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, 2005**

Commission file number **0-29230**

TAKE-TWO INTERACTIVE SOFTWARE, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

As of June 6, 2005, there were 71,326,675 shares of the Registrant’s Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Condensed Consolidated Balance Sheets (Unaudited)
As of April 30, 2005 and October 31, 2004
(In thousands, except share data)

	April 30, 2005	October 31, 2004
ASSETS		
Current assets		
Cash and cash equivalents	$ 210,241	$ 155,095
Accounts receivable, net of allowances of $56,496 and $72,215 at April 30, 2005 and October 31, 2004, respectively	127,278	285,709
Inventories, net	116,568	154,345
Software development costs	50,802	33,980
Licenses	5,981	4,240
Prepaid expenses and other current assets	73,871	60,018
Deferred tax asset	11,701	11,554
Total current assets	596,442	704,941
Fixed assets, net	43,075	34,291
Software development costs, net of current portion	47,423	30,342
Licenses, net of current portion	2,650	1,425
Goodwill	166,417	135,477
Intangibles, net	59,934	36,104
Deferred tax asset	6,219	6,219
Other assets	2,061	1,714
Total assets	$ 924,221	$ 950,513
LIABILITIES and STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 90,524	$ 163,961
Accrued expenses and other current liabilities	84,982	125,567
Income taxes payable	8,758	17,319
Total current liabilities	184,264	306,847
Other long-term liabilities	2,741	2,963
Deferred tax liability	11,026	5,233
Total liabilities	198,031	315,043
Stockholders' equity		
Common stock, par value $.0067 per share; 100,000,000 shares authorized; 71,193,228 and 68,159,477 shares issued and outstanding at April 30, 2005 and October 31, 2004, respectively	475	454
Additional paid-in capital	436,714	382,156
Deferred compensation	(13,095)	(3,896)
Retained earnings	297,465	250,402
Accumulated other comprehensive income	4,631	6,354
Total stockholders' equity	726,190	635,470
Total liabilities and stockholders' equity	$ 924,221	$ 950,513

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

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TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Condensed Consolidated Statements of Operations (Unaudited)
For the three and six months ended April 30, 2005 and 2004
(In thousands, except per share data)

	Three months ended April 30,		Six months ended April 30,	
	2005	**2004**	**2005**	**2004**
Net sales	**$ 222,068**	$ 153,368	**$ 724,542**	$ 528,880
Cost of sales				
Product costs	**123,504**	104,573	**360,989**	328,951
Royalties	**21,938**	13,016	**102,147**	33,014
Software development costs	**4,780**	1,573	**8,985**	5,555
Total cost of sales	**150,222**	119,162	**472,121**	367,520
Gross profit	**71,846**	34,206	**252,421**	161,360
Operating expenses				
Selling and marketing	**36,275**	22,271	**87,206**	58,173
General and administrative	**28,705**	24,050	**57,392**	48,090
Research and development	**13,785**	8,228	**37,202**	21,657
Depreciation and amortization	**5,102**	3,910	**9,888**	7,655
Total operating expenses	**83,867**	58,459	**191,688**	135,575
Income (loss) from operations	**(12,021)**	(24,253)	**60,733**	25,785
Interest income, net	**1,164**	648	**1,704**	1,074
Income (loss) before income taxes	**(10,857)**	(23,605)	**62,437**	26,859
Provision (benefit) for income taxes	**(2,671)**	(9,029)	**15,374**	9,677
Net income (loss)	**$ (8,186)**	$ (14,576)	**$ 47,063**	$ 17,182
Per share data:				
Basic:				
Weighted average common shares outstanding	**70,112**	66,891	**69,365**	66,734
Net income (loss) per share	$ (0.12)	$ (0.22)	$ 0.68	$ 0.26
Diluted:				
Weighted average common shares outstanding	**70,112**	66,891	**70,678**	68,228
Net income (loss) per share	$ (0.12)	$ (0.22)	$ 0.67	$ 0.25

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

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TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the six months ended April 30, 2005 and 2004
(In thousands)

	Six months ended April 30,	
	2005	**2004**
Cash flows from operating activities:		
Net income	$ **47,063**	$ 17,182
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**9,888**	7,655
Loss (gain) on disposal of fixed assets	**15**	(646)
Amortization of intellectual property and other	**6,642**	12,625
Amortization of compensatory stock	**9,266**	1,220
Amortization of software development costs and licenses	**28,327**	15,012
Provision for doubtful accounts, returns and sales allowances	**60,346**	65,714
Write-off of software development costs and licenses	**3,397**	2,175
Tax benefit from exercise of compensatory stock and stock options	**9,941**	1,433
Foreign currency transaction loss	**247**	177
Changes in operating assets and liabilities, net of effects of acquisitions:		
Decrease in accounts receivable	**116,747**	40,516
Decrease in inventories	**37,847**	1,857
Increase in software development costs	**(70,866)**	(27,045)
Increase in licenses	**(5,556)**	(2,466)
(Increase) decrease in prepaid expenses and other current assets	**(8,527)**	365
Increase in other non-current assets	**(347)**	—
Decrease in accounts payable	**(76,474)**	(25,237)
Decrease in accrued expenses and other liabilities	**(67,554)**	(10,316)
Decrease in income taxes payable	**(2,748)**	(160)
Net cash provided by operating activities	**97,654**	100,061
Cash flows from investing activities:		
Purchase of fixed assets	**(14,610)**	(8,332)
Acquisition of intangible assets	**(20,000)**	(3,100)
Acquisitions, net of cash acquired	**(23,244)**	(19,625)
Escrow payment for settlement	**(7,500)**	—
Proceeds from sale of fixed assets and investments	**73**	864
Net cash used in investing activities	**(65,281)**	(30,193)
Cash flows from financing activities:		
Proceeds from exercise of stock options and warrants	**24,445**	7,240
Other financing	**(52)**	(53)
Net cash provided by financing activities	**24,393**	7,187
Effect of foreign exchange rates	**(1,620)**	801
Net increase in cash for the period	**55,146**	77,856
Cash and cash equivalents, beginning of the period	**155,095**	183,477
Cash and cash equivalents, end of the period	$ **210,241**	$ 261,333

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

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TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited) (continued)
For the six months ended April 30, 2005 and 2004
(In thousands)

	Six months ended April 30, 2005	Six months ended April 30, 2004
Supplemental information on businesses acquired:		
Fair value of assets acquired:		
Current assets	**$ 111**	$ 1,457
Non-current assets	**1,196**	809
Intangible assets	**7,980**	7,786
Goodwill	**29,433**	21,760
Less: liabilities assumed		
Current liabilities	**(3,275)**	(6,105)
Deferred income taxes	**(3,192)**	—
Net assets of businesses acquired, excluding cash	**$ 32,253**	$ 25,707
Cash paid for businesses acquired	**$ 24,000**	$ 20,454
Less: cash acquired	**(756)**	(829)
Net cash paid for businesses acquired	**23,244**	19,625
Additional payments in connection with acquisition	**6,416**	—
Contingent and deferred consideration	**2,593**	922
Issuance of restricted stock in connection with acquisition	**—**	5,160
Total consideration	**$ 32,253**	$ 25,707
Supplemental cash flow information:		
Issuance of warrants to licensor	**$ 1,183**	$ —
Cash paid for taxes	**26,809**	8,155
Cash paid for interest	**131**	84

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

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TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)
For the year ended October 31, 2004 and the six months ended April 30, 2005
(In thousands)

	Common Stock						
	Shares	Amount	Additional Paid-in Capital	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, October 31, 2003	66,341	$ 442	$ 350,852	$ (1,890)	$ 185,024	$ (936)	$ 533,492
Foreign currency translation adjustment	—	—	—	—	—	7,290	7,290
Net income	—	—	—	—	65,378	—	65,378
Comprehensive income							72,668
Proceeds from exercise of stock options and warrants	1,326	9	16,674	—	—	—	16,683
Amortization of deferred compensation	—	—	—	3,331	—	—	3,331
Issuance of common stock in connection with acquisition	246	2	5,158	—	—	—	5,160
Issuance of compensatory stock	246	1	5,336	(5,337)	—	—	—
Tax benefit in connection with the exercise of compensatory stock and stock options	—	—	4,136	—	—	—	4,136
Balance, October 31, 2004	68,159	$ 454	$ 382,156	$ (3,896)	$ 250,402	$ 6,354	$ 635,470
Foreign currency translation adjustment	—	—	—	—	—	(1,723)	(1,723)
Net income	—	—	—	—	47,063	—	47,063
Comprehensive income							45,340
Proceeds from exercise of stock options and warrants	2,222	16	24,429	—	—	—	24,445
Amortization of deferred compensation	—	—	—	9,266	—	—	9,266
Issuance of compensatory stock and stock options	812	5	19,005	(18,465)	—	—	545
Tax benefit in connection with the exercise of compensatory stock and stock options	—	—	9,941	—	—	—	9,941
Issuance of warrants to licensor	—	—	1,183	—	—	—	1,183
Balance, April 30, 2005	**71,193**	**$ 475**	**$ 436,714**	**$ (13,095)**	**$ 297,465**	**$ 4,631**	**$ 726,190**

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

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1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Take-Two Interactive Software, Inc. (the "Company") was incorporated in the State of Delaware in September 1993. The Company develops interactive software games designed for personal computers, video game consoles and handheld platforms, and publishes games developed internally and by third parties. The Company also distributes games for video game consoles and handheld platforms published internally and by third parties, as well as hardware and accessories manufactured by third parties.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Basis of Presentation

The unaudited condensed consolidated financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not include all information and disclosures necessary for a presentation of the Company's financial position, results of operations and cash flows in conformity with generally accepted accounting principles in the United States of America. In the opinion of management, the financial statements reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the Company's financial position, results of operations and cash flows. The results of operations for any interim periods are not necessarily indicative of the results for the full year. The financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2004.

