UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

1. Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended July 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\_\_

As of September 8, 2000, there were 31,002,552 shares of the registrant's Common Stock outstanding.

TAKE-TWO INTERACTIVE SOFTWARE, INC.

QUARTER ENDED JULY 31, 2000

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Item 1.

TAKE-TWO INTERACTIVE SOFTWARE, INC.

Consolidated Condensed Balance Sheets

As of July 31, 2000 and October 31, 1999 (unaudited)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ASSETS: | July 31, 2000 | | October 31, 1999 | |
|  | ------------- | | ---------------- | |
| Current assets: |  |  |  |  |
| Cash and cash equivalents | $ | 2,631,068 | $ | 10,374,562 |
| Accounts receivable, net of allowances of $3,921,494 and $6,816,682, respectively |  | 85,173,092 |  | 108,802,903 |
| Inventories |  | 41,214,022 |  | 41,299,838 |
| Prepaid royalties |  | 20,844,252 |  | 20,118,160 |
| Prepaid expenses and other current assets |  | 9,183,915 |  | 6,374,031 |
| Marketable securities |  | 3,559,399 |  | -- |
| Deferred tax asset |  | 2,357,249 |  | 2,004,689 |
|  | ------------- | | ------------- | |
| Total current assets |  | 164,962,997 |  | 188,974,183 |
| Fixed assets, net |  | 6,230,260 |  | 4,120,317 |
| Prepaid royalties |  | 860,000 |  | 1,510,530 |
| Capitalized software development costs, net |  | 9,796,522 |  | 2,226,670 |
| Investment in affiliates |  | -- |  | 3,954,668 |
| Intangibles, net of accumulated amortization of $9,248,842 and $3,251,358 respectively |  | 116,442,511 |  | 30,856,983 |
| Other assets, net |  | 1,076,557 |  | 1,073,026 |
|  | ------------- | | ------------- | |
| Total assets | $ 299,368,847 | | $ 232,716,377 | |
|  | ============= | | ============= | |
| LIABILITIES and STOCKHOLDERS' EQUITY: |  |  |  |  |
| Current liabilities: |  |  |  |  |
| Accounts payable | $ | 38,730,790 | $ | 71,229,744 |
| Accrued expenses |  | 17,680,878 |  | 20,161,810 |
| Lines of credit |  | 46,478,365 |  | 56,047,846 |
| Current portion of capital lease obligation |  | 82,998 |  | 65,204 |
| Notes payable, net of discount |  | -- |  | 30,611 |
|  | ------------- | | ------------- | |
| Total current liabilities |  | 102,973,031 |  | 147,535,215 |
| Note payable, net of current portion |  | -- |  | 58,363 |
| Loan payable, net of unamortized discount |  | 12,121,820 |  | -- |
| Capital lease obligation, net of current portion |  | 329,323 |  | 19,882 |
| Other liabilities |  | 1,889,953 |  | -- |
|  | ------------- | | ------------- | |
| Total liabilities |  | 117,314,127 |  | 147,613,460 |
|  | ------------- | | ------------- | |
| Commitments and contingencies |  |  |  |  |
| Stockholders' equity: |  |  |  |  |
| Common stock, par value $.01 per share; 50,000,000 shares authorized; |  |  |  |  |
| 30,958,055 and 23,085,455 shares issued and outstanding |  | 309,581 |  | 230,855 |
| Additional paid-in capital |  | 157,147,567 |  | 67,345,381 |
| Deferred compensation |  | (14,135) |  | (47,925) |
| Retained earnings |  | 31,096,526 |  | 18,401,625 |
| Accumulated other comprehensive loss |  | (6,484,819) |  | (827,019) |
|  | ------------- | | ------------- | |
| Total stockholders' equity |  | 182,054,720 |  | 85,102,917 |
|  | ------------- | | ------------- | |
| Total liabilities and stockholders' equity | $ 299,368,847 | | $ 232,716,377 | |
|  | ============= | | ============= | |

The accompanying notes are an integral part of the consolidated

condensed financial statements

Certain amounts have been reclassified for comparative purposes

TAKE-TWO INTERACTIVE SOFTWARE, INC.

