985	4,646
Depreciation and amortization	3,270	3,259	9,230	6,835
One time charge related to abandoned offering	-	1,103	-	1,103
Total operating expenses	28,608	24,180	82,016	73,424
Income from operations	3,107	4,649	34,513	19,804
Interest expense, net	1,964	1,635	7,249	4,516
Gain on sale of subsidiary, net	(651)	-	(651)	(871)
Loss on available-for-sale Internet securities	-	-	20,754	-
Equity in loss of affiliate	-	-	-	19,969
Total non-operating expenses	1,313	1,635	27,352	23,614
Income (loss) before income taxes, extraordinary item and cumulative effect of change in accounting principle	1,794	3,014	7,161	(3,810)
Provision (benefit) for income taxes	511	793	3,776	(1,537)
Income (loss) before extraordinary item and cumulative effect of change in accounting principle	1,283	2,221	3,385	(2,273)
Extraordinary loss on early extinguishment of debt, net of taxes of $1,217	1,948	-	1,948	-
Cumulative effect of change in accounting principle, net of taxes of $3,558	-	-	5,337	-
Net (loss) income	$ (665)	$ 2,221	$ (3,900)	$ (2,273)
Per share data:				
Basic:				
Weighted average common shares outstanding	34,293	29,061	33,098	25,981
Income (loss) before extraordinary item and cumulative effect of change in accounting principle per share	$ 0.04	$ 0.08	$ 0.10	$ (0.09)
Extraordinary item per share	(0.06)	-	(0.06)	-
Cumulative effect of change in accounting principle per share	-	-	(0.16)	-
Net (loss) income - Basic	$ (0.02)	$ 0.08	$ (0.12)	$ (0.09)
Diluted:				
Weighted average common shares outstanding	35,769	29,879	34,285	25,981
Income (loss) before extraordinary item and cumulative effect of change in accounting principle per share	$ 0.03	$ 0.07	$ 0.09	$ (0.09)
Extraordinary item per share	(0.05)	-	(0.05)	-
Cumulative effect of change in accounting principle per share	-	-	(0.16)	-
Net (loss) income - Diluted	$ (0.02)	$ 0.07	$ (0.12)	$ (0.09)

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 nine months ended July 31, 2001 and 2000 (unaudited)

(In thousands)

	Nine Months Ended July 31, 2001 Restated	Nine Months Ended July 31, 2000
Cash flows from operating activities:		
Net loss	$ (3,900)	$ (2,273)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	9,230	6,835
Loss on disposal of fixed assets	172	247
Gain of sale of subsidiary, net	(651)	(871)
Stock received in consideration of license revenues	-	(1,930)
Loss on impairment of available-for-sale Internet securities	20,754	-
Impairment charge on Internet assets	4,187	-
Equity in loss of affiliate	-	19,969
Extraordinary loss on early extinguishment of debt, net of taxes	1,948	-
Change in deferred tax asset	(7,679)	(353)
Provision for doubtful accounts	4,120	(1,732)
Provision for Inventory	(203)	(3)
Amortization of various expenses and discounts	983	284
Tax benefit from exercise of stock options	5,783	1,941
Changes in operating assets and liabilities, net of effects of acquisitions:		
Decrease in accounts receivable	39,097	40,939
Decrease (increase) in inventories, net	2,877	(4,093)
Increase in prepaid royalties	(13,424)	(16,203)
Increase in prepaid expenses and other current assets	(4,593)	(7,734)
Increase in capitalized software development costs	(1,302)	(7,570)
Increase in other assets	(4,326)	(977)
Decrease in accounts payable	(23,437)	(41,306)
Decrease in accrued expenses	(5,388)	(12,428)
Net cash provided by (used in) operating activities	24,248	(27,258)
Cash flows from investing activities:		
Net purchase of fixed assets	(5,076)	(2,406)
Other investment	-	(1,432)
Acquisitions, net of cash acquired	(4,069)	(4,262)
Additional cash paid for prior acquisition	-	(1,531)
Net cash used in investing activities	(9,145)	(9,631)
Cash flows from financing activities:		
Costs associated with proposed initial public offering		
Proceeds from private placements	20,842	19,689
Net repayments under lines of credit	(28,848)	(9,658)
(Repayment) Proceeds from loan payable	(15,000)	15,000
Proceeds from exercise of stock options and warrants	19,942	5,919
Proceeds from issuance of stock of subsidiary	-	1,500
Repayment of capital lease obligation	(49)	(56)
Net cash (used in) provided by financing activities	(3,113)	32,394
Effect of foreign exchange rates	(1,889)	(3,248)
Net increase (decrease) in cash for the period	10,101	(7,743)
Cash and cash equivalents, beginning of the period	5,245	10,374
Cash and cash equivalents, end of the period	$ 15,346	$ 2,631
Supplemental disclosure of non-cash investing activities:		
Gain from Jack of All Games UK transaction	$ (651)	$ -
Supplemental information on businesses acquired:		
Fair value of assets acquired		
Cash	$ 332	$ 196
Accounts receivables, net	9,973	4,646
Inventories, net	4,213	-
Prepaid expenses and other assets	94	643
Prepaid royalties	(707)	-
Property and equipment, net	769	1,077
Intangible asset	10,381	-
Goodwill	40,288	67,885
Less, liabilities assumed		-
Line of credit	(13,330)	-
Accounts payable	(13,115)	(7,268)
Accrued expenses	(3,078)	(449)
Deferred royalties	-	-
Other current liabilities	-	(1,588)