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 software development costs, licenses and other intangibles, valuation of inventories and realization of deferred income taxes. Actual amounts could differ significantly from these estimates.

Stock Split

In April 2005, the Company effected a three-for-two stock split in the form of a stock dividend. Accordingly, all share and per share data in the accompanying unaudited condensed consolidated financial statements and notes thereto give retroactive effect to the stock split.

Financial Instruments

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate fair value because of their short maturities.

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

The Company transacts business in various foreign currencies and has significant sales and purchase transactions denominated in foreign currencies. The Company uses forward exchange contracts to seek to mitigate foreign currency risk associated with foreign currency assets and liabilities, primarily certain intercompany receivables and payables. The Company does not designate foreign currency forward contracts as hedging instruments under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". As a result, the Company marks to market its foreign currency forward contracts each period and any gains and losses are recognized in net income. At April 30, 2005, the Company had forward contracts to buy British pounds through May 16, 2005. The notional value and fair value of such contracts were $1,163 and $1,171, respectively.

Reclassifications

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

(Dollars in thousands, except per share amounts)

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Recently Issued Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” which revised Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation”. This statement supercedes APB Opinion No. 25, “Accounting for Stock Issued to Employees”. The revised statement addresses the accounting for share-based payment transactions with employees and other third parties, eliminates the ability to account for share-based compensation transactions using APB 25 and requires that the compensation costs relating to such transactions be recognized in the condensed consolidated statement of operations. The revised statement is effective as of the first fiscal year beginning after June 15, 2005. Although the Company is currently analyzing the method of adoption and impact of the adoption of this standard, effective November 1, 2005, it is expected to have an impact on the Company’s condensed consolidated financial statements similar to the pro forma disclosure under Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”) (See Note 3).

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153 (“SFAS 153”), “Exchange of Nonmonetary Assets – an amendment of APB Opinion No. 29”. SFAS 153 amends APB Opinion No. 29, “Accounting for Nonmonetary Transactions”, to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. SFAS 153 is effective for non-monetary exchanges occurring in fiscal periods beginning after June 15, 2005. Management does not believe the adoption of SFAS 153 will have a material impact on the Company’s condensed consolidated financial statements.

3. 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 under SFAS 123.

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 123, the Company’s net income and net income per share would have been adjusted to the pro forma amounts indicated below.

	Three months ended April 30,		Six months ended April 30,	
	2005	2004	**2005**	2004
Net income (loss), as reported	**$ (8,186)**	$ (14,576)	**$ 47,063**	$ 17,182
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	**2,727**	297	**5,661**	806
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	**(7,530)**	(2,414)	**(14,371)**	(6,475)
Pro forma net income (loss)	**$ (12,989)**	$ (16,693)	**$ 38,353**	$ 11,513
Earnings (loss) per share:				
Basic – as reported	**$ (.12)**	$ (0.22)	**$ .68**	$ 0.26
Basic – pro forma	**$ (.19)**	$ (0.25)	**$ .55**	$ 0.17
Diluted – as reported	**$ (.12)**	$ (0.22)	**$ .67**	$ 0.25
Diluted – pro forma	**$ (.19)**	$ (0.25)	**$ .54**	$ 0.17

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

4. BUSINESS ACQUISITIONS AND CONSOLIDATION

The acquisitions described below have been accounted for as purchase transactions. Accordingly, the results of operations and financial position of the acquired businesses are included in the Company’s condensed consolidated financial statements from the respective dates of acquisition. To the extent that the purchase price allocation for these acquisitions is preliminary, the Company does not expect that the final purchase price allocation will be materially different. Pro forma information has not been provided as the impact of these acquisitions was not material.

In January 2005, the Company acquired from SEGA all of the outstanding capital stock of Visual Concepts Entertainment (“Visual Concepts”) and Kush Games (“Kush”), the developers of certain of the Company’s sports titles, and certain intellectual property rights associated with these products. The purchase price consisted of $23,244 in cash, $4,550 of development costs due SEGA, $1,866 of prepaid royalties previously advanced to SEGA and contingent consideration of $2,593 based on the release of certain titles. In connection with the acquisition, the Company recorded $7,980 of identifiable intangible assets, $29,433 of goodwill, $1,196 of non-current assets, $3,164 of net current liabilities and $3,192 of deferred tax liabilities related to identifiable intangible assets, on a preliminary basis.

In October 2004, the Company acquired certain assets from Microsoft, including Indie Built (“Indie”) the developer of Top Spin (tennis), Amped and Amped 2 (snowboarding) and Links (golf) sports games, and the intellectual property rights associated with these products. The purchase price for these assets was $18,500 paid in cash at closing. In connection with the acquisition, the Company recorded $5,828 in identifiable intangible assets, $10,378 of goodwill, $280 of fixed assets, $829 of accounts receivable and $1,185 of net current assets, on a preliminary basis.

In September 2004, the Company acquired all the outstanding capital stock of Venom Games (“Venom”), a UK-based developer of the boxing games Rocky and Rocky Legends. The purchase price was $1,181 paid in cash at closing. In connection with the acquisition, the Company recorded identifiable intangibles of $750, goodwill of $626 and net current liabilities of $195, on a preliminary basis.

In March 2004, the Company acquired all the outstanding capital stock of Mobius Entertainment (“Mobius”) a UK-based developer of titles for handheld platforms, including Sony’s PSP platform. The purchase price was approximately $4,515, of which $3,593 was paid in cash at closing and approximately $922 was paid in March 2005. In connection with the acquisition, the Company recorded identifiable intangibles of $96, goodwill of $4,681 and net liabilities of $262. The Company also agreed to make additional contingent payments of approximately $2,100 based on delivery of products, which will be recorded as additional purchase price when the conditions requiring their payment are met.

In December 2003, the Company acquired all of the outstanding capital stock and assumed certain liabilities of TDK Mediactive, Inc. (“TDK”). The purchase price consisted of $16,032 in cash (which is net of $8,051 previously due to TDK under a distribution agreement) and issuance of 163,641 shares of the Company’s restricted stock valued at $5,160. In connection with the acquisition, the Company recorded identifiable intangibles of $7,690, goodwill of $17,079 and net liabilities of $3,577.

Pursuant to FASB Interpretation No. 46 (R) “Consolidation of Variable Interest Entities”, the results of operations of Destineer Publishing Corp. (“Destineer”), a publisher of PC games, were consolidated in the Company’s financial statements effective November 1, 2003 through January 31, 2005. Effective February 1, 2005, the Company is no longer considered the primary beneficiary of Destineer nor does the Company hold a significant variable interest in Destineer. Accordingly, pursuant to the requirements of FIN 46 (R), the results of Destineer’s operations are not included in the Company’s condensed consolidated financial statements subsequent to February 1, 2005. The consolidation of Destineer did not have a material impact on the Company’s consolidated financial statements.

5. INCOME TAXES

The provisions (benefit) for income taxes for the three and six months ended April 30, 2005 and 2004 are based on the Company’s estimated annualized effective tax rates for the respective years. The estimated annualized effective tax rate for fiscal 2005 is 24.6% as compared to an estimated annualized effective tax rate of 36.0% for the comparable period in fiscal 2004. The lower effective tax rate for the 2005 period is primarily due to a change in the mix of earnings with a greater proportion of income being generated in lower tax jurisdictions.

New tax legislation currently in place is intended to replace the extraterritorial income ("ETI") exclusion. The Company currently derives benefits from the ETI exclusion, which will be limited to 80% and 60% of the otherwise allowable exclusion in calendar years 2005 and 2006, respectively. There will be no ETI deduction available after calendar year 2006. The new legislation permits the Company to take a deduction from taxable income based on certain qualified income from domestic production activities and will be available to the Company in 2006.

This legislation also provides for a one-time 85% dividends received deduction on certain foreign earnings, which would be applicable to the Company if adopted in fiscal 2005. Historically, the Company has considered undistributed earnings of its foreign subsidiaries to be indefinitely reinvested and, accordingly, no incremental taxes have been provided thereon. The Company is in the process of evaluating the impact of the dividends received deduction and has not yet determined whether to make use of this provision.

6. 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, 2005 and 2004:

	Net Income (loss)	Shares (in thousands)	Per Share Amount
Three Months Ended April 30, 2005:			
Basic and Diluted	**$ (8,186)**	**70,112**	**$ (0.12)**
Three Months Ended April 30, 2004:			
Basic and Diluted	$ (14,576)	66,891	$ (0.22)
Six Months Ended April 30, 2005:			
Basic	**$ 47,063**	**69,365**	**$ 0.68**
Effect of dilutive securities – Stock options, restricted stock and warrants	**—**	**1,313**	
Diluted	**$ 47,063**	**70,678**	**$ 0.67**
Six Months Ended April 30, 2004:			
Basic	$ 17,182	66,734	$ 0.26
Effect of dilutive securities – Stock options, restricted stock and warrants	—	1,494	
Diluted	$ 17,182	68,228	$ 0.25

The computation of diluted number of shares excludes unexercised stock options and warrants which are antidilutive. A net loss was reported for the three months ended April 30, 2005 and April 30, 2004, therefore, the diluted number of shares excludes 7,823,853 and 7,235,970 of unexercised options, warrants and unvested restricted shares, respectively, which are antidilutive due to the net loss. The computation of diluted number of shares excludes 948,250 and 738,750 unexercised stock options and warrants for the six months ended April 30, 2005 and April 30, 2004, respectively, which are antidilutive.

7. INVENTORIES, NET

As of April 30, 2005 and October 31, 2004, inventories consist of:

	April 30, 2005	October 31, 2004
Parts and supplies	**$ 5,747**	$ 7,146
Finished products	**110,821**	147,199
Total	**$ 116,568**	$ 154,345

(Dollars in thousands, except per share amounts)

Estimated product returns included in the inventory balance were $7,278 and $7,371 at April 30, 2005 and October 31, 2004, respectively. Allowances to reduce inventory amounts to net realizable value were $5,306 and $7,520 at April 30, 2005 and October 31, 2004, respectively.

