Click Here for Contents

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

FORM 10-Q

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

For the quarterly period ended **April 30, 2004**

Commission file number **0-29230**

TAKE-TWO INTERACTIVE SOFTWARE, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

As of June 8, 2004, there were 44,896,871 shares of the Registrant’s Common Stock outstanding.

TAKE-TWO INTERACTIVE SOFTWARE, INC.
QUARTER ENDED APRIL 30, 2004

INDEX

Back to Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Balance Sheets
As of April 30, 2004 and October 31, 2003 (unaudited)
(In thousands, except share data)

	April 30, 2004	October 31, 2003
ASSETS		
Current assets		
Cash and cash equivalents	**$ 261,333**	$ 183,477
Accounts receivable, net of allowances of $64,071 and $62,817 at April 30, 2004 and October 31, 2003, respectively	**68,601**	166,536
Inventories	**100,038**	101,748
Prepaid royalties	**23,331**	12,196
Prepaid expenses and other current assets	**38,894**	41,112
Deferred tax asset	**8,333**	8,333
Total current assets	**500,530**	513,402
Fixed assets, net	**25,691**	22,260
Prepaid royalties	**6,677**	8,439
Capitalized software development costs, net	**20,782**	16,336
Goodwill	**123,755**	101,498
Intangibles, net	**36,650**	44,836
Other assets, net	**451**	527
Total assets	**$ 714,536**	$ 707,298
LIABILITIES and STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	**$ 70,978**	$ 106,172
Accrued expenses and other current liabilities	**64,551**	56,707
Income taxes payable	**2,706**	2,265
Current portion of capital lease obligation	**112**	103
Total current liabilities	**138,347**	165,247
Capital lease obligation, net of current portion	**29**	73
Deferred tax liability	**8,486**	8,486
Total liabilities	**146,862**	173,806
Stockholders' equity		
Common stock, par value $.01 per share; 100,000,000 shares authorized; 44,823,915 and 44,227,215 shares issued and outstanding at April 30, 2004 and October 31, 2003, respectively	**448**	442
Additional paid-in capital	**365,563**	350,852
Deferred compensation	**(1,554)**	(1,890)
Retained earnings	**202,206**	185,024
Accumulated other comprehensive income (loss)	**1,011**	(936)
Total Stockholders' Equity	**567,674**	533,492
Total Liabilities and Stockholders' Equity	**$ 714,536**	$ 707,298

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

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Operations
For the three and six months ended April 30, 2004 and 2003 (unaudited)
(In thousands, except per share data)

	Three months ended April 30,		Six months ended April 30,	
	2004	2003	2004	2003
		(Restated)		(Restated)
Net sales	**$ 153,368**	$ 193,023	**$ 528,880**	$ 604,031
Cost of sales				
Product costs	**104,573**	98,914	**328,951**	303,342
Royalties	**13,016**	19,261	**33,014**	56,543
Software development costs	**1,573**	3,365	**5,555**	6,716
Total cost of sales	**119,162**	121,540	**367,520**	366,601
Gross profit	**34,206**	71,483	**161,360**	237,430
Operating expenses				
Selling and marketing	**22,271**	22,461	**58,173**	56,915
General and administrative	**24,050**	16,970	**48,090**	48,329
Research and development	**8,228**	4,761	**21,657**	10,376
Depreciation and amortization	**3,910**	3,197	**7,655**	10,759
Total operating expenses	**58,459**	47,389	**135,575**	126,379
Income (loss) from operations	**(24,253)**	24,094	**25,785**	111,051
Interest income, net	**648**	743	**1,074**	1,088
Gain on Internet investments	**—**	—	**—**	39
Total non-operating income	**648**	743	**1,074**	1,127
Income (loss) before income taxes	**(23,605)**	24,837	**26,859**	112,178
Provision (benefit) for income taxes	**(9,029)**	10,214	**9,677**	46,020
Net income (loss)	**$ (14,576)**	$ 14,623	**$ 17,182**	$ 66,158
Per share data:				
Basic:				
Weighted average common shares outstanding	**44,594**	41,262	**44,489**	41,020
Net income (loss) per share	**$ (0.33)**	$ 0.35	**$ 0.39**	$ 1.61
Diluted:				
Weighted average common shares outstanding	**44,594**	42,281	**45,485**	42,279
Net income (loss) per share	**$ (0.33)**	$ 0.35	**$ 0.38**	$ 1.56

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

Back to Contents

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Cash Flows
For the six months ended April 30, 2004 and 2003 (unaudited)
(In thousands)

	Six months ended April 30, 2004	2003
		(Restated)
Cash flows from operating activities:		
Net income	**$ 17,182**	$ 66,158
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**7,655**	6,352
Gain on disposal of fixed assets and sale of Internet investments	**(646)**	(69)
Amortization of intangible assets and other	**12,625**	3,856
Impairment of intellectual property and technology	**—**	7,892
Non-cash charges for consolidation of distribution facilities	**—**	5,406
Provision for doubtful accounts, returns and sales allowances	**73,134**	59,631
Write off of prepaid royalties and capitalized software	**2,175**	6,712
Tax benefit from exercise of stock options	**1,433**	3,403
Compensatory stock and stock options	**1,220**	900
Foreign currency transaction loss	**177**	435
Changes in operating assets and liabilities, net of effects of acquisitions:		
Decrease (increase) in accounts receivable	**33,096**	(54,759)
Decrease in inventories	**1,857**	4,378
Increase in prepaid royalties	**(10,146)**	(6,334)
Decrease in prepaid expenses and other current assets	**365**	7,160
Increase in capitalized software development costs	**(4,353)**	(1,070)
Decrease in accounts payable	**(25,237)**	(20,509)
(Decrease) increase in accrued expenses and other current liabilities	**(10,316)**	232
(Decrease) increase in income taxes payable	**(160)**	14,976
Net cash provided by operating activities	**100,061**	104,750
Cash flows from investing activities:		
Purchase of fixed assets	**(8,332)**	(7,563)
Proceeds from sale of fixed assets and investments	**871**	114
Payments for intangible assets	**(3,100)**	—
Acquisitions, net of cash acquired	**(19,632)**	(27,295)
Net cash used in investing activities	**(30,193)**	(34,744)
Cash flows from financing activities:		
Proceeds from exercise of stock options and warrants	**7,240**	9,213
Other financing	**(53)**	(71)
Net cash provided by financing activities	**7,187**	9,142
Effect of foreign exchange rates	**801**	833
Net increase in cash for the period	**77,856**	79,981
Cash and cash equivalents, beginning of the period	**183,477**	108,369
Cash and cash equivalents, end of the period	**$ 261,333**	$ 188,350

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

Back to Contents

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Cash Flows (continued)
For the six months ended April 30, 2004 and 2003 (unaudited)
(In thousands)

	Six months ended April 30, 2004	2003
Supplemental information on businesses acquired:		
Fair value of assets acquired		
Cash	**$ 800**	$ 1,275
Other current assets	**2,148**	438
Property and equipment, net	**761**	481
Intangible assets	**6,326**	4,720
Goodwill	**22,257**	37,425
Less, liabilities assumed		
Current liabilities	**(13,864)**	(3,281)
Stock issued	**(5,160)**	(6,557)
Intercompany payables and advances	**7,164**	(5,931)
Cash paid	**20,432**	28,570
Less cash acquired	**(800)**	(1,275)
Net cash paid	**$ 19,632**	$ 27,295

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

Back to Contents

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Stockholders' Equity
For the year ended October 31, 2003 and the six months ended April 30, 2004 (unaudited)
(In thousands)

	Common Stock						
	Shares	Amount	Additional Paid-in Capital	Deferred Compen-sation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, November 1, 2002	40,362	$ 404	$ 273,502	$ (227)	$ 86,906	$ (5,041)	$ 355,544
Foreign currency translation adjustment	—	—	—	—	—	4,119	4,119
Net unrealized loss on investment, net of taxes of $9	—	—	—	—	—	(14)	(14)
Net income	—	—	—	—	98,118	—	98,118
Comprehensive income							102,223
Proceeds from exercise of stock options and warrants	3,404	34	44,831	—	—	—	44,865
Amortization of deferred compensation	—	—	—	3,427	—	—	3,427
Issuance of common stock in connection with acquisition	236	2	6,555	—	—	—	6,557
Issuance of compensatory stock and stock options	225	2	5,106	(5,090)	—	—	18
Tax benefit in connection with the exercise of stock options	—	—	20,858	—	—	—	20,858
Balance, October 31, 2003	44,227	442	350,852	(1,890)	185,024	(936)	533,492
Foreign currency translation adjustment	—	—	—	—	—	1,947	1,947
Net income	—	—	—	—	17,182	—	17,182
Comprehensive income							19,129
Proceeds from exercise of stock options	406	4	7,236	—	—	—	7,240
Amortization of deferred compensation	—	—	—	1,220	—	—	1,220
Issuance of common stock in connection with acquisition	164	2	5,158	—	—	—	5,160
Issuance of compensatory stock and stock options	27	—	884	(884)	—	—	—
Tax benefit in connection with the exercise of stock options	—	—	1,433	—	—	—	1,433
Balance, April 30, 2004	**44,824**	**$ 448**	**$ 365,563**	**$ (1,554)**	**$ 202,206**	**$ 1,011**	**$ 567,674**

