

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

| Accounts Payable (Amounts in thousands) | March 31, 2004 | March 31, 2003 | Increase/ (Decrease) |
|---|-------------------|-------------------|-------------------------|
| Accounts payable | \$72,874 | \$45,602 | \$27,272 |

The increase in accounts payable was primarily the result of:

- Increased inventory purchases by our publishing business as a result of the increased sales in the fourth quarter of fiscal 2004 over the prior year quarter due to the continued strong sales of our key third quarter fiscal 2004 releases, *True Crime: Streets of L.A.*, *Tony Hawk's Underground* and *Call of Duty*, and an increase in the number of titles released in the fourth quarter of fiscal 2004 (*Tenchu: Return from Darkness* on Xbox and *Pitfall: The Lost Expedition* and *MTX: Mototrax* on multiple platforms) over the prior year quarter (*Tenchu: Wrath of Heaven* on PS2).

| Accrued Expenses (Amounts in thousands) | March 31, 2004 | March 31, 2003 | Increase/ (Decrease) |
|---|-------------------|-------------------|-------------------------|
| Accrued expenses | \$63,205 | \$58,656 | \$4,549 |

The increase in accrued expenses was primarily driven by:

- Marketing support for our key title releases.
- Increased foreign income taxes payable.
- Increased annual bonuses as a result of company performance.

Partially offset by:

- A \$7.5 million accrual at March 31, 2003 for the settlement of treasury stock purchases.

Credit Facilities

We have revolving credit facilities with our Centresoft subsidiary located in the UK (the "UK Facility") and our NBG subsidiary located in Germany (the "German Facility"). The UK Facility provided Centresoft with the ability to borrow up to GBP 8.0 million (\$14.6 million), including issuing letters of credit, on a revolving basis as of March 31, 2004. Furthermore, under the UK Facility, Centresoft provided a GBP 0.3 million (\$0.5 million) guarantee for the benefit of our CD Contact subsidiary as of March 31, 2004. The UK Facility bore interest at LIBOR plus 2.0% as of March 31, 2004, is collateralized by substantially all of the assets of the subsidiary and expires in November 2004. The UK Facility also contains various covenants that require the subsidiary to maintain specified financial ratios related to, among others, fixed charges. As of March 31, 2004, we were in compliance with these covenants. No borrowings were outstanding against the UK Facility as of March 31, 2004. The German Facility provided for revolving loans up to EUR 0.5 million (\$0.6 million) as of March 31, 2004, bore interest at a Eurocurrency rate plus 2.5%, is collateralized by certain of the subsidiary's property and equipment and has no expiration date. No borrowings were outstanding against the German Facility as of March 31, 2004.

Commitments

In the normal course of business, we enter into contractual arrangements with third parties for the development of products, as well as for the rights to intellectual property. Under these agreements, we commit to provide specified payments to a developer or intellectual property holder, based upon contractual arrangements. Typically, the payments to third-party developers are conditioned upon the achievement by the developers of contractually specified development milestones. These payments to third-party developers and intellectual property holders typically are deemed to be advances and are recoupable against future royalties earned by the developer or intellectual property holder based on the sale of the related game. Additionally, in connection with certain intellectual property right acquisitions and development agreements, we will commit to spend specified amounts for marketing support for the related game(s) which is to be developed or in which the intellectual property will be utilized. Assuming all contractual provisions are met,