

Management's Discussion and Analysis of Financial Condition and Results of Operations *(concluded)*

(Dollars in thousands, except per share amounts)

this individual for our strategic and operating decisions. The loss of the services of this individual could have a material adverse effect on our business and prospects. Additionally, pursuant to the terms of his amended employment contract, our Chief Executive Officer has the right to elect to voluntarily terminate his agreement and resign at any time after March 30, 2004 and receive his full salary and bonus during the eighteen-month period following such resignation. Furthermore, we are dependent upon the expertise and skills of certain of our Rockstar employees responsible for content creation and product development and marketing. Although we have employment agreements with each of these creative, development and marketing personnel, and we have granted them incentives in the form of an internal royalty program based on sales of Rockstar published products, there can be no assurance that we will be able to continue to retain these personnel at current compensation levels, or at all. Failure to continue to attract and retain qualified management, creative, development, financial, marketing, sales and technical personnel could materially adversely affect our business and prospects.

Quantitative and Qualitative Disclosures About Market Risk

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

Historically, fluctuations in interest rates have not had a significant impact on our operating results. At October 31, 2003, we had no outstanding variable rate indebtedness.

We transact business in foreign currencies and are exposed to risks resulting from fluctuations in foreign currency exchange rates. Accounts relating to foreign operations are translated into United States dollars using prevailing exchange rates at the relevant fiscal quarter or year-end. Translation adjustments are included as a separate component of stockholders' equity. For the year ended October 31, 2003, our foreign currency translation adjustment gain was \$4,119. Foreign exchange transaction gain for the year ended October 31, 2003 was \$2,015. A hypothetical 10% change in applicable currency exchange rates at October 31, 2003 would result in a material translation adjustment.