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

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

1. ORGANIZATION

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

2. RESTATEMENT OF FINANCIAL STATEMENTS

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

The Company’s April 30, 2003 financial statements have been restated as follows:

	Three Months Ended April 30, 2003	
	As Reported	**As Restated**
Statement of Operations Data:		
Net sales	$ 194,213	$ 193,023
Royalties	$ 19,460	$ 19,261
Total cost of sales	$ 121,739	$ 121,540
Gross profit	$ 72,474	$ 71,483
Income from operations	$ 25,085	$ 24,094
Income before provision for income taxes	$ 25,828	$ 24,837
Provision for income taxes	$ 10,589	$ 10,214
Net income	$ 15,239	$ 14,623
Basic net income per share	$ 0.37	$ 0.35
Diluted net income per share	$ 0.36	$ 0.35

	Six Months Ended April 30, 2003	
	As Reported	**As Restated**
Statement of Operations Data:		
Net sales	$ 603,007	$ 604,031
Royalties	$ 56,348	$ 56,543
Total cost of sales	$ 366,406	$ 366,601
Gross profit	$ 236,601	$ 237,430
Income from operations	$ 110,222	$ 111,051
Income before provision for income taxes	$ 111,349	$ 112,178
Provision for income taxes	$ 45,648	$ 46,020
Net income	$ 65,701	$ 66,158
Basic net income per share	$ 1.60	$ 1.61
Diluted net income per share	$ 1.55	$ 1.56

(Dollars in thousands, except per share amounts)

	As of April 30, 2003	
	As Reported	As Restated
Balance Sheet Data (Not Presented Herein):		
Accounts receivable, net*	$ 100,213	$ 97,827
Prepaid royalties, current	$ 12,566	$ 12,865
Prepaid expenses and other current assets	$ 15,614	$ 15,186
Deferred tax asset	$ 5,392	$ 6,245
Total current assets	$ 393,477	$ 391,815
Total assets	$ 580,978	$ 579,316
Accrued expenses and other current liabilities*	$ 49,527	$ 48,608
Income taxes payable	$ 16,124	$ 15,821
Total current liabilities	$ 129,653	$ 128,431
Retained earnings	$ 153,505	$ 153,065
Total liabilities and stockholders' equity	$ 580,978	$ 579,316

* Restated amounts also reflect a reclassification relating to the presentation of allowances.

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 for the fiscal year ended October 31, 2003.

Estimates

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

(Dollars in thousands, except per share amounts)

4. STOCK-BASED COMPENSATION

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

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

	Three months ended April 30, 2004	Three months ended April 30, 2003	Six months ended April 30, 2004	Six months ended April 30, 2003
		(Restated)		(Restated)
Net income (loss), as reported	**$ (14,576)**	$ 14,623	**$ 17,182**	$ 66,158
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	**297**	394	**806**	542
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(2,414)**	(3,684)	**(6,475)**	(7,437)
Pro forma, net income (loss)	**$ (16,693)**	$ 11,333	**$ 11,513**	$ 59,263
Earnings (loss) per share:				
Basic – as reported	**$ (0.33)**	$ 0.35	**$ 0.39**	$ 1.61
Basic – pro forma	**$ (0.37)**	$ 0.27	**$ 0.26**	$ 1.44
Diluted – as reported	**$ (0.33)**	$ 0.35	**$ 0.38**	$ 1.56
Diluted – pro forma	**$ (0.37)**	$ 0.27	**$ 0.25**	$ 1.40

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

Back to Contents

5. BUSINESS ACQUISITIONS AND CONSOLIDATION

In March 2004, the Company acquired all the outstanding capital stock of Mobius Entertainment Limited (“Mobius”), a United Kingdom based developer of titles for handheld platforms, including Sony’s proposed PSP platform, planned for North American release in early 2005. The purchase price was approximately $4,576, comprised of $3,689 which was paid in cash and a payment of approximately $887 due March 2005. In connection with the acquisition, the Company recorded goodwill of $4,780, on a preliminary basis. The Company is in the process of completing the purchase price allocation. The Company also agreed to make additional contingent payments of approximately $1,952 based on delivery of products, which will be recorded as additional purchase price when the conditions requiring their payment are met. The pro forma impact of this acquisition for fiscal 2003 and 2004 periods was not material.

In December 2003, the Company acquired all of the outstanding capital stock and paid certain liabilities of TDK Mediactive, Inc. (“TDK Mediactive”). The purchase price of approximately $13,769 consisted of $16,660 in cash and issuance of 163,641 restricted shares of the Company’s common stock (valued at $5,160), reduced by approximately $8,051 previously due to TDK Mediactive under a distribution agreement. In connection with the acquisition, the Company recorded intellectual property of $6,326 and goodwill of $18,121, on a preliminary basis. The Company is in the process of completing the purchase price allocation. The Company does not expect that the final purchase price allocation will be materially different.

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

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

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

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

Back to Contents

The unaudited pro forma data below for the three and six months ended April 30, 2003 is presented as if the purchase of TDK Mediactive had been made as of November 1, 2002. The unaudited pro forma financial information is based on management's estimates and assumptions and does not purport to represent the results that actually would have occurred if the acquisition had, in fact, been completed on the date assumed, or which may result in the future. Pro forma financial information for fiscal 2004 is not presented since the impact is not material as the acquisition was made near the beginning of the first quarter.

	Unaudited Pro Forma	
	Three months ended April 30, 2003	Six months ended April 30, 2003
	(Restated)	(Restated)
Net sales	$ 195,880	$ 613,757
Net income	$ 10,524	$ 59,831
Net income per share – Basic	$ 0.25	$ 1.45
Net income per share – Diluted	$ 0.25	$ 1.41

6. INCOME TAXES

The provisions (benefit) for income taxes for the three and six months ended April 30, 2004 and 2003 are based on the Company's estimated annualized tax rate for the respective years after giving effect to the utilization of available tax credits and tax planning strategies. During the three months ended April 30, 2004, the estimated annualized tax rate for fiscal 2004 was reduced from 37.1% to 36.0%, resulting in a benefit to income taxes of $555, or $0.01 per basic and diluted share for the three months ended April 30, 2004, representing the impact of the 1.1% change on first quarter 2004 income before taxes. The rate was reduced primarily based on the forecasted change in the mix of income from higher tax to lower tax jurisdictions.

7. NET INCOME (LOSS) PER SHARE

The following table provides a reconciliation of basic net income (loss) per share to diluted net income (loss) per share for the three and six months ended April 30, 2004 and 2003:

	Net Income (Loss)	Shares (in thousands)	Per Share Amount
Three Months Ended April 30, 2004:			
Basic and Diluted	**$ (14,576)**	**44,594**	**$ (0.33)**
Three months ended April 30, 2003 (Restated):			
Basic	$ 14,623	41,262	$ 0.35
Effect of dilutive securities- Stock options, restricted stock and warrants	—	1,019	
Diluted	$ 14,623	42,281	$ 0.35
Six Months Ended April 30, 2004:			
Basic	**$ 17,182**	**44,489**	**$ 0.39**
Effect of dilutive securities- Stock options and restricted stock	**—**	**996**	
Diluted	**$ 17,182**	**45,485**	**$ 0.38**
Six months ended April 30, 2003 (Restated):			
Basic	$ 66,158	41,020	$ 1.61
Effect of dilutive securities- Stock options, restricted stock and warrants	—	1,259	
Diluted	$ 66,158	42,279	$ 1.56

(Dollars in thousands, except per share amounts)

The computation of diluted number of shares excludes 492,500 unexercised stock options for the six months ended April 30, 2004, which are anti-dilutive. Since a net loss was reported for the three months ended April 30, 2004, the diluted number of shares excludes 4,823,980 unexercised options and unvested restricted shares, which are anti-dilutive. The computation of diluted number of shares excludes 1,399,000 and 1,147,000 unexercised stock options for the three and six months ended April 30, 2003, respectively, which are anti-dilutive.

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

8. INVENTORY

As of April 30, 2004 and October 31, 2003, inventories consist of:

	April 30, 2004	October 31, 2003
Parts and supplies	**$ 3,893**	$ 4,793
Finished products	**96,145**	96,955
	$ 100,038	$ 101,748

Estimated product returns, which are included in the inventory balance at their cost, were $5,043 and $7,994 at April 30, 2004 and October 31, 2003, respectively.

9. PREPAID ROYALTIES

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

(Dollars in thousands, except per share amounts)

Back to Contents

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

	Fiscal 2004	Fiscal 2003
		(Restated)
Balance at November 1	**$ 20,635**	$ 26,418
Additions	**9,134**	3,855
Amortization	**(6,135)**	(2,135)
Reclassification	**—**	(6,932)
Write down	**(1,300)**	(6,649)
Acquisition	**1,073**	—
Foreign exchange	**323**	17
Balance at January 31	**23,730**	14,574
Additions	**10,725**	10,114
Amortization	**(3,323)**	(4,643)
Write down	**(878)**	—
Foreign exchange	**(246)**	3
Balance at April 30	**30,008**	20,048
Less current balance	**23,331**	12,865
Non-current balance	**$ 6,677**	$ 7,183

The reclassification in fiscal 2003 principally reflects the elimination of prepaid royalties to Angel, which was acquired during the period.