Consolidated Condensed Statements of Operations

For the three months ended July 31, 2000 and 1999

and the nine months ended July 31, 2000 and 1999 (unaudited)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Three months ended July 31, | | | |  | Nine months ended July 31, | | |
|  | --------------------------- | | | | ----------------------------- | | | |
|  |  | 2000 |  | 1999 |  | 2000 |  | 1999 |
|  | ----------- | | ----------- | | ------------- | | ------------ | |
| Net sales | $71,472,587 | | $63,562,470 | | $ 264,398,385 | | $184,008,455 | |
| Cost of sales |  | 40,100,344 |  | 43,931,101 |  | 168,155,154 |  | 133,553,958 |
|  | ----------- | | ----------- | | ------------- | | ------------ | |
| Gross profit |  | 31,372,243 |  | 19,631,369 |  | 96,243,231 |  | 50,454,497 |
|  | ----------- | | ----------- | | ------------- | | ------------ | |
| Operating expenses: |  |  |  |  |  |  |  |  |
| Selling and marketing |  | 9,055,486 |  | 6,925,874 |  | 34,243,171 |  | 16,415,343 |
| General and administrative |  | 9,105,921 |  | 6,779,560 |  | 25,725,552 |  | 17,416,941 |
| Research and development costs |  | 1,656,737 |  | 986,845 |  | 4,646,045 |  | 2,210,994 |
| Depreciation and amortization |  | 3,821,587 |  | 730,146 |  | 7,398,041 |  | 1,743,567 |
| One time charge related to abandoned offering |  | 1,103,170 |  | -- |  | 1,103,170 |  | -- |
|  | ----------- | | ----------- | | ------------- | | ------------ | |
| Total operating expenses |  | 24,742,901 |  | 15,422,425 |  | 73,115,979 |  | 37,786,845 |
|  | ----------- | | ----------- | | ------------- | | ------------ | |
| Income from operations |  | 6,629,342 |  | 4,208,944 |  | 23,127,252 |  | 12,667,652 |
| Interest expense, net |  | 1,635,618 |  | 453,825 |  | 4,516,708 |  | 2,053,295 |
|  | ----------- | | ----------- | | ------------- | | ------------ | |
| Income before equity in income/(loss) of affiliate and |  |  |  |  |  |  |  |  |
| provision for income taxes |  | 4,993,724 |  | 3,755,119 |  | 18,610,544 |  | 10,614,357 |
| Equity in income/(loss) of affiliate |  | -- |  | 110,973 |  | (762,683) |  | 110,973 |
|  | ----------- | | ----------- | | ------------- | | ------------ | |
| Income before provision for income taxes |  | 4,993,724 |  | 3,866,092 |  | 17,847,861 |  | 10,725,330 |
| Provision for income taxes |  | 1,544,753 |  | 1,158,268 |  | 6,258,022 |  | 3,561,498 |
|  | ----------- | | ----------- | | ------------- | | ------------ | |
| Net income | $ 3,448,971 | | $ 2,707,824 | | $ | 11,589,839 | $ | 7,163,832 |
|  | =========== | | =========== | | ============= | | ============ | |
| Per share data: |  |  |  |  |  |  |  |  |
| Basic: |  |  |  |  |  |  |  |  |
| Weighted average common shares outstanding |  | 29,061,499 |  | 22,440,547 |  | 25,981,014 |  | 19,939,990 |
|  | =========== | | =========== | | ============= | | ============ | |
| Net income per share | $ | 0.12 | $ | 0.12 | $ | 0.45 | $ | 0.36 |
|  | =========== | | =========== | | ============= | | ============ | |
| Diluted: |  |  |  |  |  |  |  |  |
| Weighted average common shares outstanding |  | 29,879,265 |  | 23,292,541 |  | 26,992,485 |  | 21,205,200 |
|  | =========== | | =========== | | ============= | | ============ | |
| Net income per share | $ | 0.12 | $ | 0.12 | $ | 0.43 | $ | 0.34 |
|  | =========== | | =========== | | ============= | | ============ | |

The accompanying notes are an integral part of the consolidated

condensed financial statements.