Stock and warrants issued	(13,952)	(56,566)
Warrants issued	-	-
Value of asset recorded	(17,266)	-
Direct transaction costs	(201)	(154)
Investment interest and purchase option	-	(3,964)
Cash paid	4,401	4,458
Less, cash acquired	(332)	(196)
Net cash paid	$ 4,069	$ 4,262

During the nine months ended July 31, 2000, the Company paid $1,531,000 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 nine months ended July 31, 2001
(unaudited)

(In thousands)

	Common Stock		Additional Paid-in Capital	Unrealized gains	Deferred Compensation	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income (Loss)
	Shares	Amount							
Balance, November 1, 1999	23,086	$ 231	$ 67,345	-	$ (48)	$18,402	$ (827)	$ 85,103	$15,512
Proceeds from exercise of stock options and warrants	1,373	13	6,963	-	-	-	-	6,976	
Amortization of deferred compensation	-	-	-	-	43	-	-	43	
Issuance of common stock in connection with acquisitions	4,222	43	55,218		-	-	-	55,261	
Issuance of common stock in connection with private placements, net of issuance costs	2,422	24	21,261	-	-	-	-	21,285	
Issuance of common stock and warrants in connection with a debt financing	168	2	5,455		-	-	-	5,457	
Retirement of common stock	(98)	(1)	(1,249)		-	-	-	(1,250)	
Tax benefit in connection with the exercise of stock options	-	-	2,745	-	-	-	-	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 - Restated	-	-	-	-	-	6,417	-	6,417	6,417
Balance, October 31, 2000	31,173	$ 312	$157,738	$ -	$ (5)	$24,819	$(12,672)	$170,192	$(5,428)
Proceeds from exercise of stock options and warrants	2,867	28	19,914		-	-	-	19,942	
Amortization of deferred compensation	-	-	-		5	-	-	5	
Issuance of common stock in connection with acquisitions	1,466	14	13,967		-	-	-	13,981	
Issuance of common stock in connection with private placements, net of issuance costs	1,300	13	20,829					20,842	
Acquisition of Treasury shares	(564)	(5)	(7,305)		-	-	-	(7,310)	
Tax benefit in connection with the exercise of stock options	-	-	5,783	-	-	-	-	5,783	
Foreign currency translation adjustment	-	-	-	-	-	-	(1,509)	(1,509)	(1,509)
Net unrealized gain on investments	-	-	-		-	-	4,304	4,304	4,304
Net loss - Restated	-	-	-	-	-	(3,900)	-	(3,900)	(3,900)
Balance, July 31, 2001 - Restated	36,242	$ 362	$210,926	$ -	$ -	$ 20,919	$ (9,877)	$222,330	$(1,105)

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") develops, publishes and distributes 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 nine months ended July 31, 2000 reflect the restated financial statements, which have been filed with the SEC. The restatement of the financial statements for the three and nine months ended July 31, 2001 relates to the elimination of $3,175,000 and $10,511,000, respectively, of net sales made to independent third party distributors and related cost of sales of $2,036,000 and $11,864,000, 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 nine months ended July 31, 2001 for the following transactions and the related tax effects:

- For the nine months ended July 31, 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 additional charge of $438,000, net of taxes of $292,000, for the three and nine months ended July 31, 2001 for an extraordinary loss on early extinguishment of debt and a related adjustment to additional paid-in capital (see Note 7).

- An adjustment of $1,750,000 for the nine months ended July 31, 2001 for the reduction of revenue related to adjustment of the purchase price of an acquired business, and a related charge of amortization expense of $76,000 and $3,000 for the three and nine months ended July 31, 2001, respectively (see Note 4). Additionally, the Company recorded a net reduction for post acquisition amortization of $208,000 and $865,000, respectively, comprised of a $627,000 and $1,817,000, respectively, reduction of amortization of intangible assets offset by an increase of $419,000 and $952,000 in the amortization of prepaid royalties for the three and nine months ended July 31, 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 three quarters of 2001. (See Note 3).

