SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **2008-07-01** | Period of Report: **2008-03-31**
SEC Accession No. 0000950123-08-007500

(HTML Version on secdatabase.com)

FILER

ATARI INC

CIK:**1002607**| IRS No.: **133689915** | State of Incorp.:**DE** | Fiscal Year End: **0331**
Type: **10-K** | Act: **34** | File No.: **000-27338** | Film No.: **08930822**
SIC: **7372** Prepackaged software

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended March 31, 2008

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 No.: 0-27338

ATARI, INC.

(Exact name of registrant as specified in its charter)

Delaware	**13-3689915**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*

417 Fifth Avenue, New York, NY 10016
(Address of principal executive offices, including zip code)

Registrant' s telephone number, including area code:
(212) 726-6500

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, $0.10 par value

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☑

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant' s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☑
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The aggregate market value of the registrant' s Common Stock held by non-affiliates of the registrant, based on the $2.56 closing sale price of the Common Stock on September 28, 2007 as reported on the NASDAQ Global Market was approximately $16.8 million. As of June 27, 2008, a total of 13,477,920 shares of the registrant' s Common Stock were outstanding.

Documents Incorporated by Reference

Portions of Registrant' s definitive proxy statement for its Annual Meeting of Stockholders to be held in 2008 are incorporated by reference into Part III hereof.

ATARI, INC. AND SUBSIDIARIES
March 31, 2008 Annual Report on Form 10-K

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This Annual Report contains forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. We caution readers regarding forward-looking statements in this Report, press releases, securities filings, and other documents and communications. All statements, other than statements of historical fact, including statements regarding industry prospects and expected future results of operations or financial position, made in this Annual Report on Form 10-K are forward looking. The words "believe", "expect", "anticipate", "intend" and similar expressions generally identify forward-looking statements. These forward-looking statements are necessarily based upon estimates and assumptions that, while considered reasonable by us, are inherently subject to significant business, economic and competitive uncertainties and contingencies and known and unknown risks. As a result of such risks, our actual results could differ materially from those anticipated by any forward-looking statements made by, or on behalf of, us. We will not necessarily update information if it later turns out that what occurs is different from what was anticipated in a forward-looking statement. For a discussion of some factors that could cause our operating results or other matters not to be as anticipated by forward-looking statements in this document, please see Item 1A entitled "Risk Factors" on pages 13 to 18 .

PART I

ITEM 1. *BUSINESS*

OVERVIEW

We are a publisher of video game software that is distributed throughout the world and a distributor of video game software in North America. Most of the products we publish and distribute are games developed by or for Infogrames Entertainment S.A., or IESA, a French corporation listed on Euronext, which owns approximately 51% of our stock. However, we also publish and distribute in North America games developed or published by unrelated developers or publishers. IESA is the largest distributor of video games in Europe, and distributes the video games that we publish throughout the world, other than in North America.

On April 30, 2008, IESA and we entered into an Agreement and Plan of Merger under which a wholly-owned subsidiary of IESA will be merged into us in a transaction in which IESA, as the sole shareholder of the merger subsidiary, will acquire all the shares of the merged company, and our stockholders (other than IESA and its subsidiaries) will receive $1.68 per share in cash. That transaction must be approved by our stockholders. Because a wholly-owned subsidiary of IESA owns 51% of our shares, if it votes in favor of the merger, the merger will be approved even if no other stockholders vote in favor of it. The IESA subsidiary is not contractually obligated to vote in favor of the merger, however, it has stated that intends to vote in favor of the merger.

Until 2005, we were actively involved in developing video games and in financing development of video games by independent developers, which we would publish and distribute under licenses from the developers. However, beginning in 2005, because of cash constraints, we substantially reduced our involvement in development of video games, and announced plans to divest ourselves of our internal development studios.

During fiscal 2006 and 2007, we sold a number of intellectual properties and development facilities in order to obtain cash to fund our operations. By the end of fiscal 2007, we did not own any development studios.

During fiscal 2008, we stopped developing games, even through independent developers. During that year, we also focused an increasing percentage of our activities on marketing and distributing in North America products published by IESA. This included licensing IESA to develop and distribute for seven years games using the *Test Drive* and *Test Drive Unlimited* franchise and to distribute any versions of those games that we publish everyplace in the world except the U.S., Canada and Mexico and their possessions.

The steps described above significantly reduced the number of games we publish. During fiscal 2008, our revenues from publishing activities were $69.8 million, compared with $104.7 million during fiscal 2007, and $153.6 million during fiscal 2006 and $289.6 million during fiscal 2005. However, we continue to have a significant library of well-known properties that we license from IESA (directly or through its wholly-owned subsidiary Atari Interactive, Inc., or Atari, Interactive,) or unrelated companies, including:

Dragon Ball Z (FUNimation),

Alone in the Dark (IESA),

Asteroids, PONG, Missile Command and Centipede (Atari Interactive),

Dungeons and Dragons (Hasbro and Atari Interactive),

Earthworm Jim (Interplay),

RollerCoaster Tycoon (Chris Sawyer and Atari Interactive), and

Godzilla (Sony Pictures).

We maintain in North America distribution operations and systems that reach in excess of approximately 30,000 retail outlets throughout the United States.

Our annual cash expenditures have for the last several years exceeded our cash revenues. Until 2008, we funded our cash shortfalls primarily with proceeds of sales of assets, supplemented by seasonal borrowings. By 2008, we had few salable assets, other than the *Test Drive* and *Test Drive Unlimited* franchise and possibly, licenses to distribute a few specific games under term license agreements with unrelated developers or publishers. When we licensed IESA to develop and publish games under the *Test Drive* and *Test Drive Unlimited* franchise, we became almost entirely reliant on borrowings to fund cash shortfalls or seasonal cash needs. At March 31, 2008, our only borrowing lines were a $14.0 million line from Bluebay High Yield Investments (Luxembourg) S.A.R.L., or Bluebay", a subsidiary of the largest shareholder of IESA. At March 31, 2008, we had borrowed the entire $14.0 million that was available under the Bluebay credit line. On April 30, 2008, we obtained a $20 million interim credit line granted by IESA when it entered into the Merger Agreement relating to its acquisition of us, which will terminate when the merger takes place or when the Merger Agreement terminates without the merger taking place. As of June 12, 2008, we continue to have $14.0 million outstanding under the Bluebay credit line and have borrowed approximately $6.0 million from the IESA credit line. The funds available under the two credit lines may not be sufficient to enable us to meet anticipated seasonal cash needs if the merger does not take place before the fall 2008 holiday season inventory buildup.

The uncertainty caused by the conditions described above and existing historically raise substantial doubt about our ability to continue as a going concern, unless the merger with a subsidiary of IESA is completed. Our consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Atari, Inc. (formerly known as Infogrames, Inc. and GT Interactive Software Corp.) was organized as a corporation in Delaware in 1992. In May 2003, we changed our name to Atari, Inc. Effective as of May 9, 2008 our Common Stock was delisted from the NASDAQ Global Market because the total market value of our shares that were not owned by an affiliate (i.e., IESA) was less than $15 million. Our common stock is now listed on the Pink Sheets. Our corporate office and U.S. headquarters is located at 417 Fifth Avenue, New York, New York 10016 (main telephone: (212) 726-6500). We maintain a worldwide website at *www.atari.com*. Information contained on the website is not part of this Annual Report.

INDUSTRY OVERVIEW

The video game industry primarily comprises software for dedicated game consoles or platforms (such as PlayStation 2, PlayStation 3, Xbox, Xbox 360, and Wii), handhelds (such as Nintendo DS and Sony PSP) and PCs. Publishers of video game software include the console manufacturers, or "first-party publishers," and third-party publishers, such as ourselves, whose primary role is the development, publishing and/or distribution of video game software. According to International Data Group (IDG), an independent technology, media, research, and event company, sales of PC, console, and handheld games (excluding wireless) in North America and Europe in calendar 2007 reached $19.9 billion. We anticipate an expanding market for interactive entertainment software over the next several years as a result of the success of the current/connected generation console platforms. We believe that greater online functionality and the expanded artificial intelligence capabilities of the new platforms improve game play and game accessibility, and will help our industry grow.

Additionally, the use of wireless devices (such as mobile phones and personal digital assistants) as a gaming platform, known as "mobile gaming," is growing rapidly, as is online gaming such as casual gaming and massively multiplayer online games.

The Console and Handheld Market

Console platforms as they exist today have made significant technological advances since the introduction of the first generation of modern consoles by Nintendo in 1985. Hardware manufacturers have historically introduced a new and more technologically advanced gaming console platform every four to five years. Handhelds have also made advances since their introduction. However, handhelds have typically experienced longer product cycles. With each new cycle, the customer base for video game software has expanded as gaming enthusiasts mature and advances in video game hardware and software technology engage new participants, generating greater numbers of console units purchased than the prior cycle. The beginning of each cycle is largely dominated by console sales as consumers upgrade to the current-generation technology. As the cycle matures, consumers' focus shifts to software, resulting in a period of rapid growth for the video game software industry.

Sony was the first manufacturer to introduce the previous generation of console hardware with the introduction of the PlayStation 2 platform in 2000. Nintendo introduced its current generation platforms a year later, launching the GameCube and Game Boy Advance in 2001. This generation also saw the entrance of Microsoft into the industry with the introduction of the Xbox console.

In 2005, Microsoft initiated a new generation of console hardware when it introduced Xbox 360. Both Sony and Nintendo followed suit by launching PlayStation 3 and Nintendo Wii, respectively, in November 2006. The calendar 2006 year also saw the rapid expansion of the Nintendo DS in the handheld market, and the continuing longevity of the PlayStation 2 (Sony' s previous generation console).

Innovation also continues in the handheld market with manufacturers offering more sophisticated units, such as Sony' s PSP and Nintendo' s DS, each of which offer multiple features and capabilities in addition to game play functionality and wi-fi connectivity.

Personal Computers

Advances in personal computer technology outpace advances in console and handheld technology. Advances in microprocessors, graphics chips, hard-drive capacity, operating systems and memory capacity have greatly enhanced the ability of the PC to serve as a video game platform. These technological advances have enabled developers to introduce video games for PCs with enhanced game play technology and superior graphics. The PC growth in the past two years has been due to the success of massively multiplayer online, or MMO, role playing games. However, PC shelf space has been declining in retail stores, and the demand for catalogue PC titles in jewel case format has drastically diminished in many retail environments.

ESRB Ratings and Litigation

The Entertainment Software Ratings Board, or ESRB, through its ratings system, requires game publishers to provide consumers with information relating to material that includes, but is not limited to, graphic violence, profanity or sexually explicit material contained in software titles. Consumer advocacy groups have opposed sales of interactive entertainment software containing graphic violence or sexually explicit material by pressing for legislation in these areas and by engaging in public demonstrations and media campaigns, and various governmental bodies have proposed regulation aimed at our industry to prohibit the sale of software containing such material to minors. Additionally, retailers may decline to sell interactive entertainment software containing graphic violence, sexually explicit, or other material that they deem inappropriate for their businesses. For example, if retailers decline to sell a publisher' s "M" rated (age 17 and over) products or if the "M" rated products are re-rated "AO" (age 18 and over), the publisher might be required to significantly change or discontinue particular titles.

Consolidation

Economies of scale have become increasingly important as the complexity and costs associated with video game development continue to increase, and we expect this trend to continue. In addition, the acquisition of proven intellectual properties has become increasingly important as publishers seek to diversify and expand their product portfolios, while limiting exposure to unsuccessful product development efforts. Acquisitions have also been used as a means of vertically integrating functions that are key to the business process. We expect consolidation within the video game software industry to continue. Recently, Atari has been a seller, not a buyer.

PRODUCTS

The following identifies games and franchises that generated the most significant portion of our publishing net product revenues during the years ended March 31, 2006, 2007 and 2008.

Fiscal 2006 − the *Dragon Ball Z* franchise generated 28.6% of our publishing net product revenues, driven by the October 2005 release of *Dragon Ball Z: Budokai Tenkaichi* (PlayStation 2). Additionally, the *Matrix* franchise generated 14.4% of our publishing net revenues, led by the November 2005 release of *Matrix: Path of Neo* (PlayStation 2, Xbox, and PC). Other new releases in fiscal 2006 included *Atari Flashback 2.0* (plug and play), *Getting Up: Contents Under Pressure* (PlayStation 2, Xbox, and PC), *Dungeons & Dragons*

Online: Stormreach (PC), *Driver: Parallel Lines* (PlayStation 2, and Xbox), and *Indigo Prophecy* (PC, PlayStation 2, and Xbox).

Fiscal 2007 − the *Dragon Ball Z* franchise generated 45.7% of our publishing net product revenues, driven by the November 2006 release of *Dragon Ball Z: Budokai Tenkaichi 2* (PlayStation 2 and Nintendo Wii). Additionally, the *Neverwinter Nights* franchise generated 13.9% of our publishing net product revenues, led by the October 2006 release of *Neverwinter Nights 2* (PC). Furthermore, the *Test Drive* franchise generated 13.4% of our publishing net product revenues, led by the September 2006 release of *Test Drive Unlimited* on the Xbox 360 platform, followed by its March 2007 release on the PlayStation 2, PSP, and PC platforms.

Fiscal 2008 − the *Dragon Ball Z* franchise generated 49.1% of our publishing net product revenues, driven by the November 2007 release of *Dragon Ball Z: Budokai Tenkaichi 3* (PlayStation 2 and Nintendo Wii). Additionally, the *Godzilla* franchise generated 9.2% of our publishing net product revenues, led by the November 2007 release of *Godzilla Unleashed* (Nintendo Wii, PlayStation 2 and Nintendo DS). Furthermore, the *Neverwinter Nights* franchise generated 9.1% of our publishing net product revenues, led by the October 2007 release of *Neverwinter Nights 2 Mask of the Betrayer (PC) and* continued sales of *Neverwinter Nights 2* (PC) originally released in October 2006.

DEVELOPMENT

During fiscal 2007, we sold all of our internal development studios. By December 2007, we ceased developing any products or having any products developed for us by independent developers. Since then, our activities have consisted entirely of publishing and distributing in North America, products developed by or for IESA or unrelated developers or publishers.

PUBLISHING

Our publishing activities include the management of business development, strategic alliances, product development, marketing, packaging and sales of video game software for all platforms, including Sony PlayStation 2, PlayStation 3, and PSP; Nintendo DS, Wii, Microsoft Xbox and Xbox 360; and PC.