Certain amounts have been reclassified for comparative purposes

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| TAKE-TWO INTERACTIVE SOFTWARE, INC. | |  |  |  |  |
| Consolidated | Condensed Statements of Cash Flows |  |  |  |  |
| For the nine months ended July 31, 2000 and 1999 (unaudited) | |  |  |  |  |
|  |  |  | Nine months ended July 31, | | |
|  |  | ---------------------------- | | | |
|  |  |  | 2000 |  | 1999 |
|  |  | ------------ | | ------------ | |
| Cash flows from operating activities: | |  |  |  |  |
| Net income | | $ 11,589,839 | | $ | 7,163,832 |
| Adjustment to reconcile net income to net cash used in operating activities: | |  |  |  |  |
| Depreciation and amortization | |  | 7,398,041 |  | 1,743,567 |
| Loss on disposal of fixed asset | |  | 247,630 |  | 57,504 |
| Net gain from eUniverse transactions | |  | (2,801,449) |  | -- |
| Equity in loss (earnings) of affiliate | |  | 762,683 |  | (110,972) |
| Change in deferred tax asset | |  | (352,560) |  | 941,000 |
| Provision for allowances | |  | (1,734,921) |  | 760,914 |
| Forfeiture of compensatory stock options in connection with AIM acquisition | |  | -- |  | (146,418) |
| Other amortization | |  | 283,889 |  | 365,790 |
| Issuance of compensatory stock | |  | -- |  | 641,909 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | |  |  |  |  |
| Decrease (increase) in accounts receivable | |  | 30,008,597 |  | (8,806,651) |
| Decrease (increase) in inventories, net | |  | 88,302 |  | (5,358,443) |
| Increase in prepaid royalties | |  | (16,127,467) |  | (5,921,749) |
| Increase in prepaid expenses and other current assets | |  | (2,166,456) |  | (742,318) |
| (Increase) decrease in capitalized software development costs | |  | (7,569,852) |  | 159,686 |
| (Increase) decrease in other assets, net | |  | (976,557) |  | 33,259 |
| Decrease in accounts payable | |  | (39,767,284) |  | (4,190,634) |
| (Decrease) increase in accrued expenses | |  | (8,081,269) |  | 3,039,522 |
|  |  | ------------ | | ------------ | |
|  | Net cash used in operating activities |  | (29,198,834) |  | (10,370,202) |
|  |  | ------------ | | ------------ | |
| Cash flows from investing activities: | |  |  |  |  |
| Net purchases of fixed assets | |  | (2,405,920) |  | (1,869,971) |
| Cash paid for investments | |  | (1,432,500) |  | (4,000,000) |
| Acquisition, net cash (paid) acquired | |  | (4,261,640) |  | 5,182 |
| Cash paid for prior acquisitions | |  | (1,531,385) |  | -- |
|  |  | ------------ | | ------------ | |
|  | Net cash used in investing activities |  | (9,631,445) |  | (5,864,789) |
|  |  | ------------ | | ------------ | |
| Cash flows from financing activities: | |  |  |  |  |
| Net proceeds from secondary public offering | |  | -- |  | 21,852,559 |
| Proceeds from private placement, net | |  | 19,689,684 |  | -- |
| Net repayment under the line of credit | |  | (9,658,455) |  | (7,637,956) |
| Proceeds from loan payable | |  | 15,000,000 |  | -- |
| Repayment of notes payable | |  | -- |  | (449,572) |
| Proceeds from exercise of stock options | |  | 5,913,253 |  | 2,187,321 |
| Proceeds from exercise of warrants | |  | 6,460 |  | 223,926 |
| Proceeds from issuance of stock of subsidiary | |  | 1,500,000 |  | -- |
| Repayment of capital lease obligation | |  | (56,363) |  | (70,932) |
| Tax benefit from exercise of stock options | |  | 1,940,655 |  | 753,523 |
|  |  | ------------ | | ------------ | |
|  | Net cash provided by financing activities |  | 34,335,234 |  | 16,858,869 |
|  |  | ------------ | | ------------ | |
| Effect of foreign exchange rates | |  | (3,248,449) |  | (468,574) |
|  |  | ------------ | | ------------ | |
|  | Net (decrease) increase in cash for the period |  | (7,743,494) |  | 155,304 |
| Cash and cash equivalents, beginning of the period | |  | 10,374,562 |  | 2,762,837 |
|  |  | ------------ | | ------------ | |
| Cash and cash equivalents, end of the period | | $ | 2,631,068 | $ | 2,918,141 |
|  |  | ============ | | ============ | |
| Supplemental disclosure of non-cash investing and financing activities: | |  |  |  |  |
| Tax benefit from the exercise of stock options | | $ | 1,940,655 | $ | 753,523 |
|  |  | ============ | | ============ | |
| Gathering | purchase option | $ | -- | $ | 1,275,000 |
|  |  | ============ | | ============ | |
| Supplemental information on businesses acquired: | |  |  |  |  |
| Fair value of assets acquired | |  |  |  |  |
| Cash |  | $ | 196,100 | $ | 343,865 |
| Accounts receivables, net | |  | 4,646,351 |  | 5,852,779 |
| Inventories, net | |  | -- |  | 2,301,672 |
| Prepaid expenses and other assets | |  | 643,426 |  | 320,123 |
| Property and equipment, net | |  | 1,077,216 |  | 629,155 |
| Intangibles | |  | 90,391,069 |  | 4,960,891 |
| Less, liabilities assumed | |  |  |  |  |
| Line of credit | |  | -- |  | (2,210,517) |
| Accounts payable | |  | (7,268,330) |  | (6,132,408) |
| Accrued expenses | |  | (449,777) |  | (370,972) |
| Deferred royalties | |  | (15,926,905) |  | -- |
| Other liabilities | |  | (8,167,452) |  | -- |
| Stock issued | |  | (54,815,776) |  | (5,119,165) |
| Warrants issued | |  | (1,750,000) |  | -- |
| Direct transaction costs | |  | (154,486) |  | (236,740) |
| Investment interest and purchase option | |  | (3,963,696) |  | -- |

|  |  |  |  |
| --- | --- | --- | --- |
|  | ------------ | ------------ | |
| Cash paid | 4,457,740 |  | 338,683 |
| Less, cash acquired | (196,100) |  | (343,865) |
|  | ------------ | ------------ | |
| Net cash paid (acquired) | $ 4,261,640 | $ | (5,182) |
|  | ============ | ============ | |

During the nine months ended July 31, 2000, the Company paid $1,531,385 in cash and issued $161,140 in common stock related to a prior period acquisition. Such payments were accounted for as additional consideration and had the effect of increasing intangibles.

The accompanying notes are an integral part of the consolidated

condensed financial statements

Certain amounts have been reclassified for comparative purposes

TAKE-TWO INTERACTIVE SOFTWARE, INC.

