TAKE TWO INTERACTIVE SOFTWARE INC
Form 10-Q/A
April 19, 2002

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

FORM 10-Q/A

(Mark One)
[x] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended January 31, 2000

OR

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

For the transition period from __________to__________

Commission File Number 0-29230

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

DELAWARE	51-0350842
(State of incorporation or organization)	(IRS Employer Identification No.)
575 Broadway, New York, NY	10012
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code	(212) 334-6633

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes X No
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As of March 8, 2000, there were 23,541,961 shares of the registrant's Common Stock outstanding.

TAKE-TWO INTERACTIVE SOFTWARE, INC.
QUARTER ENDED JANUARY 31, 2000

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

Item 1.

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Balance Sheets
As of January 31, 2000 and October 31, 1999 (unaudited)

ASSETS:	Janu
Current assets:	
Cash and cash equivalents	$
Accounts receivable, net of allowances of $6,845,359 and $6,816,682, respectively	
Inventories	
Prepaid royalties	
Prepaid expenses and other current assets	
Deferred tax asset	
Total current assets	
Fixed assets, net	
Prepaid royalties	
Capitalized software development costs, net	
Investment in affiliates	
Other investments	

Intangibles, net	
Other assets, net	

Total assets	$
	===

LIABILITIES and STOCKHOLDERS' EQUITY:

Current liabilities:	
Accounts payable	$
Accrued expenses	
Lines of credit, current portion	
Current portion of capital lease obligation	
Notes payable	

Total current liabilities	
Notes payable, net of current portion	
Capital lease obligation, net of current portion	

Total liabilities	

Commitments and contingencies	
Stockholders' equity:	
Common stock, par value $.01 per share; 50,000,000 shares authorized; 23,478,082 and 23,085,455 shares issued and outstanding	
Additional paid-in capital	
Deferred compensation	
Retained earnings	
Accumulated other comprensive loss	

Total stockholders' equity	

Total liabilities and stockholders' equity	$
	===

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

1

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Operations
For the three months ended January 31, 2000 and 1999 (unaudited)

Net sales	$
Cost of sales	

Gross profit	---
Operating expenses:	
Selling and marketing	
General and administrative	
Research and development costs	
Depreciation and amortization	---
Total operating expenses	---
Income from operations	
Interest expense, net	---
Income before equity in loss of affiliate and income taxes	
Equity in loss of affiliate	---
Income before income taxes	
Provision for income taxes	---
Net income	$
	===
Per share data:	
Basic:	
Weighted average common shares outstanding	===
Net income per share	$
	===
Diluted:	
Weighted average common shares outstanding	===
Net income per share	$
	===

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

2

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Cash Flows
For the three months ended January 31, 2000 and 1999 (unaudited)

T

Cash flows from operating activities:	
Net income	$
Adjustment to reconcile net income to net cash used in operating activities:	
Depreciation and amortization	
Loss on disposal of fixed assets	
Equity in loss of affiliate	
Provision for doubtful accounts	
Provision for inventory	
Amortization of deferred compensation	
Amortization of affiliate purchase option	
Adjustment of prior period compensation expenses	
Amortization of loan discounts	
Issuance of compensatory stock	
Changes in operating assets and liabilities, net of effects of acquisitions:	
Decrease in accounts receivable	
(Increase) decrease in inventories, net	
Increase in prepaid royalties	
Increase in advances to developers	
(Increase) decrease in prepaid expenses and other current assets	
Increase in capitalized software development costs	
Decrease in other assets, net	
Decrease in accounts payable	
Increase in accrued expenses	
Decrease in advances-principally distributors	

Net cash (used in) provided by operating activities	

Cash flows from investing activities:	
Purchase of fixed assets	
Other investment	
Additional cash paid for prior acquisition	

Net cash used in investing activities	

Cash flows from financing activities:	
Net borrowings under the line of credit	
Repayment on notes payable	
Proceeds from exercise of stock options	
Repayment of capital lease obligation	
Tax benefit from exercise of stock options	

Net cash provided by financing activities	

Effect of foreign exchange rates	

Net increase in cash for the period	
Cash and cash equivalents, beginning of the period	

Cash and cash equivalents, end of the period	$
	===
Supplemental disclosure of non-cash investing activities:	
Issuance of common stock in connection with acquisition	$
	===
Gathering purchase option	$
	===

During the quarter ended January 31, 2000, the Company paid $458,817 in cash and issued $161,140 in stock related to a prior period acquisition. Such payments were capitalized and recorded as Goodwill.