8. SOFTWARE DEVELOPMENT COSTS

The Company utilizes both internal development teams and third-party software developers to develop the Company's products and the titles it publishes.

The Company capitalizes internal software development costs, as well as film production and other content costs subsequent to establishing technological feasibility of a title. 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 the total of current and estimated future sales for the title or the straight-line method over the remaining estimated useful life of the title. The amount of internally developed software included in software development costs was $42,990 and $27,785 at April 30, 2005 and October 31, 2004, respectively.

The Company's agreements with third-party developers generally provide it with exclusive publishing and distribution rights and require it to make advance payments that are recouped against royalties due to the developer based on the contractual amounts of product sales, adjusted for certain costs. Advance payments are amortized as royalties in cost of sales on a title-by-title basis based on the greater of the proportion of current year sales to the total of current and estimated future sales for that title or the contractual royalty rate based on actual net product sales as defined in the respective agreements. The amount of software development costs resulting from advance payments and guarantees to third-party developers was $55,235 and $36,537 at April 30, 2005 and October 31, 2004, respectively. These amounts were previously classified as prepaid royalties in the Company's financial statements.

The following table provides the details of software development costs:

	Fiscal 2005	Fiscal 2004
Balance, November 1	**$ 64,322**	$ 36,746
Additions	**39,510**	11,802
Amortization	**(13,358)**	(10,087)
Write down	**(2,964)**	(1,300)
Foreign exchange	**498**	435
Balance, January 31	**88,008**	37,596
Additions	**23,066**	16,891
Amortization	**(12,779)**	(4,702)
Write down	**(33)**	(878)
Foreign exchange	**(37)**	(584)
Balance, April 30	**98,225**	48,323
Less: current portion	**50,802**	20,864
Non-current portion	**$ 47,423**	$ 27,459

Included in software development costs at April 30, 2005 and October 31, 2004 are $86,602 and $49,304 related to titles that have not been released yet.

9. LICENSES

Licenses consist of payments and guarantees made to licensors of intellectual property rights. The Company's agreements with certain licensors provide for minimum guaranteed payments which may be recouped against amounts due to the licensor based on product sales.

Licenses are amortized as royalties in cost of sales on a title-by-title basis based on the greater of the proportion of current year sales to the total of current and estimated future sales for that title or the contractual royalty rate based on actual net product sales as defined in the respective agreements. These amounts were previously classified as prepaid royalties in the Company's financial statements.

(Dollars in thousands, except per share amounts)

The following table provides the details of licenses:

	Fiscal 2005	Fiscal 2004
Balance, November 1	$ **5,665**	$ 225
Additions	**4,480**	2,222
Amortization	**(1,256)**	(30)
Write down	**(400)**	—
Balance, January 31	**8,489**	2,417
Additions	**1,076**	243
Amortization	**(934)**	(193)
Write down	—	—
Balance, April 30	**8,631**	2,467
Less: current portion	**5,981**	2,467
Non-current portion	$ **2,650**	$ —

Included in licenses at April 30, 2005 and October 31, 2004 are $7,892 and $5,593 related to titles that have not been released yet.

10. FIXED ASSETS, NET

As of April 30, 2005 and October 31, 2004, fixed assets consist of:

	April 30, 2005	October 31, 2004
Computer equipment	$ **19,328**	$ 16,973
Office equipment	**7,866**	6,405
Computer software	**21,583**	15,480
Furniture and fixtures	**5,331**	4,413
Leasehold improvements	**15,369**	10,906
Capital leases	**398**	398
Construction in progress	**4,895**	3,922
	74,770	58,497
Less: accumulated depreciation and amortization	**31,695**	24,206
Total	$ **43,075**	$ 34,291

Depreciation expense for the six months ended April 30, 2005 and 2004 is $7,325 and $5,529, respectively.

(Dollars in thousands, except per share amounts)

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11. INTANGIBLES, NET

Intangible assets consist of trademarks, customer lists and relationships, intellectual property, non-competition agreements 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.

		April 30, 2005			October 31, 2004		
	Range of Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trademarks	7-10 years	**$ 29,215**	**$ (12,200)**	**$ 17,015**	$ 26,825	$ (10,438)	$ 16,387
Customer lists and relationships	5-10 years	**4,673**	**(3,145)**	**1,528**	4,673	(3,007)	1,666
Intellectual Property	2-6 years	**67,336**	**(32,592)**	**34,744**	39,783	(27,151)	12,632
Non-competition Agreements	3-6 years	**8,218**	**(3,677)**	**4,541**	7,888	(3,002)	4,886
Technology	3 years	**6,202**	**(4,096)**	**2,106**	4,192	(3,659)	533
Total		**$ 115,644**	**$ (55,710)**	**$ 59,934**	$ 83,361	$ (47,257)	$ 36,104

Amortization expense for the three and six months ended April 30, 2005 and 2004 is as follows:

	Three months ended April 30,		Six months ended April 30,	
	2005	2004	2005	2004
Included in:				
Cost of sales – product costs	**$ 3,238**	$ 1,769	**$ 5,909**	$ 12,487
Depreciation and amortization	**1,226**	1,062	**2,563**	2,126
Total amortization expense	**$ 4,464**	$ 2,831	**$ 8,472**	$ 14,613

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

Remainder of 2005	$ 7,618
2006	16,945
2007	11,637
2008	8,608
2009	6,634
Thereafter	8,492
Total	$ 59,934

For the six months ended April 30, 2005, the increase in intellectual property and trademarks resulted primarily from the purchase of a business (See Note 4) and acquisition of the intellectual property of *Civilization.*

12. 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. Interest accrues on borrowings 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. 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. 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, 2005, 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. Available borrowings under the agreement are reduced by the amount of an outstanding stand-by letter of credit, which is $1,560 at April 30, 2005. The Company had no outstanding borrowings under the revolving line of credit as of April 30, 2005.

(Dollars in thousands, except per share amounts)

In May 2005, the Company's United Kingdom subsidiary renewed its credit facility agreement with Lloyds TSB Bank plc ("Lloyds") under which Lloyds agreed to make available borrowings of up to approximately $36,000. Advances under the credit facility bear interest at the rate of 1.25% per annum over the bank's base rate, and are guaranteed by the Company. Available borrowings under the agreement are reduced by the amount of outstanding guarantees. The facility expires on March 31, 2006. The Company had no outstanding guarantees and no borrowings under this facility as of April 30, 2005.

13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of April 30, 2005 and October 31, 2004 consist of:

	April 30, 2005	October 31, 2004
Royalties payable	**$ 20,357**	$ 56,012
Accrued compensation and benefits	**14,361**	16,865
Accrued licenses and guarantees payable	**12,321**	14,732
Provision for settlement (See Note 14)	**7,500**	7,500
Deferred revenue	**4,843**	3,448
Accrued co-op advertising and product rebates	**3,467**	3,487
Sales commissions	**1,233**	2,238
Other	**20,900**	21,285
Total	**$ 84,982**	$ 125,567

14. LEGAL AND OTHER PROCEEDINGS

In June 2005, the SEC accepted the Company's settlement offer, thereby concluding the SEC's investigation of the Company. Without admitting or denying any wrongdoing, the Company has agreed to consent to the entry of an order enjoining it from future violations of specified provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934 ('34 Act), including section 10(b) of the '34 Act and Rule 10b-5 thereunder. In addition, the Company has agreed to pay a $7.5 million civil penalty, which the Company previously accrued as of October 31, 2004 in the accompanying financial statements, and which has been deposited into an escrow account. The SEC investigation was related to certain accounting matters relating to the Company's financial statements, periodic reporting and internal accounting control provisions of the federal securities laws. These matters were the subject of the Company's previously reported restatements of its financial statements in February 2002 and February 2004. Certain of the Company's employees and former employees also reached settlements with the SEC.

In February 2005, the personal representatives of the Estates of Arnold Strickland and Ace Mealer brought an action in the Circuit Court of Fayette County, Alabama against the Company, Sony, Wal-Mart, GameStop and Devin Moore alleging under Alabama manufacturers liability and wrongful death statutes that the Company's video games designed, manufactured, marketed and/or supplied to Mr. Moore resulted in "copycat violence" that caused the death of Messrs. Strickland and Mealer. The suit seeks damages (including punitive damages) against all of the defendants in excess of $600,000. In March 2005, the Company removed the case to Federal District Court and filed an answer denying the allegations in the complaint. The Company believes that the claims are without merit and that this action is similar to lawsuits brought and uniformly dismissed by courts in other jurisdictions. The Company intends to vigorously defend and seek a dismissal of this action.

The Company is involved in routine litigation in the ordinary course of its 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.

15. COMMITMENTS AND CONTINGENCIES

Lease Commitments: The Company's offices and warehouse facilities are occupied under non-cancelable operating leases expiring at various times from May 2005 to October 2014. The Company also leases certain furniture, equipment and automobiles under non-cancelable leases expiring through December 2008. Future minimum rental payments for fiscal 2005 are $8,275 and aggregate minimum rental payments through applicable lease expirations are $93,345.

(Dollars in thousands, except per share amounts)

Distribution Agreements: The Company's Jack of All Games subsidiary periodically enters into distribution agreements to purchase various software games. These agreements, which expire between June 2005 and June 2006, require remaining aggregate minimum guaranteed payments of $4,110 at April 30, 2005.

Software Development Agreements: The Company's payments made to third-party software developers include contractual advances and royalties under agreements which expire at various times through October 2007. Assuming performance by third-party developers, the Company has aggregate outstanding commitments of $68,417 under various software development agreements at April 30, 2005. The Company has also established an internal royalty program pursuant to which it pays royalties to its development personnel based on product sales.