Consolidated Condensed Statements of Stockholders' Equity

For the year ended October 31, 1999 and the nine months ended July 31, 2000 (unaudited)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Common Stock | |  |
|  | --------------------- | | Additional |
|  | Shares | Amount | Paid-in Capital |
|  | ---------- | -------- | --------------- |
| Balance, October 31, 1998 | 18,071,972 | $180,719 | $ 33,546,417 |
| Issuance of compensatory stock options | 536,923 | 5,369 | 831,203 |
| Exercise of stock options | 613,218 | 6,133 | 2,378,753 |
| Amortization of deferred compensation | -- | -- | -- |
| Forfeiture of compensatory stock options in connection with AIM acquisition | -- | -- | (146,418) |
| Issuance of common stock in connection with LDA and Joytech acquisition | 364,766 | 3,648 | 3,716,965 |
| Issuance of common stock in connection with DVDWave.com acquisition | 50,000 | 500 | 505,750 |
| Issuance of common stock in connection with Funsoft acquisition | 60,281 | 603 | 466,575 |
| Issuance of common stock in connection with the investment in affiliate | 125,000 | 1,250 | 1,273,750 |
| Issuance of common stock in connection with the Triad and Global acquisition | 162,500 | 1,625 | 1,399,938 |
| Proceeds from exercise of public warrants | 40,795 | 408 | 223,481 |
| Issuance of common stock in connection with a public offering, |  |  |  |
| net of issuance costs | 3,005,000 | 30,050 | 21,822,509 |
| Issuance of common stock in lieu of royalty payments | 55,000 | 550 | 332,200 |
| Tax benefit in connection with the exercise of stock options | -- | -- | 994,258 |
| Foreign currency translation adjustment | -- | -- | -- |
| Net income | -- | -- | -- |
|  | ---------- | -------- | ------------- |
| Balance, October 31, 1999 | 23,085,455 | 230,855 | 67,345,381 |
| Exercise of stock options | 1,203,340 | 12,034 | 5,901,220 |
| Amortization of deferred compensation | -- | -- | -- |
| Issuance of common stock in connection with LDA and Joytech acquisition | 15,798 | 158 | 160,982 |
| Issuance of common stock and warrants in connection with Pixel acquisition | 2,561,245 | 25,612 | 40,303,140 |
| Issuance of common stock in connection with GOD acquisition | 1,060,017 | 10,600 | 10,390,817 |
| Issuance of common stock in connection with PopTop acquisition | 559,100 | 5,591 | 5,830,015 |
| Issuance of common stock in connection with private placements, |  |  |  |
| net of issuance costs | 2,291,678 | 22,917 | 19,666,767 |
| Issuance of warrants in connection with a debt financing | -- | -- | 2,926,963 |
| Proceeds from exercise of warrants | 1,000 | 10 | 6,450 |
| Issuance of common stock in lieu of repayment of debt assumed from Pixel | 167,922 | 1,679 | 2,527,646 |
| Issuance of common stock in connection with the purchase of DVD | 12,500 | 125 | 147,531 |
| Tax benefit in connection with the exercise of stock options | -- | -- | 1,940,655 |
| Foreign currency translation adjustment | -- | -- | -- |
| Unrealized loss on available-for-sale securities | -- | -- | -- |
| Net income | -- | -- | -- |
|  | ---------- | -------- | ------------- |
| Balance, July 31, 2000 | 30,958,055 | $309,581 | $ 157,147,567 |
|  | ========== | ======== | ============= |

Deferred

Compensation

Accumulated

Other

Retained Comprehensive

Earnings Income (Loss)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | --------- | ----------- | ----------- | |
| Balance, October 31, 1998 | $(223,657) | $ 2,069,522 | $ | (7,433) |
| Issuance of compensatory stock options | (5,625) | -- |  | -- |
| Exercise of stock options | -- | -- |  | -- |
| Amortization of deferred compensation | 181,357 | -- |  | -- |
| 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 | (47,925) | 18,401,625 |  | (827,019) |
| Exercise of stock options | -- | -- |  | -- |
| Amortization of deferred compensation | 33,790 | -- |  | -- |
| Issuance of common stock in connection with LDA and Joytech acquisition | -- | -- |  | -- |
| Issuance of common stock and warrants in connection with Pixel acquisition | -- | -- |  | -- |
| Issuance of common stock in connection with GOD acquisition | -- | -- |  | -- |
| Issuance of common stock in connection with PopTop acquisition | -- | -- |  | -- |
| Issuance of common stock in connection with private placements, |  |  |  |  |
| net of issuance costs | -- | -- |  | -- |
| Issuance of warrants in connection with a debt financing | -- | -- |  | -- |
| Proceeds from exercise of warrants | -- | -- |  | -- |
| Issuance of common stock in lieu of repayment of debt assumed from Pixel | -- | -- |  | -- |
| Issuance of common stock in connection with the purchase of DVD | -- | 1,105,062 |  | -- |
| Tax benefit in connection with the exercise of stock options | -- | -- |  | -- |
| Foreign currency translation adjustment | -- | -- |  | (3,248,449) |
| Unrealized loss on available-for-sale securities | -- | -- |  | (2,409,351) |
| Net income | -- | 11,589,839 |  | -- |
|  | --------- | ----------- | ----------- | |
| Balance, July 31, 2000 | $ (14,135) | $31,096,526 | $(6,484,819) | |
|  | ========= | =========== | =========== | |