The effect of the restatement for the three and nine months ended July 31, 2001 is as follows (certain amounts have been reclassified and are presented in thousands, except per share data):

	Three months ended July 31, 2001			Nine months ended July 31, 2001			
	As Reported	Restatement	As Restated	As Reported	Restatement	Effect of SAB 101	As Restated
Statement of Operations Data:							
Net sales	$ 84,502	$ (3,175)	$ 81,327	$ 309,048	$ (8,481)	$ 27,230	$327,797
Cost of sale	51,229	(1,617)	49,612	201,609	(8,676)	18,335	211,268
Depreciation and amortization	3,821	(551)	3,270	11,043	(1,813)	-	9,230
Income from operations	4,114	(1,007)	3,107	23,610	2,008	8,895	34,513
Income (loss) before income taxes and cumulative effect of change in accounting principle	2,801	(1,007)	1,794	(3,742)	2,008	8,895	7,161
Provision (benefit) for income taxes	882	(371)	511	(1,487)	1,705	3,558	3,776
Extraordinary item, net of taxes	1,510	438	1,948	1,510	438	-	1,948
Cumulative effective of change in accounting principle, net of taxes	-	-	-	-	-	5,337	5,337
Net (loss) income	$ 409	$ (1,074)	$ (655)	$ (3,765)	$ (135)	$ -	$ (3,900)
Basic (loss) income per share	$ 0.01	$ (0.03)	$ (0.02)	$ (0.11)	$ (0.01)	$ -	$ (0.12)
Diluted (loss) income per share	$ 0.01	$ (0.03)	$ (0.02)	$ (0.11)	$ (0.01)	$ -	$ (0.12)

	July 31, 2001	
	As Reported	As Restated
Balance Sheet Data		
Accounts receivable	$ 86,380	$ 77,750
Inventories, net	52,674	55,336
Prepaid royalties - current	26,172	28,760
Deferred tax asset	8,345	16,922
Intangibles, net	112,994	89,114
Total assets	360,209	342,430
Accrued expenses and other current liabilities	15,568	15,740
Total liabilities	119,928	120,100
Retained earnings	39,600	20,919
Total liabilities and stockholders' equity	360,209	342,430

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 July 31, 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.

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

Risk and Uncertainties

The Company's revenues are derived from software publishing and distribution activities, which are subject to increasing competition, rapid technological change and evolving consumer preferences, often resulting in the frequent introduction of new products and short product lifecycles. Accordingly, the Company's profitability and growth prospects depend upon its ability to continually acquire, develop and market new, commercially successful software products and obtain adequate financing, if required. If the Company fails to continue to acquire, develop and market commercially successful software products, its operating results 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. No prepaid royalties were written down for the three months ended July 31, 2001 and July 31, 2000. For the nine months ended July 31, 2001 and 2000, prepaid royalties were written down by $75,000 and $110,000, respectively, to estimated net realizable value. For the three and nine months ended July 31, 2001, amortization of prepaid royalties amounted to $3,770,000 and $12,438,000, respectively, which is included in total royalty expense of $4,181,000 and $13,486,000, respectively. For the three and nine months ended July 31, 2000 royalty expense was comprised solely of amortization of prepaid royalties, which amounted to $1,747,000 and $4,862,000, 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. No capitalized software costs were written off for the three months ended July 31, 2001 while $389,000 were written off as part of the impairment charge for the nine months ended July 31, 2001. No capitalized software costs were written off for the three months ended July 31, 2000 while $249,000 were written off for the nine months ended July 31, 2000. Amortization of capitalized software costs amounted to $863,000 and $143,000 for the three months ended July 31, 2001 and 2000, respectively, and $2,804,000 and $472,000 for the nine months ended July 31, 2001 and 2000, respectively.

Revenue Recognition

Distribution revenue is derived from the sale of third-party software products, accessories 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 $35,030,000 and $27,698,000 for the three months ended July 31, 2001 and 2000, respectively, and $155,236,000 and $120,858,000 for the nine months ended July 31, 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 $46,297,000 and $38,395,000 for the three months ended July 31, 2001 and 2000, respectively, and $172,561,000 and $135,000,000 the nine months ended July 31, 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 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 primarily 60 day term and, to a limited extent, 30, 90 and 120 day terms to certain customers.

The AICPA 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 statement.

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 and allowances. The Company may not have a reliable basis to estimate returns and allowances for certain customers or it may be unable to determine that collection of the receivable is probable. In such circumstances, the Company defers the revenues at the time of sale and recognizes them when collection of the related receivable becomes probable or cash is received.

Effective November 1, 2000, the Company adopted Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." Consistent with the guidelines provided in SAB No. 101, the Company changed its revenue recognition policy to recognize revenue as noted above. Prior to the adoption of SAB 101, the Company recognized revenue upon shipment. 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 nine months ended July 31, 2001. This adoption had no effect on net income for the nine months ended July 31, 2001. It is impracticable for the Company to present pro forma information for quarters prior to fiscal 2001.

Recently Issued Accounting Pronouncement

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

SFAS 141 establishes accounting and reporting for business combinations by requiring that all business combinations be accounted for under the purchase method. Use of the pooling-of-interests method is no longer permitted. SFAS 141 requires that the purchase method be used for business combinations initiated after June 30, 2001. The Company is currently evaluating the expected impact of the adoption of SFAS 141 on the Company's financial condition or result of operations.

SFAS 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. The provision of SFAS 142 will be effective for fiscal year beginning after December 15, 2001; however, early adoption is permitted in certain instances. The Company is currently evaluating the expected impact of the adoption of SFAS 142 on the Company's financial condition or results of operations.