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

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TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Stockholders' Equity
For the year ended October 31, 1999 and the three months ended January 31, 2000 (unaudited)

	Common Stock		Ad
	Shares	Amount	Paid-
Balance, November 1, 1998	18,071,972	$ 180,719	$
Issuance of compensatory stock options	536,923	5,369	
Exercise of stock options	613,218	6,133	
Amortization of deferred compensation	--	--	
Forfeiture of compensatory stock options in connection with AIM acquisition	--	--	
Issuance of common stock in connection with LDA and Joytech acquisition	364,766	3,648	
Issuance of common stock in connection with DVDWave.com acquisition	50,000	500	
Issuance of common stock in connection with Funsoft acquisition	60,281	603	
Issuance of common stock in connection with the investment in affiliate	125,000	1,250	
Issuance of common stock in connection with the Triad and Global acquisition	162,500	1,625	
Proceeds from exercise of public warrants	40,795	408	
Issuance of common stock in connection with a public offering, net of issuance costs	3,005,000	30,050	
Issuance of common stock in lieu of royalty payments	55,000	550	

Tax benefit in connection with the exercise of stock options	--	--	
Foreign currency translation adjustment	--	--	
Net income	--	--	
Balance, October 31, 1999	23,085,455	230,855	
Exercise of stock options	376,829	3,768	
Amortization of deferred compensation	--	--	
Issuance of common stock in connection with LDA and Joytech acquisition	15,798	158	
Tax benefit in connection with the exercise of stock options	--	--	
Foreign currency translation adjustment	--	--	
Net income - restated	--	--	
Balance, January 31, 2000 - Restated	23,478,082	$ 234,781	$

	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	
Balance, November 1, 1998	$ 2,069,522	$ (7,433)	$
Issuance of compensatory stock options	--	--	
Exercise of stock options	--	--	
Amortization of deferred compensation	--	--	
Forfeiture of compensatory stock options in connection with AIM acquisition	--	--	
Issuance of common stock in connection with LDA and Joytech acquisition	--	--	
Issuance of common stock in connection with DVDWave.com acquisition	--	--	
Issuance of common stock in connection with Funsoft acquisition	--	--	
Issuance of common stock in connection with the investment in affiliate	--	--	
Issuance of common stock in connection with the Triad and Global acquisition	--	--	

Proceeds from exercise of public warrants	--	--	
Issuance of common stock in connection with a public offering, net of issuance costs	--	--	
Issuance of common stock in lieu of royalty payments	--	--	
Tax benefit in connection with the exercise of stock options	--	--	
Foreign currency translation adjustment	--	(819,586)	
Net income	16,332,103	--	
Balance, October 31, 1999	18,401,625	(827,019)	
Exercise of stock options	--	--	
Amortization of deferred compensation	--	--	
Issuance of common stock in connection with LDA and Joytech acquisition	--	--	
Tax benefit in connection with the exercise of stock options	--	--	
Foreign currency translation adjustment	--	(1,006,244)	
Net income - restated	3,965,528	--	
Balance, January 31, 2000 - Restated	$ 22,367,153	$ (1,833,263)	$

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

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TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Notes to Interim Consolidated Condensed Financial Statements (Unaudited)

1. Organization:

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

2. Restatement of Financial Statements

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

As a result of the investigation, the Company restated its previously issued consolidated financial statements for fiscal 2000 and each of the quarters in fiscal 2000 and the first three quarters in fiscal 2001. The restatement of the financial statements for the three months ended January 31, 2000 relates to the elimination of $2,195,057 of net sales made to independent third party distributors and related cost of sales of $870,654 and the related tax effect, which were improperly recognized as revenue since the products were later returned or repurchased by the Company.