During the year ended March 31, 2008, an increased percentage of our publishing activities related to products developed by or for IESA. However, we continued to publish some products developed by independent developers. Our publication activities with regard to products developed by or for IESA involve primarily marketing and sales, although in some instances we also arrange the manufacture and packaging of products that will be distributed in North America. We then distribute those products in North America, as described below under the subcaption “Distribution.” Under a new Distribution Agreement entered into in December 2007, IESA reimburses us for our costs of marketing, and where applicable manufacturing and packaging, products published by IESA. When we publish independently developed products, we generally arrange, and pay for, the manufacturing, packaging and marketing of the products, and charge a distribution fee intended to, among other things, compensate us for bearing those costs.

The video game software we publish, or have contracts to publish in North America includes video game software developed by some of the industry’ s most highly regarded independent external developers. These developers include, among others:

Dimps (*Dragon Ball Z: Shin Budokai Another Road)*;

CD Projekt (*The Witcher*);

Kuju Entertainment (*Dungeons & Dragons Tactics*);

Obsidian (*Neverwinter Nights 2*); and

Spike (*Dragon Ball Z: Budokai Tenkaichi 3*).

Products which are acquired from these external developers are marketed under the Atari name, as well as the name of the external developer. The agreements with external developers typically provide us with exclusive publishing and distribution rights for a specific period of time for specified platforms and territories. The agreements may grant us the right to publish sequels, enhancements and add-ons to the products originally developed and produced by the external developer. We pay the external developer a royalty based on sales of its products. A portion of this royalty may be in the form of advances against future royalties payable at the time of execution of the development agreement, with additional payments tied to the completion of detailed performance and development milestones by the developer.

With a lineup that spans from games for hardcore enthusiasts through mass market titles, we publish games at various price points, ranging from value-priced titles to premium-priced products. Appropriate branding is selected and used to provide consumers with distinct offerings and different tiers. Pricing is affected by a variety of factors, including but not limited to: licensed or franchise property; single or multiple platform development; production costs and volumes; target audience; the distribution territory; quality level; and consumer trends.

SALES AND MARKETING

The sales team presently comprises 10 positions: sales management, senior sales executives, associate account managers, and customer service representatives. The sales team manages direct relationships with key accounts in the U.S., Canada, and Mexico. Accounts are assigned to sales team members by retailer and industry expertise.

The sell-in of new properties begins with research and marketing materials, and product specific meetings at which we present trailers, gameplay, and product highlights, among other things. The team manages and coordinates all MDF (Marketing Development Fund) decisions, secures the order, and is responsible for all day-to-day account management, and utilizes existing relationships to develop exclusive title programs and catalog opportunities.

At the store level, we utilize professional merchandising companies to promote hit releases, facilitate compliance of pricing, pre-sell programs, and stock. Our merchandising partners ensure compliance in over 10,000 retail locations to assure a quality and consistent consumer experience. The sales department manages reporting, forecasting, and analysis with state-of-the-art software.

The sales and marketing teams are aligned to ensure the development of programs with the interests of the customers (retailers) and consumers (gamers) in mind. The core functions of the product management team includes:

Managing the life cycle of a catalog of new and existing products;

Researching industry trends and customer needs to inform the production process, advertising generation, forecasting, retail distribution, and pricing;

Working with physical retail partners to maximize sales;

Establishing online sales distribution systems for both boxed products and digitally distributed products;

Fostering media and online community interest in products and properties;

Leveraging and strengthening the Atari brand; and

Exploiting the marketability of our intellectual property and products through licensing arrangements that expand application into other gaming platforms and consumer product categories and bring in new revenue streams such as advertising and product placement.

To achieve maximum benefit from our coordinated sales and marketing programs, we employ a wide range of marketing techniques, including:

Understanding our consumers through professional qualitative and quantitative research;

Examining competitive product launches to help determine optimal marketing budgets;

Promoting product publicity via enthusiast and mass market outlets, including broadcast television, internet, newspapers, specialty magazines, and theater;

- Retail marketing and in-store promotions and displays;
- Online marketing and two way online "conversations" with gamers;
- "Underground" marketing techniques, in which marketing materials are placed in physical and online locations which are frequented by targeted groups of consumers;
- Strategic partnerships and cross-promotions with other consumer product companies and third-parties; and
- Working with "first-party" console manufacturers to exploit their marketing opportunities, including presence on their websites, retail exposure and public relations events.

Our marketing approach uses a product management system to evaluate, position, and try to improve our brands based on analyses of market trends, consumers, competition, core competencies, retail and "first-party" partner support, and other key factors. Actionable results of our analyses are provided to the product development team, which, in turn and when reasonable, adjusts product to maximize consumer appeal. This system is combined with entertainment marketing approaches and techniques to create consumer and trade anticipation, as well as demand for our products.

We monitor and measure the effectiveness of our marketing strategies throughout the life cycle of each product. To maximize our marketing efforts, we may deploy an integrated marketing program for a product more than a year in advance of its release. Historically, we have expended a substantial portion of the marketing resources we will devote to a game prior to the game' s retail availability, and we intend to do so in the future.

The Internet is an integral element of our marketing efforts. We use it, in part, to generate awareness of and "buzz" about titles months prior to their market debut. We incorporate the Internet into our marketing programs via video, screenshot, and other game asset distribution; product-dedicated mini-sites; and online promotions. We also use the Internet to establish ongoing communication with gamers to translate their commitment and interest in our products into word of mouth sales.

In the months leading up to the release of a new product, we provide extensive editorial material to publications that reach the product' s expected audience as a part of executing customized public relations programs designed to create awareness of our products with all relevant audiences, including core gamers and mass entertainment consumers. These public relations efforts have resulted in coverage in key computer and video gaming publications and websites, as well as major consumer sites, newspapers, magazines and broadcast outlets.

INTELLECTUAL PROPERTY

Licenses

Licensed properties

We have entered into licensing agreements with a number of licensors, including FUNimation.

We pay royalties to licensors at various rates based on our net sales of the corresponding titles. We frequently make advance payments against minimum guaranteed royalties over the license term. License fees tend to be higher for properties with proven popularity and less perceived risk of commercial failure. Licenses are of various durations and may in some instances be renewable upon payment of minimum royalties or the attainment of specified sales levels. Other licenses are not renewable upon expiration, and we cannot be sure that we will reach agreement with the licensor to extend the term of any particular license. Our property licenses usually grant us exclusive use of the property for the specified titles on specified platforms, worldwide or within a defined territory, during the license term. Licensors typically retain the right to exploit the property for all other purposes and to license to other developers with regard to other properties.

In-Game Advertising

Working with external development teams and software providers, we incorporate two methods of advertising in certain of our games: static advertising (fixed content within our code executed during the product development stage) and dynamic advertising (real time messages executed on an on-going basis). In addition, we work with other brands to develop "advergames," which are original, unique game experiences with highly customized brand integration. Advertisers are increasingly interested in reaching and engaging consumers, and interactive entertainment provides a unique medium in which to do so. As such, this is a line of business to which we plan to give increasing focus.

Hardware licenses

We currently publish software that is developed for use with PlayStation 2, PlayStation 3, and PSP; Wii, and DS; and Xbox and Xbox 360 hardware, pursuant to licensing agreements (some in negotiation) with each of the respective hardware developers. Each license allows us to create one or more products for the applicable system, subject to certain approval rights, which are reserved by each hardware licensor. Each license also requires us to pay the hardware licensor a per-unit license fee for the product produced.

The following table sets forth information with respect to our platform licenses:

Manufacturer	Platform	Agreement	Territory	Expiration Date
Microsoft	Xbox	Publisher License Agreement, dated April 18, 2000	Determined on a title-by-title basis	November 15, 2008
Microsoft	Xbox 360	Publisher License Agreement, dated February 17, 2006	Determined on a title-by-title basis	November 21, 2008, with automatic one year renewals
Nintendo	DS	License Agreement, dated October 14, 2005	Western Hemisphere	February 17, 2011
Nintendo	Wii	License Agreement, dated October 17, 2006	Western Hemisphere	October 16, 2009
Sony	PlayStation 2	Licensed Publisher Agreement, dated June 6, 2000	US and Canada	March 31, 2009, with automatic one year renewals
Sony	PlayStation Portable	Licensed Publisher Agreement, dated March 23, 2005	US and Canada	March 31, 2009, with automatic one year renewals
Sony	PlayStation 3	In negotiation	US and Canada	

IESA, our majority stockholder and the distributor of the products we publish throughout the world, other than in North America, has entered into similar agreements (directly or through its subsidiaries) with each of the manufacturers for applicable territories outside North America.

We currently are not required to obtain any license for the publishing of video game software for PCs. Accordingly, our per-unit manufacturing cost for such software products is less than the per-unit manufacturing cost for console products.

Protection

We develop proprietary software titles and have obtained the rights to publish and distribute software titles developed by third parties. Our products are susceptible to unauthorized copying. Unauthorized third parties may be able to copy or to reverse engineer our titles to obtain and use programming or production techniques that we regard as proprietary. In addition, our competitors could independently develop technologies substantially equivalent or superior to our technologies. We attempt to protect our software and production techniques under copyright, trademark and trade secret laws as well as through contractual restrictions on disclosure, copying and distribution. Although we generally do not hold any patents, we seek to obtain trademark and copyright registrations for our products. In addition, each manufacturer incorporates security devices in its platform to prevent unlicensed use.

DISTRIBUTION

United States, Canada, and Mexico

Throughout the United States, Canada, and Mexico, we distribute our own products, as well as the products of other publishers, to retail outlets, utilizing our distribution operations and systems. We are the exclusive distributor for the products of IESA and its subsidiaries, including Atari Interactive, in the United States and Canada for which we are paid 30% of net revenues, under our new distribution agreement for new product. Furthermore, we distribute product in Mexico through various non-exclusive agreements. Utilizing point-of-sale replenishment systems and electronic data interchange links with our largest customers, we are able to handle high sales volume and manage and replenish inventory on a store-by-store basis. We also utilize systems for our entire supply chain management, including manufacturing, EDI/order processing, inventory management, purchasing, and tracking of shipments. We believe these systems accomplish:

efficient and accurate processing of orders and payments;

expedited order turnaround time; and

prompt delivery.

We distribute products we publish to a variety of outlets, including mass-merchant retailers such as Wal-Mart and Target; major retailers, such as Best Buy and Toys ' R' Us; specialty stores such as GameStop; rental chains such as Blockbuster and Hollywood Video; and warehouse clubs such as Sam' s Club and Costco. GameStop, Wal-Mart and Best Buy accounted for 26.8%, 19.8%, and 11.9%, respectively, of our net revenues for the year ended March 31, 2008 (although Wal-Mart has announced it intends to reduce the shelf space available for packaged video games, and to focus more attention on online distribution of games). Additionally, our games are made available through various online retail and "e-tail" companies (e.g. Amazon.com), on our website *atari.com*, and through the emerging digital distribution/ electronic software download marketplace. We believe that during the coming years, there will be a significant increase in digitally distributed titles and we have been trying to position ourselves to exploit this expansion of the marketplace.

Other publishers also utilize our distribution capabilities. Generally, we acquire their products and distribute them under the publishers' names. Our agreements with these publishers typically grant us retail distribution rights in designated territories for specific periods of time, and typically are renewable. Under such agreements, the third party publisher is typically responsible for the publishing, packaging, marketing and customer support of the products.

We outsource our warehouse operations in the United States to Ditan Distribution, which is located in Plainfield, Indiana. The warehouse operations include the receipt and storage of inventory as well as the distribution of inventory to mass market and other retailing customers.

Europe, Asia and Other Regions

IESA distributes products we publish in Europe, Asia, and elsewhere outside of North America pursuant to a distribution arrangement we entered into in December 2007 (which replaced a prior agreement we had entered into in 1999 as to all product except back catalog product). IESA' s strong presence in Europe, Asia and certain other regions provides effective distribution in these regions of our titles while allowing us to focus our distribution efforts in the United States, Canada, and Mexico. IESA distributes our products to several major retailers in Europe, Asia and certain other regions; including Auchan, Carrefour, Mediamarket and Tesco. IESA has extensive access to retail outlets in these regions. Under our new distribution arrangement with IESA, we are entitled to receive 70.0% of the net revenues on our products that are distributed by IESA.

Backlog

We typically ship products within three days of receipt of orders. As a result, backlog is not material to our business.

MANUFACTURING AND PACKAGING

Disk duplication and the printing of user manuals and packaging materials with regard to games we publish are performed to our specifications by outside sources. To date, we have not experienced any material difficulties or delays in the manufacture and assembly of our products, or material returns due to product defects. There is some concentration of the manufacture and packaging of games we publish, but a number of other outside vendors are also available as sources for these manufacturing and packaging services.

Sony, Nintendo and Microsoft, either directly or through an authorized third party, control the manufacture of our products that are compatible with their respective video game consoles, as well as the manuals and packaging for these products, and ship the finished products to us, either directly or through third party vendors, for distribution. Sony PlayStation 2, PlayStation 3, and PSP, Nintendo Wii, and Microsoft Xbox and Xbox 360 products consist of proprietary format CD- or DVD-ROMs and are typically delivered to us within a relatively short lead time (approximately 3-4 weeks). Manufacturers of other Nintendo products, which use a cartridge format, typically deliver these products to us within 45 to 60 days after receipt of a purchase order. To date, we have not experienced any material difficulties or delays in the manufacture and assembly of products we distribute. However, manufacturers' difficulties, which are beyond our control, could impair our ability to bring products to the marketplace in a timely manner.

ONLINE

The online department had three approaches in fiscal 2008. The purpose of these approaches was to monetize out online efforts; turning online into a revenue generating channel for us. The approaches were intended to ensure that we reach consumers where they are online both now and into the future. The three approaches were:

Digital Sales/eCommerce. In fiscal 2008, online revenue was derived through digital distribution of games through both the *Atari.com/us* website and third party sites. The focus for the year was to increase back catalogue presence online through the *Atari.com/us* website and then make these titles available to third party partner sites. Our presence was increased on major partner sites such as Direct2Drive and new partnerships were formed with sites such as GamersGate and Steam.

Online Marketing. We attempted to drive the promotion of packaged media goods through the creation and implementation of targeted cost-effective online advertising campaigns and the development of innovative contests and promotions. These complementary initiatives were carried out via the tactical execution of pay-per-click campaigns, the design and development of product landing pages and newsletters, and the nurturing of our online communities based around specific product lines and titles.

Consumer Interaction with Atari brand and Atari products. We maintained and drove the growth of our key website properties - *Atari.com/us*, Atari Play (*games.atari.com*), and Atari Community (*ataricommunity.com*) through digital distribution partnerships, advertising, promotions, community management and content creation.