Licensing Agreements: The Company's license expense consists primarily of payments made to licensors for intellectual property rights under agreements which expire at various times through September 2010. As of April 30, 2005, the Company has minimum guaranteed licensing and marketing commitments of $180,929 outstanding, of which $6,035 is recorded in the Company's condensed consolidated balance sheet as the licensor does not have any significant performance obligation to the Company. Minimum guaranteed licensing and marketing commitments primarily reflect the Company's agreements with Major League Baseball and the National Basketball Association.

Contingent Consideration: In connection with the acquisition of Mobius in March 2004, the Company agreed to make additional contingent payments of approximately $2,100 based on the delivery of products. In fiscal 2003, the Company 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.

In March 2005, the Company renegotiated a $6,000 contingent obligation due upon delivery of the final PC version of *Duke Nukem Forever* through the payment of $4,250 and issuance of a promissory note in the principal amount of $500. The payment of the promissory note is contingent upon the commercial release of such product prior to December 31, 2006.

16. SEGMENT REPORTING

The Company is a publisher and distributor of interactive software games. The Company's operations involve similar products and customers worldwide. The products are developed and sold domestically and internationally. The Company is centrally managed and the chief operating decision makers, the chief executive and chief operating officers, use consolidated financial information supplemented by sales information by product category, major product title and platform for making operational decisions and assessing financial performance. Accordingly, the Company operates in a single segment.

Information about the Company's total non-current assets in the United States, Canada and international areas as of April 30, 2005 and October 31, 2004 is presented below:

	April 30, 2005	October 31, 2004
Non-current assets:		
United States	**$ 239,589**	$ 163,709
Canada	**25,986**	23,427
International:		
United Kingdom	**33,267**	31,263
All other Europe	**18,939**	16,809
Other	**9,998**	10,364
Total	**$ 327,779**	$ 245,572

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

Information about the Company's net sales in the United States, Canada and international areas for the three and six months ended April 30, 2005 and 2004 is presented below (net sales are attributed to geographic areas based on product destination):

	Three months ended April 30,		Six months ended April 30,	
	2005	2004	**2005**	2004
Net Sales:				
United States	**$ 136,937**	$ 81,837	**$ 433,104**	$ 345,702
Canada	**17,919**	21,189	**52,095**	57,271
International:				
United Kingdom	**18,397**	16,904	**83,373**	45,585
All other Europe	**41,110**	27,482	**135,460**	65,713
Asia Pacific	**6,752**	5,638	**18,289**	13,662
Other	**953**	318	**2,221**	947
Total	**$ 222,068**	$ 153,368	**$ 724,542**	$ 528,880
North America	**69.7%**	67.2%	**67.0%**	76.2%
International	**30.3%**	32.8%	**33.0%**	23.8%

Information about the Company's net sales by product category for the three and six months ended April 30, 2005 and 2004 is presented below:

	Three months ended April 30,		Six months ended April 30,	
	2005	2004	**2005**	2004
Product Category:				
Publishing	**$ 146,923**	$ 88,533	**$ 502,307**	$ 320,241
Distribution	**75,145**	64,835	**222,235**	208,639
Total	**$ 222,068**	$ 153,368	**$ 724,542**	$ 528,880

Publishing revenue is derived from the sale of internally developed interactive software titles and from the sale of titles developed by and/or licensed from third parties. Distribution revenue is derived from the sale of third-party interactive software titles, hardware and accessories.

Information about the Company's net sales by product platforms for the three and six months ended April 30, 2005 and 2004 is presented below:

	Three months ended April 30,		Six months ended April 30,	
	2005	2004	**2005**	2004
Platforms:				
Sony PlayStation 2	**$ 100,660**	$ 51,037	**$ 453,272**	$ 243,569
Sony PlayStation	**829**	5,952	**4,027**	17,836
Microsoft Xbox	**46,389**	38,728	**88,762**	141,488
Sony PSP	**3,334**	—	**3,334**	—
PC	**31,111**	21,873	**53,751**	28,014
Nintendo Game Boy Color, Game Boy Advance, DS and N64	**15,369**	14,661	**41,914**	35,042
Nintendo GameCube	**5,118**	7,796	**18,635**	25,097
Hardware	**10,283**	7,407	**34,803**	23,967
Accessories and other	**8,975**	5,914	**26,044**	13,867
Total	**$ 222,068**	$ 153,368	**$ 724,542**	$ 528,880

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 software, hardware and accessories to retail outlets in North America through our Jack of All Games subsidiary, and we have sales, marketing and publishing operations in Australia, Austria, Canada, France, Germany, Netherlands, Italy, New Zealand, Spain and the United Kingdom.

Our principal sources of revenue are derived from publishing and distribution operations. Publishing revenues are derived from the sale of internally developed software titles and software titles developed by 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 frontline products internally, and we own major intellectual properties, which we believe permits us to maximize profitability. Operating margins for titles developed by third parties, or for which we do not own the intellectual property, are affected by costs to acquire licenses and amounts due to developers.

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 and handheld platforms.

Through our Rockstar Games subsidiary, we have pursued a growth strategy by capitalizing on the widespread market acceptance of video game consoles, as well as the growing popularity of innovative action games that appeal to mature audiences. We have established a portfolio of successful proprietary software content 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. We currently anticipate that the release of *Grand Theft Auto: San Andreas* for the Xbox and PC, *Midnight Club 3: DUB Edition* for the PSP, *Grand Theft Auto: Liberty City Stories* for the PSP, *The Warriors* for the PlayStation 2 and Xbox and *Bully* for the PlayStation 2 and Xbox will generate significant cash flow in fiscal 2005.

The Company is seeking to diversify its product offerings through its 2K Games subsidiary by capitalizing on significant growth opportunities in the market for sports and other licensed action and strategy titles. 2K Games recently made strategic acquisitions of leading sports development studios and has entered into license agreements with major sports leagues to develop sports titles. 2K Games also entered into license agreements for several popular entertainment properties, acquired well-known intellectual property rights, and entered into distribution and publishing arrangements for major action and strategy PC titles. We currently anticipate the release of *Charlie and the Chocolate Factory*, *Conflict: Global Terror* and *World Poker Tour* on multiple platforms, *Call of Cthulhu: Dark Corners of the Earth™* for the PlayStation 2 and Xbox, *NBA 2K6* for the PlayStation 2 and Xbox, and *Top Spin* for the PlayStation 2, among other titles, in fiscal 2005.

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 recoverability of software development costs and other intangibles, valuation of inventories, realization of deferred income taxes and the adequacy of allowances for returns, price concessions and doubtful accounts. Actual amounts could differ significantly from these estimates.

Stock Split

In April 2005, we effected a three-for-two stock split in the form of a stock dividend. Accordingly, all share and per-share data in the accompanying unaudited condensed consolidated financial statements and notes thereto give retroactive effect to the stock split.

Revenue Recognition

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

Revenue is recognized after deducting estimated reserves for returns and price concessions and other allowances. 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, price concessions and allowances and determine that collection of the receivables is probable.

Allowances for Returns and Price Concessions

We accept returns and grant price concessions in connection with our publishing arrangements. Following reductions in the price of our products, we generally grant price concessions to permit customers to take credits against amounts they owe us 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 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, market conditions 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.

Software Development Costs

We utilize both internal development teams and third-party software developers to develop our products.

We capitalize internal software development costs, as well as film production and other content costs subsequent to establishing technological feasibility of a title. 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 the total of current and estimated future sales for the title or the straight-line method over the remaining estimated useful life of the title. At each balance sheet date, we evaluate the recoverability of capitalized software costs based on undiscounted future cash flows and charge to cost of sales any amounts that are deemed unrecoverable.

Our agreements with third-party developers generally provide us with exclusive publishing and distribution rights and require us to make advance payments that are recouped against royalties due to the developer based on the contractual amounts of product sales, adjusted for certain costs. Advance payments are amortized as royalties in cost of sales on a title-by-title basis based on the greater of the proportion of current year sales to the total of current and estimated future sales for that title or the contractual royalty rate based on actual net product sales as defined in the respective agreements. At each balance sheet date, we evaluate the recoverability of advanced development payments and unrecognized minimum commitments not yet paid to determine the amounts unlikely to be realized through product sales. Advance payments are charged to cost of sales in the amount that management determines is unrecoverable in the period in which such determination is made or if management determines that it will cancel a development project.

Licenses

Licenses consist of payments and guarantees made to licensors of intellectual property rights. Our agreements with certain licensors provide for minimum guaranteed payments for intellectual property licenses and other licensing rights which may be recouped against amounts due to the licensor or developer based on product sales. Minimum guaranteed payments are initially recorded as an asset (licenses) and as a liability (accrued licenses) at the contractual amount upon execution of the contract when no significant performance remains with the licensor. When significant performance remains with the licensor, we record payments when actually paid.

Licenses are amortized as royalties in cost of sales on a title-by-title basis based on the greater of the proportion of current year sales to the total of current and estimated future sales for that title or the contractual royalty rate based on actual net product sales as defined in the respective agreements. At each balance sheet date, we evaluate licenses as well as any unrecognized minimum commitments not yet paid to determine the amounts unlikely to be realized through product sales. License-based assets are charged to cost of sales in the amount that management determines is not probable of being recouped at the contractual royalty rate based on current and future sales in the period in which such determination is made.

Income Taxes

Income tax assets and liabilities are determined by taxable jurisdiction. We do not provide taxes on undistributed earnings of our international subsidiaries. The total amount of undistributed earnings of foreign subsidiaries was approximately $110,400 as of April 30, 2005. It is currently our intention to reinvest undistributed earnings of our foreign subsidiaries and thereby indefinitely postpone their remittance. Accordingly, no provision has been made for foreign withholding taxes or United States income taxes which may become payable if undistributed earnings of foreign subsidiaries are paid as dividends to us. The realization of deferred tax assets depends on whether we generate future taxable income of the appropriate type. In addition, we may adopt tax planning strategies to realize these assets. If future taxable income does not materialize or tax planning strategies are not effective, we may be required to record a valuation allowance.