In addition, the Company reviewed its revenue recognition policy, reserve policies and its accounting for certain other transactions. As a result of this review, no additional adjustments were required to the financial statements for the three months ended January 31, 2000.

The effect of the restatement for the three months ended January 31, 2000 is as follows:

	Three months ended January 31, 2000		
	As Reported	Restatement	As Res
Statement of Operations Data:			
Net sales	$ 122,889,726	$ (2,195,057)	$ 120,
Cost of sales	$ 86,273,609	$ (870,654)	$ 85,
Income from operations	$ 9,017,467	$ (1,324,403)	$ 7,
Income before provision for income taxes	$ 7,354,828	$ (1,324,403)	$ 6,
Provision for income taxes	$ 2,568,170	$ (503,273)	$ 2,
Net income	$ 4,786,658	$ (821,130)	$ 3,
Basic income per share	$ 0.21	$ (0.04)	$
Diluted income per share	$ 0.20	$ (0.04)	$

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	January 31, 2000	
	As Reported	As Res
Balance Sheet Data		
Accounts receivable	$ 95,442,481	$ 93,
Inventories	$ 45,958,636	$ 46,
Prepaid royalties - current	$ 31,101,065	$ 31,

Total assets	$ 250,101,045	$ 248,
Accrued expenses and other current liabilities	$ 27,277,951	$ 26,
Total liabilities	$ 158,695,011	$ 158,
Retained earnings	$ 23,188,283	$ 22,
Total liabilities and stockholders' equity	$ 250,101,045	$ 248,

Amendment of Credit Agreement

As a result of the restatement, in February 2002, the Company retroactively amended its covenants under the credit agreement with Bank of America, N.A. to December 1999. Accordingly, as of January 31, 2000, the Company was in compliance with the covenants, as amended.

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

3. Significant Accounting Policies and Transactions:

Basis of Presentation

The Interim Consolidated Condensed Financial Statements of the Company have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and disclosures necessary for a presentation of the Company's financial position, results of operations and cash flows in conformity with generally accepted accounting principles. In the opinion of management, these financial statements reflect all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the Company's financial position, results of operation and cash flows for such periods. The results of operations for any interim periods are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 1999.

Risk and Uncertainties

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 reporting periods. The most significant estimates and assumptions relate to: the recoverability of capitalized software development costs, prepaid royalties, advances to developers and other intangibles; allowances for returns and income taxes. Actual amounts could differ from those estimates.

Prepaid Royalties

Prepaid royalties represent prepayments made to independent software developers under development agreements. Prepaid royalties are expensed at the contractual royalty rate as cost of goods sold based on actual net product sales. Management continuously evaluates the future realization of prepaid royalties, and charges to cost of sales any amount that management deems unlikely to be realized at the contractual royalty rate through product sales. Prepaid royalties are classified as current and non-current assets based upon estimated net product sales within the next year.

No prepaid royalties were written down for the three months ended January 31, 2000. For the three months ended January 31, 1999, prepaid royalties were written down by $656,698 to estimated net realizable value. Amortization of prepaid royalties for the three months ended January 31, 2000 and 1999 amounted to $2,802,815 and $1,929,839 respectively.

Capitalized Software Development Costs

Costs associated with research and development are expensed as incurred. Software development costs incurred subsequent to establishing technological feasibility are capitalized. Capitalized software costs are compared, by game title, to estimated net realizable value of the product and capitalized amounts in excess of estimated net realizable value, if any, are immediately written off.

Capitalized software costs were written down by $9,000 and $168,000 for the three months ended January 31, 2000 and 1999, respectively, to estimated net realizable value. Amortization of capitalized software costs amounted to $68,883 and $50,000 for estimated three months ended January 31, 2000 and 1999 respectively.

Segment Reporting

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"), establishes standards for reporting information about operating segments in annual financial statements. SFAS No. 131 had no impact on the Company's results of operation, financial position or cash flows. The Company's operations fall within one reportable segment as defined by SFAS No. 131.