10. CAPITALIZED SOFTWARE DEVELOPMENT COSTS

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

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

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

(Dollars in thousands, except per share amounts)

11. LINES OF CREDIT

In December 1999, the Company entered into a credit agreement, as amended and restated in August 2002, with a group of lenders led by Bank of America, N.A., as agent. The agreement provides for borrowings of up to $40,000 through the expiration of the line of credit on August 28, 2005. Generally, advances under the line of credit are based on a borrowing formula equal to 75% of eligible accounts receivable plus 35% of eligible inventory. Interest accrues on such advances at the bank's prime rate plus 0.25% to 1.25%, or at LIBOR plus 2.25% to 2.75% depending on the Company's consolidated leverage ratio (as defined). The Company is required to pay a commitment fee to the bank equal to 0.5% of the unused loan balance. Borrowings under the line of credit are collateralized by the Company's accounts receivable, inventory, equipment, general intangibles, securities and other personal property, including the capital stock of the Company's domestic subsidiaries. Available borrowings under the agreement are reduced by the amount of outstanding letters of credit, which were $5,160 at April 30, 2004. The loan agreement contains certain financial and other covenants, including the maintenance of consolidated net worth, consolidated leverage ratio and consolidated fixed charge coverage ratio. As of April 30, 2004, the Company was in compliance with such covenants. The loan agreement limits or prohibits the Company from declaring or paying cash dividends, merging or consolidating with another corporation, selling assets (other than in the ordinary course of business), creating liens and incurring additional indebtedness. The Company had no outstanding borrowings under the revolving line of credit as of April 30, 2004.

In February 2001, the Company's United Kingdom subsidiary entered into a credit facility agreement, as amended in March 2002 and April 2004, with Lloyds TSB Bank plc ("Lloyds") under which Lloyds agreed to make available borrowings of up to approximately $23,245. Advances under the credit facility bear interest at the rate of 1.25% per annum over the bank's base rate, and are guaranteed by the Company. Available borrowings under the agreement are reduced by the amount of outstanding guarantees. The facility expires on March 31, 2005. The Company had $30 of outstanding guarantees and no borrowings under this facility as of April 30, 2004.

12. INTANGIBLE ASSETS

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

		As of April 30, 2004			As of October 31, 2003		
	Range of Useful Life	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trademarks	7-10 years	**$ 23,667**	**$ (7,640)**	**$ 16,027**	$ 23,667	$ (5,998)	$ 17,669
Customer lists and relationships	5-10 years	**4,673**	**(2,870)**	**1,803**	4,673	(2,733)	1,940
Intellectual property	2-6 years	**37,913**	**(23,039)**	**14,874**	31,487	(10,907)	20,580
Non-competition agreements	3-6 years	**4,838**	**(2,383)**	**2,455**	4,838	(2,105)	2,733
Technology	3 years	**4,192**	**(2,701)**	**1,491**	4,192	(2,278)	1,914
		$ 75,283	**$ (38,633)**	**$ 36,650**	$ 68,857	$ (24,021)	$ 44,836

(Dollars in thousands, except per share amounts)

Amortization expense for the three and six months ended April 30, 2004 and 2003 is as follows:

	Three months ended April 30,		Six months ended April 30,	
	2004	**2003**	**2004**	**2003**
Included in:				
Cost of sales – product costs	**$ 1,769**	$ 2,796	**$ 12,487**	$ 3,553
Depreciation and amortization	**1,062**	976	**2,126**	2,060
Total amortization expense	**$ 2,831**	$ 3,772	**$ 14,613**	$ 5,613

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

2004	$ 22,633
2005	7,595
2006	6,992
2007	2,605
2008	1,630
Total	$ 41,455

During the six months ended April 30, 2004, the increase in intellectual property resulted from the acquisition of TDK Mediactive. (See Note 5.) During the six months ended April 30, 2003, the Company recorded a charge of $4,407 related to the impairment of a customer list, which was included in depreciation and amortization. (See Note 15.) In addition, cost of sales – product costs include $7,892 of intellectual property and technology written off during the six months ended April 30, 2003, of which $5,499 related to *Duke Nukem Forever* and a sequel, reflecting the continued product development delays for these products.

13. LEGAL AND OTHER PROCEEDINGS

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

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

14. COMMITMENTS AND CONTINGENCIES

The Company periodically enters into distribution agreements to purchase various software games that require the Company to make minimum guaranteed payments. These agreements, which expire between July 2004 and September 2005, require remaining aggregate minimum guaranteed payments of $14,243 at April 30, 2004. These agreements are collateralized by a standby letter of credit of $3,600 at April 30, 2004. Additionally, assuming performance principally by third-party developers, the Company has outstanding commitments under various software development agreements to pay developers an aggregate of $42,466 over the twelve months ending April 30, 2005.

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

15. CONSOLIDATION OF DISTRIBUTION FACILITIES

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

As a result of the closures, the Company recorded a charge of $7,501. The charge to general and administrative expense of $3,094 consisted of: (1) $2,015 of lease termination costs, representing the fair value of remaining lease payments, net of estimated sublease rent; (2) $999 of disposition of fixed assets, representing the net book value of fixed assets and leasehold improvements; and (3) $80 of other exit costs. The charge to depreciation and amortization expense of $4,407 reflected an impairment charge with respect to an intangible asset, representing a customer list relating to the business conducted at the Illinois facility. The consolidation activity and settlement of accruals were completed by July 31, 2003.

(Dollars in thousands, except per share amounts)

Back to Contents

16. SEGMENT REPORTING

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

Information about the Company's non-current assets in the United States and international areas as of April 30, 2004 and October 31, 2003 are presented below:

	April 30, 2004	October 31, 2003
Total non-current assets:		
United States	**$ 138,559**	$ 118,523
International		
United Kingdom	**27,212**	25,739
All other Europe	**18,137**	19,275
Other	**30,098**	30,359
	$ 214,006	$ 193,896

Information about the Company's net sales in the United States and international areas for the three and six months ended April 30, 2004 and 2003 are presented below (net sales are attributed to geographic areas based on product destination):

	Three months ended April 30,		Six months ended April 30,	
	2004	2003 (Restated)	2004	2003 (Restated)
Net Sales:				
United States	**$ 81,837**	$ 124,793	**$ 345,702**	$ 387,511
Canada	**21,189**	14,382	**57,271**	44,917
International				
United Kingdom	**16,904**	14,972	**45,585**	63,963
All other Europe	**27,482**	35,101	**65,713**	96,266
Asia Pacific	**5,638**	3,404	**13,662**	10,776
Other	**318**	371	**947**	598
	$ 153,368	$ 193,023	**$ 528,880**	$ 604,031

(Dollars in thousands, except per share amounts)

Back to Contents

Information about the Company's net sales by product platforms for the three and six months ended April 30, 2004 and 2003 are presented below:

	Three months ended April 30,		Six months ended April 30,	
	2004	**2003 (Restated)**	**2004**	**2003 (Restated)**
Platforms:				
Sony PlayStation 2	**$ 51,037**	$ 109,930	**$ 243,569**	$ 432,977
Sony PlayStation	**5,952**	13,740	**17,836**	34,916
Microsoft Xbox	**38,728**	12,220	**141,488**	26,492
PC	**21,873**	23,947	**28,014**	34,578
Nintendo GameBoy Color, GameBoy Advance and N64	**14,661**	11,923	**35,042**	23,564
Nintendo GameCube	**7,796**	6,627	**25,097**	13,788
Sega Dreamcast	**2**	14	**5**	113
Accessories	**5,912**	6,126	**13,862**	9,769
Hardware	**7,407**	8,496	**23,967**	27,834
	$ 153,368	$ 193,023	**$ 528,880**	$ 604,031

17. SUBSEQUENT EVENT

In May 2004, the Company entered into a binding letter of intent with SEGA Corporation, which contemplates that the Company would co-publish and exclusively distribute all of SEGA's ESPN sports franchise properties: *NFL Football; NHL Hockey; NBA Basketball; College Hoops;* and *Major League Baseball*. The proposed transaction requires the Company to fund development and marketing of SEGA's sports titles over a three-year period, with the right for the Company to extend its participation in the sports game business and the intellectual property rights associated with the sports titles. The Company does not expect that this transaction, if consummated, will have a significant effect on its operating results for the remainder of fiscal 2004.