|  |  |  |
| --- | --- | --- |
|  |  | Comprehensive |
|  | Total | Income (Loss) |
|  | ------------- | ------------ |
| Balance, October 31, 1998 | $ 35,565,568 | $ 7,304,367 |
| Issuance of compensatory stock options | 830,947 | -- |
| Exercise of stock options | 2,384,886 | -- |
| Amortization of deferred compensation | 181,357 | -- |
| Forfeiture of compensatory stock options in connection with AIM acquisition | (146,418) | -- |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Issuance of | common | stock | in | connection with | LDA and Joytech acquisition | 3,720,613 | -- |
| Issuance of | common | stock | in | connection with | DVDWave.com acquisition | 506,250 | -- |
| Issuance of | common | stock | in | connection with | Funsoft acquisition | 467,178 | -- |
| Issuance of | common | stock | in | connection with | the investment in affiliate | 1,275,000 | -- |
| Issuance of common stock | | | in connection with the Triad and Global acquisition | | | 1,401,563 | -- |
| Proceeds from exercise of public warrants | | | | |  | 223,889 | -- |
| Issuance of common stock in connection with a public offering, | | | | | |  |  |
| net of issuance costs | | | |  |  | 21,852,559 | -- |
| Issuance of common stock in lieu of royalty payments | | | | | | 332,750 | -- |
| Tax benefit in connection with the exercise of stock options | | | | | | 994,258 | -- |
| Foreign currency translation adjustment | | | | |  | (819,586) | (819,586) |
| Net income |  |  |  |  |  | 16,332,103 | 16,332,103 |
|  |  |  |  |  |  | ------------- | ------------ |
| Balance, October 31, 1999 | | |  |  |  | 85,102,917 | 15,512,517 |
| Exercise of stock options | | |  |  |  | 5,913,254 | -- |
| Amortization of deferred compensation | | | | |  | 33,790 | -- |
| Issuance of common stock in connection with LDA and Joytech acquisition | | | | | | 161,140 | -- |
| Issuance of common stock and warrants in connection with Pixel acquisition | | | | | | 40,328,752 | -- |
| Issuance of common stock in connection with GOD acquisition | | | | | | 10,401,417 | -- |
| Issuance of common stock in connection with PopTop acquisition | | | | | | 5,835,606 | -- |
| Issuance of common stock in connection with private placements, | | | | | |  |  |
| net of issuance costs | | |  |  |  | 19,689,684 | -- |
| Issuance of warrants in connection with a debt financing | | | | | | 2,926,963 | -- |
| Proceeds from exercise of warrants | | | | |  | 6,460 | -- |
| Issuance of common stock in lieu of repayment of debt assumed from Pixel | | | | | | 2,529,325 | -- |
| Issuance of common stock in connection with the purchase of DVD | | | | | | 1,252,718 | -- |
| Tax benefit in connection with the exercise of stock options | | | | | | 1,940,655 | -- |
| Foreign currency translation adjustment | | | | |  | (3,248,449) | (3,248,449) |
| Unrealized loss on available-for-sale securities | | | | | | (2,409,351) | (2,409,351) |
| Net income |  |  |  |  |  | 11,589,839 | 11,589,839 |
|  |  |  |  |  |  | ------------- | ------------ |
| Balance, July 31, 2000 | | |  |  |  | $ 182,054,720 | $ 5,932,039 |
|  |  |  |  |  |  | ============= | ============ |

The accompanying notes are an integral part of the consolidated

condensed financial statements.

Certain amounts have been reclassified for comparative purposes

TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Consolidated Condensed Financial Statements

(Information at July 31, 2000 and for the three and nine month periods

ended July 31, 2000 and 1999 are 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.

1. Significant Accounting Policies and Transactions: Basis of Presentation

The 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 operations 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 sales based on actual net product sales. Management continuously evaluates the future realization of prepaid royalties, and charges to cost of sales any amount which is deemed unlikely to be realized at the contractual royalty rate through future product sales. Prepaid royalties are classified as current and non-current assets based upon estimated net product sales within the next year.

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Prepaid royalties were not written down for the three months ended July 31, 2000 and 1999. For the nine months ended July 31, 2000 and 1999, prepaid royalties were written down by $109,942 and $844,112, respectively, to estimated net realizable value. Amortization of prepaid royalties amounted to $6,290,248 and $6,308,905 for the three months ended July 31, 2000 and 1999, respectively, and $11,081,264 and $10,191,276 for the nine months ended July 31, 2000 and 1999, respectively.

Capitalized Software Development Costs (Including Film Production 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 amounts in excess of estimated net realizable value, if any, are immediately charged to cost of sales.

No capitalized software costs were written down for the three months ended July 31, 2000 and 1999. For the nine months ended July 31, 2000 and 1999, capitalized software costs were written down by $249,184 and $688,068, respectively, to estimated net realizable value. Amortization of capitalized software costs amounted to $143,479 and $451,783 for the three months ended July 31, 2000 and 1999, respectively, and $472,449 and $681,783 for the nine months ended July 31, 2000 and 1999, respectively.

Segment Reporting

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

Recently Issued Accounting Pronouncements

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin 101 ("SAB 101"). SAB 101 summarizes certain of the staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The provisions of this pronouncement are effective for the fourth quarter of the fiscal year ended October 31, 2001. The Company is in the process of determining the impact, if any, it will have on its financial statements.

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 $29,444,878 and $20,946,961 for the three months ended July 31, 2000 and 1999, respectively, and $123,418,395 and $86,362,777 for the nine months ended July 31, 2000 and 1999, respectively. The Company at times negotiates accommodations to retailers, including price discounts, credits and product returns, when demand for specific products fall below expectations. 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. Historically, the Company's write-offs for returns from 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

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sale of product licensed from a third party developer and is recognized upon the shipment of product to retailers. Publishing revenue amounted to $42,027,709 and $42,615,509 for the three months ended July 31, 2000 and 1999, respectively, and $140,979,990 and $97,645,678 for the nine months ended July 31, 2000 and 1999, respectively. The Company's publishing arrangements require the Company to accept product returns. A reserve is established 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. The Company has historically experienced a product return rate of approximately 10% of gross publishing revenues.

3. Business Acquisitions

In July 2000, the Company acquired all of the issued and outstanding capital stock of PopTop Software, Inc. ("PopTop") for 559,100 shares of the Company's common stock. PopTop is the creator of the best selling Railroad Tycoon II.

The acquisition has been accounted for as a purchase. The Consolidated Condensed Statement of Operations includes the operating results of each business from the date of acquisition.

The following unaudited pro forma results below assumes the acquisitions of Toga Holding, BV ("Toga") and Gathering of Developers, Ltd ("Gathering") occurred on November 1, 1998:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Nine Months Ended | | Nine Months Ended | |
|  |  | July 31, 2000 | July 31, 1999 | |
|  | --------------- | | ----------------- | |
| Net Sales | $ | 271,690,266 | $ | 200,200,341 |
| Net Income | $ | 12,026,242 | $ | 1,455,908 |
| Net Income per share (basic) | $ | 0.43 | $ | 0.06 |
| Net Income per share (fully diluted) | $ | 0.42 | $ | 0.06 |

The pro forma financial information is not necessarily indicative of the operating results that would have occurred had the acquisitions of Toga and Gathering been consummated as of November 1, 1998 nor are they necessarily indicative of future operating results.