New tax legislation currently in place is intended to replace the extraterritorial income ("ETI") exclusion. We currently derive benefits from the ETI exclusion, which will be limited to 80% and 60% of the otherwise allowable exclusion in calendar years 2005 and 2006, respectively. There will be no ETI deduction available after calendar year 2006. The new legislation permits a deduction from taxable income based on certain qualified income from domestic production activities and will be available to us in 2006.

This legislation also provides for a one-time 85% dividends received deduction on certain foreign earnings, which would be applicable to us if adopted in fiscal 2005. Historically, we have considered undistributed earnings of our foreign subsidiaries to be indefinitely reinvested and, accordingly, no incremental taxes have been provided thereon. We are in the process of evaluating the impact of the dividends received deduction and have not yet determined whether to make use of this provision.

Recently Issued Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" which revised Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation". This statement supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." The revised statement addresses the accounting for share-based payment transactions with employees and other third parties, eliminates the ability to account for share-based compensation transactions using APB 25 and requires that the compensation costs relating to such transactions be recognized in the condensed consolidated statement of operations. The revised statement is effective as of the first fiscal year beginning after June 15, 2005. Management is currently analyzing the method of adoption and impact of the adoption of this standard, effective November 1, 2005. However, it is expected to have an impact on our condensed consolidated financial statements similar to the pro forma disclosure under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153 ("SFAS 153"), "Exchange of Nonmonetary Assets – an amendment of APB Opinion No. 29". SFAS 153 amends APB Opinion No. 29, "Accounting for Nonmonetary Transactions", to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. SFAS 153 is effective for non-monetary exchanges occurring in fiscal periods beginning after June 15, 2005. Management does not believe the adoption of SFAS 153 will have a material impact on our financial statements.

(Dollars in thousands, except per share amounts)

Results of Operations

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

	Three months ended April 30,		Six months ended April 30,	
Operating data:	**2005**	**2004**	**2005**	**2004**
Net sales	**100.0%**	100.0%	**100.0%**	100.0%
Cost of sales				
Product costs	**55.6**	68.2	**49.8**	62.2
Royalties	**9.9**	8.5	**14.1**	6.2
Software development costs	**2.2**	1.0	**1.2**	1.1
Total cost of sales	**67.6**	77.7	**65.2**	69.5
Selling and marketing	**16.3**	14.5	**12.0**	11.0
General and administrative	**12.9**	15.7	**7.9**	9.1
Research and development	**6.2**	5.4	**5.1**	4.1
Depreciation and amortization	**2.3**	2.5	**1.4**	1.4
Interest income, net	**0.5**	0.4	**0.2**	0.2
Provision (benefit) for income taxes	**(1.2)**	(5.9)	**2.1**	1.8
Net income (loss)	**(3.7)**	(9.5)	**6.5**	3.2
Net Sales by Territory:				
North America	**69.7%**	67.2%	**67.0%**	76.2%
International	**30.3**	32.8	**33.0**	23.8
Net Sales Mix:				
Publishing	**66.2%**	57.7%	**69.3%**	60.6%
Distribution	**33.8**	42.3	**30.7**	39.4
Platform Mix (publishing):				
Console	**85.0%**	89.8%	**92.6%**	93.0%
PC	**11.4**	1.0	**4.6**	1.6
Handheld	**1.5**	5.0	**1.2**	2.9
Accessories	**2.1**	4.2	**1.6**	2.5

(Dollars in thousands, except per share amounts)

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Our best-selling titles for the three and six months ended April 30, 2005 and 2004 as a percentage of sales are as follows:

Top Ten Titles – Three months ended April 30, 2005	***Platform***	***Release Date***	***% of Sales***
Midnight Club 3: DUB Edition	PS2	April 2005	19.4%
Midnight Club 3: DUB Edition	Xbox	April 2005	9.6
Grand Theft Auto: San Andreas	PS2	October 2004	9.0
Stronghold 2	PC	April 2005	4.4
Major League Baseball 2K5	PS2	February 2005	3.3
Major League Baseball 2K5	Xbox	February 2005	2.6
Close Combat: First to Fight	Xbox	April 2005	2.3
Grand Theft Auto: Vice City	PS2	October 2002	1.6
Grand Theft Auto Double Pack	Xbox	November 2003	1.0
Grand Theft Auto 3	PS2	October 2001	1.0

Top Ten Titles – Three months ended April 30, 2004	***Platform***	***Release Date***	***% of Sales***
Mafia	PS2	January 2004	8.7%
Mafia	Xbox	March 2004	7.1
Grand Theft Auto Double Pack	Xbox	November 2003	6.1
Manhunt	Xbox	April 2004	5.0
Grand Theft Auto: Vice City	PS2	October 2002	3.6
Grand Theft Auto Double Pack	PS2	October 2003	3.0
Grand Theft Auto 3	PS2	October 2001	2.1
Destruction Derby Arenas	PS2	March 2004	1.9
Manhunt	PC	November 2003	1.4
Serious Sam: Next Encounter	PS2	April 2004	1.3

Top Ten Titles – Six months ended April 30, 2005	***Platform***	***Release Date***	***% of Sales***
Grand Theft Auto: San Andreas	PS2	October 2004	42.3%
Midnight Club 3: DUB Edition	PS2	April 2005	5.9
Midnight Club 3: DUB Edition	Xbox	April 2005	2.9
Grand Theft Auto: Vice City	PS2	October 2002	1.4
Stronghold 2	PC	April 2005	1.3
ESPN NBA 2K5	PS2	September 2004	1.2
Major League Baseball 2K5	PS2	February 2005	1.0
ESPN NFL 2K5	PS2	July 2004	0.9
Major League Baseball 2K5	Xbox	February 2005	0.8
Grand Theft Auto Double Pack	Xbox	November 2003	0.8

Top Ten Titles – Six months ended April 30, 2004	***Platform***	***Release Date***	***% of Sales***
Grand Theft Auto Double Pack	Xbox	November 2003	11.1%
Max Payne 2: The Fall of Max Payne	PS2	December 2003	7.5
Manhunt	PS2	November 2003	6.5
Max Payne 2: The Fall of Max Payne	Xbox	November 2003	4.5
Mafia	PS2	January 2004	4.4
Grand Theft Auto: Vice City	PS2	October 2002	3.7
Grand Theft Auto Double Pack	PS2	October 2003	3.1
Mafia	Xbox	March 2004	2.1
Grand Theft Auto 3	PS2	October 2001	1.6
Manhunt	Xbox	April 2004	1.4

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Business Acquisitions

During fiscal 2004 and the six months ended April 30, 2005, we consummated the acquisitions described below. To the extent that the purchase price allocation for these acquisitions is preliminary, we do not expect that the final purchase price allocation will be materially different. The acquisitions have been accounted for as purchase transactions and, accordingly, the results of operations and financial position of the acquired businesses are included in our condensed consolidated financial statements from the respective dates of acquisition. Pro forma information has not been provided as the impact of these acquisitions was not material.

Visual Concepts Entertainment and Kush Games. In January 2005, we acquired from SEGA all of the outstanding capital stock of Visual Concepts and Kush, the developers of certain of our sports titles, and certain intellectual property rights associated with these products. The purchase price consisted of $23,244 in cash, $4,550 of development costs due SEGA, approximately $1,866 of prepaid royalties previously advanced to SEGA and contingent consideration of $2,593 based on the release of certain titles. In connection with the acquisition, we recorded $7,980 of identifiable intangible assets, $29,433 of goodwill, $1,196 of non-current assets, $3,164 of net current liabilities and $3,192 of deferred tax liabilities related to identifiable intangible assets, on a preliminary basis.

Indie. In October 2004, we acquired certain assets from Microsoft, including Indie, the developer of the successful Top Spin (tennis), Amped and Amped 2 (snowboarding) and Links (golf) sports games, and the intellectual property rights associated with these products. The purchase price for these assets was $18,500 paid in cash at closing. In connection with the acquisition, we recorded $5,828 in identifiable intangible assets, $10,378 of goodwill, $280 of fixed assets, $829 of accounts receivable and $1,185 of net current assets, on a preliminary basis.

Venom. In September 2004, we acquired all the outstanding capital stock of Venom, a UK-based developer of the boxing games Rocky and Rocky Legends. The purchase price was $1,181 paid in cash at closing. In connection with the acquisition, we recorded identifiable intangibles of $750, goodwill of $626 and net current liabilities of $195, on a preliminary basis.

Mobius (Rockstar Leeds). In March 2004, we acquired all the outstanding capital stock of Mobius, a UK-based developer of titles for handheld platforms, including Sony's PSP platform. The purchase price was approximately $4,515, of which $3,593 was paid in cash at closing and approximately $922 was paid in March 2005. In connection with the acquisition, we recorded identifiable intangibles of $96, goodwill of $4,681 and net liabilities of $262. We also agreed to make additional contingent payments of approximately $2,100 based on delivery of products, which will be recorded as additional purchase price when the conditions requiring their payment are met.

TDK. In December 2003, we acquired all of the outstanding capital stock and assumed certain liabilities of TDK. The purchase price consisted of $16,032 in cash (which is net of $8,051 previously due to TDK under a distribution agreement) and the issuance of 163,641 shares of restricted stock valued at $5,160. In connection with the acquisition, we recorded identifiable intangibles of $7,690, goodwill of $17,079 and net liabilities of $3,577.

Pursuant to FASB Interpretation No. 46 (R) "Consolidation of Variable Interest Entities", the results of operations of Destineer Publishing Corp. ("Destineer"), a publisher of PC games, were consolidated in the Company's financial statements effective November 1, 2003 through January 31, 2005. Effective February 1, 2005, the Company is no longer considered the primary beneficiary of Destineer nor does the Company hold a significant variable interest in Destineer. Accordingly, pursuant to the requirements of FIN 46 (R), the results of Destineer's operations are not included in the Company's condensed consolidated financial statements subsequent to February 1, 2005. The consolidation of Destineer did not have a material impact on the Company's consolidated financial statements.