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Revenue Recognition

Distribution revenue is derived from the sale of third-party interactive software games and hardware and is recognized upon the shipment of product to retailers. Distribution revenue amounted to $59,944,649 and $44,350,619 for the three months ended January 31, 2000 and 1999, respectively. The Company sometimes negotiates accommodations to retailers, including price discounts, credits and product returns, when demand for specific products fall below expectations. Historically, the Company's write-offs from returns for its distribution activities have been less than 1% of distribution revenues. Publishing revenue is derived from the sale of internally developed interactive software games or from the sale of product licensed from a third party developer and is recognized upon the shipment of product to retailers. Publishing revenue amounted to $60,750,020 and $23,930,034 for the three months ended January 31, 2000 and 1999, respectively. The Company has historically experienced a product return rate of approximately 10% of gross publishing revenues.

The Company's distribution arrangements with retailers generally do not give them the right to return products, however, the Company generally accepts product returns for stock balancing or defective products. The Company's publishing arrangements require the Company to accept product returns. The Company establishes a reserve for future returns at the time of product sales, based primarily on these return policies, markdown allowances, and historical return rates, and as such, the Company recognizes revenues net of product returns.

4. Income Taxes

The provision for income taxes for the three months ended January 31, 2000 and 1999 are based on the Company's estimated annualized tax rate for the respective years, after giving effect to the utilization of available tax credits and tax planning opportunities.

5. Net Income per Share

The following table provides a reconciliation of basic earnings per share to diluted earnings per share for the three months ended January 31, 2000 and 1999.

	Net Income	Shares
Three Months Ended January 31, 2000 - Restated:		
Basic	$ 3,965,528	23,199,395
Effect of dilutive securities - Stock options and warrants		1,278,538
Diluted	$ 3,965,528	24,477,933
Three Months Ended January 31, 1999:		
Basic	$ 2,894,836	18,212,240
Effect of dilutive securities - Stock options and warrants		1,322,171
Diluted	$ 2,894,836	19,534,411

The January 31, 2000 computation for diluted number of shares excludes unexercised stock options and warrants which are anti-dilutive.

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6. Subsequent Events

In February 2000, the Company purchased 400,000 shares of common stock from eUniverse, Inc. ("eUniverse"), a leading on-line gaming and entertainment network for $5.00 per share. In connection with the transaction, eUniverse purchased all of the capital stock of Falcon Ventures Corporation d/b/a DVDWave.com from the Company for 310,000 shares of common stock. eUniverse agreed to register these shares under the Securities Act of 1933.

In March 2000, the Company consummated a private sale to one investor of 446,678 shares of Common Stock and received proceeds of $5,000,000 in cash.

In March 2000, the Company acquired from Broadband Solutions, Inc. all of the outstanding capital stock of Netherlands based Toga Holdings BV, which owns Pixel Broadband Studios, Ltd., a leading developer of multiplayer broadband gaming technology, for approximately $4.45 million in cash and approximately 2,563,849 shares of common stock.

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Restatement of Historical Financial Statements

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

As a result of the investigation, the Company restated its previously issued consolidated financial statements for fiscal 2000 and each of the quarters in fiscal 2000 and the first three quarters in fiscal 2001. The restatement of the financial statements for the three months ended January 31, 2000 relates to the elimination of $2,195,057 of net sales made to independent third party distributors and related cost of sales of $870,654 and the related tax effect, which were improperly recognized as revenue since the products were later returned or repurchased by the Company.

In addition, the Company reviewed its revenue recognition policy, reserve policies and its accounting for certain other transactions. As a result of this review, no additional adjustments were required to the financial statements for the three months ended January 31, 2000. See Note 2 of Notes to Unaudited Consolidated Condensed Financial Statements.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: The statements contained herein which are not historical facts are forward looking statements that involve material risks and uncertainties, including but not limited to: risks associated with the Company's future growth, prospects and operating results; the ability of the Company to successfully integrate the businesses and personnel of newly acquired entities into its operations; the availability of adequate sources of financing; credit risks; inventory obsolescence; products returns; failure of our products to sell-through by retailers; changes in consumer preferences and demographics; technological change; competitive factors; unfavorable general economic conditions; and other factors described herein and in the Company's Registration Statement on Form S-3 as filed with the Securities And Exchange Commission, any or all of which could have a material adverse affect on the Company's business, financial condition and results of operations. Actual results may vary significantly from such forward-looking statements.