4. Loan Payable

In July 2000, the Company entered into a subordinated loan agreement with Finova Mezzanine Capital Inc. ("Finova") in the principal amount of $15 million. The loan is payable in full in July 2005, and bears interest at the rate of 12.5% per annum, payable monthly. In connection with the loan, the Company issued to Finova a five year warrant to purchase 451,747 shares of Common Stock exercisable at a price of $11.875 per share. Subject to the outstanding loan balance, the warrant entitles Finova to receive additional shares of Common Stock for three consecutive years commencing July 2003, and contains certain anti-dilution provisions. The Company has recorded the loan net of discount of $2,926,963 to reflect an allocation of the proceeds to the estimated value

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of the warrant. The discount is being amortized using the "interest method" over the term of the financing.

5. Income Taxes

The provisions for income taxes for the three months ended, as well as for the nine months ended July 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.

6. Net Income per Share

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | Per Share |
|  |  | Income | Shares |  | Amount |
|  | --------------- | | --------------- | ----------------- | |
| Three Months Ended July 31, 2000: |  |  |  |  |  |
| Basic | $ | 3,448,971 | 29,061,499 | $ | 0.12 |
| Effect of dilutive securities - Stock options |  |  |  |  |  |
| and warrants |  |  | 817,766 |  | - |
|  |  | ------------- | --------------- | ----------------- | |
| Diluted | $ | 3,448,971 | 29,879,265 | $ | 0.12 |
|  | =============== | | =============== | ================= | |
| Three Months Ended July 31, 1999: |  |  |  |  |  |
| Basic | $ | 2,707,824 | 22,440,547 | $ | 0.12 |
| Effect of dilutive securities - Stock options |  |  |  |  |  |
| and warrants |  |  | 851,994 |  | -- |
|  | --------------- | | --------------- | ----------------- | |
| Diluted | $ | 2,707,824 | 23,292,541 | $ | 0.12 |
|  | =============== | | =============== | ================= | |
| Nine months Ended July 31, 2000: |  |  |  |  |  |
| Basic | $ 11,589,839 | | 25,981,014 | $ | 0.45 |
| Effect of dilutive securities - Stock options |  |  |  |  |  |
| and warrants |  |  | 1,011,471 |  | (.02) |
|  |  | ------------- | --------------- | ----------------- | |
| Diluted | $ 11,589,839 | | 26,992,485 | $ | 0.43 |
|  | =============== | | =============== | ================= | |
| Nine months Ended July 31, 1999: |  |  |  |  |  |
| Basic | $ | 7,163,832 | 19,939,990 | $ | 0.36 |
| Effect of dilutive securities - Stock options |  |  |  |  |  |
| and warrants |  |  | 1,265,210 |  | (.02) |
|  | --------------- | | --------------- | ----------------- | |
| Diluted | $ | 7,163,832 | 21,205,200 | $ | 0.34 |
|  | =============== | | =============== | ================= | |

The computations for diluted number of shares excludes unexercised stock options and warrants which are anti-dilutive.

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1. Disposition of Assets

In June 2000, the Company sold its 19.9% equity interest in Bungie Software ("Bungie") to Microsoft Corporation for approximately $5 million (or 19.9% of $25,000,000, the total share consideration paid to Bungie shareholders). Separately, the Company sold its publishing and distribution rights to Halo for $4,000,000 and acquired a royalty free license to Bungie's Halo technology for two products. In addition, the Company was granted all of Bungie's right, title and interest to the best-selling Myth franchise and the highly anticipated upcoming PC and PlayStation(R) 2 game, Oni, titles which the Company had previously only held certain distribution rights.

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Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 to customers.

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. For distribution sales, the Company at times 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 for returns from its distribution activities have been less than 1% of distribution revenues. If future product returns significantly exceed these reserves, the Company's operating results would be materially adversely affected.

Research and development costs (consisting primarily of salaries and related costs) incurred prior to establishing technological feasibility are expensed in accordance with Statement of Financial Accounting Standards ("FAS") No. 86 "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed". In accordance with FAS No. 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 July 31, 2000, the Company had $9,796,522 of capitalized software development costs. The Company evaluates the recoverability of capitalized software costs, the amount in excess of estimated net realizable value may

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have a material adverse effect on the Company's operating results in future periods. See Note 2 to 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 | | Nine months Ended | |
|  | July 31, |  | July 31, |  |
|  | -------- |  | -------- |  |
|  | 2000 | 1999 | 2000 | 1999 |
|  | ------ | ------ | ------ | ------ |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 56.1 | 69.1 | 63.6 | 72.6 |
| Selling and marketing | 12.7 | 10.9 | 13.0 | 8.9 |
| General and administrative | 12.7 | 10.7 | 9.7 | 9.5 |
| Research and development costs | 2.3 | 1.6 | 1.8 | 1.2 |
| Depreciation and amortization | 5.3 | 1.1 | 2.8 | .9 |
| One time charge related to |  |  |  |  |
| abandoned offering | 1.5 | -- | .4 | -- |
| Interest expense | 2.3 | .7 | 1.7 | 1.1 |
| Income taxes | 2.2 | 1.8 | 2.4 | 1.9 |
| Net income | 4.8 | 4.3 | 4.4 | 3.8 |

Results of Three Months Ended July 31, 2000 and 1999

Net sales increased by $7,910,117 or 12.4%, to $71,472,587 for the three months ended July 31, 2000 from $63,562,470 for the three months ended July 31, 1999. The increase in net sales was primarily attributable to the Company's expanded distribution operations. Distribution revenues increased by $8,497,917 or 40.6%, to $29,444,878 for the three months ended July 31, 2000 from $20,946,961 for the three months ended July 31, 1999. Publishing revenues of $42,027,709 for the three months ended July 31, 2000 (which included licensing revenue of approximately $5.5 million) remained relatively constant compared to the three months ended July 31, 1999.

