

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

(Dollars in thousands, except per share amounts)

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 expands previously issued accounting guidance and disclosure requirements for certain guarantees and requires recognition of an initial liability for the fair value of an obligation assumed by issuing a guarantee. The provision for initial recognition and measurement of liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of FIN 45 in the first quarter of fiscal 2003 did not have any impact on our financial condition or results of operations.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual return or both. FIN 46 also provides criteria for determining whether an entity is a variable interest entity subject to consolidation. FIN 46 requires immediate consolidation of variable interest entities created after January 31, 2003. For variable interest entities created prior to February 1, 2003, consolidation is required on July 1, 2003. The adoption of FIN 46 in the third quarter of fiscal 2003 did not have a material impact on our financial condition or results of operations (see Note 4 to Consolidated Financial Statements).

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." In general, SFAS 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS 149 did not have any impact on our financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with SFAS 150, financial instruments that embody obligations for the issuer are required to be classified as liabilities. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003, except for the provisions relating to mandatorily redeemable financial instruments which have been deferred indefinitely. The adoption of SFAS 150 did not have any impact on our financial condition.

Results of Operations

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

		Years Ended October 31,		
Operating data:		2003	2002 (Restated)	2001 (Restated)
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales				
Product costs	52.0	51.8	62.5	
Royalties	8.6	10.1	4.4	
Software development costs	1.1	1.0	0.9	
Total cost of sales	61.7	62.9	67.9	
Selling and marketing	10.0	9.8	11.7	
General and administrative	8.5	9.0	9.9	
Research and development	2.4	1.5	1.4	
Depreciation and amortization	1.6	1.4	2.8	
Interest (income) expense, net	(0.2)	0.1	1.9	
Loss on Internet securities	—	—	4.8	
Provision (benefit) for income taxes	6.5	6.2	(0.5)	
Net income (loss)	9.5	9.0	(1.5)	
Net Sales by Territory:				
North America	72.1%	80.0%	76.4%	
International	27.9	20.0	23.6	
Net Sales Mix:				
Publishing	65.0%	71.5%	54.1%	
Distribution	35.0	28.5	45.9	
Platform Mix (publishing):				
Console	81.2%	83.9%	57.6%	
PC	17.2	14.3	35.6	
Accessories and handheld	1.6	1.8	6.8	
Principal Products:				
Grand Theft Auto: Vice City, PS2 (released October– November 2002)	33.6%	7.5%	— %	
Grand Theft Auto: Vice City, PC (released May 2003)	2.6	—	—	
Grand Theft Auto 3, PS2 (released October 2001)	2.4	29.8	7.3	
Grand Theft Auto 3, PC (released May 2002)	0.4	3.1	—	
Max Payne, PS2 (released December 2001)	0.9	6.6	—	
Max Payne, Xbox (released December 2001)	0.2	3.0	—	
Max Payne, PC (released July 2001)	—	0.4	5.1	
State of Emergency, PS2 (released February 2002)	—	4.4	—	
Midnight Club 2, PS2 (released April 2003)	4.1	—	—	
Midnight Club, PS2 (released October 2000)	0.7	1.1	4.1	
Smuggler's Run, PS2 (released October 2000)	—	0.3	3.0	
Ten largest titles	50.5%	59.5%	30.8%	