(Dollars in thousands, except per share amounts)

Back to Contents

Restatement of Financial Statements

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

Our April 30, 2003 financial statements have been restated as follows:

	Three Months Ended April 30, 2003	
	As Reported	**As Restated**
Statement of Operations Data:		
Net sales	$ 194,213	$ 193,023
Royalties	$ 19,460	$ 19,261
Total cost of sales	$ 121,739	$ 121,540
Gross profit	$ 72,474	$ 71,483
Income from operations	$ 25,085	$ 24,094
Income before provision for income taxes	$ 25,828	$ 24,837
Provision for income taxes	$ 10,589	$ 10,214
Net income	$ 15,239	$ 14,623
Basic net income per share	$ 0.37	$ 0.35
Diluted net income per share	$ 0.36	$ 0.35

	Six Months Ended April 30, 2003	
	As Reported	**As Restated**
Statement of Operations Data:		
Net sales	$ 603,007	$ 604,031
Royalties	$ 56,348	$ 56,543
Total cost of sales	$ 366,406	$ 366,601
Gross profit	$ 236,601	$ 237,430
Income from operations	$ 110,222	$ 111,051
Income before provision for income taxes	$ 111,349	$ 112,178
Provision for income taxes	$ 45,648	$ 46,020
Net income	$ 65,701	$ 66,158
Basic net income per share	$ 1.60	$ 1.61
Diluted net income per share	$ 1.55	$ 1.56

(Dollars in thousands, except per share amounts)

	As of April 30, 2003	
	As Reported	As Restated
Balance Sheet Data (Not Presented Herein):		
Accounts receivable, net*	$ 100,213	$ 97,827
Prepaid royalties, current	$ 12,566	$ 12,865
Prepaid expenses and other current assets	$ 15,614	$ 15,186
Deferred tax asset	$ 5,392	$ 6,245
Total current assets	$ 393,477	$ 391,815
Total assets	$ 580,978	$ 579,316
Accrued expenses and other current liabilities*	$ 49,527	$ 48,608
Income taxes payable	$ 16,124	$ 15,821
Total current liabilities	$ 129,653	$ 128,431
Retained earnings	$ 153,505	$ 153,065
Total liabilities and stockholders' equity	$ 580,978	$ 579,316

*Restated amounts also reflect a reclassification relating to the presentation of allowances.

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

Overview

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

Our principal sources of revenue are derived from publishing and distribution operations. Publishing revenues are derived from the sale of internally developed software titles or software titles licensed from third parties. Operating margins in our publishing business are dependent upon our ability to continually release new, commercially successful products. We develop most of our front-line products internally, and we own all of our major intellectual properties, which we believe permits us to maximize profitability.

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

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

We currently anticipate that the release of the next installments of *Grand Theft Auto* and *Midnight Club*, along with the introduction of new brands, including *The Warriors*, will generate significant cash flow from our publishing business. We also believe that we will be able to continue to grow our distribution business through a combination of our retail relationships and our value priced product offerings.

Critical Accounting Policies

Estimates

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

Revenue Recognition

We recognize revenue upon the transfer of title and risk of loss to our customers. We apply the provisions of Statement of Position 97-2, "*Software Revenue Recognition*" in conjunction with the applicable provisions of Staff Accounting Bulletin No. 101, "*Revenue Recognition*." Accordingly, we recognize revenue for software when there is (1) persuasive evidence that an arrangement with our customer exists, which is generally a customer purchase order, (2) the software is delivered, (3) the selling price is fixed or determinable and (4) collection of the customer receivable is deemed probable. Our payment arrangements with customers typically provide net 30 and 60-day terms.

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

Allowances for Returns and Price Concessions

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

Our distribution arrangements with customers generally do not give them the right to return titles or to cancel firm orders. However, we sometimes accept returns from our distribution customers for stock balancing and make accommodations to customers, which includes credits and returns, when demand for specific titles falls below expectations.

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

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

(Dollars in thousands, except per share amounts)

Back to Contents

Prepaid Royalties

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

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

	Fiscal 2004	Fiscal 2003
		(Restated)
Balance at November 1	**$ 20,635**	$ 26,418
Additions	**9,134**	3,855
Amortization	**(6,135)**	(2,135)
Reclassification	**—**	(6,932)
Write down	**(1,300)**	(6,649)
Acquisition	**1,073**	—
Foreign exchange	**323**	17
Balance at January 31	**23,730**	14,574
Additions	**10,725**	10,114
Amortization	**(3,323)**	(4,643)
Write down	**(878)**	—
Foreign exchange	**(246)**	3
Balance at April 30	**30,008**	20,048
Less current balance	**23,331**	12,865
Non-current balance	**$ 6,677**	$ 7,183

The reclassification in fiscal 2003 principally reflects the elimination of prepaid royalties to Angel Studios, Inc. ("Angel"), which was acquired during the period.

(Dollars in thousands, except per share amounts)

Capitalized Software Development Costs

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

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

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

(Dollars in thousands, except per share amounts)

Back to Contents

Results of Operations

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

	Three months ended April 30,		Six months ended April 30,	
Operating data:	**2004**	**2003**	**2004**	**2003**
		(Restated)		(Restated)
Net sales	**100.0%**	100.0%	**100.0%**	100.0%
Cost of sales				
Product costs	**68.2**	51.2	**62.2**	50.2
Royalties	**8.5**	10.0	**6.2**	9.4
Software development costs	**1.0**	1.7	**1.1**	1.1
Total cost of sales	**77.7**	63.0	**69.5**	60.7
Selling and marketing	**14.5**	11.6	**11.0**	9.4
General and administrative	**15.7**	8.8	**9.1**	8.0
Research and development	**5.4**	2.5	**4.1**	1.7
Depreciation and amortization	**2.5**	1.7	**1.4**	1.8
Interest income, net	**0.4**	0.4	**0.2**	0.2
Provision (benefit) for income taxes	**(5.9)**	5.3	**1.8**	7.6
Net income (loss)	**(9.5)**	7.6	**3.2**	11.0
Net Sales by Territory:				
North America	**67.2%**	72.1%	**76.2%**	71.6%
International	**32.8**	27.9	**23.8**	28.4
Net Sales Mix:				
Publishing	**57.7%**	65.1%	**60.6%**	71.7%
Distribution	**42.3**	34.9	**39.4**	28.3
Platform Mix (publishing):				
Console	**89.8%**	83.1%	**93.0%**	93.6%
PC	**1.0**	14.4	**1.6**	5.0
Handheld	**5.0**	0.6	**2.9**	0.3
Accessories	**4.2**	1.9	**2.5**	1.1
Principal Products:				
Grand Theft Auto: Vice City, PS2 (released October – November 2002)	**3.6%**	19.3%	**3.7%**	52.5%
Grand Theft Auto Double Pack, Xbox (released October 2003)	**6.1**	—	**11.1**	—
Max Payne 2: The Fall of Max Payne, PS2 (released December 2003)	**—**	—	**7.5**	—
Max Payne 2: The Fall of Max Payne, Xbox (released November 2003)	**—**	—	**4.5**	—
Manhunt, PS2 (released November 2003)	**0.4**	—	**6.5**	—
Manhunt, Xbox (released April 2004)	**5.0**	—	**1.4**	—
Mafia, PS2 (released January 2004)	**8.7**	—	**4.4**	—
Mafia, Xbox (released March 2004)	**7.1**	—	**2.1**	—
Midnight Club 2, PS2 (released April 2003)	**0.7**	13.9	**0.9**	4.5
Ten largest titles	**40.3%**	53.6%	**45.9%**	65.8%

Business Acquisitions

In March 2004, we acquired all the outstanding capital stock of Mobius Entertainment Limited ("Mobius"), a United Kingdom based developer of titles for handheld platforms, including Sony's proposed PSP platform, planned for North American release in early 2005. The purchase price is approximately $4,576, comprised of $3,689 which was paid in cash and a payment of approximately $887 due March 2005. We expect Mobius to develop titles for Sony's new PSP platform. In connection with the acquisition, we recorded goodwill of $4,780, on a preliminary basis. We are in the process of completing the purchase price allocation. We also agreed to make additional contingent payments of approximately $1,952 based on delivery of products, which will be recorded as additional purchase price when the conditions requiring their payment are met.

In December 2003, we acquired all of the outstanding capital stock and paid certain liabilities of TDK Mediactive, Inc. ("TDK Mediactive"). The purchase price of approximately $13,769 consisted of $16,660 in cash and issuance of 163,641 restricted shares of our common stock (valued at $5,160), reduced by approximately $8,051 previously due to TDK Mediactive under a distribution agreement. In connection with the acquisition, we recorded intellectual property of $6,326 and goodwill of $18,121, on a preliminary basis. We are in the process of completing the purchase price allocation. We do not expect that the final purchase price allocation will be materially different.

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

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

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

(Dollars in thousands, except per share amounts)

Back to Contents

Three Months ended April 30, 2004 and 2003

Net Sales

	Three months ended April 30,					
	2004	**%**	**2003**	**%**	**$ (Decrease)**	**% (Decr)**
Publishing	**$ 88,533**	**57.7**	$ 125,676	65.1	$ (37,143)	(29.6)
Distribution	**64,835**	**42.3**	67,347	34.9	(2,512)	(3.7)
Net sales	**$ 153,368**	**100.0**	$ 193,023	100.0	$ (39,665)	(20.5)

Net Sales. The decrease in net sales reflects both lower publishing and distribution revenues during the current period.