Three Months ended April 30, 2005 and 2004

Net Sales

	Three months ended April 30,					
	2005	**%**	**2004**	**%**	**$ Increase**	**% Incr**
Publishing	**$ 146,923**	**66.2**	$ 88,533	57.7	$ 58,390	66.0
Distribution	**75,145**	**33.8**	64,835	42.3	10,310	15.9
Total net sales	**$ 222,068**	**100.0**	$ 153,368	100.0	$ 68,700	44.8

Net Sales. The increase in net sales was primarily attributable to growth in our publishing business.

(Dollars in thousands, except per share amounts)

The increase in publishing revenues for the three months ended April 30, 2005 was primarily attributable to sales of *Midnight Club 3: DUB Edition* for the PlayStation 2 and Xbox, which was released in April 2005, the continued sales of *Grand Theft Auto: San Andreas* for the PlayStation 2 and sales of our sports titles for the PlayStation 2 and Xbox, including *Major League Baseball 2K5*, which was released in February 2005. Publishing revenues for the three months ended April 30, 2005 and 2004 include licensing revenues of $7,078 and $3,337, respectively.

Products designed for video game console platforms accounted for 85.0% of publishing revenues as compared to 89.8% for the comparable period last year. Products designed for PC platforms accounted for 11.4% of publishing revenues as compared to 1.0% for the prior comparable period. The increase in sales of products for PC platforms was primarily attributable to sales of *Stronghold 2* for PC, which was released in April 2005. We anticipate that our platform mix will remain heavily weighted towards console platforms, 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 hardware sales offset by lower sales of software titles. We currently anticipate that distribution revenues will grow at a rate consistent with industry trends.

International operations accounted for approximately $67,212, or 30.3% of net sales for the three months ended April 30, 2005 compared to $50,342 or 32.8% of net sales for the three months ended April 30, 2004. The absolute dollar increase was primarily attributable to sales of *Midnight Club 3: DUB Edition* for the PlayStation 2 and Xbox, which was released in April 2005 and the continued strong sales of *Grand Theft Auto: San Andreas* for the PlayStation 2. Net sales included approximately $4,884 of benefit from foreign exchange rates in the three months ended April 30, 2005. We expect international sales to continue to account for a significant portion of our revenues.

Cost of Sales

	Three months ended April 30,					
	2005	% of Sales	2004	% of Sales	$ Increase	% Incr
Product costs	**$ 123,504**	**55.6**	$ 104,573	68.2	$ 18,931	18.1
Royalties	**21,938**	**9.9**	13,016	8.5	8,922	68.5
Software development costs	**4,780**	**2.1**	1,573	1.0	3,207	203.9
Total cost of sales	**$ 150,222**	**67.6**	$ 119,162	77.7	$ 31,060	26.1

Product costs. The increase in product costs in absolute dollars was consistent with the increase in publishing and distribution revenues. The decrease in product costs as a percentage of net sales was due to the higher proportion of publishing revenues, primarily attributable to sales of *Midnight Club 3: DUB Edition* and *Grand Theft Auto: San Andreas*, which have lower product costs than distribution revenues. The decrease in product costs as a percentage of net sales was slightly offset by a shift in the product mix within our distribution business toward hardware products which have higher costs than software titles.

Royalties. The increase in royalties was primarily attributable to expense associated with sales of *Midnight Club 3: DUB Edition* and our sports titles, including *Major League Baseball 2K5*. Royalties also increased as a result of expense associated with sales of *Grand Theft Auto: San Andreas* under our internal royalty program, which provides for increasing royalty levels as incentives for achieving sales thresholds.

Software development costs. The increase in software development costs was due to the increased sales of our internally developed titles, resulting in higher amortization of capitalized costs.

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

(Dollars in thousands, except per share amounts)

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Operating Expenses

	Three months ended April 30,					
	2005	% of Sales	2004	% of Sales	$ Increase	% Incr
Selling and marketing	**$ 36,275**	**16.3**	$ 22,271	14.5	$ 14,004	62.9
General and administrative	**28,705**	**12.9**	24,050	15.7	4,655	19.4
Research and development	**13,785**	**6.2**	8,228	5.4	5,557	67.5
Depreciation and amortization	**5,102**	**2.3**	3,910	2.5	1,192	30.5
Total operating expenses	**$ 83,867**	**37.7**	$ 58,459	38.1	$ 25,408	43.5

Selling and marketing. The increase in selling and marketing expense was due to increased levels of advertising and promotional support for new products, specifically *Major League Baseball 2K5* and *Midnight Club 3: DUB Edition*, and catalog titles. The increase was also due to higher personnel expense, which is consistent with the growth of our business.

General and administrative. The increase in general and administrative expense in absolute dollars was primarily due to increased compensation for additional executive personnel to support the growth of our business and increased professional fees primarily attributable to Sarbanes-Oxley compliance. The increase was also due to higher office and rent expense associated with development studios that were acquired subsequent to the second quarter of fiscal 2004, and the opening of a new office in fiscal 2005 in connection with the formation of our 2K Games publishing label. For the 2004 period, personnel expenses included approximately $3,000 of severance charges, signing bonuses and restricted stock expenses, primarily attributable to senior management changes.

Research and development. The increase in research and development costs was primarily due to increased personnel expenses associated with development studios that were acquired subsequent to the second quarter of fiscal 2004. Increased personnel expenses are attributable to increased staffing, reflecting our strategy of bringing more of our development in-house. A substantial portion of our research and development costs are capitalized and subsequently amortized as cost of goods sold once software development projects reach technological feasibility, which is relatively early in the development process.

Depreciation and amortization. Depreciation and amortization expense increased primarily due to higher depreciation related to the implementation of software systems and leasehold improvements.

Loss from operations. Loss from operations decreased by $12,232, or 50.4%, to $12,021 for the three months ended April 30, 2005 from a loss of $24,253 for the three months ended April 30, 2004, due to the changes referred to above. Foreign exchange rates increased the loss from operations by approximately $510 for the three months ended April 30, 2005.

Interest income, net. Interest income increased by $516, or 79.6% to $1,164 for the three months ended April 30, 2005 from $648 for the prior comparable period due to interest earned on invested cash.

Benefit for income taxes. Income tax benefit was $2,671 for the three months ended April 30, 2005 as compared to income tax benefit of $9,029 for the three months ended April 30, 2004. The decrease was due to a reduction in the estimated annual effective tax rate and a lower taxable loss. The estimated annual effective tax rate was 24.6% for the three months ended April 30, 2005, as compared to an estimated annual effective tax rate of 36.0% for the comparable period in fiscal 2004. The lower estimated annual effective tax rate of 24.6% for fiscal 2005 is primarily due to a change in the mix of earnings with a greater proportion of income being generated in lower tax jurisdictions.

We are regularly audited by domestic and foreign taxing authorities. Audits may result in tax assessments in excess of amounts claimed and the payment of additional taxes. We believe that our tax positions comply with applicable tax law, and that we have adequately provided for reasonably foreseeable tax assessments.

Net loss. For the three months ended April 30, 2005, net loss was $8,186 as compared to net loss of $14,576 for the three months ended April 30, 2005, a decrease of $6,390, or 43.8% resulting from the changes referred to above.

(Dollars in thousands, except per share amounts)

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Diluted net loss per share. Diluted net loss per share for the three months ended April 30, 2005 of $0.12, decreased $0.10, or 45.5%, as compared to diluted net loss per share of $0.22 for the three months ended April 30, 2004, principally due to a decrease in the net loss for the period offset by a slight increase in the weighted average common shares outstanding.

Six Months ended April 30, 2005 and 2004

Net Sales

	Six months ended April 30,					
	2005	%	2004	%	$ Increase	% Incr
Publishing	**$ 502,307**	**69.3**	$ 320,241	60.6	$ 182,066	56.9
Distribution	**222,235**	**30.7**	208,639	39.4	13,596	6.5
Total net sales	**$ 724,542**	**100.0**	$ 528,880	100.0	$ 195,662	37.0

Net Sales. The increase in net sales was primarily attributable to growth in our publishing business.

The increase in publishing revenues for the six months ended April 30, 2005 was primarily attributable to sales of *Grand Theft Auto: San Andreas* for the PlayStation 2 and *Midnight Club 3: DUB Edition* for the PlayStation 2 and Xbox, which was released in April 2005. Sales of sports titles for the PlayStation 2 and Xbox, including *Major League Baseball 2K5*, also contributed to the increase in publishing revenues. Publishing revenues for the six months ended April 30, 2005 and 2004 include licensing revenues of $9,409 and $7,578, respectively.

Products designed for video game console platforms accounted for 92.6% of publishing revenues as compared to 93.0% for the comparable period last year. Products designed for PC platforms accounted for 4.6% of publishing revenues as compared to 1.6% for the prior comparable period. The increase in sales of products for PC platforms was primarily attributable to sales of *Stronghold 2* for PC, which was released in April 2005. We anticipate that our platform mix will remain heavily weighted towards console platforms, 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 hardware sales offset by lower sales of software titles. We currently anticipate that distribution revenues will grow at a rate consistent with industry trends.

International operations accounted for approximately $239,343, or 33.0% of net sales for the six months ended April 30, 2005 compared to $125,907 or 23.8% of net sales for the six months ended April 30, 2004. The increase was primarily attributable to sales of *Grand Theft Auto: San Andreas* for the PlayStation 2 and *Midnight Club 3: DUB Edition* for the PlayStation 2 and Xbox, which was released in April 2005. Net sales included approximately $21,470 of benefit from foreign exchange rates in the six months ended April 30, 2005. We expect international sales to continue to account for a significant portion of our revenues.