EMPLOYEES

As of the end of fiscal 2008, we had 66 employees domestically, with 14 in publishing and product testing, 18 in administration (i.e., senior management, human resources, legal, IT and facilities), 12 in finance, 10 in sales and operations, and 12 in marketing. During the fiscal year, we had domestic operations in New York, New York, and Santa Clara, California.

RELATIONSHIP WITH IESA

Throughout fiscal 2008, IESA owned, through a wholly-owned subsidiary, approximately 51% of our common stock. IESA rendered management services to us (systems and administrative support) and we rendered management services and production services to Atari Interactive and other subsidiaries of IESA. Atari Interactive develops video games, and owns the name "Atari" and the Atari logo, which we use under a license. IESA distributes our products in Europe, Asia, and certain other regions, and pays us royalties with regard to its sales of our products. IESA also develops (through its subsidiaries) products which we distribute in the U.S., Canada, and

Mexico and for which we pay royalties to IESA. Both IESA and Atari Interactive have historically been a material source of products which we bring to market in the United States, Canada, and Mexico, and their importance increased during fiscal 2008. IESA and its subsidiaries (primarily Atari Interactive) were the source of approximately 26% of our net publishing product revenue.

Prior to December 4, 2007, IESA and we had been parties to a number of agreements under which, among other things, (a) we were the exclusive distributor in North America of products developed or published by IESA or its subsidiaries, including Atari Interactive, (b) IESA was the exclusive distributor outside of North America of products we developed or published, (c) we paid an annual fee of $3 million to IESA for management services it was to render to us, and (d) IESA paid an annual fee of $3 million to us for management and other services we rendered to its subsidiaries, including Atari Interactive. In addition, in October 2007, BlueBay High Yield Investments (Luxembourg) S.A.R.L. assumed the rights and obligations of the lenders under a Credit Agreement between us and Guggenheim Corporate Funding LLC , or Guggenheim. Affiliates of BlueBay High Yield Investments own approximately 31.5% of the outstanding shares of IESA and hold options that, if exercised, would increase that ownership to approximately 54.9%.

On December 4, 2007, we entered into a group of agreements with IESA that replaced or modified then existing agreements, as follows:

We entered into a new Distribution Agreement that replaced the prior Distributions Agreements (except as to back catalogue), under which IESA granted us the exclusive right to contract with IESA for distribution rights in the U.S., Canada and Mexico (subject, with regard to Mexico, to our meeting volume requirements) to all interactive entertainment software games developed by or on behalf of IESA that are released in packaged media format, and contemplates that IESA might grant us distribution rights with regard to the games in digital download format, subject to our receiving targeted annual gross revenues. The term of the agreement is three years (or two years if revenues are not at least 80% of targeted amounts), and it will automatically be renewed for additional one year periods unless either IESA or we terminates it. We pay a royalty for products we distribute and receive a distribution fee equal to 30% of net revenues.

We terminated the prior agreement under which we had been rendering production services to IESA, and agreed to transfer to IESA substantially all the equipment that was being used by our production team for its nominal book value, and IESA agreed to offer employment to selected members of our production team.

We entered into an agreement to provide quality assurance services to IESA and two of its affiliates directly or through third party vendors until March 31, 2008, and IESA agreed to pay us our costs plus a 10% premium which we are currently in process of negotiating an extension.

We entered into an intercompany services agreement with IESA and two affiliates that superseded the prior services agreements, under which we agreed to provide legal, human resources, payroll, finance, IT, management information services and facilities management services until June 30, 2008 (extendable for three month periods) at specified costs.

The Credit Agreement that BlueBay High Yield Investments assumed from Guggenheim was amended to, among other things, waive prior defaults and increase the available credit from approximately $3.0 million to $14.0 million.

The transactions in December 2007 followed our sale or other disposition of all our product development assets and a license we granted to IESA in October 2007 to develop and publish games under the *Test Drive* and *Test Drive Unlimited* franchise in return for the payment by IESA of royalties based on product sales, including a $5 million prepaid royalty to be applied, together with interest at 15% per annum, against royalties that become due.

Matters related to our governance

Prior to April 4, 2007, Bruno Bonnell, who was one of the founders of IESA, was the Chief Executive Officer and the Chairman of the Board of IESA and held various positions with us, including being the Chairman of our Board and at times being our Chief Executive Officer, our acting Chief Financial Officer and our Chief Creative Officer. On April 4, 2007, IESA entered into an agreement with Mr. Bonnell, under which Mr. Bonnell agreed to resign from his duties as a Director and CEO of IESA and from all the offices he holds with subsidiaries of IESA, including Atari and its subsidiaries. IESA agreed to pay Mr. Bonnell a total of approximately 3.0 million Euros, including applicable foreign taxes. Neither our Board of Directors nor any member of our management was consulted about the agreement between IESA and Mr. Bonnell and our management was not provided with a copy of the agreement until more than two months after it was signed. Mr. Bonnell resigned as a director and officer of Atari, Inc. and of our subsidiaries on April 4, 2007.

On October 5, 2007, the IESA subsidiary that owns approximately 51% of our shares delivered a written stockholder consent in which it removed five of our then seven directors, effective immediately. The two directors who were not removed were both employees of IESA or a subsidiary.

On October 10, 11 and 12, 2007, our Board of Directors elected Wendell H. Adair, Jr., Eugene I. Davis, James B. Schein and Bradley E. Scher to our Board of Directors. None of those four persons had or has any relationship with IESA.

On October 10, 2007, our Board of Directors also elected Curtis G. Solsvig III as our Chief Restructuring Officer. Mr. Solsvig was a Managing Director at AlixPartners, which we retained to assist us in evaluating and implementing strategic and tactical operations through a restructuring process. Mr. Solsvig continued in that position until April 2, 2008, shortly after Jim Wilson was elected to be our President and Chief Executive Officer.

IESA' s Proposed Acquisition of Us.

On April 30, 2008, IESA and we entered into an Agreement and Plan of Merger under which a wholly-owned subsidiary of IESA will be merged into us in a transaction in which IESA, as the sole shareholder of the merger subsidiary, will acquire all the shares of the merged company, and our stockholders (other than IESA and its subsidiaries) will receive $1.68 per share in cash. That transaction must be approved by our stockholders. Because a wholly-owned subsidiary of IESA owns 51% of our shares, if it votes in favor of the merger, the merger will be approved even if no other stockholders vote in favor of it. The IESA subsidiary is not contractually obligated to vote in favor of the merger, however, it has stated that it intends to vote in favor of the merger. Either IESA or we will have the right to terminate the Merger Agreement if the Merger Agreement is submitted to our stockholders and is not approved by them, or if the transaction is not completed by October 31, 2008. The transaction was negotiated and approved by a Special Committee of our Board of Directors, consisting entirely of directors who are independent of IESA, after the Special Committee received an opinion from Duff & Phelps that the transaction would be fair to our stockholders, other than IESA and its subsidiaries, from a financial point of view.

In connection with the proposed merger, IESA entered into a new Credit Agreement with us under which it committed to provide up to an aggregate of $20 million in loan availability, which we could use to fund our operational cash requirements during the period between the date of the Merger Agreement and completion of the merger. Our obligations under that Credit Agreement are secured by liens on substantially all of our present and future assets. These liens are junior to liens on essentially the same collateral that secure our obligations to BlueBay High Yield Investments under the Credit Agreement that it assumed in October 2007. IESA has agreed that, so long as we have any continuing obligations to BlueBay High Yield Investments under the BlueBay Credit Agreement, IESA will not seek to exercise any rights or remedies with regard to the shared collateral for a period of 270 days and will not take action to hinder the exercise of remedies under the BlueBay Credit Facility or object to any steps BlueBay High Yield Investments may take to enforce or collect obligations under the BlueBay Credit Facility. BlueBay High Yield Investments consented to our entering into the new Credit Facility with IESA and gave waivers under, and agreed to amendments of, the BlueBay Credit Facility to permit the Merger Agreement to be signed.

COMPETITION

The video game software publishing industry is intensely competitive, and relatively few products achieve market acceptance. The availability of significant financial resources has become a major competitive factor in the industry primarily as a result of the increasing development, acquisition, production and marketing, as well as potential licensing, costs required to publish quality titles. We compete with other third-party publishers of video game software, including Electronic Arts, Inc., THQ, Inc., Activision, Inc., Take Two Interactive, Inc., Midway Games, Inc., Sega Corporation, Ubisoft Entertainment, SA, and Vivendi SA, among others. Most of these companies are substantially larger than we are, and at least some of them have far greater financial resources than we currently have. In addition, we compete with first-party publishers such as Sony, Nintendo, and Microsoft, which in some instances publish their own products in competition with third-party publishers.

Atari Interactive has granted us a license to use the name "Atari" until 2013 for software video games in the United States, Canada, and Mexico. We believe that the Atari brand, which has a heritage deeply rooted in innovation and is largely credited with launching the video game industry, continues to carry a level of recognition that can provide a competitive advantage. Unlike many of our competitors, our Atari brand can be seen as three separate entities − a pop icon, a classic gaming original and a modern interactive entertainment company. This enhances our opportunities to attract partnerships, talent and other vehicles, providing a distinct advantage against our competitors.

We believe that a number of additional factors provide us with competitive opportunities in the industry, including our catalogue of multi-platform products, strength in the mass-market, and strong sales forces in the United States, Canada, and Mexico and, through IESA, in Europe, Asia and other regions. We believe that popular franchises such as *Test Drive* and *RollerCoaster Tycoon*, along with the catalog of classic Atari Games, as well as attractive licenses, such as *Dragon Ball Z* and *Dungeons & Dragons*, provide us with a solid competitive position in the marketing of our products.

In our distribution business, we compete with both large national distributors and smaller regional distributors. We also compete with the major entertainment software companies that distribute over the internet or directly to retailers. Most of our competitors have greater financial and other resources than we do, and are able to carry larger inventories and provide more comprehensive product selection than we can.

SEASONALITY

Our business is highly seasonal with sales typically significantly higher during the calendar year-end holiday season.

SEGMENT REPORTING AND GEOGRAPHIC INFORMATION

We operate in three reportable segments: publishing, distribution and corporate. Please see the discussion regarding segment reporting in Note 21 of the Notes to Consolidated Financial Statements, included in Items 7 and 8 of this Report.

Please see Note 21 of the Notes to Consolidated Financial Statements, included in Items 7 and 8 of this Report, for geographic information with respect to our revenues from external customers and our long-lived assets.

ITEM 1A. *RISK FACTORS*

RISKS RELATED TO OUR BUSINESS

Our business has contracted significantly.

Due primarily to our limited funds, during fiscal 2006 and 2007, we reduced substantially our expenditures on product development and sold the intellectual property related to some game franchises that have generated substantial revenues for us in the past. During fiscal 2008, we completely terminated our product development activities and we granted IESA a seven year license to exploit our last remaining valuable game franchise. Further, we increasingly focused our efforts on distributing products published by IESA. These steps substantially reduced our revenues. In fiscal 2008, our net revenues were only $80.1 million, compared with net revenues of $122.3 million in fiscal 2007, $206.8 million in fiscal 2006 and $343.8 million in fiscal 2005. Because of this decrease in revenues, we have had significant operating losses in each of the past several years, and in fiscal 2007, we were required to take a $54.1 million charge for impairment of goodwill.

We rely on borrowings to meet our operating needs.

Prior to fiscal 2008, we financed our operating losses by selling assets. However, by fiscal 2008, we had few salable assets, other than the *Test Drive* and *Test Drive Unlimited* franchise, and in October 2007, we granted IESA a seven year license to develop and publish games under these franchises in exchange for a $5 million prepaid royalty that would be credited, together with interest at 15% per annum, against future royalties due to us under the license agreement. This made us almost entirely reliant on borrowings to fund our cash shortfalls. Currently, we have a $14 million Credit Facility from BlueBay High Yield Investments, an affiliate of the principal shareholder of IESA, which was fully borrowed at March 31, 2008, and a $20 million Credit Agreement with IESA to provide funds we can use for operational needs until a proposed merger of us with a wholly-owned subsidiary of IESA takes place or the related Merger Agreement is terminated. If that merger does not take place, unless we can obtain new sources of equity or debt, we will not have the cash we need to fund our operations, even at their current reduced level.

Our revenues are dependant to a substantial extent on the ability of IESA to develop, or obtain the right to publish, successful video game products.

Because we are no longer involved in the development of new video game products, and we are focusing a substantial portion of our efforts on distribution in North America of products developed or published by IESA, our business will depend to a great extent on IESA' s developing or obtaining access to products that are popular in the North American markets. Among other things, it is possible that some IESA products that do well globally will not be well accepted in the North American markets. While we will be distributing products developed or published by companies other than IESA, as our business currently is being conducted, it is unlikely that we could be successful if IESA does not provide products that are popular in North America.

Our rights to use the "Atari" name are limited.

The "Atari" name has been an important part of our branding strategy, and we believe it provides us with an important competitive advantage in dealing with video game developers and in distributing our products. However, the "Atari" name is owned by a subsidiary of IESA, which has licensed us to use the name with regard to video games in the United States, Canada, and Mexico until 2013. Therefore, we are limited both in how we can exploit the "Atari" name and how long we will be able to use it. We have no agreements or understandings that assure us that we will be able to expand the purposes for which we can use the "Atari" name or extend the period during which we will be able to use it.

Our success depends on continued popularity of packaged games.

We distribute packaged video game software. Currently, we are not significantly involved in online distribution of games. Among other things, IESA plans to control online distribution of the video games it publishes. To date, despite the convenience of acquiring games by downloading them electronically, there has been a substantial continuing market for packaged games sold through retail outlets. However, this may not continue to be the case indefinitely, particularly as internet download speeds increase. Unless we are able to become heavily involved in online distribution, our business may be seriously injured by a movement of purchasing preference from packaged games to online distribution.

The loss of GameStop, Wal-Mart, or Best Buy as key customers could negatively affect our business.

Our sales to GameStop, Wal-Mart, and Best Buy accounted for approximately 26.8%, 19.8%, and 11.9%, respectively, of net revenues (excluding international royalty, licensing, and other income) for the year ended March 31, 2008. Our business, results of operations and financial condition would be adversely affected if:

- we lost any of these retailers as a customer;
- any of these retailers purchased significantly fewer products from us;
- we were unable to collect receivables from any of these retailers on a timely basis or at all; or
- we experienced any other adverse change in our relationship with any of these retailers.

Wal-Mart has announced that it intends to reduce the shelf space it devotes to packaged video games, and to focus more of its efforts on marketing video games through its online store. That alone could have a substantial adverse effect on our revenues.

Termination or modification of our agreements with hardware manufacturers will adversely affect our business.