The decrease in publishing revenues for the three months ended April 30, 2004 reflects an unfavorable comparison to a period with strong sales of internally owned and developed titles, including *Grand Theft Auto: Vice City* for PlayStation 2 and the launch of *Midnight Club 2* for PlayStation 2. In addition, the current period's results consisted of a greater percentage of catalog products, which generally have lower average selling prices than newly released products.

Products designed for video game console platforms accounted for 89.8% of publishing revenues as compared to 83.1% for the comparable period last year. Products designed for PC platforms accounted for 1.0% of publishing revenues as compared to 14.4% for the prior comparable period.

Distribution revenues are derived from the sale of third-party software titles, accessories and hardware. Such revenues decreased slightly for the three months ended April 30, 2004 from the prior comparable period.

International operations accounted for approximately $50,342, or 32.8% of net sales for the three months ended April 30, 2004 compared to $53,848 or 27.9% of net sales for the three months ended April 30, 2003. The decrease in absolute dollars was primarily attributable to lower publishing revenues in Europe, which reflected the unfavorable comparison to last year's significant sales of *Grand Theft Auto: Vice City* for PlayStation 2 and the launch of *Midnight Club 2* for PlayStation 2. The decrease was partly offset by approximately a $6,500 benefit from higher foreign exchange rates.

(Dollars in thousands, except per share amounts)

Back to Contents

Cost of Sales

	Three months ended April 30,					
	2004	% of Sales	2003	% of Sales	$ Increase (Decrease)	% Incr (Decr)
Product costs	**$ 104,573**	**68.2**	$ 98,914	51.2	$ 5,659	5.7
Royalties	**13,016**	**8.5**	19,261	10.0	(6,245)	(32.4)
Software development costs	**1,573**	**1.0**	3,365	1.7	(1,792)	(53.3)
Total cost of sales	**$ 119,162**	**77.7**	$ 121,540	63.0	$ (2,378)	(2.0)

Cost of sales. The increase in product costs was primarily attributable to a change in the business mix, with distribution operations, which have higher product costs than publishing operations, accounting for a larger percentage of the business in the 2004 period. The increase in costs was also attributable to decreased sales of PC products that have lower costs than console products. The foregoing increase was slightly offset by decreased amortization of intellectual property.

Royalties. The decrease in royalties was due to lower expenses under our internal royalty program and external royalty expenses, reflecting lower unit volume for the current period. The decrease was partly offset by higher amortization of prepaid royalties on licensed products. Our internal royalty program may continue to be a significant expense in future periods.

Software development costs. Software development costs decreased due to the release of fewer internally developed titles during this period resulting in lower amortization in the current period. These software development costs relate to our internally developed titles.

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

Operating Expenses

	Three months ended April 30,					
	2004	% of Sales	2003	% of Sales	$ Increase (Decrease)	% Incr (Decr)
Selling and marketing	**$ 22,271**	**14.5**	$ 22,461	11.6	$ (190)	(0.8)
General and administrative	**24,050**	**15.7**	16,970	8.8	7,080	41.7
Research and development	**8,228**	**5.4**	4,761	2.5	3,467	72.8
Depreciation and amortization	**3,910**	**2.5**	3,197	1.7	713	22.3
Total operating expenses	**$ 58,459**	**38.1**	$ 47,389	24.6	$ 11,070	23.4

Selling and marketing. Selling and marketing expense decreased slightly in absolute dollars as lower commissions were almost offset by higher personnel expenses. The increase in selling and marketing expense as a percentage of sales reflects the lower net sales during the current period.

General and administrative. The general and administrative expense increase was principally attributable to increased personnel expenses and professional fees. The personnel expenses for the 2004 quarter included approximately $3,000 of severance charges, signing bonuses and restricted stock expenses, principally in connection with senior management changes. The higher professional fees were incurred in connection with legal and regulatory matters. The three months ended April 30, 2004 also included a $871 gain on sale of European property.

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

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

Income (loss) from operations. Income (loss) from operations decreased by $48,347, or 200.7%, to a loss of $24,253 for the three months ended April 30, 2004 from income of $24,094 for the three months ended April 30, 2003, due to the changes referred to above. Higher foreign exchange rates in our international operations did not have a material impact on income from operations.

Interest income, net. Interest income decreased by $95, or 12.8 % to $648 for the three months ended April 30, 2004 from $743 for the prior comparable period.

Provision (benefit) for income taxes. Income tax benefit was $9,029 for the three months ended April 30, 2004 as compared to income tax expense of $10,214 for the three months ended April 30, 2003. The decrease was primarily attributable to our net loss for the period. The effective tax rate was 38.3% for the three months ended April 30, 2004, as compared to an effective tax rate of 41.1% for the comparable period in fiscal 2003. During the three months ended April 30, 2004, the estimated annualized tax rate for fiscal 2004 was reduced from 37.1% to 36.0%, resulting in a benefit to income taxes of $555, or $0.01 per basic and diluted share for the three months ended April 30, 2004, representing the impact of the 1.1% change on first quarter 2004 income before taxes. The rate was reduced primarily based on the forecasted change in the mix of income from higher tax to lower tax jurisdictions. The effective income tax rate differs from the statutory rate primarily as a result of non-taxable foreign income, non-deductible expenses and the mix of foreign and domestic taxes as applied to the income.

Net income (loss). For the three months ended April 30, 2004, we recognized a net loss of $14,576 as compared to net income of $14,623 for the three months ended April 30, 2003, a decrease of $29,199, or 199.7%.

Diluted net income (loss) per share. Diluted net loss per share for the three months ended April 30, 2004 of $0.33, decreased $0.68, or 194.3%, as compared to net income per share of $0.35 for the three months ended April 30, 2003, principally due to the loss for the period.

(Dollars in thousands, except per share amounts)

Six Months ended April 30, 2004 and 2003

Net Sales

	Six months ended April 30,					
	2004	%	2003	%	$ Increase (Decrease)	% Incr (Decr)
Publishing	**$ 320,241**	**60.6**	$ 433,150	71.7	$ (112,909)	(26.1)
Distribution	**208,639**	**39.4**	170,881	28.3	37,758	22.1
Net sales	**$ 528,880**	**100.0**	$ 604,031	100.0	$ (75,151)	(12.4)

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

The decrease in publishing revenues for the six months ended April 30, 2004 principally reflects an unfavorable comparison to a period with strong sales of *Grand Theft Auto: Vice City* for PlayStation 2 and *Midnight Club 2* for PlayStation 2.

Products designed for video game console platforms accounted for 93.0% of publishing revenues as compared to 93.6% for the comparable period last year. Products designed for PC platforms accounted for 1.6% of publishing revenues as compared to 5.0% for the prior comparable period. We anticipate our product mix will remain relatively constant for the foreseeable future but may fluctuate from period to period.

Distribution revenues are derived from the sale of third-party software titles, accessories and hardware. The increase in distribution revenues was primarily attributable to increased consumer demand for budget titles in North American retail channels. We expect continued growth in our distribution business in the remainder of fiscal 2004, and that distribution revenues may fluctuate as a percentage of net sales during this period.

International operations accounted for approximately $125,906, or 23.8% of net sales for the six months ended April 30, 2004 compared to $171,603 or 28.4% of net sales for the six months ended April 30, 2003. The decrease was primarily attributable to lower publishing revenues in Europe, which reflected the unfavorable comparison to last year's significant sales of *Grand Theft Auto: Vice City* for PlayStation 2, which was launched in Europe during the first quarter of fiscal 2003. The decrease was partly offset by approximately a $16,300 benefit from higher foreign exchange rates. We expect international sales to continue to account for a significant portion of our revenues.

(Dollars in thousands, except per share amounts)

Back to Contents

Cost of Sales

	Six months ended April 30,					
	2004	% of Sales	2003	% of Sales	$ Increase (Decrease)	% Incr (Decr)
Product costs	**$ 328,951**	**62.2**	$ 303,342	50.2	$ 25,609	8.4
Royalties	**33,014**	**6.2**	56,543	9.4	(23,529)	(41.6)
Software development costs	**5,555**	**1.1**	6,716	1.1	(1,161)	(17.3)
Total cost of sales	**$ 367,520**	**69.5**	$ 366,601	60.7	$ 919	0.3

Cost of sales. The increase in product costs is primarily attributable to expanded distribution operations, which have higher product costs than publishing operations, and amortization of intellectual property related to *Max Payne 2: The Fall of Max Payne*, partly offset by decreased publishing activities. Product costs for the six months ended April 30, 2003 included a charge of $7,892 relating to the impairment of intangibles for certain products in development, including *Duke Nukem Forever* and its sequel. The impairment was based on continued product development delays and our assessment of current market acceptance and projected cash flows for these products.

Royalties. The decrease in royalties was primarily attributable to lower expenses under our internal royalty program, as the fiscal 2003 period reflected the significant volume of *Grand Theft Auto: Vice City*, and lower write downs of prepaid royalties. These decreases were partly offset by higher amortization of prepaid royalties on licensed products. Our internal royalty program may continue to be a significant expense in future periods.