Cost of sales decreased by $3,830,757 or 8.7%, to $40,100,344 for the three months ended July 31, 2000 from $43,931,101 for the three months ended July 31, 1999. Cost of sales as a percentage of net sales decreased from 69.1% to 56.1%. The Company attributes this decrease primarily to the continued growth

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in its publishing margins due to higher PC sales and expanding distribution and budget publishing margins. 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 $2,129,612 or 30.8%, to $9,055,486 for the three months ended July 31, 2000 from $6,925,874 for the three months ended July 31, 1999. As a percentage of net sales, selling and marketing expenses increased to 12.7% for the three months ended July 31, 2000 from 10.9% for the three months ended July 31, 1999. The increase in both absolute dollars and as a percentage of net sales was primarily attributable to the acquisition of Gathering of Developers, Ltd, which was previously accounted for under the equity method and increased marketing and promotion efforts undertaken to broaden product distribution.

General and administrative expenses increased by $2,326,361 or 34.3%, to $9,105,921 for the three months ended July 31, 2000 from $6,779,560 for the three months ended July 31, 1999. General and administrative expenses as a percentage of net sales increased to 12.7% for the three months ended July 31, 2000 from 10.7% for the three months ended July 31, 1999. This increase in both absolute dollars and as a percentage of net sales is a result of increased personnel through its acquisitions.

Research and development costs increased by $669,892 or 67.9%, to $1,656,737 for the three months ended July 31, 2000 from $986,845 for the three months ended July 31, 1999. This increase was primarily attributable to the expansion of the Company's product development operations. Research and development costs as a percentage of net sales remained relatively constant.

Depreciation and amortization expense increased by $3,091,441 or 423.4%, to $3,821,587 for the three months ended July 31, 2000 from $730,146 for the three months ended July 31, 1999. The increase was primarily due to the amortization of intangible assets from acquisitions.

The Company incurred a one-time charge of $1,103,170 in the three months ended July 31, 2000 covering professional fees and other expenses related to an abandoned offering to list a subsidiary's stock on EASDAQ.

Interest expense increased by $1,181,793 or 260.4%, to $1,635,618 for the three months ended July 31, 2000 from $453,825 for the three months ended July 31, 1999. The increase resulted from expanded credit facilities, as well as the amortization of fees paid in connection with financing activities.

Income taxes increased by $386,485, or 33.4% to $1,544,753 for the three months ended July 31, 2000 from $1,158,268 for the three months ended July 31, 1999. The increase in absolute dollars resulted primarily from increased pre-tax income. Income tax expense as a percentage of net sales remained constant.

As a result of the foregoing, the Company achieved net income of $3,448,971 for the three months ended July 31, 2000, as compared to net income of $2,707,824 for the three months ended July 31, 1999.

Results of Nine months Ended July 31, 2000 and 1999

Net sales increased by $80,389,930 or 43.7%, to $264,398,385 for the nine months ended July 31, 2000 from $184,008,455 for the nine months ended July 31, 1999. The increase in net sales was primarily attributable to the Company's expanded presence in international markets. International publishing

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revenues increased by $25,991,128 or 55.4%, to $72,880,996 for the nine months ended July 31, 2000 from $46,889,868 for the nine months ended July 31, 1999. Revenues from distribution activities increased by $37,055,618 or 42.9% to $123,418,395 for the nine months ended July 31, 2000 from $86,362,777 for the nine months ended July 31, 1999.

Cost of sales increased by $34,601,196, or 25.9%, to $168,155,154 for the nine months ended July 31, 2000 from $133,553,958 for the nine months ended July 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 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 $17,827,828, or 108.6%, to $34,243,171 for the nine months ended July 31, 2000 from $16,415,343 for the nine months ended July 31, 1999. Selling and marketing expenses as a percentage of net sales increased to 13.0% for the nine months ended July 31, 2000 from 8.9% for the nine months ended July 31, 1999. The increase in both absolute dollars and as a percentage of net sales was primarily attributable to the acquisition of Gathering of Developers, Ltd, which was previously accounted for under the equity method and 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 $8,308,611, or 47.7%, to $25,725,552 for the nine months ended July 31, 2000 from $17,416,941 for the nine months ended July 31, 1999. The increase in absolute dollars and as a percentage of net sales was primarily attributable to increased cost associated with the Company's expanded operations through its acquisitions.

Research and development costs increased by $2,435,051, or 110.1%, to $4,646,045 for the nine months ended July 31, 2000 from $2,210,994 for the nine months ended July 31, 1999. This increase was primarily attributable to the expansion of the Company's product development operations.

Depreciation and amortization expense increased by $5,654,474 or 324.3%, to $7,398,041 for the nine months ended July 31, 2000 from $1,743,567 for the nine months ended July 31, 1999. The increase was primarily due to the amortization of intangible assets from acquisitions.