Overview

The Company derives its principal sources of revenues from publishing and distribution activities. Publishing revenues are derived from the sale of internally developed interactive entertainment software products or products licensed from third parties. Distribution revenues are derived from the sale of third-party software and hardware products. Publishing activities generally generate higher margins than distribution activities, with sales of PC software resulting in higher margins than sales of cartridges designed for video game consoles. The Company recognizes revenue from software sales when products are shipped.

The Company's published products are subject to return if not sold to consumers, including for stock balancing, markdowns or defective products. The Company establishes a reserve for future returns of published products at the time of product sales, based primarily on these return policies and historical return rates, and the Company recognize revenues net of product returns. The Company has historically experienced a product return rate of approximately 10% of gross publishing revenues (less than 1% of distribution revenues). If future product returns significantly exceed these reserves, the Company's operating results would materially be adversely affected.

Research and development costs (consisting primarily of salaries and related costs) incurred prior to establishing technological feasibility are expensed in accordance with Financial Accounting Standards Board (FASB) Statement No. 86. In accordance with FASB 86, the Company capitalizes software development costs subsequent to establishing technological feasibility (completion of a detailed program design) which is amortized (included in cost of sales) based on the greater of the proportion of current year sales to total estimated sales commencing with the product's release or the straight line method. At January 31, 2000, the Company had capitalized $3,219,300 of software development costs. The Company evaluates the recoverability of capitalized software costs which may be reduced materially in future periods. See Note 3 of Notes to Consolidated Condensed Financial Statements.

Results of Operations

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

	Three Months Ended January 31,	
	2000 Restated	1999
Net sales	100.0 %	100.0 %
Cost of sales	70.8	78.4
Selling and marketing	12.7	6.1
General and administrative	7.7	6.5
Research and development costs	1.3	0.9
Depreciation and amortization	1.2	0.7
Interest expense, net	1.2	1.2

Provision for income taxes	1.7	2.1
Net income	3.3	4.2

Results of Three Months Ended January 31, 2000 and 1999

Net sales increased by $52,414,016 or 76.8%, to $120,694,669 for the three months ended January 31, 2000 from $68,280,653 for the three months ended January 31, 1999. The increase in net sales was primarily attributable to the Company's expanded presence in international markets. International publishing revenues increased by $26,360,951 or 203.0%, to $39,343,486 for the three months ended January 31, 2000 from $12,982,535 for the three months ended January 31, 1999. In addition, revenues from distribution activities in the United States increased by $17,181,163, or 40.2% to $59,944,649 for the three months ended January 31, 2000 from $42,763,486 for the three months ended January 31, 1999.

Cost of sales increased by $31,865,115, or 59.5%, to $85,402,955 for the three months ended January 31, 2000 from $53,537,840 for the three months ended January 31, 1999. This increase was primarily a result of the expanded scope of the Company's operations. Cost of sales as a percentage of net sales decreased primarily due to the higher margin international publishing activities. In future periods, cost of sales may be adversely affected by manufacturing and other costs, price competition and by changes in product and sales mix and distribution channels.

Selling and marketing expenses increased by $11,114,421, or 267.1%, to $15,275,624 for the three months ended January 31, 2000 from $4,161,203 for the three months ended January 31, 1999. Selling and marketing expenses as a percentage of net sales increased to 12.7% for the three months ended January 31, 2000 from 6.1% for the three months ended January 31, 1999. The increase in both absolute dollars and as a percentage of net sales was primarily attributable to increased marketing and promotion efforts undertaken to broaden product distribution and to assist retailers in positioning our products for sale to consumers.