Software development costs. Software development costs decreased due to the release of fewer internally developed titles during this period resulting in lower amortization in the current period. These software development costs relate to our internally developed titles.

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

Operating Expenses

	Six months ended April 30,					
	2004	% of Sales	2003	% of Sales	$ Increase (Decrease)	% Incr (Decr)
Selling and marketing	**$ 58,173**	**11.0**	$ 56,915	9.4	$ 1,258	2.2
General and administrative	**48,090**	**9.1**	48,329	8.0	(239)	(0.5)
Research and development	**21,657**	**4.1**	10,376	1.7	11,281	108.7
Depreciation and amortization	**7,655**	**1.4**	10,759	1.8	(3,104)	(28.9)
Total operating expenses	**$ 135,575**	**25.6**	$ 126,379	20.9	$ 9,196	7.3

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

General and administrative. The general and administrative expense decrease was principally attributable to the absence of last year's charge associated with the consolidation of our distribution operations and lower bad debt expenses, partly offset by higher personnel expenses. The six months ended April 30, 2003 consolidation charge of $3,094 consisted of: lease termination costs, representing the fair value of remaining lease payments, net of estimated sublease rent; disposition of fixed assets, representing the net book value of fixed assets and leasehold improvements; and other exit costs. Personnel expenses for the 2004 period included approximately $3,000 of severance charges, signing bonuses and restricted stock expenses, principally in connection with senior management changes. The 2004 period also included a $871 gain on sale of European property.

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

Depreciation and amortization. Depreciation and amortization expense decreased principally due to the $4,407 related to the impairment of a customer list as a result of the consolidation of our distribution operations included in the six months ended April 30, 2003, partly offset by higher amortization of intangible assets as a result of acquisitions and higher depreciation related to the implementation of accounting software systems.

Income from operations. Income from operations decreased by $85,266, or 76.8%, to $25,785 for the six months ended April 30, 2004 from $111,051 for the six months ended April 30, 2003, due to the changes referred to above. Higher foreign exchange rates in our international operations did not have a material impact on income from operations.

Interest income, net. Interest income decreased by $14, or 1.3% to $1,074 for the six months ended April 30, 2004 from $1,088 for the prior comparable period.

Provision for income taxes. Income tax expense was $9,677 for the six months ended April 30, 2004 as compared to $46,020 for the six months ended April 30, 2003. The decrease was primarily attributable to lower taxable income. The effective tax rate was 36.0% for the six months ended April 30, 2004, as compared to an effective tax rate of 41.0% for the comparable period in fiscal 2003. The effective income tax rate differs from the statutory rate primarily as a result of non-taxable foreign income, non-deductible expenses and the mix of foreign and domestic taxes as applied to the income. The lower tax rate for fiscal 2004 period reflects the benefits of a new structure for our worldwide operations.

Net income. For the six months ended April 30, 2004, we achieved net income of $17,182, as compared to net income of $66,158 for the six months ended April 30, 2003, a decrease of $48,976, or 74.0%.

Diluted net income per share. Diluted net income per share decreased $1.18, or 75.6%, to $0.38 for the six months ended April 30, 2004 from $1.56 for the six months ended April 30, 2003, due to the decrease in net income and the higher weighted average shares outstanding. The increase in weighted shares outstanding resulted from the issuance of shares underlying stock options and for acquisitions.

Liquidity and Capital Resources

Our primary cash requirements are to fund the development and marketing of our products. We satisfy our working capital requirements primarily through cash flow from operations. At April 30, 2004, we had working capital of $362,183 as compared to working capital of $348,155 at October 31, 2003.

Cash and cash equivalents increased $77,856 to $261,333 at April 30, 2004, from $183,477 at October 31, 2003. The increase is primarily attributable to $100,061 of cash provided by operating activities and $7,187 provided by financing activities, partly offset by $30,193 used in investing activities.

Cash provided by operating activities for the six months ended April 30, 2004 was $100,061 compared to $104,750 for the six months ended April 30, 2003. The decrease resulted from decreased net income, adjusted for non-cash charges, partly offset by favorable changes in operating assets and liabilities, principally accounts receivable.

Net cash used in investing activities for the six months ended April 30, 2004 was $30,193 compared to net cash used in investing activities of $34,744 for the six months ended April 30, 2003. The cash used in the current fiscal period reflects the acquisition of TDK Mediactive and Mobius while the prior year reflected the acquisition of Angel Studios. The current year also reflects payments of $3,100 for intangible assets.

Net cash provided by financing activities for the six months ended April 30, 2004 was $7,187, as compared to net cash provided by financing activities of $9,142 for the six months ended April 30, 2003. The decrease was primarily attributable to lower proceeds from the exercise of stock options.

In December 1999, we entered into a credit agreement, as amended and restated in August 2002, with a group of lenders led by Bank of America, N.A., as agent. The agreement provides for borrowings of up to $40,000 through the expiration of the line of credit on August 28, 2005. Generally, advances under the line of credit are based on a borrowing formula equal to 75% of eligible accounts receivable plus 35% of eligible inventory. Interest accrues on such advances at the bank's prime rate plus 0.25% to 1.25%, or at LIBOR plus 2.25% to 2.75% depending on our consolidated leverage ratio (as defined). We are required to pay a commitment fee to the bank equal to 0.5% of the unused loan balance. Borrowings under the line of credit are collateralized by our accounts receivable, inventory, equipment, general intangibles, securities and other personal property, including the capital stock of our domestic subsidiaries. Available borrowings under the agreement are reduced by the amount of outstanding letters of credit, which were $5,160 at April 30, 2004. The loan agreement contains certain financial and other covenants, including the maintenance of consolidated net worth, consolidated leverage ratio and consolidated fixed charge coverage ratio. As of April 30, 2004, we were in compliance with such covenants. The loan agreement limits or prohibits us from declaring or paying cash dividends, merging or consolidating with another corporation, selling assets (other than in the ordinary course of business), creating liens and incurring additional indebtedness. We had no outstanding borrowings under the revolving line of credit as of April 30, 2004.

In February 2001, the Company's United Kingdom subsidiary entered into a credit facility agreement, as amended in March 2002 and April 2004, with Lloyds TSB Bank plc ("Lloyds") under which Lloyds agreed to make available borrowings of up to approximately $23,245. Advances under the credit facility bear interest at the rate of 1.25% per annum over the bank's base rate, and are guaranteed by the Company. Available borrowings under the agreement are reduced by the amount of outstanding guarantees. The facility expires on March 31, 2005. The Company had $30 of outstanding guarantees and no borrowings under this facility as of April 30, 2004.

For the six months ended April 30, 2004 and 2003, we received proceeds of $7,240 and $9,213, respectively, relating to the exercise of stock options and warrants.

Our accounts receivable before allowances at April 30, 2004 was $132,672. Each of three retail customers accounted for more than 10% of the receivable balance (36.1% in aggregate) at April 30, 2004. As of October 31, 2003, most of our receivables had been covered by insurance, with certain limits and deductibles, in the event of a customer's bankruptcy or insolvency. In November 2003, we terminated our domestic receivables insurance. Generally, we have been able to collect our receivables in the ordinary course of business. We do not hold any collateral to secure payment from customers. As a result, we are subject to credit risks, particularly in the event that any of the receivables represent a limited number of retailers or are concentrated in foreign markets. If we are unable to collect our accounts receivable as they become due, we could be required to increase our allowance for doubtful accounts, which could adversely affect our liquidity and working capital position.

We had accounts receivable days outstanding of 40 days for the three months ended April 30, 2004, as compared to 46 days for the three months ended April 30, 2003.

We expect to spend an additional $2,800 in connection with the implementation of accounting software systems for our international operations and the upgrade for our domestic operations. We intend to relocate our warehouse operations in Cincinnati, Ohio to a larger facility and anticipate spending approximately $6,600 for capital expenditures for equipment, logistical operations software and leasehold improvements. As of the date of this report, we have no other material commitments for capital expenditures.

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

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

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

In May 2004, the Company entered into a binding letter of intent with SEGA Corporation, which contemplates that the Company would co-publish and exclusively distribute all of SEGA's ESPN sports franchise properties: *NFL Football*; *NHL Hockey*; *NBA Basketball*; *College Hoops*; and *Major League Baseball*. The proposed transaction requires the Company to fund development and marketing of SEGA's sports titles over a three-year period, with the right for the Company to extend its participation in the sports game business and the intellectual property rights associated with the sports titles.

Contractual Obligations and Contingent Liabilities and Commitments

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

We periodically enter into distribution agreements to purchase various software games that require us to make minimum guaranteed payments. These agreements, which expire between July 2004 and September 2005, require remaining aggregate minimum guaranteed payments of $14,243 at April 30, 2004. These agreements are collateralized by a standby letter of credit of $3,600 at April 30, 2004. Additionally, assuming performance principally by third-party developers, we have outstanding commitments under various software development agreements to pay developers an aggregate of $42,466 over the twelve months ending April 30, 2005.