4. Business Acquisition

In July 2001, the Company acquired all of the outstanding capital stock of Techcorp Limited, a Hong Kong based design and engineering firm specializing in video game accessories. In consideration, the Company issued 30,000 shares of restricted common stock (valued at $572,000) and paid $100,000 in cash. In connection with the acquisition, the Company recorded an intangible asset of $2,676,000 on a preliminary basis. The purchase of Techcorp Limited is not expected to have a significant effect on the Company's future operating results. The acquisition has been accounted for as a purchase.

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 acquistion 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 Techcorp Limited, VLM and Neo occurred on November 1, 1999 (in thousands, except per share data),

	Nine Months Ended July 31, 2001	Nine Ended Months July 31, 2000
Net Sales	$ 335,406	$ 296,711
Net Loss	(6,360)	(3,999)
Net Loss per share (basic)	(0.19)	(0.15)
Net Loss per share (fully diluted)	(0.19)	(0.15)

5. Business Disposition

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

6. Income (Loss) per Share before Extraordinary Item and Cumulative Effect of Change in Accounting Principle

The following table provides a reconciliation of basic earnings per share to dilutive earnings per share for the three and nine months ended July 31, 2001 and 2000 (in thousands, except per share data).

	Income (Loss) before Extraordinary Item and Cumulative Effect of Change in Accounting Principle	Shares	Per Share Amount
Three Months Ended July 31, 2001- Restated:			
Basic	$ 1,283	34,293	$ 0.04
Effect of dilutive securities - Stock options and warrants	-	1,476	(0.01)
Diluted	$ 1,283	35,769	$ 0.03
Three Months Ended July 31, 2000:			
Basic	$ 2,221	29,061	$ 0.08
Effect of dilutive securities - Stock options and warrants	-	818	(0.01)
Diluted	$ 2,221	29,879	$ 0.07
Nine Months Ended July 31, 2001- Restated:			
Basic	$ 3,385	33,098	$ 0.10
Effect of dilutive securities - Stock options and warrants	-	1,187	(0.01)
Diluted	$ 3,385	34,285	$ 0.09
Nine Months Ended July 31, 2000:			
Basic and Diluted	$ (2,273)	25,981	$ (0.09)

As the Company reported loss before extraordinary item and cumulative effect of change in accounting principle for the nine months ended July 31, 2000, all 1,011,000 of the options and warrants outstanding were anti-dilutive, and therefore, there were no reconciling items between basic and diluted loss per share. For the three and six months ended July 31, 2001 and the three months ended July 31, 2000, the computation for diluted number of shares excludes unexercised stock options and warrants which are anti-dilutive.

7. Extraordinary Loss on Early Extinguishment of Debt

In July 2001, the Company prepaid in full the outstanding subordinated indebtedness of $15 million and recorded an extraordinary charge of $1,948,000, net of taxes, or $0.05 per diluted share during the quarter related to the deferred financing costs and discount associated with the indebtedness.

8. Inventory

As of July 31, 2001 and October 31, 2000, finished product inventory, net of allowance, consisted of $54,519,000 and $53,302,000, respectively. Parts and supplies consisted of $817,000 and $496,000 at July 31, 2001 and October 31, 2000, respectively.

9. Private Placement

In July 2001, the Company consummated the sale of 1,300,000 shares of common stock to institutional investors and received net proceeds of approximately $20,842,000.

10. 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.

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

	July 31, 2001		October 31, 2000	
	Current	Non-Current	Current	Non-Current
Average cost	$ 2,206	$ 4,136	$ 2,896	$ 33,084
Unrealized gains (losses)	$ 971	$ 1,406	$ 30	$ (4,597)
Fair value	$ 3,177	$ 5,542	$ 2,926	$ 28,487

11. Segment Reporting

The Company has adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"), which establishes standards for reporting by public business enterprises of information about product lines, geographic areas and major customers. The method for determining what information to report is based on the way management organizes the Company for making operational decisions and assessment of financial performance. The Company's chief operating decision maker is considered to be the Company's Chief Executive Officer ("CEO"). The CEO reviews financial information presented on a consolidated basis accompanied by disaggregated information about sales by geographic region and by product 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 July 31, 2001 and October 31, 2000 are presented below (in thousands):

	July 31, 2001	October 31, 2000
Total Non-current Assets:		
United States	$ 78,842	$ 82,904
International		
United Kingdom	22,894	21,410
All other Europe	20,463	5,748
Other	7,953	3,721
	$ 130,152	$ 113,783

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

	Three Months Ended July 31		Nine Months Ended July 31	
Net Sales:	2001	2000	2001	2000
United States	$ 59,875	$ 43,245	$ 238,034	$ 159,929
Canada	4,509	2,644	13,381	9,111
International				
United Kingdom	4,369	6,500	27,866	19,156
All other Europe	9,568	7,874	39,071	56,767
Asia Pacific	2,384	5,352	8,522	10,218
Other	622	478	923	677
	$ 81,327	$ 66,903	$ 327,797	$ 255,858