We are required to obtain a license to develop and distribute software for each of the video game consoles. We currently have licenses from Sony to develop products for PlayStation 2 and PSP, from Nintendo to develop products for Wii and DS and from Microsoft to develop products for Xbox and Xbox 360. We are currently negotiating a license for Sony PlayStation 3. These licenses are non-exclusive, and as a result, many of our competitors also have licenses to develop and distribute video game software for these systems. These licenses must be periodically renewed, and if they are not, or if any of our licenses are terminated or adversely modified, we may not be able to publish games for the applicable platforms or we may be required to do so on less attractive terms. In addition, our contracts with these manufacturers often grant them approval rights over new products and control over the manufacturing of our products. In some circumstances, this could adversely affect our business, results of operations or financial condition by:

terminating a project for which we have expended significant resources;

leaving us unable to have our products manufactured and shipped to customers;

increasing manufacturing lead times and expense to us over the lead times and costs we could achieve if we were able to manufacture our products independently;

delaying the manufacture and, in turn, the shipment of products; and

requiring us to take significant risks in prepaying for and holding an inventory of products.

If returns and other concessions given to our customers exceed our reserves, our business may be negatively affected.

To cover returns and other concessions, we establish reserves at the time we ship our products. We estimate the potential for future returns and other concessions based on, among other factors, management' s evaluation of historical experience, market acceptance of products produced, retailer inventory levels, budgeted customer allowances, the nature of the title and existing commitments to customers. While we are able to recover the majority of our costs when third-party products we distribute are returned, we bear the full financial risk when our own products are returned. In addition, the license fees we pay Sony, Microsoft and Nintendo are non-refundable and we cannot recover these fees when our products are returned. Although we believe we maintain adequate reserves with respect to product returns and other concessions, we cannot be certain that actual returns and other concessions will not exceed our reserves, which could adversely affect our business, results of operations and financial condition.

Significant competition in our industry could adversely affect our business.

The video game software market is highly competitive and relatively few products achieve significant market acceptance. Currently, we compete primarily with other publishers of video game software for both video game consoles and PCs. Our competitors include Activision, Inc., Electronic Arts, Inc., Midway Games, Inc., Take Two Interactive, Inc., THQ, Inc., Sega Corporation, Ubisoft Entertainment, SA, and Vivendi SA, among others. Most of these companies are substantially larger and have better access to funds than us. In addition, console manufacturers including Microsoft, Nintendo, and Sony publish products for their respective platforms. Media companies and film studios, such as Warner Bros., are increasing their focus on the video game software market and may become significant competitors and/or may increase the price of their outbound licenses. Current and future competitors may also gain access to wider distribution channels than we do. As a result, these current and future competitors may be able to:

respond more quickly than we can to new or emerging technologies or changes in customer preferences;

carry larger inventories than we do;

undertake more extensive marketing campaigns than we do;

adopt more aggressive pricing policies than we can; and

make higher offers or guarantees to software developers and licensors than we can.

We may not have the resources required for us to respond effectively to market or technological changes or to compete successfully with current and future competitors. Increased competition may also result in price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on our business, results of operations or financial condition.

Retailers of our products typically have a limited amount of shelf space and promotional resources. Therefore, there is increased competition amongst the publishers to deliver a high quality product that merits retail acceptance. To the extent that the number of products and platforms increases, competition for shelf space may intensify and may require us to increase our marketing expenditures. Due to increased competition for limited shelf space, retailers are in a strong position to negotiate favorable terms of sale, including price discounts, price protection, marketing and display fees and product return policies. We cannot be certain that retailers will continue to purchase our products or to provide our products with adequate levels of shelf space and promotional support on acceptable terms. A prolonged failure in this regard may significantly harm our business and financial results.

We may face increased competition and downward price pressure if we are unable to protect our intellectual property rights.

Our business is heavily dependent upon our confidential and proprietary intellectual property. We sell a significant portion of our published software under licenses from independent software developers, and, in these cases, we do not acquire the copyrights for the underlying work. We rely primarily on a combination of confidentiality and non-disclosure agreements, patent, copyright, trademark and trade secret laws, as well as other proprietary rights laws and legal methods, to protect our proprietary rights and the intellectual property rights of our developers. However, current U.S. and international laws afford us only limited protection and amendments to such laws or newly enacted laws may weaken existing protections. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy our products or franchises, or obtain and use information that we regard as proprietary. Software piracy is also a persistent problem in the video game software industry. Policing unauthorized use of our products is extremely difficult because video game software can be easily duplicated and disseminated. Furthermore, the laws of some foreign countries may not protect our proprietary rights to as great an extent as U.S. law. Our business, results of operations and financial condition could be adversely affected if a significant amount of unauthorized copying of our products were to occur or if other parties develop products substantially similar to our products. We cannot assure you that our attempts to protect our proprietary rights will be adequate or that our competitors will not independently develop similar or competitive products.

We may face intellectual property infringement claims which would be costly to resolve.

As the number of available video game software products increases, and their functionality overlaps, software developers and publishers may increasingly become subject to infringement claims. We are not aware that any of our products infringe on the proprietary rights of third parties. However, we cannot provide any assurance that third parties will not assert infringement claims against us in the future with respect to past, current or future products. There has been substantial litigation in the industry regarding copyright, trademark and other intellectual property rights. We have sometimes initiated litigation to assert our intellectual property rights. Whether brought by or against us, these claims can be time consuming, result in costly litigation and divert management' s attention from our day-to-day operations, which can have a material adverse effect on our business, operating results and financial condition.

We may be burdened with payment defaults and uncollectible accounts if our customers do not or cannot satisfy their payment obligations.

Distributors and retailers in the video game software industry have, from time to time, experienced significant fluctuations in their businesses, and a number of them have become insolvent. The insolvency or business failure of any significant retailer or distributor of our products could materially harm our business, results of operations and financial condition. We typically make sales to most of our retailers and some distributors on unsecured credit, with terms that vary depending upon the customer' s credit history, solvency, credit limits and sales history. In addition, while we maintain a reserve for uncollectible receivables, the reserve may not be sufficient in every circumstance. As a result, a payment default by a significant customer could significantly harm our business and results of operations.

Our software is subject to governmental restrictions or rating systems.

Legislation is periodically introduced at the local, state and federal levels in the United States and in foreign countries to establish systems for providing consumers with information about graphic violence and sexually explicit material contained in video game software. In addition, many foreign countries have laws that permit governmental entities to censor the content and advertising of video game software. We believe that mandatory government-run rating systems may eventually be adopted in many countries that are potential markets for our products. We may be required to modify our products or alter our marketing strategies to comply with new regulations, which could increase development costs and delay the release of our products in those countries. Due to the uncertainties regarding such rating systems, confusion in the marketplace may occur, and we are unable to predict what effect, if any, such rating systems would have on our business.

In addition to such regulations, certain retailers have in the past declined to stock some of our and our competitors' video game products because they believed that the content of the packaging artwork or the products would be offensive to the retailer' s customer base. Although to date these actions have not impacted our business, we cannot assure you that similar actions by our distributors or retailers in the future would not cause material harm to our business.

We may become subject to litigation which could be expensive or disruptive.

Similar to our competitors in the video game software industry, we have been and will likely become subject to litigation. Such litigation may be costly and time consuming and may divert management' s attention from our day-to-day operations. In addition, we cannot assure you that such litigation will be ultimately resolved in our favor or that an adverse outcome will not have a material adverse effect on our business, results of operations and financial condition.

RISKS RELATED TO OUR CORPORATE STRUCTURE AND FINANCING ARRANGEMENTS

IESA controls us and could prevent a transaction favorable to our other stockholders.

IESA beneficially owns approximately 51% of our common stock, which gives it sufficient voting power to prevent any transaction that it finds unfavorable, including an acquisition, consolidation or sale of shares or assets that might be desirable to our other stockholders. Additionally, IESA could unilaterally approve certain transactions as a result of its majority position. IESA also has sufficient voting power to elect all of the members of our Board of Directors. On April 30, 2008, IESA and we entered into an Agreement and Plan of Merger under which a wholly-owned subsidiary of IESA will be merged into us in a transaction in which IESA, as the sole shareholder of the merger subsidiary, will acquire all the shares of the merged company, and our stockholders (other than IESA and its subsidiaries) will receive $1.68 per share in cash. That transaction must be approved by our stockholders. Because a wholly-owned subsidiary of IESA owns 51% of our shares, if it votes in favor of the merger, the merger will be approved even if no other stockholders vote in favor of it. The IESA subsidiary is not contractually obligated to vote in favor of the merger, however, it has stated that it intends to vote in favor of the merger. This concentration of control could be disadvantageous to other stockholders whose interests differ from those of IESA.

Our affiliates retain considerable control over the Atari trademarks, and their oversight or exploitation of such trademarks could affect our business.

Atari Interactive, a wholly owned subsidiary of IESA, has granted us the right to use the Atari name for software video games in the United States, Canada, and Mexico until 2013. However, in addition to an initial upfront payment we made in 2003, we must pay a royalty equal to 1% of our net revenues during each of 2009 through 2013. We are subject to quality control oversight for our use of the Atari name. Any disputes over our performance under the trademark license agreement could materially affect our business. Furthermore, the use of the Atari mark by Atari Interactive or other subsidiaries of IESA could affect the reputation or value associated with the Atari mark, and therefore materially affect our business.

RISKS RELATED TO OUR COMMON STOCK

Our Common Stock has been delisted from the NASDAQ Global Market.

Effective May 9, 2008, our Common Stock was delisted from the NASDAQ Global Market because the total market value of our shares that were not owned by an affiliate (i.e., IESA) was less than $15 million. Since then, our Common Stock has been quoted on the Pink Sheets. One of the consequences of our Common Stock not being listed on the NASDAQ Global Market or a national stock exchange is that we are not subject to securities exchange rules regarding corporate governance and other matters. While we continue to maintain governance practices we adopted when we were subject to the rules of the NASDAQ Global Market, we are not required to do so. We have appealed the delisting of our Common Stock, but there is a strong likelihood that the delisting will not be reversed.

The price of our Common Stock is substantially affected by our Merger Agreement with IESA.

On March 5, 2008, we announced that we received a letter of intent from IESA expressing their nonbinding intent to enter into a transaction in which our shareholders, other than IESA and its subsidiaries, would receive $1.68 per share in cash with regard to their shares of our Common Stock. On April 30, 2008, we announced that we had entered into a Plan and Agreement of Merger with IESA under which our shareholders, other than IESA and its subsidiaries, would receive $1.68 per share in cash with regard to their shares of our stock. Since March 5, 2008, the price of our shares has ranged between $1.68 and $1.43. It is likely that the price of our shares during that period has been influenced by the announced transaction with IESA, and that price may not reflect what the price of our shares would have been in the absence of the proposed IESA transaction.

AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act, are available to the public free of charge over the Internet at our website at http://www.atari.com or at the SEC' s web site at http://www.sec.gov. Our SEC filings will be available on our website as soon as reasonably practicable after we have electronically filed or furnished them to the SEC. You may also read and copy any document we file at the SEC' s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2. *PROPERTIES*

The following table contains the detail of the square footage of our leased properties by geographic location as of March 31, 2008:

	North America	Europe	Total
New York	35,000	−	35,000
California	20,476	−	20,476
Washington	65,500	−	65,500
Newcastle, UK	−	14,576	14,576
Total	120,976	14,576	135,552

New York. In fiscal 2008, our principal offices were located in approximately 70,000 square feet of office space at 417 Fifth Avenue in New York City. The term of this lease commenced on July 1, 2006 and is to expire on June 30, 2021. In August 2007, we agreed to surrender, effective December 31, 2007, one-half of the square feet of the space we are leasing. During fiscal 2008, we also leased corporate residences in the greater New York City area for use by our executive officers, directors, and consultants. All such leases have expired.

California. During a portion of fiscal 2008, we leased approximately 16,460 square feet of office space in Newport Beach, California for use by Shiny, an internal development studio which was sold in September 2006 (see *Development*). This lease had been subleased to the purchaser of Shiny; the lease expired in August 2007. Since December 2006, we have leased approximately 4,016 square feet of office space in Santa Clara, California, which expires in December 2009. A portion of the rent is being billed back to IESA.

Washington. During fiscal 2008, we leased approximately 65,500 square feet of office space in Bothell, Washington, under a lease which expired in May 2008.

Massachusetts. For a portion of fiscal 2008, we subleased a portion of the 53,184 square feet of the office space leased by Atari Interactive in Beverly, Massachusetts. Our sublease expired in June 2007.

Europe. In Newcastle upon Tyne, United Kingdom, we lease 14,576 square feet of office space, that was occupied by our formerly wholly-owned Reflections studio, which was sold in August 2006. This lease expires in August 2011. The purchaser of Reflections currently subleases this space from us in a sublease which expires in September 2008.

ITEM 3. *LEGAL PROCEEDINGS*

Our management believes that the ultimate resolution of any of the matters summarized below and/or any other claims which are not stated herein, if any, will not have a material adverse effect on our liquidity, financial condition or results of operations. With respect to matters in which we are the defendant, we believe that the underlying complaints are without merit and intend to defend ourselves vigorously.

Bouchat v. Champion Products, et al. (Accolade)

This suit involving Accolade, Inc. (a predecessor entity of Atari, Inc.) was filed in 1999 in the District Court of Maryland. The plaintiff originally sued the NFL claiming copyright infringement of a logo being used by the Baltimore Ravens that plaintiff allegedly designed. The plaintiff then also sued nearly 500 other defendants, licensees of the NFL, on the same basis. The NFL hired White & Case to represent all the defendants. Plaintiff filed an amended complaint in 2002. In 2003, the District Court held that plaintiff was precluded from recovering actual damages, profits or statutory damages against the defendants, including Accolade. Plaintiff has appealed the District Court' s ruling to the Fourth Circuit Court of Appeals. White & Case continues to represent Accolade and the NFL continues to bear the cost of the defense.

Ernst & Young, Inc. v. Atari, Inc.

On July 21, 2006 we were served with a complaint filed by Ernst & Young as Interim Receiver for HIP Interactive, Inc. This suit was filed in New York State Supreme Court, New York County. HIP is a Canadian company that has gone into bankruptcy. HIP contracted with us to have us act as its distributor for various software products in the U.S. HIP is alleging breach of contract claims; to wit, that we failed to pay HIP for product in the amount of $0.7 million. We will investigate filing counter claims against HIP, as HIP owes us, via our Canadian Agent, Hyperactive, for our product distributed in Canada. Atari Inc.' s answer and counterclaim was filed in August of 2006 and Atari, Inc. initiated discovery against Ernst & Young at the same time. The parties are currently in settlement discussions.