In connection with our acquisition of the publishing rights to the *Duke Nukem* franchise for PC and video games in December 2000, we are obligated to pay $6,000 contingent upon delivery of the final version of *Duke Nukem Forever* for the PC. In May 2003, we agreed to pay up to $6,000 upon the achievement of certain sales targets for *Max Payne 2* (which are not expected to be achieved). We also agreed to make additional payments of up to $2,500 to the former owners of Cat Daddy based on a percentage of Cat Daddy’s profits for the first three years after acquisition. In connection with the acquisition of Mobius, we agreed to make contingent payments of approximately $1,952 based on delivery of products. The payables will be recorded when the conditions requiring their payment are met.

Fluctuations in Operating Results and Seasonality

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

International Operations

Sales in international markets, principally in the United Kingdom and other countries in Europe, have accounted for a significant portion of our net sales. For the six months ended April 30, 2004 and 2003, sales in international markets accounted for approximately 23.8% and 28.4%, respectively, of our net sales. We are subject to risks inherent in foreign trade, including increased credit risks, tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays and international political, regulatory and economic developments, all of which can have a significant impact on our operating results.

Cautionary Statement and Risk Factors

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

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

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

A significant portion of our net sales is derived from a limited number of titles. For the six months ended April 30, 2004, our ten best selling titles accounted for approximately 45.9% of our revenues, with *Grand Theft Auto* Double Pack for the Xbox accounting for 11.1% of our revenues, *Max Payne 2*: *The Fall of Max Payne* for PlayStation 2 accounting for 7.5% of our revenues, and *Manhunt* for PlayStation 2 accounting for 6.5% of our revenues. For the six months ended April 30, 2003, our ten best selling titles accounted for approximately 65.8% of our revenues, with *Grand Theft Auto*: *Vice City* for PlayStation 2 accounting for 52.5% of our revenues and *Midnight Club* 2 for PlayStation 2 accounting for 4.5% of our revenues. For the year ended October 31, 2003, our ten best selling titles accounted for approximately 50.5% of our net sales. If we fail to continue to develop and sell new, commercially successful titles, our net sales and profits may decrease substantially and we may incur losses.

Our quarterly operating results may vary significantly, which could cause our stock price to decline. We have experienced and may continue to experience wide fluctuations in quarterly operating results. The interactive entertainment industry is highly seasonal, with sales typically higher during the fourth calendar quarter (our fourth and first fiscal quarters), due primarily to the increased demand for games during the holiday buying season. Our failure or inability to introduce products on a timely basis to meet seasonal fluctuations in demand will harm our business and operating results. These fluctuations could also cause our stock price to decline. Other factors that cause fluctuations include:

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

Our expense levels are based, in part, on our expectations regarding future sales and therefore our operating results would be harmed by a decrease in sales or a failure to meet our sales expectations. The uncertainties associated with interactive entertainment software development, manufacturing lead times, production delays and the approval process for products by hardware manufacturers and other licensors make it difficult to predict the quarter in which our products will ship and therefore may cause us to fail to meet financial expectations. In future quarters our operating results may fall below the expectations of securities analysts and investors. In this event, the market price of our common stock could significantly decline.

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

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

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

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

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

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

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

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

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

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

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

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

A limited number of customers may account for a significant portion of our sales. Sales to our five largest customers accounted for approximately 34.8% and 42.1%, respectively, of our revenues for the six months ended April 30, 2004 and 2003. Sales to our five largest customers accounted for approximately 38.6% of our net sales for the year ended October 31, 2003. For the year ended October 31, 2003, sales of our products to Wal-Mart accounted for 11.4% of our net sales. Our sales are made primarily pursuant to purchase orders without long-term agreements or other commitments. Our customers may terminate their relationship with us at any time. The loss of our relationships with principal customers or a decline in sales to principal customers could harm our operating results. Bankruptcies or consolidations of certain large retail customers could also seriously hurt our business.

We are subject to credit and collection risks. Our sales are typically made on credit. We do not hold any collateral to secure payment by our customers. As a result, we are subject to credit risks, particularly in the event that any of our receivables represent sales to a limited number of retailers or are concentrated in foreign markets. We recently terminated our domestic receivables insurance. Although we continually assess the creditworthiness of our customers, which are principally large, national retailers, if we are unable to collect our accounts receivable as they become due, it could adversely affect our financial condition.

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

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

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

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

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

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

We may not be able to protect our proprietary rights or avoid claims that we infringe on the proprietary rights of others. We develop proprietary software and have obtained the rights to publish and distribute software developed by third parties. We attempt to protect our software and production techniques under copyright, trademark and trade secret laws as well as through contractual restrictions on disclosure, copying and distribution. Interactive entertainment software is susceptible to unauthorized copying. Unauthorized third parties may be able to copy or to reverse engineer our software to obtain and use programming or production techniques that we regard as proprietary.

As the amount of interactive entertainment software titles in the market increases and the functionality of this software further overlaps, we believe that interactive entertainment software will increasingly become the subject of claims that such software infringes the copyrights or patents of others. From time to time, we receive notices from third parties or are named in lawsuits by third parties alleging infringement of their proprietary rights. Although we believe that our software and technologies and the software and technologies of third-party developers and publishers with whom we have contractual relations do not and will not infringe or violate proprietary rights of others, it is possible that infringement of proprietary rights of others has or may occur. Any claims of infringement, with or without merit, could be time consuming, costly and difficult to defend. Moreover, intellectual property litigation or claims could require us to discontinue the distribution of products, obtain a license or redesign our products, which could result in additional substantial costs and material delays.

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

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

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

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

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

Our distribution business is dependent on suppliers to maintain an adequate supply of products to fulfill customer orders on a timely basis. Our ability to obtain particular products in required quantities and to fulfill customer orders on a timely basis is critical to our success. In most cases, we have no guaranteed price or delivery agreements with suppliers. In certain product categories, limited price concessions or return rights offered by publishers may have a bearing on the amount of product we may be willing to purchase. Our industry may experience significant hardware supply shortages from time to time due to the inability of certain manufacturers to supply certain products on a timely basis. As a result, we have experienced, and may in the future continue to experience, short-term hardware inventory shortages. In addition, manufacturers or publishers who currently distribute their products through us may decide to distribute, or to substantially increase their existing distribution, through other distributors, or directly to retailers.

We are subject to the risk that our inventory values may decline and protective terms under supplier arrangements may not adequately cover the decline in values. The interactive entertainment software and hardware industry is characterized by the introduction of new and enhanced generations of products and evolving industry standards. These changes may cause inventory to decline substantially in value or to become obsolete. We are also exposed to inventory risk in our distribution business to the extent that supplier price concessions are not available on all products or quantities and are subject to time restrictions. In addition, suppliers may become insolvent and unable to fulfill price concession obligations.

We are subject to risks and uncertainties of international trade. Sales in international markets, primarily in the United Kingdom and other countries in Europe, have accounted for a significant portion of our net sales. Sales in international markets accounted for approximately 23.8% and 28.4%, respectively, of our revenues for the six months ended April 30, 2004 and 2003. Sales in international markets accounted for approximately 27.9% of our net sales for the year ended October 31, 2003. We are subject to risks inherent in foreign trade, including increased credit risks; tariffs and duties; fluctuations in foreign currency exchange rates; shipping delays; and international political, regulatory and economic developments, all of which can have a significant impact on our operating results. All of our international sales are made in local currencies.

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

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Historically, fluctuations in interest rates have not had a significant impact on our operating results. At April 30, 2004, we had no outstanding variable rate indebtedness.

We transact business in foreign currencies and are exposed to risks resulting from fluctuations in foreign currency exchange rates. Accounts relating to foreign operations are translated into United States dollars using prevailing exchange rates at the relevant fiscal quarter. Translation adjustments are included as a separate component of stockholders' equity. For the six months ended April 30, 2004, our foreign currency translation adjustment gain was $1,947. Foreign exchange transaction loss for the six months ended April 30, 2004 was $177. A hypothetical 10% change in applicable currency exchange rates at April 30, 2004 would result in a material translation adjustment.

Item 4. Controls and Procedures

Based on their evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective at the reasonable assurance level for recording, processing, summarizing and reporting the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934. There were no changes in our internal control over financial reporting during the fiscal quarter ended April 30, 2004 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Back to Contents

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

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

Item 2. Changes in Securities

In March 2004, the Company granted 4,000 shares of restricted common stock to each of Todd Emmel, Robert Flug, Oliver Grace, Mark Lewis and Steven Tisch and 7,000 shares of restricted common stock to Richard Roedel under its Incentive Stock Plan. In April 2004, the Company granted 20,000 shares of restricted common stock to an employee under its Incentive Stock Plan.