General and administrative expenses increased by $4,883,424, or 110.7%, to $9,294,922 for the three months ended January 31, 2000 from $4,411,498 for the three months ended January 31, 1999. General and administrative expenses as a percentage of net sales increased to 7.7% for the three months ended January 31, 2000 from 6.5% for the three months ended January 31, 1999. This increase in both absolute dollars and as a percentage of net sales was primarily attributable to salaries, rent, insurance premiums and professional fees associated with the Company's expanded operations.

Research and development costs increased by $1,033,293, or 174.5%, to $1,625,437 for the three months ended January 31, 2000 from $592,144 for the three months ended January 31, 1999. This increase was primarily attributable to the Company's expansion of its product development operations. Research and development costs as a percentage of net sales remained relatively constant.

Depreciation and amortization expense increased by $949,252, or 209.4%, to $1,402,667 for the three months ended January 31, 2000 from $453,415 for the three months ended January 31, 1999. The increase was primarily due to the amortization of intangible assets from acquisitions.

Interest expense increased by $689,819, or 84.5%, to $1,506,336 for the three months ended January 31, 2000 from $816,517 for the three months ended January 31, 1999. The increase resulted primarily from interest on increased bank borrowings.

Income taxes increased by $651,697, or 46.1% to $2,064,897 for the three months ended January 31, 2000 from $1,413,200 for the three months ended January 31, 1999. The increase in absolute dollars resulted primarily from increased pre-tax income. Income tax expense as a percentage of net sales remained relatively constant.

As a result of the foregoing, the Company achieved net income of $3,965,528 for the three months ended January 31, 2000, as compared to net income of $2,894,836 for the three months ended January 31, 1999.

Liquidity and Capital Resources

The Company's primary capital requirements have been and will continue to fund the acquisition, development, manufacture and commercialization of its software products. The Company has historically financed its operations primarily through the issuance of debt and equity securities and bank borrowings. At January 31, 2000, the Company had working capital of $43,451,845 as compared to working capital of $41,438,968 at October 31, 1999.

Net cash used in operating activities for the three months ended January 31, 2000 was $5,478,898 compared to net cash provided by operating activities of $177,843 for the three months ended January 31, 1999. The increase in net cash used in operating activities was primarily attributable to increase in prepaid royalties and increase in inventories. Net cash used in investing activities for the three months ended January 31, 2000 was $5,349,099 as compared to net cash used in investing activities of $184,408 for the three months ended January 31, 1999. The increase in net cash used in investing was primarily attributable to the Company's investment activities. Net cash provided by financing activities for the three months ended January 31, 2000 was $20,714,857 as compared to net cash provided by financing activities of $2,245,258 for the three months ended January 31, 1999. The increase in net cash provided by financing activities was primarily attributed to an increase in net borrowings under the line of credit. At January 31, 2000, the Company had cash and cash equivalents of $19,255,178.

In December 1999, our subsidiary, Take-Two Interactive Software Europe Limited entered into a line of credit agreement with Barclays' Bank. The line of credit provides for borrowings of up to approximately British Pounds 17,000,000 (approximately $25,000,000). Advances under the line of credit bear interest at the rate of 1.4% over Barclays' base rate per annum, payable quarterly. Borrowings are collateralized by receivables of the Company's European subsidiaries, and are guaranteed by the Company. The line of credit is repayable upon demand and is subject to review prior to November 29, 2000. The outstanding balance and available credit under the revolving line of credit is $14,520,254 and $1,801,865, respectively, as of January 31, 2000.