Research in Motion Limited v. Atari, Inc. and Atari Interactive, Inc.

On October 26, 2006 Research in Motion Limited ("RIM") filed a claim against Atari, Inc. and Atari Interactive, Inc. in the Ontario Superior Court of Justice. RIM is seeking a declaration that (i) the game BrickBreaker, as well as the copyright, distribution, sale and communication to the public of copies of the game in Canada and the United States, does not infringe any Atari copyright for Breakout or Super Breakout (together "Breakout") in Canada or the United States, (ii) the audio-visual displays of Breakout do not constitute a work protected by copyright under Canadian law, and (iii) Atari holds no right, title or interest in Breakout under US or Canadian law. RIM is also requesting the costs of the action and such other relief as the court deems. Breakout and Super Breakout are games owned by Atari Interactive, Inc. On January 19, 2007, RIM added claims to its case requesting a declaration that (i) its game Meteor Crusher does not infringe Atari copyright for its game Asteroids in Canada, (ii) the audio-visual displays of Asteroids do not constitute a work protected under Canadian law, and (iii) Atari holds no right, title or interest in Asteroids under Canadian law. In August 2007, the Court ruled against Atari' s December 2006 motion to have the RIM claims dismissed on the grounds that there is no statutory relief available to RIM under Canadian law. Each party will now be required to deliver an affidavit of documents specifying all documents in their possession, power and control relevant to the issues in the Ontario action. Following the exchange of documents, examinations for discovery will be scheduled.

Stanley v. IESA, Atari, Inc. and Atari, Inc. Board of Directors

On April 18, 2008, Christian M. Stanley, a purported stockholder of Atari ("Plaintiff"), filed a Verified Class Action Complaint against us, certain of our directors and former directors, and Infogrames, in the Delaware Court of Chancery. In summary, the complaint alleges that our directors breached their fiduciary duties to our unaffiliated stockholders by entering into an agreement that allows Infogrames to acquire the outstanding shares of our common stock at an unfairly low price. An Amended Complaint was filed on May 20, 2008, updating the allegations of the initial complaint to challenge certain provisions of the definitive merger agreement. On the same day, Plaintiff filed motions to expedite the suit and to preliminarily enjoin the merger. Plaintiff filed a Second Amended Complaint on June 30, 2008, further amending the complaint to challenge the adequacy of the disclosures contained in the Preliminary Proxy Statement on Form PREM 14A submitted in support of the proposed merger and asserting a claim against us and Infogrames for aiding and abetting the directors' and former directors' breach of their fiduciary duties.

The Plaintiff alleges that the $1.68 per share offering price represents no premium over the closing price of our stock on March 5, 2008, the last day of trading before we announced the proposed merger transaction. Plaintiff alleges that in light of Infogrames' approximately 51.6% ownership of us, our unaffiliated stockholders have no voice in deciding whether to accept the proposed merger transaction, and Plaintiff challenges certain of the "no shop" and termination fee provisions of the merger agreement. Plaintiff claims that the named directors are engaging in self-dealing and acting in furtherance of their own interests at the expense of those of our unaffiliated stockholders. Plaintiff also alleges that the disclosures in the Preliminary Proxy are deficient in that they fail to disclose material financial information and the information presented to and considered by the Board and its advisors. Plaintiff asks the court to enjoin the proposed merger transaction, or alternatively, to rescind it in the event that it is consummated. In addition, Plaintiff seeks damages suffered as a result of the directors' alleged violation of their fiduciary duties. The parties have agreed to expedited proceedings contemplating a hearing in mid-August on Plaintiff' s motion for a preliminary injunction.

We believe the suit to be entirely without merit and intend to oppose the action vigorously.

ITEM 4. *SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS*

None.

PART II

ITEM 5. ***MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES***

Until May 8, 2008, our Common Stock was quoted on the NASDAQ Global Market under the symbol "ATAR." Since May 9, 2008, it has been quoted on the Pink Sheets under the symbol "ATAR.PK." The high and low sale prices for our Common Stock as reported by the NASDAQ Global Market for the fiscal years ended March 31, 2007 and March 31, 2008 (adjusted to give effect to a one-for-ten reverse stock split that was effective on January 3, 2007) are summarized below.

	High	Low
Fiscal 2007		
First Quarter	$9.70	$4.70
Second Quarter	$7.90	$4.75
Third Quarter	$6.00	$4.60
Fourth Quarter	$6.50	$2.94
Fiscal 2008		
First Quarter	$4.11	$2.67
Second Quarter	$2.97	$1.96
Third Quarter	$3.09	$1.25
Fourth Quarter	$1.81	$0.86

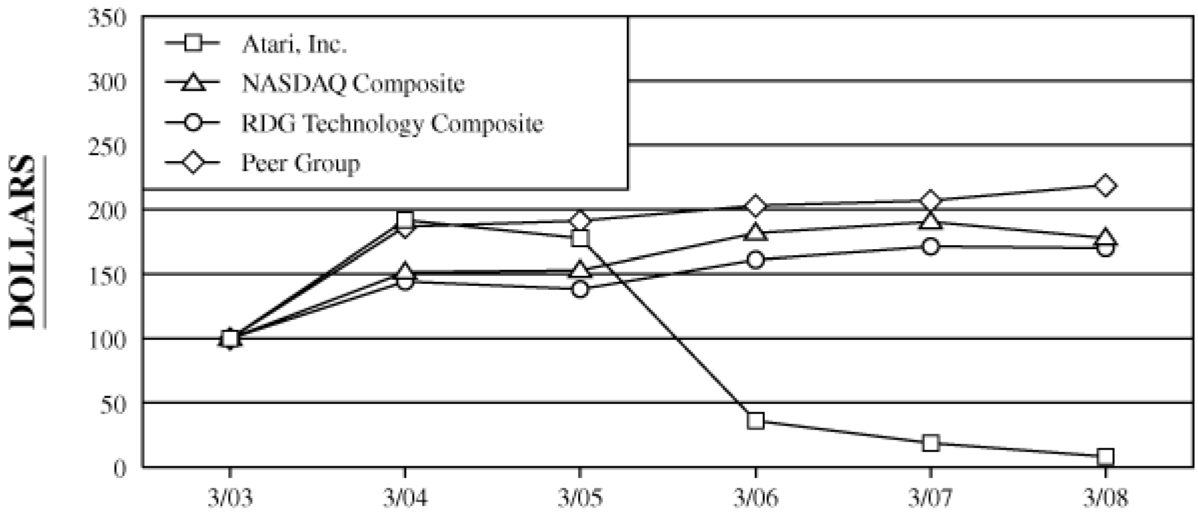
On June 27, 2008, the last sale price of our Common Stock reported on the Pink Sheets was $1.64. On March 4, 2008, the last trading day before we announced a letter of intent regarding our being acquired by IESA in a transaction in which our shareholders other than IESA and its subsidiaries would receive $1.68 per share in cash, the last sale price of our Common Stock reported on the NASDAQ Global Market was $1.68. On April 29, 2008, the last trading day before we announced that we had entered into a Plan and Agreement of Merger under which we would become a wholly-owned subsidiary of IESA and our stockholders other than IESA and its subsidiaries would receive $1.68 per share in cash, the last sale price of our Common Stock reported on the NASDAQ Global Market was $1.58. As of June 27, 2008, there were approximately 362 record owners of our Common Stock.

We currently anticipate that we will retain all of our future earnings for use in the expansion and operation of our business. We have not paid any cash dividends nor do we anticipate paying any cash dividends on our Common Stock in the foreseeable future. In addition, the payment of cash dividends may be limited by financing agreements entered into by us.

Performance Graph

The following graph compares total shareholder return for the company at March 31, 2008 to the RDG Technology Composite, the NASDAQ Composite index and a peer group consisting of Electronic Arts Inc., Activision, Inc., THQ, Inc., TakeTwo Interactive Software, Inc., and Midway Games, Inc. We selected the RDG Technology Composite because it is a broad based index that includes companies with product mixes similar to ours (although it also includes companies with very different product offerings). We selected companies for inclusion in what we view as a peer group because they have offer products similar to those we offer. The graph assumes an investment of $100 on March 31, 2003.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Atari, Inc., The NASDAQ Composite Index,
The RDG Technology Composite Index And A Peer Group



* $100 invested on 3/31/03 in stock or index-including reinvestment of dividends.
Fiscal year ending March 31.

	Comparative Total Return Analysis					
	2003	2004	2005	2006	2007	2008
Atari, Inc.	100.00	191.57	177.53	35.96	18.60	8.15
NASDAQ Composite	100.00	151.41	152.88	181.51	190.24	177.63
RDG Technology Composite	100.00	144.19	138.29	160.94	171.12	169.78
Peer Group	100.00	186.50	191.05	202.86	206.74	218.75

Securities Authorized for Issuance under Equity Compensation Plans

The table setting forth this information is included in Part III − Item 12. Security Ownership of Certain Beneficial Owners and Management.

Recent Sales of Unregistered Securities

None.

Purchase of Equity Securities by the Issuer and Affiliated Purchases.

None.

ITEM 6. *SELECTED FINANCIAL DATA*

The following tables set forth selected consolidated financial information which the years ended March 31, 2004, 2005, 2006, 2007, and 2008, is derived from our audited consolidated financial statements.

In the first quarter of fiscal 2007, management committed to a plan to divest of our previously wholly-owned Reflections studio and its related *Driver* intellectual property, and in August 2006, we sold to a third party the *Driver* intellectual property as well as certain assets of Reflections. Therefore, beginning in the first quarter of fiscal 2007, we began to classify the results of Reflections as results of discontinued operations, and all prior period financial statements have been restated retroactively to reflect this classification.

These tables should be read in conjunction with our Consolidated Financial Statements, including the notes thereto, appearing elsewhere in this Form 10-K. See "Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations."

	Years Ended March 31,				
	2004	2005(1)	2006(1)(2)	2007(1)(2)(3)	2008(1)
Statement of Operations Data:					
Net revenues	$465,639	$343,837	$206,796	$122,285	$80,131
Operating income (loss)	20,840	(23,970)	(62,977)	(77,644)	(21,862)
Income (loss) from continuing operations	13,606	(14,855)	(63,375)	(66,586)	(23,334)
(Loss) income from discontinued operations of Reflections Interactive Ltd, net of tax provision of $0, $9,352, $7,559, and $0 respectively	(12,840)	20,547	(5,611)	(3,125)	(312)
Net income (loss)	766	5,692	(68,986)	(69,711)	(23,646)
Dividend to parent	(39,351)	–	–	–	–
Income (loss) attributable to common stockholders	$(38,585)	$5,692	$(68,986)	$(69,711)	$(23,646)
Basic and diluted income (loss) per share attributable to common stockholders(4):					
Income (loss) from continuing operations	$1.40	$(1.22)	$(4.93)	$(4.94)	$(1.73)
(Loss) income from discontinued operations of Reflections Interactive Ltd, net of tax	(1.32)	1.69	(0.43)	(0.23)	(0.02)
Net income (loss)	0.08	0.47	(5.36)	(5.17)	(1.75)
Dividend to parent	(4.06)	–	–	–	–
Income (loss) attributable to common stockholders	$(3.98)	$0.47	$(5.36)	$(5.17)	$(1.75)
Basic weighted average shares outstanding(4)	9,699	12,128	12,863	13,477	13,478
Diluted weighted average shares outstanding(4)	9,699	12,159	12,863	13,477	13,478

(1) During fiscal 2005, 2006, 2007, and 2008, we recorded restructuring expenses of $4.9 million, $8.9 million, $0.7 million and $6.5 million, respectively.

(2) During fiscal 2006, we recorded a gain on sale of intellectual property of $6.2 million and in fiscal 2007, we recorded a gain on sale of intellectual property of $9.0 million and a gain on sale of development studio assets of $0.9 million. Additionally, in fiscal 2007 the gain on sale of Reflections of $11.5 million is included as a reduction of the loss from discontinued operations.

(3) During fiscal 2007, we recorded an impairment loss on our goodwill of $54.1 million, which is included in the loss from continuing operations.

(4) Reflects the one-for-ten reverse stock split effected on January 3, 2007. All periods have been restated retroactively to reflect the reverse stock split.

	March 31,				
	2004	2005	2006	2007	2008
Balance Sheet Data:					
Cash	$8,858	$9,988	$14,948	$7,603	$11,087
Working capital (deficiency)	25,844	34,467	(2,996)	1,213	(12,796)
Total assets	193,956	190,039	143,670	42,819	33,433
Total debt	–	–	–	–	14,000
Stockholders' equity (deficiency)	115,063	120,667	73,212	3,094	(20,412)

ITEM 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

Overview

Until 2005, we were actively involved in developing video games and in financing development of video games by independent developers, which we would publish and distribute under licenses from the developers. However, beginning in 2005, because of cash constraints, we substantially reduced our involvement in development of video games, and announced plans to divest ourselves of our internal development studios.

During fiscal 2007, we sold a number of intellectual properties and development facilities in order to obtain cash to fund our operations. During 2007, we raised approximately $35.0 million through the sale of the rights to the *Driver* games and certain other intellectual property, and the sale of our Reflections Interactive Ltd ("Reflections") and Shiny Entertainment ("Shiny") studios. By the end of fiscal 2007, we did not own any development studios.

The reduction in our development activities has significantly reduced the number of games we publish. During fiscal 2008, our revenues from publishing activities were $69.8 million, compared with $104.7 million during fiscal 2007.

For the year ended March 31, 2007, we had an operating loss of $77.6 million, which included a charge of $54.1 million for the impairment of our goodwill, which is related to our publishing unit. For the year ended March 31, 2008, we incurred an operating loss of approximately $21.9 million. We have taken significant steps to reduce our costs such as our May 2007 and November 2007 workforce reduction of approximately 20% and 30%, respectively. Our ability to deliver products on time depends in good part on developers' ability to meet completion schedules. Further, our expected releases in fiscal 2008 were even fewer than our releases in fiscal 2007. In addition, most of our releases for fiscal 2008 were focused on the holiday season. As a result our cash needs have become more seasonal and we face significant cash requirements to fund our working capital needs.

The following series of events and transactions which have occurred since September 30, 2007, have caused or are part of our current restructuring initiatives intended to allow us to devote more resources to focusing on our distribution business strategy, provide liquidity, and to mitigate our future cash requirements (for further description see Note 1 in our financial statement footnotes included in this Annual Report):

Guggenheim Corporate Funding LLC Covenant Default;

Removal of the Atari, Inc. Board of Directors;

Transfer of the Guggenheim credit facility to BlueBay High Yield Investments (Luxembourg) S.A.R.L.;

Test Drive Intellectual Property License;

Overhead Reduction;

Global Memorandum of Understanding;

Short Form Distribution Agreement;

Termination and Transfer of Assets Agreement;

QA Services Agreement;

Intercompany Services Agreement;

Agreement and Plan of Merger;

Credit Agreement; and

Waiver, Consent and Fourth Amendment.