Information about the Company's net sales by product platforms for the three and nine months ended July 31, 2001 and 2000 are presented below (in thousands):

	Three Months Ended July 31		Nine Months Ended July 31	
Platforms:	2001	2000	2001	2000
PC	$ 27,145	$ 25,985	$ 78,063	$ 68,036
Sony PlayStation 2	16,423	-	78,181	-
Sony PlayStation	12,440	12,699	62,814	79,159
Nintendo GameBoy Color, GameBoy Advance and 64	9,273	10,801	28,172	42,590
Sega Dreamcast	927	4,408	10,192	13,865
Accessories	3,848	2,963	28,979	24,594
Hardware	11,271	9,237	41,396	27,614
	$ 81,327	$ 66,093	$ 327,797	$ 255,858

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 nine months ended July 31, 2000 reflect the restated financial statements, which have been filed with the SEC. The restatement of the financial statements for the three and nine months ended July 31, 2001 relates to the elimination of $3,175,000 and $10,511,000, respectively, of net sales made to independent third party distributors and related cost of sales of $2,036,000 and $11,864,000, 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 nine months ended July 31, 2001 for the following transactions and the related tax effects:

- For the nine months ended July 31, 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 additional charge of $438,000, net of taxes of $292,000, for the three and nine months ended July 31, 2001 for an extraordinary loss on early extinguishment of debt and a related adjustment to additional paid-in capital (see Note 7 of Notes to Unaudited Consolidated Condensed Financial Statements).

- An adjustment of $1,750,000 for the nine months ended July 31, 2001 for the reduction of revenue related to adjustment of the purchase price of an acquired business, and a related charge of amortization expense of $76,000 and $3,000 for the three and nine months ended July 31, 2001, respectively (see Note 4 of Notes to Unaudited Consolidated Condensed Financial Statements). Additionally, the Company recorded a net reduction for post acquisition amortization of $208,000 and $865,000, respectively, comprised of a $627,000 and $1,817,000, respectively, reduction of amortization of intangible assets offset by an increase of $419,000 and $952,000 in the amortization of prepaid royalties for the three and nine months ended July 31, 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 three 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" 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 (including the current economic downturn), 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'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, accessories and hardware. Publishing activities generally generate significantly 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. The Company recognizes revenue from software sales upon receipt of products by customers.

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 historical return rates and current known circumstances, 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. The Company's historical product return rate for its distribution business has been substantially less than for its publishing business. 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. The Company may not have a reliable basis to estimate returns and allowances for certain customers or it may be unable to determine that collection of the receivable is probable. In such circumstances, the Company defers the revenues at the time of sale and recognizes them when collection of the related receivable becomes probable or cash is received.

At July 31, 2001, the company's reserve against accounts receivable for returns, customer accommodations and doubtful accounts was $15,735,000, which the Company believes is adequate based on the size and nature of the its receivables at that date. However, if future returns significantly exceed the Company's reserves, the Company's operating results would be adversely affected.

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. At July 31, 2001, the Company had prepaid royalties of $37,934,000, including $9,174,000 classified as non-current. 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 July 31, 2001, the Company had capitalized software development costs of $10,526,000. The Company continually evaluates the recoverability of capitalized costs. If the Company were required to write-off these payments or capitalized 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, and sets forth net sales by territory and platform:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2001	2000	2001	2000
OPERATING DATA:				
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	61.0	56.4	64.5	63.6
Selling and marketing	14.8	13.7	11.3	13.4
General and administrative	13.9	13.8	9.4	10.4
Research and development	2.4	2.5	1.5	1.8
Depreciation and amortization	4.0	4.9	2.8	2.7
Interest expense, net	2.4	2.5	2.2	1.8
Impairment charge	--	--	6.3	--
Provision (benefit) for income taxes	0.6	1.2	1.2	(0.6)
Extraordinary net loss on early extinguishment of debt	2.4	--	0.6	--
Net (loss) income	(0.8)	3.4	(1.2)	(0.9)
NET SALES BY TERRITORY:				
North America	79.2%	69.4%	76.7%	66.1%
International	20.8	30.6	23.3	33.9
PLATFORM MIX (publishing):				
Console	36.3%	25.5%	52.6%	40.9%
PC	55.7	53.9	39.8	41.6
Hand-held	(0.2)	9.3	1.6	8.3
Accessories	8.2	11.3	6.0	9.2

Three Months Ended July 31, 2001 and 2000

Net Sales. Net sales increased by $15,234,000, or 23.0%, to $81,327,000 for the three months ended July 31, 2001 from $66,093,000 for the three months ended July 31, 2000. The increase was attributable to growth in both publishing and distribution operations.

Publishing revenues increased by $7,902,000, or 20.6%, to $46,297,000 for the three months ended July 31, 2001 from $38,395,000 for the three months ended July 31, 2000. The increase was primarily attributable to the release of Max Payne for the PC and Rune: Viking Warlords for Sony PlayStation 2 during the current period. For the three months ended July 31, 2001, publishing activities accounted for approximately 56.9% of net sales.