In December 1999, the Company entered into a credit agreement with a group of lenders led by Bank of America, N.A., as agent, which provides for borrowings of up to $75,000,000. The Company may increase the credit line to up to $85,000,000 subject to certain conditions. Interest accrues on such advances at the bank's prime rate plus 0.5% or at LIBOR plus 2.5%. Borrowings under the line of credit are collaterized by all of the Company's assets. Under the terms of the credit agreement, the Company is required to comply with certain financial, affirmative and negative covenants, including consolidated net worth, consolidated leverage ratio and consolidated fixed charge ratio. In addition, the credit agreement limits or prohibits the Company from declaring or paying cash dividends, merging or consolidating with another corporation, selling assets (other than in the ordinary course of business), creating liens and incurring additional indebtedness. In February 2002, certain financial covenants and several other covenants were amended retroactively to December 1999. Accordingly, as of January 31, 2000, the Company was in compliance with the covenants, as amended. The line of credit expires on December 7, 2002. The outstanding balance under the revolving line of credit is $60,000,000 as of January 31, 2000.

In March 2000, the Company consummated a private sale to one investor of 446,678 shares of Common Stock and received proceeds of $5,000,000 in cash.

The Company's accounts receivable, less an allowance for doubtful accounts and returns, at January 31, 2000 were $93,247,424. Of such receivables, approximately $16,117,054 or 17.3% were due from Ames Department Stores. Most of the Company's receivables are covered by insurance and generally have been collected in the ordinary course of business. The Company's sales are typically made on credit, with terms that vary depending upon the customer and the demand for the particular title being sold. The Company does not hold any collateral to secure payment by our customers. As a result, the Company is 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. If the Company is unable to collect its accounts receivable as they become due and such accounts are not covered by insurance, our liquidity and working capital position would be materially adversely affected.

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Based on currently proposed operating plans and assumptions, the Company believes that projected revenues from operations and available cash resources will be sufficient to satisfy its contemplated cash requirements for the reasonably foreseeable future. The Company recently acquired from Broadband Solutions, Inc. all of the outstanding capital stock of Netherlands based Toga Holdings BV, which owns Pixel Broadband Studios, Ltd., a company engaged in the development of multiplayer broadband gaming technology, which may require the Company to seek additional financing to fund ongoing product and technology development efforts. There can be no assurance that projected revenues from operations and available cash resources will be sufficient to fund the Company's operations or future expansion activities (including technology development) or that any additional financing will be available to the Company on commercially reasonable forms or at all. Failure to obtain any such additional financing could severely limit the Company's ability to continue to expand its operations.

Fluctuations in Operating Results and Seasonality

We have experienced and may continue to experience fluctuations in quarterly operating results as a result of timing in 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 shipment.

Sales of our titles are 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.

International Operations

Product sales in international markets, primarily in the United Kingdom and other countries in Europe and the Pacific Rim, have accounted for an increasing portion of the Company's revenues. For the three months ended January 31, 2000 and 1999, sales of products in international markets accounted for approximately 34.5% and 21.3%, respectively, of the Company's revenues. The Company is subject to risks inherent in foreign trade, including increased credit risks, tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays and international political, regulatory and economic developments, all of which can have a significant impact on the Company's operating results. Product sales in France and Germany are made in local currencies. The Company does not engage in foreign currency hedging transactions.

Year 2000

Pursuant to the year 2000 issue, the Company had developed programs to address the possible exposures related to the impact of computer systems incorrectly recognizing the year 2000 or "00" as 1900. As a result of implementation of its programs, the Company did not experience any significant Year 2000 disruptions during the transition from 1999 to 2000, and since entering 2000 the Company has not experienced any significant Year 2000 disruptions to its business. In addition, the Company is not aware of any significant disruptions impacting its customers or suppliers. The Company will continue to monitor its computer system over the next several months.

Costs incurred to achieve Year 2000 readiness, which included modification to existing systems, replacement or non-compliant systems and consulting resources were not material to the Company's total operating expenses.

PART II - OTHER INFORMATION

Item 2. Changes in Securities

From November 1999 to January 2000, 160,750 options from the 1997 Stock Option Plan and 39,000 non-plan options were granted at exercise prices ranging from $8.00 to $12.00.

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

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit
Exhibit 27 - Financial Data Schedule (SEC use Only)

(b) Reports on Form 8-K
None

SIGNATURES

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

Take-Two Interactive Software, Inc.

By: /s/ Kelly Sumner   Dated: April 16, 2002

Kelly Sumner
Chief Executive Officer