Although, the above transactions provided cash financing that should meet our need through our fiscal 2009 second quarter (the quarter ending September 30, 2008), management continues to pursue other options to meet our working capital cash requirements but there is no guarantee that we will be able to do so if the proposed transaction in which IESA would acquire us is not completed.

Historically, we have relied on IESA to provide limited financial support to us, through loans or, in recent years, through purchases of assets. However, IESA has its own financial needs, and its ability to fund its subsidiaries' operations, including ours, is limited. Therefore, there can be no assurance we will ultimately receive any funding from IESA, if the proposed transaction in which IESA would acquire us is not completed.

The uncertainty caused by these above conditions raises substantial doubt about our ability to continue as a going concern, unless the proposed transaction in which IESA would acquire us is completed promptly. Our consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We continue to explore various alternatives to improve our financial position and secure sources of financing which could include forming both operational and financial strategic partnerships, entering into new arrangements to license intellectual property, and selling, licensing or sub-licensing selected owned intellectual property and licensed rights. We continue to examine the reduction of working capital requirements to further conserve cash and may need to take additional actions in the near-term, which may include additional personnel reductions.

The above actions may or may not prove to be consistent with our long-term strategic objectives, which have been shifted in the last fiscal year, as we have discontinued our internal and external development activities. We cannot guarantee the completion of these actions or that such actions will generate sufficient resources to fully address the uncertainties of our financial position.

Business and Operating Segments

We are a global publisher of video game software for gaming enthusiasts and the mass-market audience, and a distributor of video game software in North America.

We publish and distribute (both retail and digital) games for all platforms, including Sony PlayStation 2, PlayStation 3, and PSP; Nintendo, DS, and Wii; Microsoft Xbox and Xbox 360; and personal computers, referred to as PCs. We also publish and sublicense games for the wireless, internet (casual games, MMOGs), and other evolving platforms. Our diverse portfolio of products extends across most major video game genres, including action, adventure, strategy, role-playing, and racing. Our products are based on intellectual properties that we have created internally and own or that have been licensed to us by third parties. During fiscal 2007 we sold our remaining internal development studios and during fiscal 2008, we stopped financing development of games by independent developers which we would publish and distribute. Through our relationship with IESA, our products are distributed exclusively by IESA throughout Europe, Asia and other regions. Through our distribution agreement with IESA, we publish and sublicense in North America games owned or licensed by IESA or its subsidiaries, including Atari Interactive. In 2009, we plan to increase our focus on North American publishing and distribution of IESA product.

In addition to our publishing, we also distribute video game software in North America for titles developed by third-party publishers with whom we have contracts. As a distributor of video game software throughout the U.S., we maintain distribution operations and systems that reach in excess of 30,000 retail outlets nationwide. Consumers have access to interactive software through a variety of outlets, including mass-merchant retailers such as Wal-Mart and Target; major retailers, such as Best Buy and Toys ' R' Us; and specialty stores such as GameStop. Our sales to key customers GameStop, Wal-Mart, and Best Buy accounted for approximately 26.8%, 19.8%, and 11.9%, respectively, of net revenues (excluding international royalty, licensing, and other income) for the year ended March 31, 2008. No other customers had sales in excess of 10% of net product revenues. Additionally, our games are made available through various internet, online, and wireless networks.

Key Challenges

The video game software industry has experienced an increased rate of change and complexity in the technological innovations of video game hardware and software. In addition to these technological innovations, there has been greater competition for shelf space as well as increased buyer selectivity. There is also increased competition for creative and executive talent. As a result, the video game industry has become increasingly hit-driven, which has led to higher per game production budgets, longer and more complex development processes, and generally shorter product life cycles. The importance of the timely release of hit titles, as well as the increased scope and complexity of the product development process, have increased the need for disciplined product development processes that limit costs and overruns. This, in turn, has increased the importance of leveraging the technologies, characters or storylines of existing hit titles into additional video game software franchises in order to spread development costs among multiple products.

We suffered large operating losses during fiscal 2006, 2007 and 2008. To fund these losses, we sold assets, including intellectual property rights related to game franchises that had generated substantial revenues for us and including our development studios. During 2008, we granted IESA an exclusive license with regard to the *Test Drive* franchise in consideration for a $5 million related party advance which shall accrue interest at a yearly rate of 15% throughout the term. We do not have significant additional assets we could sell, if we are going to continue to engage in our current activities. However, we have both short and long term need for funds. As of March 31, 2008, our only credit line was our $14.0 million Bluebay Credit Facility and it was fully drawn. In connection with the Merger Agreement with IESA, we obtained a $20 million interim credit line granted from IESA, which will terminate when the merger takes place or when the Merger Agreement terminates without the merger taking place. At June 12, 2008, we had borrowed $6.0 million under the IESA credit line. The funds available under the two credit lines may not be sufficient to enable us to meet anticipated seasonal cash needs if the merger does not take place before the fall 2008 holiday season inventory buildup. Management continues to pursue other options to meet the cash requirements for funding to meet our working capital cash requirements but there is no guarantee that we will be able to do so.

The “Atari” name, which we do not own, but license from an IESA subsidiary, has been an important part of our branding strategy, and we believe it provides us with an important competitive advantage in dealing with video game developers and in distributing products. Further, our management at times worked on a strategic plan to replace part of the revenues we lost in recent years by expanding into new emerging aspects of the video game industry, including casual games, on-line sites, and digital downloading. Among other things, we have considered licensing the “Atari” name for use in products other than video games. However, our ability to do at least some of those things would require expansion and extension of our rights to use and sublicense others to use the “Atari” name. IESA has indicated a reluctance to expand our rights with regard to the “Atari” name.

Critical Accounting Policies

Our discussion and analysis of financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to accounts receivable, inventories, intangible assets, investments, income taxes and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ materially from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements.

Revenue recognition, sales returns, price protection, other customer related allowances and allowance for doubtful accounts

Revenue is recognized when title and risk of loss transfer to the customer, provided that collection of the resulting receivable is deemed probable by management.

Sales are recorded net of estimated future returns, price protection and other customer related allowances. We are not contractually obligated to accept returns; however, based on facts and circumstances at the time a customer may request approval for a return, we may permit the return or exchange of products sold to certain customers. In addition, we may provide price protection, co-operative advertising and other allowances to certain customers in accordance with industry practice. These reserves are determined based on historical experience, market acceptance of products produced, retailer inventory levels, budgeted customer allowances, the nature of the title and existing commitments to customers. Although management believes it provides adequate reserves with respect to these items, actual activity could vary from management' s estimates and such variances could have a material impact on reported results.

We maintain allowances for doubtful accounts for estimated losses resulting from the failure of our customers to make payments when due or within a reasonable period of time thereafter. If the financial condition of our customers were to deteriorate, resulting in an inability to make required payments, additional allowances may be required.

For the years ended March 31, 2007 and 2008, we recorded allowances for bad debts, returns, price protection and other customer promotional programs of approximately $22.7 million and $15.7 million, respectively. As of March 31, 2007 and March 31, 2008, the aggregate reserves against accounts receivable for bad debts, returns, price protection and other customer promotional programs were approximately $14.1 million and $1.9 million, respectively.

Inventories

We write down our inventories for estimated slow-moving or obsolete inventories by the amount equal to the difference between the cost of inventories and estimated market value based upon assumed market conditions. If actual market conditions are less favorable than those assumed by management, additional inventory write-downs may be required. For the years ended March 31, 2007 and 2008 we recorded obsolescence expense of approximately $2.5 million and $1.5 million, respectively.

Research and product development costs

Research and product development costs related to the design, development, and testing of newly developed software products, both internal and external, are charged to expense as incurred. Research and product development costs also include royalty payments (milestone payments) to third party developers for products that are currently in development. Once a product is sold, we may be obligated to make additional payments in the form of backend royalties to developers which are calculated based on contractual terms, typically a percentage of sales. Such payments are expensed and included in cost of goods sold in the period the sales are recorded.

Rapid technological innovation, shelf-space competition, shorter product life cycles and buyer selectivity have made it difficult to determine the likelihood of individual product acceptance and success. As a result, we follow the policy of expensing milestone payments as incurred, treating such costs as research and product development expenses.

Licenses

Licenses for intellectual property are capitalized as assets upon the execution of the contract when no significant obligation of performance remains with us or the third party. If significant obligations remain, the asset is capitalized when payments are due or when performance is completed as opposed to when the contract is executed.

These licenses are amortized at the licensor' s royalty rate over unit sales to cost of goods sold. Management evaluates the carrying value of these capitalized licenses and records an impairment charge in the period management determines that such capitalized amounts are not expected to be realized. Such impairments are charged to cost of goods sold if the product has released or previously sold, and if the product has never released, these impairments are charged to research and product development.

Atari Trademark License

In connection with a recapitalization completed in fiscal 2004, Atari Interactive, a wholly-owned subsidiary of IESA, extended the term of the license under which we use the Atari trademark to ten years expiring on December 31, 2013. We issued 200,000 shares of our common stock to Atari Interactive for the extended license and will pay a royalty equal to 1% of our net revenues during years six through ten of the extended license. We recorded a deferred charge of $8.5 million, representing the fair value of the shares issued, which was expensed monthly until it became fully expensed in the first quarter of fiscal 2007 ($8.5 million plus estimated royalty of 1% for years six through ten). The monthly expense was based on the total estimated cost to be incurred by us over the ten-year license period; upon the full expensing of the deferred charge, this expense is being recorded as a deferred liability owed to Atari Interactive, to be paid beginning in year six of the license.

Test Drive Intellectual Property License

On November 8, 2007, we entered into two separate license agreements with IESA pursuant to which we granted IESA the exclusive right and license, under its trademark and intellectual and property rights, to create, develop, distribute and otherwise exploit licensed products derived from the Test Drive Franchise for a term of seven years. IESA paid us a non-refundable advance, fully recoupable against royalties to be paid under each of the TDU Agreements, of (i) $4 million under the Trademark Agreement and (ii) $1 million under the IP Agreement, both advances accrue interest at a yearly rate of 15% throughout the term of the applicable agreement. As of March 31, 2008, the balance of this related party license advance is approximately $5.3 million of which $0.3 million relates to accrued interest.

Results of Operations

Year ended March 31, 2007 versus year ended March 31, 2008

Consolidated Statement of Operations (dollars in thousands):

	Year Ended March 31, 2007	% of Net Revenues	Year Ended March 31, 2008	% of Net Revenues	(Decrease)/Increase $	(Decrease)/Increase %
Net revenues	$122,285	100.0 %	$80,131	100.0 %	(42,154)	(34.5)%
Costs and expenses:						
Cost of goods sold	72,629	59.4 %	40,989	51.2 %	(31,640)	(43.6)%
Research and product development expenses	30,077	24.6 %	13,599	17.0 %	(16,478)	(54.8)%
Selling and distribution expenses	25,296	20.7 %	19,411	24.2 %	(5,885)	(23.3)%
General and administrative expenses	21,788	17.8 %	17,672	22.0 %	(4,116)	(18.9)%
Restructuring expenses	709	0.6 %	6,541	8.2 %	5,832	822.0 %
Impairment of goodwill	54,129	44.3 %	–	0.0 %	(54,129)	(100.0)%
Gain on sale of intellectual property	(9,000)	(7.4)%	–	0.0 %	9,000	(100.0)%
Gain on sale of development studio assets	(885)	(0.7)%	–	0.0 %	885	(100.0)%
Atari trademark license expense	2,218	1.8 %	2,218	2.7 %	–	0.0 %
Depreciation and amortization	2,968	2.4 %	1,563	2.0 %	(1,405)	(47.3)%
Total costs and expenses	199,929	163.5 %	101,993	127.3 %	(97,936)	(48.9)%
Operating loss	(77,644)	(63.5)%	(21,862)	(27.3)%	55,782	71.8 %
Interest income (expense), net	301	0.2 %	(1,452)	(1.8)%	(1,753)	(582.4)%
Other income	77	0.1 %	53	0.0 %	(24)	(31.2)%
Loss before (benefit from) provision for income taxes	(77,266)	(63.2)%	(23,261)	(29.1)%	54,005	(69.8)%
(Benefit from) provision for income taxes	(10,680)	(8.8)%	73	(0.1)%	(10,607)	(99.3)%
Loss from continuing operations	(66,586)	(54.4)%	(23,334)	(29.2)%	43,252	(64.9)%
Loss from discontinued operations of Reflections Interactive Ltd, net of tax provision of $7,559 and $0, respectively	(3,125)	(2.6)%	(312)	(0.4)%	(2,813)	(90.0)%
Net loss	$(69,711)	(57.0)%	$(23,646)	(29.6)%	$46,065	(66.0)%

Net Revenues

Net revenues by segment for the years ended March 31, 2007 and 2008 are as follows (in thousands):

	Years Ended March 31, 2007	Years Ended March 31, 2008	(Decrease)
Publishing	$104,650	$69,755	$(34,895)
Distribution	17,635	10,376	(7,259)
Total	$122,285	$80,131	$(42,154)

The platform mix for the years ended March 31, 2007 and 2008 for net publishing revenues from product sales is as follows:

	Publishing Platform Mix	
	2007	2008
PlayStation 2	35.5 %	33.2 %
PC	27.2 %	28.3 %
Xbox 360	12.1 %	0.8 %
Nintendo Wii	8.4 %	18.6 %
PlayStation Portable	7.6 %	11.9 %
Game Boy Advance	3.9 %	0.0 %
Plug and Play	2.8 %	0.0 %
Nintendo DS	2.0 %	6.8 %
Xbox	0.3 %	0.4 %
Game Cube	0.2 %	0.0 %
Total	100.0 %	100.0 %

As anticipated our overall revenue was down from $122.3 million to $80.1 million. This decrease is primarily driven by fewer new releases in our publishing business due to cash restrictions and our elimination of our internal studios. The year over year comparison includes the following trends:

Net publishing product sales for the fiscal 2008 year end were driven by new releases of *Dragon Ball Z Tenkaichi 3 (Wii and PS2), Godzilla Unleashed (Wii, PS2, and DS)*, *Jenga (Wii and DS)* and *The Witcher (PC)*. These titles comprised approximately 50.7% of our net publishing product sales. Fiscal 2007 sales were driven by the new releases of *Test Drive Unlimited (Xbox 360), Neverwinter Nights 2 (PC) and DragonBall Z Tenkaichi 2 (PS2 and Wii)*.