For the current period, software products designed for PC platforms accounted for approximately 55.7% of publishing revenues as compared to 53.9% for the prior comparable period. Software products designed for video game console platforms accounted for 36.3% of publishing revenues as compared to 25.5% for the prior comparable period. The increase was primarily attributable to the continued sell-through of Sony PlayStation 2 titles, such as Midnight Club and Smuggler's Run. 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 $7,332,000, or 26.5%, to $35,030,000 for the three months ended July 31, 2001 from $27,698,000 for the three months ended July 31, 2000. The 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. The Company expects that its distribution operations will continue to expand largely as a result of the anticipated introduction of next-generation hardware and software and the continued rollout of Sony PlayStation 2. For the three months ended July 31, 2001, distribution activities accounted for approximately 43.1% of net sales.

International operations accounted for approximately $16,943,000 or 20.8% of net sales for the three months ended July 31, 2001 compared to $20,205,000 or 30.6% for the three months ended July 31, 2000. The decrease in revenues from international operations was primarily attributable to a decrease in distribution revenues as a result of the Company's increasing emphasis on expanding publishing activities in Europe, and the delay of the release of Rune: Viking Warlords during the quarter. 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 $12,348,000, or 33.1%, to $49,612,000 for the three months ended July 31, 2001 from $37,264,000 for the three months ended July 31, 2000. The increase was attributable to the Company's expanded operations and was commensurate with increased net sales. Cost of sales as a percentage of net sales increased to 61.0% for the three months ended July 31, 2001 from 56.4% for the prior comparable period. The increase in cost of sales as a percentage of net sales was due to higher margin licensing revenues generated in the quarter ended July 31, 2000. In future periods, cost of sales may be adversely affected by manufacturing and other costs, price competition and by changes in product and sales mix and distribution channels.

Selling and Marketing. Selling and marketing expenses increased by $3,002,000 to $12,057,000 for the three months ended July 31, 2001 from $9,055,000 for the three months ended July 31, 2000. Selling and marketing expenses as a percentage of net sales increased to 14.8% from 13.7% for the three months ended July 31, 2000. The increase in net sales was primarily attributable to increased advertising activities as a result of the Company's increase publishing activities.

General and Administrative. General and administrative expenses increased by $2,191,000 to $11,297,000 for the three months ended July 31, 2001 from $9,106,000 for the three months ended July 31, 2000. General and administrative expenses as a percentage of net sales remained relatively constant. The increase in absolute dollars was attributable to increased salaries and rent necessary to support the Company's expanded operations. Included in general and administrative expenses were bad debt expense related to the bankruptcy of a customer.

Research and Development. Research and development costs increased by $327,000 to $1,984,000 for the three months ended July 31, 2001 from $1,657,000 for the three months ended July 31, 2000. Research and development costs as a percentage of net sales remained relatively constant. A substantial portion of the Company's research and development cost is expensed as cost of goods sold.

Depreciation and Amortization. Depreciation and amortization expenses of $3,270,000 for the three months ended July 31, 2001 remained relatively constant.

Interest Expense, net. Interest expense increased by $329,000 to $1,964,000 for the three months ended July 31, 2001 from $1,635,000 for the three months ended July 31, 2000. The increase was attributable to increased borrowings.

Income Taxes. Income tax expense decreased by $282,000 to $511,000 for the three months ended July 31, 2001 from $793,000 for the three months ended July 31, 2000.

Gain on Sale of Subsidiary, net. The Company recorded a non-operating gain of $651,000 on the sale of its Jack of All Games UK subsidiary during the quarter.

Extraordinary Loss on Early Extinguishment of Debt. The Company incurred an extraordinary charge of $1,948,000, net of taxes of $1,217,000, upon the early repayment of $15 million of subordinated indebtedness during the quarter.

For the three months ended July 31, 2001, the Company incurred a net loss of $665,000 as compared to net income of $2,221,000 for the three months ended July 31, 2000. Excluding the extraordinary charge and the gain on sale described above, the Company achieved net income of $632,000 for the three months ended July 31, 2001.

Nine months Ended July 31, 2001 and 2000

Net Sales. Net sales increased by $71,939,000, or 28.1%, to $327,797,000 for the nine months ended July 31, 2001 from $255,858,000 for the nine months ended July 31, 2000. The increase in net sales was attributable to growth in both the 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. The effect of this adoption was an increase in net sales of $27 million for the nine months ended July 31, 2001 for revenue that was previously recognized in the year ended October 31, 2000.

Publishing revenues increased by $37,561,000, or 27.8%, to $172,561,000 for the nine months ended July 31, 2001 from $135,000,000 for the nine months ended July 31, 2000. This increase was primarily attributable to increased sales of Sony PlayStation 2 titles. This increase included $21 million relating to the adoption of SAB 101. For the nine months ended July 31, 2001, publishing activities accounted for approximately 52.6% of net sales.

