

Management's Discussion and Analysis of Financial Condition and Results of Operations

Cost of sales—software royalties and amortization for the year ended March 31, 2003 increased as a percentage of publishing net revenues from the prior fiscal year, from 11% to 13%. In absolute dollars, cost of sales—software royalties and amortization for the year ended March 31, 2003 also increased from the prior fiscal year, from \$58.9 million to \$79.2 million. The increases reflect the change in the product mix of our publishing business. Though titles for hand-held devices generally have the highest per unit manufacturing cost of all platforms, they have the lowest product development cost structure. In the year ended March 31, 2002 in which titles for hand-held devices accounted for a higher proportion of publishing net revenues, the related cost of sales—software royalties and amortization was correspondingly low. This is in comparison to the year ended March 31, 2003 in which console titles accounted for a higher proportion of publishing net revenues. Console titles such as PS2, Xbox and GameCube have high product development cost structures, and the release of titles on these platforms will result in a correspondingly high cost of sales—software royalties and amortization. In addition, we recorded during the fourth quarter of fiscal 2003 approximately \$8.0 million related to an assessment of the recoverability of capitalized development costs pertaining to certain products.

Cost of Sales—Intellectual Property Licenses

<i>(In thousands)</i> March 31, 2003	% of Publishing Net Revenue	March 31, 2002	% of Publishing Net Revenue	Increase/ (Decrease)	Percent Change
\$45,002	7%	\$40,114	7%	\$4,888	12%

Cost of sales—intellectual property licenses for the year ended March 31, 2003 remained constant as a percentage of publishing net revenues with the prior fiscal year at 7%. In absolute dollars, cost of sales—intellectual property licenses for the year ended March 31, 2003 increased from the prior fiscal year, from \$40.1 million to \$45.0 million. During the fourth quarter of fiscal 2003, we recorded an approximate \$7.0 million related to an assessment of the recoverability of certain of our investments in long-term licensing agreements. We recorded additional costs relating to common stock warrants issued in connection with those licensing agreements. The impact of these costs was partially offset by the fact that one of our top performing titles released in fiscal 2002 had a higher intellectual property royalty rate structure than the majority of the top performing titles released in fiscal 2003.

Product Development

<i>(In thousands)</i> March 31, 2003	% of Publishing Net Revenue	March 31, 2002	% of Publishing Net Revenue	Increase/ (Decrease)	Percent Change
\$56,971	9%	\$40,960	7%	\$16,011	39%

Product development expenses for the year ended March 31, 2003 increased as a percentage of publishing net revenues from the prior fiscal year, from 7% to 9%. In absolute dollars, product development expense for the year ended March 31, 2003 also increased from the prior fiscal year, from \$41.0 million to \$57.0 million. These increases reflect the change in the product mix of titles in development—more console and less hand-held—during fiscal 2003. The cost to develop titles for current console systems, such as PS2, Xbox and GameCube, is higher than the cost to develop titles for the legacy console systems and hand-held devices. Additionally, we had more titles in development during fiscal 2003 than fiscal 2002. Lastly, in the fourth quarter of fiscal 2003, we decided to eliminate certain smaller and non-core projects from our future development plan. The cost relating to the cancellation of those titles was approximately \$2.6 million.