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

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

10.1 Letter Agreement dated April 14, 2004, by and between the Company and Paul Eibeler.

10.2 Letter Agreement dated April 14, 2004, by and between the Company and Gary Lewis.

10.3 Letter Agreement dated June 7, 2004, by and between the Company and Richard W. Roedel.

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

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

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

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

(b) Reports on Form 8-K:

On March 4, 2004, the Company furnished a Current Report on Form 8-K to report the Press Release dated March 4, 2004 relating to the Company's financial results for the first fiscal quarter ended January 31, 2004. (Items 7, 9 and 12)

Back to Contents

SIGNATURES

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

TAKE-TWO INTERACTIVE SOFTWARE, INC.
(Registrant)

Date: June 14, 2004	By: /s/ Richard W. Roedel Richard W. Roedel Chairman and Chief Executive Officer (Principal Executive Officer)
Date: June 14, 2004	By: /s/ Karl H. Winters Karl H. Winters Chief Financial Officer (Principal Financial Officer)

Exhibit 10.1

April 14, 2004

Dear Paul:

Further to our conversations, I am pleased to confirm the principal terms of your employment with Take-Two Interactive Software, Inc. ("T2"):

Term:	Three years
Start Date:	April 14, 2004
Title:	President and Director
Reporting:	Chairman and Interim Chief Executive Officer
Salary:	$600,000 per annum, payable bi-weekly in accordance with T2's normal payroll practices.
Equity:	300,000 non-plan options at an exercise price equal to the closing price of T2's Common Stock as reported by Nasdaq on April 14, 2004 (vesting as to the initial 50,000 shares six months after April 14, 2004 and the balance of the shares vesting in 50,000 share lots every six months). T2 shall register the shares underlying the options under the Securities Act of 1933.
Bonus:	Quarterly bonus of $50,000 commencing with the quarter ended July 31, 2004; provided that T2 achieves its revenue and net income forecasts. In addition, signing bonus of $150,000.
Car Allowance:	$1,000 per month.
Benefits:	All benefits offered by T2 to executives of similar status, including 401(k) and Health Insurance. T2 shall pay the premiums on your life insurance in the amount of $1 million.

Termination:	Termination provisions substantially similar to those set forth under Employment Agreement dated July 2000 (the "Old Agreement").
Reviews:	Performance review on an annual basis.
Vacation:	Four weeks.

We will prepare a mutually acceptable employment agreement to reflect the foregoing, which will contain provisions no less favorable to Employee than as set forth in the Old Agreement. Until such agreement is executed and delivered, this agreement shall be binding between the parties. Upon the execution of this agreement, the Separation Agreement dated June 4, 2003 shall automatically terminate (except for provisions of Section 6 of the Separation Agreement which shall survive such termination).

Paul, we look forward to you joining the Take-Two team.

Sincerely,

/s/ Richard Roedel

Richard Roedel
Chairman and Interim CEO

AGREED and ACCEPTED:

/s/ Paul Eibeler
- ----------------
Paul Eibeler

Exhibit 10.2

April 14, 2004

Dear Gary:

Further to our conversations, I am pleased to make the following offer with respect to the terms of your employment with Take-Two Interactive Software, Inc. ("T2"):

Term:	Two years
Start Date:	April 14, 2004
Title:	Global Chief Operating Officer
Reporting:	Interim Chief Executive Officer
Salary:	$600,000 per annum, payable bi-weekly in accordance with T2's normal payroll practices.
Equity:	145,000 options at an exercise price equal to the closing price of T2's Common Stock as reported by Nasdaq on April 14, 2004 (vesting as to 25,000 shares on October 14, 2004; 60,000 shares on April 14, 2005; and 60,000 shares on April 14, 2006). Grant of 20,000 shares of restricted common stock (vesting 10,000 shares on April 14, 2005 and 10,000 shares on April 14, 2006).
Relocation Allowance:	Reimbursement of moving expenses to and from New York (not to exceed $50,000 for each move), interim housing allowance and payment of rent during the term.
Bonus:	Annual bonus of up to $600,000 based on mutually agreeable quantitative and qualitative performance targets, of which $150,000 is payable November 1, 2004. Signing bonus of $500,000, of which $250,000 is payable upon the execution of this agreement and $250,000 is payable November 1, 2004.

Car Allowance:	$1,300 per month.
Benefits:	All benefits offered by T2 to executives of similar status, including 401(k) and Health Insurance for you and your family. You shall be entitled to maintain your UK pension benefits. You and your family will be entitled to be reimbursed for travel expenses (Business Class) to the United Kingdom at least three times a year.
Termination:	You shall be entitled to salary, bonus (if earned) and benefits for a period of eighteen months following the date of the termination of your employment without cause or upon a change of control or if you terminate your employment for good reason (i.e., a substantial and material diminution in your responsibilities, duties, reporting relationship or position) (in the case of a change of control, you will be entitled to a lump-sum payment), and in any such event all of your shares of restricted stock and options shall vest immediately.
Reviews:	Performance review on an annual basis.
Vacation:	Five weeks.

We will prepare a mutually acceptable employment agreement to reflect the foregoing, which will contain customary provisions for an agreement of this type (including mutually acceptable termination, confidentiality, non-competition and non-solicitation provisions). Such agreement shall also provide that T2 will make available to you a qualified tax advisor. In this regard, the parties also agree to continue to negotiate in good faith whether notice provisions are applicable and whether you shall become an employee of T2 or Take-Two Europe (although it is the current intention of the parties as evidenced by this agreement that you will continue to be employed directly by T2 and that any employment agreement relating to your employment will be governed under New York law). Until the execution of such agreement, the terms of this agreement shall serve as the entire agreement between the parties. Upon the execution of this agreement, all prior agreements and understandings between us (including without limitation, your current employment agreement dated March 12, 2002 with Take-Two Europe) shall terminate.

We understand that you have agreed to make a commitment of at least six-months to remain in the employ of T2 as Global COO. Accordingly, as a further inducement for you to enter into this agreement, in the event that you voluntarily terminate your employment with T2 after October 14, 2004, you may return to your current position with Take-Two Europe under the terms and conditions of a mutually satisfactory long-form employment agreement to be governed under the laws of the United Kingdom. In such event, 30,000 options shall vest and become immediately exercisable, in addition to the 25,000 options that vest on October 14, 2004 (provided that the balance of the unvested options and any unvested restricted stock shall lapse) and you will be entitled to an additional $100,000 of annual salary and an annual option grant of 30,000 shares under the terms of such long-form employment agreement.

Gary, we look forward to you joining the Take-Two team.

Sincerely,

/s/ Richard Roedel

Richard Roedel
Chairman and Interim Chief Executive Officer

AGREED and ACCEPTED:

/s/ Gary Lewis

Gary Lewis

Exhibit 10.3

TAKE-TWO INTERACTIVE SOFTWARE, INC.
622 Broadway
New York, New York 10012

June 7, 2004

Dear Rich:

We are pleased to confirm the terms of our agreement with respect to your employment as Chairman and Chief Executive Officer of Take-Two Interactive Software, Inc. (the "Company") on a full-time basis for a term of three (3) years, reporting directly to the Board of Directors of the Company.

For your prior services as Chairman and Interim Chief Executive Officer, you were receiving an annual salary of $650,000. You also received options to purchase 48,000 shares of common stock at an exercise price equal to the closing price of the common stock as reported by Nasdaq on April 14, 2004 (vesting as to 4,000 shares per month).

You were also entitled to receive or participate in all benefits and plans which the Company may from time to time institute during such period for its employees of like seniority and for which you are eligible and a car allowance of $1,000 per month. Additionally, you were eligible to receive cash bonuses at the discretion of the Board of Directors.

This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York, and shall supersede any other agreements between the parties.

The parties agree to negotiate a definitive agreement with respect to your employment as Chairman and Chief Executive Officer, which shall contain customary terms and conditions for an agreement of this type, including mutually acceptable compensation (including stock-based compensation and bonus), non-compete, non-solicitation and confidentiality provisions.

You represent that the execution of this Agreement and the discharge of your obligations hereunder will not breach or conflict with any other contract, agreement, or understanding between you and any other party or any law, rule or regulation.

Very truly yours,

TAKE-TWO INTERACTIVE SOFTWARE, INC.

By:/s/ Karl H. Winters

Name: Karl H. Winters
Title: Chief Financial Officer

AGREED TO ACCEPTED:

/s/Richard Roedel
- -----------------
Richard Roedel

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Section 302 Certification

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

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2004 of Take-Two Interactive Software, Inc.;

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

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

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

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

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

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

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

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

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

Date: June 14, 2004

/s/ Richard W. Roedel

Richard W. Roedel
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Section 302 Certification

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

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2004 of Take-Two Interactive Software, Inc.;

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

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

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

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

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

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

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

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

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

Date: June 14, 2004

/s/ Karl H. Winters

Karl H. Winters
Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Quarterly Report of Take-Two Interactive Software, Inc. (the "Company") on Form 10-Q for the period ended April 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard W. Roedel, as Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. SS 1350, as adopted pursuant to SS. 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Richard W. Roedel

Richard W. Roedel
Chairman and Chief Executive Officer

June 14, 2004

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

EXHIBIT 32.2

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

In connection with the Quarterly Report of Take-Two Interactive Software, Inc. (the "Company") on Form 10-Q for the period ended April 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Karl H. Winters, as Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. SS 1350, as adopted pursuant to SS. 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Karl H. Winters

Karl H. Winters
Chief Financial Officer

June14, 2004

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