For the nine months, software products designed for PC platforms accounted for approximately 39.8% of publishing revenues as compared to 41.6% for the prior comparable period. For the nine months ended July 31, 2001, software products designed for video game console platforms accounted for 52.6% of the Company's publishing revenues as compared to 40.9% for the nine months ended July 31, 2000.

Distribution revenues increased by $34,378,000, or 28.4%, to $155,236,000 for the nine months ended July 31, 2001 from $120,858,000 for the nine months ended July 31, 2000. This increase was primarily attributable to the acquisition of VLM Entertainment Group, Inc. in November 2000. For the nine months ended July 31, 2001, distribution activities accounted for approximately 47.4% of net sales.

International operations accounted for approximately $76,381,000 or 23.3% of the net sales for the nine months ended July 31, 2001 compared to $86,818,000 or 33.9% for the nine months ended July 31, 2000. The decrease in revenues from international operations was primarily attributable to a decrease in distribution revenues as a result of the Company's increasing emphasis on expanding publishing activities in Europe.

Cost of Sales. Cost of sales increased by $48,638,000, or 29.9%, to $211,268,000 for the nine months ended July 31, 2001 from $162,630,000 for the nine months ended July 31, 2000. This increase was attributable to the Company's expanded operations and was commensurate with increased net sales. The increase also included $18 million resulting from the adoption of SAB 101. During the nine months ended July 31, 2001, the Company also included as cost of sales a non-cash impairment charge of $3,786,000 relating to a reduction in the value of certain Internet assets. Cost of sales as a percentage of net sales remained relatively constant.

Selling and Marketing. Selling and marketing expenses increased by $2,643,000 to $36,886,000 for the nine months ended July 31, 2001 from $34,243,000 for the nine months ended July 31, 2000. Selling and marketing expenses as a percentage of net sales decreased to 11.3% for the nine months ended July 31, 2001 from 13.4% for the nine months ended July 31, 2000.

General and Administrative. General and administrative expenses increased by $4,318,000 to $30,915,000 for the nine months ended July 31, 2001 from $26,597,000 for the nine months ended July 31, 2000. The increase was attributable to increased salaries, rent, 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 $339,000 to $4,985,000 for the nine months ended July 31, 2001 from $4,646,000 for the nine months ended July 31, 2000 and remained relatively constant as a percentage of net sales.

Depreciation and Amortization. Depreciation and amortization expenses increased by $2,395,000 to $9,230,000 for the nine months ended July 31, 2001 from $6,835,000 for the nine months ended July 31, 2000. The increase was due to higher amortization of intangible assets from acquisitions.

Interest Expense, net. Interest expense increased by $2,733,000 to $7,249,000 for the nine months ended July 31, 2001 from $4,516,000 for the nine months ended July 31, 2000. The increase was attributable to increased borrowings.

Loss on Available-For-Sale Internet Securities. During the nine months ended July 31, 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. For the nine months ended July 31, 2001, the Company recorded an income tax provision of $3,776,000 as compared to an income tax benefit of $1,537,000 for the nine months ended July 31, 2000. The increase is primarily attributable to pre-tax income during the period as compared to pre-tax loss incurred in the prior period.

Gain on Sale of Subsidiary, net. During the nine months ended July 31, 2001, the Company recorded a nonoperating gain of $651,000 on the sale of Jack of All Games UK.

Extraordinary Loss on Early Extinguishment of Debt. During the nine months ended July 31, 2001, the Company incurred an extraordinary charge of $1,948,000, net of taxes, upon the early repayment of $15 million of subordinated indebtedness.

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.

For the nine months ended July 31, 2001, the Company incurred a net loss of $3,900,000 as compared to a net loss of $2,273,000 for the nine months ended July 31, 2000. Excluding the non-cash impairment charges, the extraordinary charge and the gain on sale described above, the Company achieved net income of $13,110,000 for the nine months ended July 31, 2001.

Liquidity and Capital Resources

The Company's primary cash requirements have been and will continue to be to fund the acquisition, development, manufacture and commercialization of its software products. The Company has historically satisfied its working capital requirements primarily through the cash flow from operations, issuance of debt and equity securities and bank borrowings. At July 31, 2001, the Company had working capital of $92,178,000 as compared to working capital of $69,025,000 at October 31, 2000.

The Company's cash and cash equivalents increased $10,101,000, to $15,346,000 at July 31, 2001, from $5,245,000 at October 31, 2000. The increase is primarily attributable to $24,248,000 of cash provided by operating activities, partially offset by $9,145,000 used in investing activities and $3,113,000 used in financing activities.

Net cash provided by operating activities for the nine months ended July 31, 2001 was $24,248,000 compared to net cash used in operating activities of $27,258,000 for the nine months ended July 31, 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 nine months ended July 31, 2001 was $9,145,000 as compared to net cash used in investing activities of $9,631,000 for the nine months ended July 31, 2000. Net cash used in investing activities reflects the Company's continued investment in product development. Net cash used in financing activities for the nine months ended July 31, 2001 was $3,113,000 as compared to net cash provided by financing activities of $32,394,000 for the nine months ended July 31, 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 $13,085,000 and $24,000 respectively, as of July 31, 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, 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 July 31, 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 $56,000,000 as of July 31, 2001.