International royalty income decreased by $2.6 million as fiscal 2008 had few releases which sold internationally as compared to the prior period which contained the majority of its income from the release of *Test Drive Unlimited* in September 2006.

The year ended March 31, 2008 contains a one-time license payment of $4.0 million related to the sale of Hasbro, Inc. publishing and licensing rights which IESA sold back to Hasbro in July 2007. We anticipate the sale of these rights will reduce the amount of immediate license opportunities we have.

The overall average unit sales price (“ASP”) of the publishing business increased from $20.80 in the prior comparable year versus $22.08 in the current year as the current period contained a larger percentage of higher priced next generation console releases.

Total distribution net revenues for the year ended March 31, 2008 decreased by 41.2% from the prior comparable period due to the overall decrease in product sales of third party publishers as a result of management’ s decision to reduce our third party distribution operations in efforts to move away from lower margin products in fiscal 2006. Due to our financial constraints related to fully funding our product development program, we will attempt to increase our focus on higher-margin distribution in the future.

Cost of Goods Sold

Cost of goods sold as a percentage of net revenues can vary primarily due to segment mix, platform mix within the publishing business, average unit sales prices, mix of royalty bearing products and the mix of licensed product. These expenses for the year ended March 31, 2008 decreased by 43.6%. As a percentage of net revenues, cost of goods sold decreased from 59.4% to 51.2% due to the following:

a lower mix of higher cost third-party distributed product sales as a percentage of net revenues (12.9% in fiscal 2008 compared with 14.4% in fiscal 2007), and

- a higher average sales price on our publishing products in the current period driven by new release sales on next generation hardware, offset by
- an additional $1.2 million royalty reserve related to the FUNimation dispute.

We expect our cost of goods sold to increase in the future as our reliance on IESA product grows as their product carries a higher distribution cost as compared to our current product mix.

Research and Product Development Expenses

Research and product development expenses consist of development costs relating to the design, development, and testing of new software products whether internally or externally developed, including the payment of royalty advances to third party developers on products that are currently in development and billings from related party developers. We expect to increase the use of external developers as we have sold all of our internal development studios. By leveraging external developers, we anticipate improvements in liquidity as we will no longer carry fixed studio overhead to support our development efforts. However, due to our cash constraints we have not been able to fully fund our development efforts. These expenses for the year ended March 31, 2008 decreased approximately 54.8%, due primarily to:

- decreased spending of $7.1 million at our related party development studios as we had nominal spend in development at related party studios, and
- decreased salaries and other overhead of $6.9 million as we no longer own internal development studios, offset by
- a write-off of licenses which will no longer be exploited of approximately $2.0 million, and
- increased spending of $1.1 million for projects with external developers, as we completed certain development projects.

Selling and Distribution Expenses

Selling and distribution expenses primarily include shipping, personnel, advertising, promotions and distribution expenses. During the year ended March 31, 2008, selling and distribution expenses decreased $5.9 million or approximately 23.3%, due to:

- decreased spending on advertising of $2.7 million, and
- savings in salaries and related overhead costs due to reduced headcount resulting from studio closure and personnel reductions, offset by
- an additional $1.6 million expense related to minimum advertising commitment shortfalls to be paid to FUNimation.

General and Administrative Expenses

General and administrative expenses primarily include personnel expenses, facilities costs, professional expenses and other overhead charges. As a percentage of net revenues, these expenses decreased to 22.0% due to the decreased sales volume in the year ended March 31, 2008. During the year ended March 31, 2008, general and administrative expenses decreased by $4.1 million. Trends within general and administrative expenses related to the following:

- a reduction in salaries and other overhead costs of $2.4 million due to studio closures and other personnel reductions.

Restructuring Expenses

In the first quarter of fiscal 2008, management announced a plan to reduce our total workforce by 20%, primarily in general and administrative functions. This restructuring resulted in restructuring charges of approximately $0.8 million. The first two quarters of fiscal 2007 contains $0.3 million of additional restructuring expense from the fiscal 2006 restructuring plan.

During the third quarter of fiscal 2008, the Board of Directors announced a further reduction of our total workforce totaling an additional 30% primarily in the production and general and administrative functions. This resulted in a charge of approximately $5.5 million for the remainder of fiscal 2008 of which $1.2 million related to severance arrangements. The remaining charge relates to restructuring consulting and legal fees.

Gain on Sale of Intellectual Property

In the fiscal 2007 first quarter, we sold the *Stuntman* intellectual property to a third party for $9.0 million, which was recorded as a gain. No such gain was recorded in the current period.

Gain on Sale of Development Studio Assets

During the year ended March 31, 2007, we sold certain development studio assets of Shiny to a third party for a gain of $0.9 million. The gain represents the proceeds of $1.8 million (of which $0.2 million is held in escrow for nine months), less the net book value of the development studio assets sold of $0.9 million.

Depreciation and Amortization

Depreciation and amortization for the year ended March 31, 2008 decreased 47.3% due to:

savings in depreciation related to the closure of offices and reduction of staffing and associated overhead.

Interest Income (Expense), net

Interest income (expense), net, decreased from income of $0.3 million to expense of $1.5 million. The increase in expense relates to our use and outstanding borrowings through-out the period of our credit facilities. In fiscal 2007, we borrowed and repaid approximately $15.0 million from our credit facilities and had no outstanding balance as of March 31, 2007. As of March 31, 2008, we have approximately $14.0 million outstanding of which the majority has been outstanding since October 2007.

(Benefit from) Provision for Income Taxes

During the year ended March 31, 2007, a $4.2 million benefit from income taxes primarily results from a noncash tax benefit of $4.7 million, which offsets a noncash tax provision of the same amount included in loss from discontinued operations, recorded in accordance with FASB Statement No, 109, "Accounting for Income Taxes," paragraph 140, which states that all items should be considered for purposes of determining the amount of tax benefit that results from a loss from continuing operations and that should be allocated to continuing operations. The recording of a benefit is appropriate in this instance, under the guidance of Paragraph 140, because such domestic loss offsets the domestic gain generated in discontinued operations. The effect of this transaction on net loss for fiscal 2007 is zero, and it does not result in the receipt or payment of any cash. This noncash tax benefit is offset by $0.5 million of deferred tax liability recorded due to a temporary difference that arose from a difference in the book and tax basis of goodwill.

During the year ended March 31, 2008, we recorded $0.1 million of tax expense due to certain state and local minimum income tax requirements.

(Loss) from Discontinued Operations of Reflections Interactive Ltd., net of tax

(Loss) from discontinued operations of Reflections Interactive Ltd. decreased $2.8 million from $3.1 million during the year ended March 31, 2007 to $0.3 million in fiscal 2008, which relates to remaining lease costs. The fiscal 2007 gain was driven by the gain of sale of Reflections of $11.4 million (sold in August 2006) offset by the operating costs of the Reflections studio of $6.6 million and a tax provision associated with discontinued operations of $4.7 million, recorded in accordance with FASB Statement No, 109, "Accounting for Income Taxes," paragraph 140, and offset by a tax benefit of an equal amount in continuing operations (see *Benefit from Income Taxes* above).

Liquidity and Capital Resource

Overview

A need for increased investment in development and increased need to spend advertising dollars to support product launches, caused in part by "hit-driven" consumer taste, have created a significant increase in the amount of financing required to sustain operations, while negatively impacting margins. Further, our business continues to be more seasonal, which creates a need for significant financing to fund manufacturing activities for our working capital requirements. Our Bluebay Credit Facility is limited to $14.0 million and is fully drawn. Further, at March 31, 2008, the lender had the right to cancel the credit facility as we failed to meet financial and other covenants, the violation of which was waived on April 30, 2008. On April 30, 2008, we obtained a $20 million interim credit line granted by IESA when we entered into the Merger Agreement relating to its acquisition of us, which will terminate when the merger takes place or when the Merger Agreement terminates without the merger taking place. As of June 12, 2008, we continue to have $14.0 million outstanding under the Bluebay credit line and have borrowed approximately $6.0 million from the IESA credit line. The funds available under the two credit lines may not be sufficient to enable us to meet anticipated seasonal cash needs if IESA does not acquire us before the fall 2008 holiday season inventory buildup. Historically, IESA has sometimes provided funds we needed for our operations, but it is not certain that it will be able, or willing to provide the funding we will need for our working capital requirements if IESA does not acquire us.

Because of our funding difficulties, we have sharply reduced our expenditures for research and product development. During the year ended March 31, 2008, our expenditures on research and product development decreased by 54.8%, to $13.6 million, compared with $30.1 million in fiscal 2007. This will reduce the flow of new games that will be available to us in fiscal 2009, and possibly after that. Our lack of financial resources to fund a full product development program has led us to focus on distribution and acquisition of finished goods. As such, we have exited all internal development activities and have stopped investing in development by independent developers.

During fiscal 2007, we raised approximately $35.0 million through the sale of certain intellectual property and the divestiture of our internal development studios. In May 2007, we announced a plan to reduce our total workforce by approximately 20% as a cost cutting initiative. Further in November 2007, we announced a plan to reduce our total workforce by an additional 30%. To reduce working capital requirements and further conserve cash we will need to take additional actions in the near-term, which may include additional personnel reductions and suspension of additional development projects. However, these steps may not fully resolve the problems with our financial position. Also, lack of funds will make it difficult for us to undertake a strategic plan to generate new sources of revenues and otherwise enable us to attain long-term strategic objectives. Management continues to pursue other options to meet our working capital cash requirements but there is no guarantee that we will be able to do so.

Cash Flows

	March 31, 2007	March 31, 2008
	(in thousands)	
Cash	$7,603	$11,087
Working capital (deficit)	$1,213	$(12,796)

	Year Ended March 31, 2007	Year Ended March 31, 2008
	(in thousands)	
Cash (used in) operating activities	$(36,939)	$(15,908)
Cash provided by investing activities	29,757	452
Cash (used in) provided by financing activities	(216)	18,928
Effect of exchange rates on cash	53	12
Net (decrease) increase in cash	$(7,345)	$3,484

During the year ended March 31, 2008, our operations used cash of approximately $15.9 million to support our net loss of $23.6 million for the period. During the year ended March 31, 2007, our operations used cash of approximately $36.9 million driven by the net loss of $69.7 million for the period, compounded by increased payments of trade payables and royalties payable and timing of accounts receivable collections.

During the year ended March 31, 2008, cash provided by investing activities of $0.5 million was due to a refund from our New York office security deposit of $0.9 million offset by purchases of property and equipment. During the year ended March 31, 2007, investing activities provided cash of $29.8 million due to several sale transactions completed during the period:

proceeds of $21.6 million received in connection with the sale of our Reflections studio,

proceeds of $9.0 million from the sale of the *Stuntman* intellectual property,

and proceeds of $1.6 million from the sale of our Shiny studio in the current period

The cash proceeds are partially offset by the increase in restricted cash of $1.8 million for the collateralizing of a letter of credit related to our new office lease and the purchase of assets (intangibles and property and equipment) of $2.1 million.

During the year ended March 31, 2007 and 2008, our financing activities provided cash primarily from borrowings from our credit facilities. During the year ended March 31, 2008, we also received $5.0 million in cash proceeds from the related party license advance. During fiscal 2007, we paid down all outstanding borrowings and had no outstanding balance at March 31, 2007.

Our Senior Credit Facility with BlueBay matures on December 31, 2009, charges an interest rate of the applicable LIBOR rate plus 7% per year. In connection with the Global Memorandum of Understanding regarding our relationship with IESA, which we entered into on December 4, 2007, we signed a Waiver Consent and Third Amendment to the Credit Facility in which BlueBay raised the maximum borrowings of the Senior Credit Facility to $14.0 million.

The maximum borrowings we can make under the Senior Credit Facility will not by themselves provide all the funding we will need for our working capital needs. Further, the Senior Credit Facility may be terminated if we do not comply with financial and other covenants.

As of March 31, 2008, we were in violation of our covenants. In conjunction with the Merger Agreement, we entered into a Waiver, Consent and Fourth Amendment to our BlueBay Credit Facility under which, among other things, (i) BlueBay agreed to waive our non-compliance with certain representations and covenants under the Credit Agreement, (ii) BlueBay agreed to consent to us entering into the a credit facility with IESA, (iii) BlueBay agreed to provide us consent in entering into the Merger Agreement with IESA, and (iv) BlueBay and we agreed to certain amendments to the Existing Credit Facility.

Management continues to pursue other options to meet the cash requirements for funding our working capital cash requirements but there is no guarantee that we will be able to do so.

Our outstanding accounts receivable balance varies significantly on a quarterly basis due to the seasonality of our business and the timing of new product releases. There were no significant changes in the credit terms with customers during the twelve month period ended on March 31, 2008.

Due to our reduced product releases, our business has become increasingly seasonal. This increased seasonality has put significant pressure on our liquidity prior to our holiday season as financing requirements to build inventory are high. During fiscal 2007, our third quarter (which includes the holiday season) represented approximately 38.7% of our net revenues for the entire year. In fiscal 2008, our third quarter represented approximately 51.3% of our net revenues for the year.

We do not currently have any material commitments with respect to any capital expenditures. However, we do have commitments to pay royalty and license advances, milestone payments, and operating and capital lease obligations.

Our ability to maintain sufficient levels of cash could be affected by various risks and uncertainties including, but not limited to, customer demand and acceptance of our new versions of our titles on existing platforms and our titles on new platforms, our ability to collect our receivables as they become due, risks of product returns, successfully achieving our product release schedules and attaining our forecasted sales goals, seasonality in operating results, fluctuations in market conditions and the other risks described in the “Risk Factors” as noted in this Annual Report.

We are also party to various litigations arising in the normal course of our business. Management believes that the ultimate resolution of these matters will not have a material adverse effect on our liquidity, financial condition or results of operations.

Selected Balance Sheet Accounts

Accounts Receivable, net

Accounts receivable, net, decreased by $5.9 million from $6.5 million at March 31, 2007 to $0.6 million at March 31, 2008, driven by fewer new releases and the timing of our release schedule and retail payment terms.

Inventories, net

Inventories, net, decreased by $4.5 million from $8.8 million at March 31, 2007 to $4.3 million at March 31, 2008, driven by an overall decrease in the distribution business as well as fewer planned new releases.

Due from Related Parties/Due to Related Parties

Due from related parties decreased by $0.9 million and due to related parties decreased by $4.5 million from March 31, 2007 to March 31, 2008 driven by balances between parties being settled by netting during the year.