The Company incurred a one-time charge of $1,103,170 in the nine months ended July 31, 2000 covering professional fees and other expenses related to an abandoned offering to list a subsidiary's stock on EASDAQ.

Interest expense increased by $2,463,413, or 120.0%, to $4,516,708 for the nine months ended July 31, 2000 from $2,053,295 for the nine months ended July 31, 1999. The increase resulted primarily from increased bank borrowings.

Income taxes increased by $2,696,524, or 75.7% to $6,258,022 for the nine months ended July 31, 2000 from $3,561,498 for the nine months ended July 31, 1999. The increase in absolute dollars resulted primarily from increased pre-tax income. Income tax expense as a percentage of net sales remained constant.

As a result of the foregoing, the Company achieved net income of $11,589,839 for the nine months ended

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July 31, 2000, as compared to net income of $7,163,832 for the nine months ended July 31, 1999.

Liquidity and Capital Resources

The Company's primary capital requirements have been and will continue to be to fund the acquisition, development, manufacture and commercialization of its software products. The Company has historically financed its operations primarily through the issuance of debt and equity securities and bank borrowings. At July 31, 2000, the Company had working capital of $61,989,966 as compared to $41,438,968 at October 31, 1999.

Net cash used in operating activities for the nine months ended July 31, 2000 was $29,198,834 compared to net cash used by operating activities of $10,370,202 for the nine months ended July 31, 1999. The increase in net cash used in operating activities was primarily attributable to an increase in prepaid royalties and capitalized software costs. Net cash used in investing activities for the nine months ended July 31, 2000 was $9,631,445 as compared to net cash used in investing activities of $5,864,789 for the nine months ended July 31, 1999. The increase in net cash used in investing was primarily attributable to the Company's acquisition activities. Net cash provided by financing activities for the nine months ended July 31, 2000 was $34,335,234 as compared to net cash provided by financing activities of $16,858,869 for the nine months ended July 31, 1999. The increase in net cash provided by financing activities was primarily attributed to cash received from the loan with Finova, cash received from private placements and the impact of increased exercises of stock options. At July 31, 2000, the Company had cash and cash equivalents of $2,631,068.

In December 1999, the Company's 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 (pound)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 $14,186,488 and $1,099,162, respectively, as of July 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 .5% or at LIBOR plus 2.5%. Borrowings under the line of credit are collaterized by all of the Company's assets. The line of credit expires on December 7, 2002. The outstanding balance and available credit under the revolving line of credit is $32,291,878 and $9,920,433, respectively, as of July 31, 2000.

In July 2000, the Company entered into a subordinated loan agreement with Finova in the principal amount of $15 million. The loan is payable in full in July 2005, and bears interest at the rate of 12.5% per annum, payable monthly.

In July 2000, the Company received net proceeds of $11,174,149 from the sale of common stock.

The Company's accounts receivable, less an allowance for doubtful accounts and returns, at July 31, 2000 were $85,173,092. None of the Company's customers are accounted for more than 10% of accounts receivable at July 31, 2000. Most of the Company's receivables are covered by insurance and generally

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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 from customers. As a result, the Company is subject to credit risks, particularly in the event that any of the 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 recoverable by insurance, the Company's liquidity and working capital position would be materially adversely affected.

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. 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 or that any additional financing, if required, will be available to the Company on commercially reasonable terms. 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

The Company may 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 the Company's titles; development and promotional expenses relating to the introduction of new titles, sequels or enhancements of existing titles; projected and actual changes in platforms; the timing and success of title introductions by the competitors; product returns; changes in pricing policies by the Company and its competitors; the accuracy of retailers' forecasts of consumer demand; the size and timing of acquisitions; the timing of orders from major customers; and order cancellations and delays in shipment.

Sales of the titles are seasonal, with peak shipments typically occurring in the fourth calendar quarter (the Company's fourth and first fiscal quarters) as a result of increased demand for titles during the holiday season.

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 nine months ended July 31, 2000 and 1999, sales of products in international markets accounted for approximately 32.8% and 29.9%, 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.

Year 2000

To address 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 intends to continue to monitor its computer system over the next several months.

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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.

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PART II - OTHER INFORMATION

Item 2. Changes in Securities

During the three months ended July 31, 2000, 70,000 options from the 1997 Stock Option Plan and 731,500 non-plan options were granted at exercise prices ranging from $8.25 to $10.875.

In July 2000, the Company issued to Finova a warrant to purchase 451,747 shares of the Company stock at an exercise price of $11.875 in connection with the loan.

In July 2000, the Company issued 1,415,000 shares of Common Stock to a limited number of institutional investors in consideration of $11,174,149, which was net of $1,345,926 in commissions.

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

1. Exhibit

Exhibit 27 - Financial Data Schedule (SEC use Only)

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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/ Ryan A. Brant

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Ryan A. Brant

Chief Executive Officer

Dated: September 14, 2000

By: /s/ Chip David

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Chip David

Chief Financial Officer

Dated: September 14, 2000

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S FINANCIAL STATEMENT INCLUDED IN THIS QUARTERLY REPORT ON FORM 10-Q, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

9-MOS

Oct-31-2000

Jul-31-2000

2,631,068

3,559,399

90,634,488

(5,461,396)

41,214,022

164,962,997

9,560,394

(3,330,134)

299,368,847

101,473,031

0

0

0

309,581

181,745,139

299,368,847

264,523,385

264,523,385

168,280,154

168,280,154

12,044,086

0

4,516,708

17,847,861

6,258,022

0

0

0

0

11,589,839

0.45

0.43