Cost of Sales

	Six months ended April 30,					
	2005	% of Sales	2004	% of Sales	$ Increase	% Incr
Product costs	**$ 360,989**	**49.8**	$ 328,951	62.2	$ 32,038	9.7
Royalties	**102,147**	**14.1**	33,014	6.2	69,133	209.4
Software development costs	**8,985**	**1.3**	5,555	1.1	3,430	61.7
Total cost of sales	**$ 472,121**	**65.2**	$ 367,520	69.5	$ 104,601	28.5

Product costs. The increase in product costs in absolute dollars was consistent with the increase in publishing and distribution revenues. The decrease in product costs as a percentage of net sales was due to the higher proportion of publishing revenues, primarily attributable to *Grand Theft Auto: San Andreas* and *Midnight Club 3: DUB Edition*, which have lower product costs than distribution revenues. The decrease in product costs as a percentage of net sales was slightly offset by a shift in the product mix within our distribution operations toward hardware products which have higher costs than software titles.

(Dollars in thousands, except per share amounts)

Royalties. The increase in royalties was primarily attributable to expense associated with *Grand Theft Auto: San Andreas* under our internal royalty program, which provides for increasing royalty levels as incentives for achieving sales thresholds. Royalties also increased as a result of expense associated with sales of *Midnight Club 3: DUB Edition* and our sports titles, including *Major League Baseball 2K5*.

Software development costs. The increase in software development costs was due to the increased sales of our internally developed titles resulting in higher amortization of capitalized costs.

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

Operating Expenses

	Six months ended April 30,					
	2005	% of Sales	2004	% of Sales	$ Increase	% Incr
Selling and marketing	**$ 87,206**	**12.0**	$ 58,173	11.0	$ 29,033	49.9
General and administrative	**57,392**	**7.9**	48,090	9.1	9,302	19.3
Research and development	**37,202**	**5.1**	21,657	4.1	15,545	71.8
Depreciation and amortization	**9,888**	**1.4**	7,655	1.4	2,233	29.2
Total operating expenses	**$ 191,688**	**26.4**	$ 135,575	25.6	$ 56,113	41.4

Selling and marketing. The increase in selling and marketing expense was due to higher advertising and promotional support for existing and new products, specifically *Grand Theft Auto: San Andreas, Midnight Club 3: DUB Edition* and our sports titles. The increase was also due to higher personnel expense, which is consistent with the growth of our business.

General and administrative. The increase in general and administrative expense in absolute dollars was primarily due to increased compensation for additional executive personnel to support the growth of our business and increased professional fees primarily attributable to Sarbanes-Oxley compliance. The increase was also due to higher office and rent expense associated with development studios that were acquired subsequent to the second quarter of fiscal 2004 and the opening of a new office in fiscal 2005 in connection with the formation of our 2K Games publishing label. For the 2004 period, personnel expenses included approximately $3,000 of severance charges, signing bonuses and restricted stock expenses, primarily attributable to senior management changes.

Research and development. The increase in research and development costs was primarily due to increased personnel expenses associated with development studios that were acquired subsequent to the second quarter of fiscal 2004. Increased personnel expenses are attributable to increased staffing, reflecting our strategy of bringing more of our development in-house. A substantial portion of our research and development costs are capitalized and subsequently amortized as cost of goods sold once software development projects reach technological feasibility, which is relatively early in the development process.

Depreciation and amortization. Depreciation and amortization expense increased primarily due to higher depreciation related to the implementation of software systems and leasehold improvements.

Income from operations. Income from operations increased by $34,948, or 135.5%, to $60,733 for the six months ended April 30, 2005 from $25,785 for the six months ended April 30, 2004, due to the changes referred to above. Foreign exchange rates benefited income from operations by approximately $2,000 for the six months ended April 30, 2005.

Interest income, net. Interest income increased by $630, or 58.7% to $1,704 for the six months ended April 30, 2005 from $1,074 for the prior comparable period due to interest earned on invested cash.

Provision for income taxes. Income tax expense was $15,374 for the six months ended April 30, 2005 as compared to income tax expense of $9,677 for the six months ended April 30, 2004. The increase was primarily attributable to increased taxable income offset by a reduction in the estimated annual effective tax rate. The estimated annual effective tax rate was 24.6% for the six months ended April 30, 2005, as compared to an estimated annual effective tax rate of 36.0% for the comparable period in fiscal 2004. The lower estimated annual effective tax rate of 24.6% for fiscal 2005 is primarily due to a change in the mix of earnings with a greater proportion of income being generated in lower tax jurisdictions.

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We are regularly audited by domestic and foreign taxing authorities. Audits may result in tax assessments in excess of amounts claimed and the payment of additional taxes. We believe that our tax positions comply with applicable tax law, and that we have adequately provided for reasonably foreseeable tax assessments.

Net income. For the six months ended April 30, 2005, net income was $47,063 as compared to net income of $17,182 for the six months ended April 30, 2004, an increase of $29,881, or 173.9% and resulted from the changes referred to above.

Diluted net income per share. Diluted net income per share for the six months ended April 30, 2005 of $0.67, increased $0.42, or 164.4%, as compared to diluted net income per share of $0.25 for the six months ended April 30, 2004, principally due to higher net income offset by a slight increase in the weighted average common shares outstanding.

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, 2005, we had working capital of $412,178 as compared to working capital of $398,094 at October 31, 2004.

Cash and cash equivalents increased for the six months ended April 30, 2005 as follows:

	Six months ended April 30,	
	2005	**2004**
Cash provided by operating activities	**$ 97,654**	$ 100,061
Cash used in investing activities	**(65,281)**	(30,193)
Cash provided by financing activities	**24,393**	7,187
Effect of foreign exchange rates on cash and cash equivalents	**(1,620)**	801
Net increase in cash and cash equivalents	**$ 55,146**	$ 77,856

Operating Activities. Cash provided by operating activities for the six months ended April 30, 2005 was $97,654 compared to $100,061 for the six months ended April 30, 2004. The decrease principally reflects an increase in expenditures related to the development of titles, the subsequent payment of accounts payable related to the build-up in inventory at October 31, 2004 in connection with release of a major product and the payment of royalties earned under our internal royalty program. This was offset by higher net income, adjusted for non-cash items, and the collections of accounts receivable from significant product sales.

Investing Activities. Net cash used in investing activities for the six months ended April 30, 2005 was $65,281 compared to net cash used in investing activities of $30,193 for the six months ended April 30, 2004. Net cash used in the current period reflects an escrow payment in connection with an offer of settlement, the acquisition of *Civilization*, Visual Concepts and Kush and the prior period reflects the acquisition of TDK. During the current period, we also incurred capital expenditures associated with leasehold improvements at our new warehouse facilities in Cincinnati, Ohio and new offices for our 2K publishing label and expenditures related to the continued improvement of our software systems.

Financing Activities. Net cash provided by financing activities for the six months ended April 30, 2005 was $24,393 as compared to net cash provided by financing activities of $7,187 for the six months ended April 30, 2004. The increase was primarily attributable to higher proceeds from the exercise of stock options.

Significant Balance Sheet Changes

Accounts Receivable: The decrease of $174,150 in gross accounts receivable, before allowances, from October 31, 2004 to April 30, 2005 and the increase in allowances as a percentage of gross receivables was due to a significant product release during the three months ended October 31, 2004 and subsequent receivable collections. Our allowances, which include doubtful accounts, returns, price concessions, rebates and other sales allowances, decreased to $56,496 at April 30, 2005 from $72,215 at October 31, 2004 and increased as a percentage of receivables to 30.7% at April 30, 2005 from 20.2% at October 31, 2004. The above variances are consistent with the seasonal fluctuations of our business.

As of April 30, 2005, the receivable balances from our five largest retail customers accounted for approximately 36.6% of our gross receivable balance. 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 and our domestic receivables are not covered by insurance. As a result, we are subject to credit risks, particularly in the event that any of the receivables represent a limited number of retailers. If we are unable to collect our accounts receivable as they become due, it could adversely affect our liquidity and working capital position and we would be required to increase our provision for doubtful accounts.

Loan Facilities: 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. Interest accrues on borrowings 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. 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. 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, 2005, 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. Available borrowings under the agreement are reduced by the amount of an outstanding stand-by letter of credit, which was $1,560 at April 30, 2005. We had no outstanding borrowings under the revolving line of credit as of April 30, 2005.

In May 2005, our United Kingdom subsidiary renewed its credit facility agreement with Lloyds TSB Bank plc ("Lloyds") under which Lloyds agreed to make available borrowings of up to approximately $36,000. Advances under the credit facility bear interest at the rate of 1.25% per annum over the bank's base rate, and are guaranteed by the Company. Available borrowings under the agreement are reduced by the amount of outstanding guarantees. The facility expires on March 31, 2006. We had no outstanding guarantees and no borrowings under this facility as of April 30, 2005.

Capital Expenditures: We expect to spend an additional $2.3 million in connection with the continued improvement of our software systems for our domestic and international operations. We also expect to make additional capital expenditures of $1.7 million for leasehold improvements and equipment in our new warehouse facilities in Cincinnati, Ohio, and a further $1.0 million for leasehold improvements to new offices for our 2K Games publishing label. As of the date of this report, we have no other material commitments for capital expenditures.

Other: 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 and litigation 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 next twelve months.

(Dollars in thousands, except per share amounts)

Contractual Obligations and Contingent Liabilities and Commitments

A summary of annual minimum contractual obligations and commitments as of April 30, 2005 is as follows:

Fiscal Years Ending October 31,	Leases	Distribution Agreements	Software Development Agreements	Licensing and Marketing Agreements	Total
Remainder of 2005	$ 8,275	$ 3,312	$ 35,678	$ 11,778	$ 59,043
2006	13,621	798	24,839	38,423	77,681
2007	11,444	—	7,900	34,078	53,422
2008	11,104	—	—	34,117	45,221
2009	10,826	—	—	34,700	45,526
Thereafter	38,075	—	—	27,833	65,908
	$ 93,345	$ 4,110	$ 68,417	$ 180,929	$ 346,801

Lease Commitments: Our offices and warehouse facilities are occupied under non-cancelable operating leases expiring at various times from May 2005 to October 2014. We also lease certain furniture, equipment and automobiles under non-cancelable leases expiring through December 2008. Future minimum rental payments for fiscal 2005 are $8,275 and aggregate minimum rental payments through applicable lease expirations are $93,345.