In July 2001, the Company consummated the sale of 1,300,000 shares of common stock and received net proceeds of approximately $20.8 million. The Company used the proceeds to repay in full $15 million of subordinated indebtedness bearing interest at the rate of 12.5% per annum, and reduced its other indebtedness.

During the nine months ended July 31, 2001, the proceeds generated from the exercise of stock options and warrants were $19,942,000.

The Company's accounts receivable less allowance at July 31, 2001 was $77,750,000. No single customer accounted for more than 10% of the receivable balance at July 31, 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 does not hold any collateral to secure payment from customers. As a result, the Company is subject to credit risks, particularly in the event that any of the receivables represent a limited number of retailers or are concentrated in foreign markets. If the Company is unable to collect its accounts receivable as they become due and such accounts are not covered by insurance, the Company could be required to increase its allowance for doubtful accounts, which could adversely affect its liquidity and working capital position.

The Company's inventory less allowance at July 31, 2001 was $55,336,000. The Company has purchased increased levels of inventory to support an expanding customer base in North America.

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 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 revenues 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.

Fluctuations in Operating Results and Seasonality

The Company has experienced fluctuations in quarterly operating results as a result of the timing of the introduction of new titles; variations in sales of titles developed for particular platforms; market acceptance of the Company's titles; development and promotional expenses relating to the introduction of new titles, sequels or enhancements of existing titles; projected and actual changes in platforms; the timing and success of title introductions by the Company's competitors; product returns; changes in pricing policies by the Company and its competitors; the accuracy of retailers' forecasts of consumer demand; the size and timing of acquisitions; the timing of orders from major customers; and order cancellations and delays in product shipment. Sales of the Company's titles are also seasonal, with peak shipments typically occurring in the fourth calendar quarter (the Company's fourth and first fiscal quarters) as a result of increased demand for titles during the holiday season. 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 July 31, 2001, and 2000, sales in international markets accounted for approximately 20.8% and 30.6%, respectively, of the Company's net sales. For the nine months ended July 31, 2001, and 2000, sales in international markets accounted for approximately 23.3% and 33.9%, respectively, of the Company's net sales. The Company is subject to risks inherent in foreign trade, including increased credit risks, tariffs and duties, fluctations 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 July 31, 2001, the Company had $69,085,000 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 $691,000 as of July 31, 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 nine months ended July 31, 2001, the Company's foreign currency translation adjustment loss was $1,509,000. A hypothetical 10% change in applicable currency exchange rates at July 31, 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.

At July 31, 2001, the Company held 8,869,407 shares of common stock of Gameplay.com plc with a fair value of approximately $95,000 and was recorded as non-current. The Company recorded an unrealized loss of $160,000, net of taxes of $98,000, as a separate component of accumulated other comprehensive income (loss) in stockholders' equity.

At July 31, 2001, the Company held 2,269,333 shares of eUniverse Inc. with fair value of approximately $8,624,000, $3,177,000 of which was recorded as current and $5,447,000 was recorded as non-current. The Company recorded an unrealized gain of $1,633,000, net of tax of $1,002,000 as a separate component of accumulated other comprehensive income (loss) in stockholders' equity.

PART 11- OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not involved in any material legal proceedings.

Item 2. Changes in Securities

From May 2001 to July 2001, 544,000 options from the 1997 Stock Option Plan were granted at exercise prices ranging from $13.9 to $15.5.

In July 2001, the Company issued 30,000 shares in connection with the acquisition of Techcorp Limited.

In July 2001, the Company issued 1,300,000 shares of common stock in a private placement to nine institutional investors and received proceeds of $20.8 million net of $1.4 million of selling commissions and offering expenses. Commerzbank Securities and Gerard Klauer Mattison & Co., Inc. acted as placement agents in connection with the offering.

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

The Company held its Annual Meeting on June 21, 2001. At the meeting Ryan A. Brant, Kelly Sumner, Paul Eibeler, Oliver R. Grace, Jr., Mark Lewis, Don Leeds and Robert Flug were elected as directors. Mr. Brant received 17,492,608 votes for and 2,856,190 votes withheld; Mr. Sumner received 20,286,840 votes for and 61,958 votes withheld; Mr. Eibeler received 17,493,008 votes for and 2,855,790 votes withheld; Mr. Grace received 20,286,540 votes for and 62,258 votes withheld; Mr. Lewis received 20,286,840 votes for and 61,958 votes withheld; Mr. Leeds received 17,493,308 votes for and 2,855,290 votes withheld; and Mr. Flug received 17,493,008 votes for and 2,855,790 votes withheld. In addition, the stockholders voted 16,017,723 for and 3,833,179 against, with 497,896 abstentions, to increase the number of shares of common stock available under the Company's 1997 Stock Option Plan from 5,000,000 to 6,500,000.

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 Summer
Chief Executive Officer
(Principal Executive officer)