Distribution Agreements: Our Jack of All Games subsidiary periodically enters into distribution agreements to purchase various software games that require minimum guaranteed payments. These agreements, which expire between June 2005 and June 2006, require remaining aggregate minimum guaranteed payments of $4,110 at April 30, 2005.

Software Development Agreements: Our payments made to third-party developers include contractual advances and royalty payments under agreements which expire at various times through October 2007. Assuming performance by third-party developers, we have aggregate outstanding commitments of $68,417 under various software development agreements at April 30, 2005. We have also established an internal royalty program pursuant to which we pay royalties to certain of our development personnel based on product sales.

Licensing Agreements: Our license expense consists primarily of payments to licensors of intellectual properties under agreements which expire at various times through September 2010. As of April 30, 2005, we have minimum guaranteed licensing and marketing commitments of $180,929 outstanding under various licensing agreements of which $6,035 are recorded in our condensed consolidated balance sheet as the licensor does not have any significant performance obligation. Minimum guaranteed licensing and marketing commitments primarily reflect our agreements with Major League Baseball and the National Basketball Association.

Contingent Consideration: In connection with the acquisition of Mobius in March 2004, we agreed to make additional contingent payments of approximately $2,100 based on the delivery of products. In fiscal 2003, 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 future profits for the first three years after acquisition.

In March 2005, we renegotiated a $6,000 contingent obligation due upon the delivery of the final PC version of *Duke Nukem Forever* through the payment of $4,250 and issuance of a promissory note in the principal amount of $500. The payment of the promissory note is contingent upon the commercial release of such product prior to December 31, 2006.

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, 2005 and 2004, sales in international markets accounted for approximately 33.0% and 23.8%, respectively, of our net sales. We are subject to risks inherent in foreign trade, including increased credit risks, tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays and international political, regulatory and economic developments, all of which can have a significant impact on our operating results.

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 our titles is characterized by short product life cycles. The market for our titles 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. 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, 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. Because revenues associated with the initial shipments of a new product generally constitute a high percentage of the total revenues associated with the life of a product, any delay in the introduction of one or more new products could adversely affect our operating results for particular periods. If 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 revenues is derived from a limited number of titles. For the six months ended April 30, 2005, our ten best selling titles accounted for approximately 58.5% of our revenues, with *Grand Theft Auto: San Andreas* for the PlayStation 2 accounting for 42.3% of our revenues; *Midnight Club 3: DUB Edition* for the PlayStation 2 accounting for 5.9% of our revenues; *Midnight Club 3: DUB Edition* for Xbox accounting for 2.9% of our revenues; *Grand Theft Auto: Vice City* for the PlayStation 2 accounting for 1.4% of our revenues; and *Stronghold 2* for PC accounting for 1.3% of our revenues. 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 Xbox accounting for 11.1% of our revenues; *Max Payne 2: The Fall of Max Payne* for the PlayStation 2 accounting for 7.5% of our revenues, and *Manhunt* for the PlayStation 2 accounting for 6.5% of our revenues. For the year ended October 31, 2004, our ten best selling titles accounted for approximately 46.3% of our revenues. If we fail to continue to develop and sell new, commercially successful titles, our revenues and profits may decrease substantially and we may incur losses.

Our quarterly operating results may vary significantly, which could cause our stock price to decline. We have experienced and may continue to experience wide fluctuations in quarterly operating results. The interactive entertainment industry is highly seasonal, with sales typically higher during the fourth 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.

Our business 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 continuing to devote 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.

We have also devoted significant development resources on products designed for next-generation hardware platforms, initially for the Xbox 360™ video game and entertainment system from Microsoft, at significant cost. It is difficult to anticipate hardware development cycles and we have made and will continue to make software development commitments and investment decisions well in advance of the introduction of new hardware platforms, resulting in cash outflows without corresponding revenues. If new hardware platforms are delayed or do not achieve consumer acceptance, we may not be able to recover our investments and our business and financial results could be materially adversely affected.

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.

***Our expansion into the market for sports and other licensed titles may not be successful*.** We are seeking to diversify our product offerings by capitalizing on significant growth opportunities in the market for sports and other licensed action and strategy titles. Our success in this market will depend in part on our ability to attract licensors with popular properties and to enter into favorable arrangements with these licensors, including with licensors representing the major sports leagues and players associations. Competition for sports and other licensed properties is intense. If we are unable to obtain and maintain licenses to popular properties, our revenue and profitability with respect to these products could decline dramatically. Competition for these licenses also may increase advances and royalties payable to licensors. We may be unable to enter into favorable license agreements, and our efforts to diversify our product offerings may not result in increased revenues or profitability.

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.

Software development costs, promotion and marketing expenses and royalties payable to software developers have increased significantly in recent years, and reduce potential profits derived from sales of our software. We expect that the costs associated with the development of next generation software will increase significantly. 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 agreements with third-party developers, 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 revenues will decline.

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

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

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

A limited number of customers account for a significant portion of our sales. Sales to our five largest customers accounted for approximately 39.3% and 34.8% of our revenues, respectively, for the six months ended April 30, 2005 and 2004. Sales to our five largest customers accounted for approximately 38.9% of our revenues for the year ended October 31, 2004. For the year ended October 31, 2004, sales of our products to Wal-Mart accounted for 10.4% of our revenues. 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. 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), "E10+" (age 10 and older), "T" (age 13 and over) or "M" (age 17 and over). Many of our titles (including our *Grand Theft Auto* titles, *Max Payne 2: The Fall of Max Payne*, *Manhunt*, *Mafia* and *Red Dead Revolver*) 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 under-17 audiences. 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 proposed legislation in several states prohibiting the sale of "M" rated video games to under-17 audiences) 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, claims of this kind have been asserted against us from time to time. See Legal Proceedings.

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

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

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

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

We may not be able to protect our proprietary rights or avoid claims that we infringe on the proprietary rights of others. We develop proprietary software and have obtained the rights to publish and distribute software developed by third parties. We attempt to protect our software and production techniques under copyright, trademark and trade secret laws as well as through contractual restrictions on disclosure, copying and distribution. Our software is susceptible to piracy and 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. Well organized piracy operations have proliferated in recent years as a result of the ability to download pirated copies of our software over the Internet. Although we attempt to incorporate protective measures into our software, piracy of our products could negatively impact our future profitability.

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 allows more complex software products. As software products become more complex, the risk of undetected errors in products when first introduced increases. If, despite testing, errors are found in new products or releases after shipments have been made, we could experience a loss of or delay in timely market acceptance, product returns, loss of revenues and damage to our reputation.

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 may continue to be narrow in the future. Accordingly, slight variations in operating costs and expenses could result in losses in our distribution business from period to period.

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 33.0% and 23.8%, respectively, of our revenues for the six months ended April 30, 2005 and April 30, 2004. Sales in international markets accounted for approximately 27.5% of our revenues for fiscal 2004. 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. We may use forward exchange contracts to a limited extent to seek to mitigate foreign currency risk. These contracts may result in increased exposure.

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 a recently adopted standard that accounts for stock options as compensation expense. 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 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, 2005, 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, 2005, our foreign currency translation adjustment loss was $1,723. Foreign exchange transaction loss for the six months ended April 30, 2005 was $247. A hypothetical 10% change in applicable currency exchange rates at April 30, 2005 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, 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(Dollars in thousands, except per share amounts)

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

In June 2005, the SEC accepted the Company's settlement offer, thereby concluding the SEC's investigation of the Company. Without admitting or denying any wrongdoing, the Company has agreed to consent to the entry of an order enjoining it from future violations of specified provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934 ('34 Act), including section 10(b) of the '34 Act and Rule 10b-5 thereunder. In addition, the Company has agreed to pay a $7.5 million civil penalty, which the Company previously accrued as of October 31, 2004 in the accompanying financial statements, and which has been deposited into an escrow account. The SEC investigation was related to certain accounting matters relating to the Company's financial statements, periodic reporting and internal accounting control provisions of the federal securities laws. These matters were the subject of the Company's previously reported restatements of its financial statements in February 2002 and February 2004. Certain of the Company's employees and former employees also reached settlements with the SEC.

In February 2005, the personal representatives of the Estates of Arnold Strickland and Ace Mealer brought an action in the Circuit Court of Fayette County, Alabama against the Company, Sony, Wal-Mart, Gamestop and Devin Moore alleging under Alabama manufacturers liability and wrongful death statutes that the Company's video games designed, manufactured, marketed and/or supplied to Mr. Moore resulted in "copycat violence" that caused the death of Messrs. Strickland and Mealer. The suit seeks damages (including punitive damages) against all of the defendants in excess of $600,000. In March 2005, the Company removed the case to Federal District Court and filed an answer denying the allegations in the complaint. The Company believes that the claims are without merit and that the action is similar to lawsuits brought and uniformly dismissed by courts in other jurisdictions. The Company intends to vigorously defend and seek a dismissal of this action.

The Company is involved in routine litigation in the ordinary course of its 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 6. Exhibits

Exhibits:

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.

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SIGNATURES

Pursuant to the requirements of 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 9, 2005	By: /s/ Paul Eibeler Paul Eibeler Chief Executive Officer and President (Principal Executive Officer)
Date: June 9, 2005	By: /s/ Karl H. Winters Karl H. Winters Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Section 302 Certification

I, Paul Eibeler, Chief Executive Officer and President 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, 2005 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.

June 9, 2005

/s/ Paul Eibeler
Paul Eibeler
Chief Executive Officer and President

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, 2005 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.

June 9, 2005	/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, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Paul Eibeler, as Chief Executive Officer and President 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.

June 9, 2005

/s/ Paul Eibeler
Paul Eibeler
Chief Executive Officer and President

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, 2005 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.

June 9, 2005

/s/ Karl H. Winters
Karl H. Winters
Chief Financial Officer

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.