Prepaid and other current asset

Prepaid and other current assets decreased approximately $2.0 million from March 31, 2007 to March 31, 2008 primarily from the amortization of licenses at the licensor’ s royalty rate over unit sales. This decrease is primarily due to the write-off of licenses which we will no longer exploit and have been charged to research and development expense during the year ended March 31, 2008.

Accounts Payable

Accounts payable decreased by $5.6 million from March 31, 2007 to March 31, 2008. The decreases were driven by an overall decrease in the distribution business, a lower volume of transactions in the current period, and fewer planned unit sales which resulted in lower total manufacturing liabilities.

Long-term liabilities and Property and Equipment

Long-term liabilities and property and equipment increased during the year ended March 31, 2008 approximately $3.7 million and $2.1 million, respectively, primarily due to the capitalization of assets and deferred effect of landlord contributions related to our corporate headquarters located at 417 5th Avenue, New York, New York.

NASDAQ Delisting Notice

On December 21, 2007, we received a notice from NASDAQ advising that in accordance with NASDAQ Marketplace Rule 4450(e)(1), we had 90 calendar days, or until March 20, 2008, to regain compliance with the minimum market value of our publicly held shares required for continued listing on the NASDAQ Global Market, as set forth in NASDAQ Marketplace Rule 4450(b)(3). We received this notice because the market value of our publicly held shares (which is calculated by reference to our total shares outstanding, less any shares held by officers, directors or beneficial owners of 10% or more) was less than $15.0 million for 30 consecutive business days prior to December 21, 2007.

On March 24, 2008, we received a NASDAQ Staff Determination Letter from the NASDAQ Listing Qualifications Department stating that we had failed to regain compliance with the Rule during the required period, and that the NASDAQ Staff had therefore determined that our securities were subject to delisting, with trading in our securities to be suspended on April 2, 2008 unless we requested a hearing before a NASDAQ Listing Qualifications Panel (the "Panel").

On March 27, 2008, we requested a hearing, which stayed the suspension of trading and delisting until the Panel issued a decision following the hearing. The hearing was held on May 1, 2008.

On May 7, 2008, we received a letter from The NASDAQ Stock Market advising us that the Panel had determined to delist our securities from The NASDAQ Stock Market, and had suspended trading in our securities effective with the open of business on Friday, May 9, 2008. We have to request that the NASDAQ Listing and Hearing Review Council review the Panel' s decision. Requesting a review does not by itself stay the trading suspension action.

Following the delisting of our securities, our Common Stock beginning trading on the Pink Sheets®, a real-time quotation service maintained by Pink Sheets LLC.

Credit Facilities

On November 3, 2006, we established a secured credit facility with several lenders for which Guggenheim was the administrative agent. The Guggenheim credit facility was to terminate and be payable in full on November 3, 2009. The credit facility consisted of a secured, committed, revolving line of credit in an initial amount up to $15.0 million, which included a $10.0 million sublimit for the issuance of letters of credit. Availability under the credit facility was determined by a formula based on a percentage of our eligible receivables. The proceeds could be used for general corporate purposes and working capital needs in the ordinary course of business and to finance acquisitions subject to limitations in the Credit Agreement. The credit facility bore interest at our choice of (i) LIBOR plus 5% per year, or (ii) the greater of (a) the prime rate in effect, or (b) the Federal Funds Effective Rate in effect plus 2.25% per year. Additionally, we were required to pay a commitment fee on the undrawn portions of the credit facility at the rate of 0.75% per year and we paid to Guggenheim a closing fee of $0.2 million. Obligations under the credit facility were secured by liens on substantially all of our present and future assets, including accounts receivable, inventory, general intangibles, fixtures, and equipment, but excluding the stock of our subsidiaries and certain assets located outside of the U.S.

The credit facility included provisions for a possible term loan facility and an increased revolving credit facility line in the future. The credit facility also contained financial covenants that required us to maintain enumerated EBITDA, liquidity, and net debt minimums, and a capital expenditure maximum. As of June 30, 2007, we were not in compliance with all financial covenants. On October 1, 2007, the lenders provided a waiver of covenant defaults as of June 30, 2007 and reduced the aggregate availability under the revolving line of credit to $3.0 million.

On October 18, 2007, we consented to the transfer of the loans outstanding ($3.0 million) under the Guggenheim credit facility to funds affiliated with BlueBay Asset Management plc and to the appointment of BlueBay High Yield Investments (Luxembourg) S.A.R.L. ("BlueBay"), as successor administrative agent. BlueBay Asset Management plc is a significant shareholder of IESA. On October 23, 2007, we entered into a waiver and amendment with BlueBay which created a $10.0 million Senior Secured Credit Facility ("Senior Credit Facility"). The Senior Credit Facility matures on December 31, 2009, and bears interest at the applicable LIBOR rate plus 7% per year, and eliminates certain financial covenants. On December 4, 2007, under the Waiver Consent and Third Amendment to the Credit Facility, as part of entering the Global Memorandum of Understanding, BlueBay raised the maximum borrowings of the Senior Credit Facility to $14.0 million. The maximum borrowings we can make under the Senior Credit Facility will not by themselves provide all the funding we will need. As of March 31, 2008, we were in violation of our weekly cash flow covenants (see Waiver, Consent and Fourth Amendment below). Management continues to seek additional financing and is pursuing other options to meet the cash requirements for funding our working capital cash requirements but there is no guarantee that we will be able to do so.

As of March 31, 2008, we have drawn the full $14.0 million on the Senior Credit Facility.

Waiver, Consent and Fourth Amendment

In conjunction with the Merger Agreement, we entered into a Waiver, Consent and Fourth Amendment to our BlueBay Credit Facility under which, among other things, (i) BlueBay agreed to waive our non-compliance with certain representations and covenants under the Credit Agreement, (ii) BlueBay agreed to consent to us entering into the a credit facility with IESA, (iii) BlueBay agreed to provide us consent in entering into the Merger Agreement with IESA, and (iv) BlueBay and us agreed to certain amendments to the Existing Credit Facility.

With the Fourth Amendment, as of April 30, 2008 and through June 24, 2008, we are in compliance with our BlueBay credit facility.

IESA Credit Agreement

On April 30, 2008, we entered into the IESA Credit Agreement under which IESA committed to provide up to an aggregate of $20 million in loan availability at an interest rate equal to the applicable LIBOR rate plus 7% per year, subject to the terms and conditions of the IESA Credit Agreement (the "New Financing Facility"). The New Financing Facility will terminate when we are acquired by IESA or when the Merger Agreement terminates without the transaction' s taking place. We will use borrowings under the New Financing Facility to fund our operational cash requirements during the period between the date of the Merger Agreement and the closing of the Merger. The obligations under the New Financing Facility are secured by second liens (Bluebay secured the first liens) on substantially all of our present and future assets, including accounts receivable, inventory, general intangibles, fixtures, and equipment. We have agreed that we will make monthly prepayments on amounts borrowed under the New Financing Facility of our excess cash. We will not be able to reborrow any loan amounts paid back under the New Financing Facility other than loan amounts prepaid from excess cash. Also, we are required to deliver to IESA a budget, which is subject to approval by IESA in its commercially reasonable discretion, and which we must supplement from time to time.

Effect of Relationship with IESA on Liquidity

Without the New Financing Facility from IESA, we would not be able to finance our current operations. Even with that facility, we will probably not have the funds we will need for the holiday season inventory buildup if IESA does not acquire us before that buildup has to take place. The New Financing Facility will terminate if the Merger Agreement terminates without the transaction taking place. An IESA subsidiary owns 51% of our common stock. If votes in favor of the transaction, it will be approved. However, the IESA subsidiary is not contractually obligated to vote in favor of the transaction. Also see Item 1 for a discussion of our relationship with IESA, as well as our risk factors on page 13.

Recent Accounting Pronouncements

In September 2006, the FASB issued FASB Statement No. 157, "Fair Value Measurements," ("Statement No. 157") which provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. Furthermore, in February 2007, the FASB issued FASB Statement No. 159, "The Fair Value Option for Financial Assets and Liabilities," ("Statement No. 159") which permits an entity to measure certain financial assets and financial liabilities at fair value, and report unrealized gains and losses in earnings at each subsequent reporting date. Its objective is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes without having to apply complex hedge accounting provisions. Statement No. 159 is effective for fiscal years beginning after November 15, 2007, but early application is encouraged. The requirements of Statement No. 157 are adopted concurrently with or prior to the adoption of Statement No. 159. We do not anticipate the adoption of these statements to have a material effect on our financial statements.

See Note 12 of our financial statements for the year-ended March 31, 2008, included in this Annual Report, regarding the Company' s adoption of FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109)" which is effective for fiscal years beginning after December 15, 2006.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations" ("SFAS 141R"). SFAS 141R retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141R defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. SFAS 141R is effective for business combination transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are evaluating the impact, if any, the adoption of this statement will have on our results of operations, financial position or cash flows.

In April 2008, the FASB issued FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). This change is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other GAAP. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The requirement for determining useful lives must be applied prospectively to intangible assets acquired after the effective date and the disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. We do not expect the adoption of this statement to have a material impact on our results of operations, financial position or cash flows.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"). This Statement amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. We are evaluating the impact, if any, the adoption of this statement will have on our results of operations, financial position or cash flows.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities − an amendment of FASB Statement No. 133" ("SFAS 161"). This Statement changes the disclosure requirements for derivative instruments and hedging activities. Under SFAS 161, entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity' s financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are evaluating the impact, if any, the adoption of this statement will have on our results of operations, financial position or cash flows.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with GAAP for nongovernmental entities. SFAS 162 is effective 60 days following the SEC' s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." We do not expect the adoption of this statement to have a material impact on our results of operations, financial position or cash flows.

In December 2007, the FASB ratified the Emerging Issues Task Force' s ("EITF") consensus on EITF Issue No 07-1, "Accounting for Collaborative Arrangements" that discusses how parties to a collaborative arrangement (which does not establish a legal entity within such arrangement) should account for various activities. The consensus indicates that costs incurred and revenues generated from transactions with third parties (i.e. parties outside of the collaborative arrangement) should be reported by the collaborators on the respective line items in their income statements pursuant to EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal Versus Net as an Agent". Additionally, the consensus provides that income statement characterization of payments between the participation in a collaborative arrangement should be based upon existing authoritative pronouncements; analogy to such pronouncements if not within their scope; or a reasonable, rational, and consistently applied accounting policy election. EITF Issue No. 07-1 is effective for interim or annual reporting periods in fiscal years beginning after December 15, 2008, and is to be applied retrospectively to all periods presented for collaborative arrangements existing as of the date of adoption. We are currently evaluating the impact, if any, the adoption of this standard will have on our results of operations, financial position or cash flows.

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Our carrying values of cash, accounts receivable, inventories, prepaid expenses and other current assets, accounts payable, accrued liabilities, royalties payable, assets and liabilities of discontinued operations, and amounts due to and from related parties are a reasonable approximation of their fair value.

Foreign Currency Exchange Rates

We earn royalties on sales of our product sold internationally. These revenues, which are based on various foreign currencies and are billed and paid in U.S. dollars, represented $2.6 million of our revenue for the year ended March 31, 2008. We also purchase certain of our inventories from foreign developers and pay royalties primarily denominated in euros to IESA with regards to the sales of IESA products in North America. We do not hedge against foreign exchange rate fluctuations. Therefore, our business in this regard is subject to certain risks, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions and foreign exchange rate volatility. Our future results could be materially and adversely impacted by changes in these or other factors. As of March 31, 2008, we did not have any net revenues earned by our foreign subsidiaries. These subsidiaries represented 1.3% of total assets; of these foreign assets, $0.6 million was associated with the Reflections development studio located outside the United States, which was sold in fiscal 2007. We also recorded approximately $0.3 million in operating expenses attributed to the foreign operations, of which $0.3 million related to remaining operations related to the closing of Reflections, which is included in (loss) from discontinued operations on our consolidated statements of operations. Currently, substantially all of our business is conducted in the United States where revenues and expenses are transacted in U.S. dollars. As a result, the majority of our results of operations are not subject to foreign exchange rate fluctuations.

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

Our Consolidated Financial Statements, and notes thereto, and our Financial Statement Schedule, are presented on pages F-1 through F-45 hereof as set forth below:

ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

None.

ITEM 9A. *CONTROLS AND PROCEDURES*

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Acting Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2008. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC' s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company' s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. As described below under Management' s Report on Internal Control over Financial Reporting, we did not identify any material weaknesses in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) as of March 31, 2008. As a result, management has concluded that disclosure controls and procedures were effective.

Management' s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Management assessed the effectiveness of our internal control over financial reporting as of March 31, 2008. In making this assessment, management used the criteria set forth in *Internal Control − Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO").

A material weakness is a control deficiency, or a combination of control deficiencies, that result in a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Management has concluded that, we did maintain an effective internal control over financial reporting as of March 31, 2008, based on the criteria in *Internal Control − Integrated Framework* issued by COSO.

Changes in Internal Control over Financial Reporting

As previously reported in our Annual Report on Form 10-K for the fiscal year ended March 31, 2007, management determined that, as of March 31, 2007, there were material weaknesses in our internal control over financial reporting relating to (i) income tax accounts and related disclosures (ii) preparation and review of financial information during our year-end closing process and (iii) controls over related party transactions. As reported in the Annual Report for fiscal 2007, we initiated a number of changes in its internal controls to remediate these material weaknesses. As of March 31, 2008, the following measures to remediate the control deficiencies have been implemented:

We implemented a formal communication procedure between us and IESA. This procedure provides a formal communication on a quarterly basis between IESA and us disclosing any transactions that may have an effect on our financial statements.

We continued to expand our outsourcing of income tax work and have centralized all work to one firm with both income tax and FASB 109 expertise.

Based on the implementation of the additional internal controls discussed above and the subsequent testing of those internal controls for a sufficient period of time, management has concluded that items (i), (ii) and (iii) material weaknesses identified at March 31, 2008 and discussed above have been remediated.

There have been no other changes in our internal control over financial reporting that occurred during the fourth quarter of the fiscal year ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. ***OTHER MATTERS***

On May 17, 2008 we entered into an Employment Agreement with Timothy J. Flynn (the "Agreement"). Pursuant to the Agreement, commencing on June 9, 2008, Mr. Flynn is to serve as the Senior Vice President of Sales, reporting to our President and Chief Executive Officer. The Agreement may be terminated at any time by either party with or without cause.

Under the Agreement, Mr. Flynn receives an annual salary of $250,000 with a one-time sign-on bonus of $25,000 which must be repaid if Mr. Flynn terminates his employment within one year of the date of hire. Mr. Flynn is eligible to receive an annual bonus with a target amount of 40% of his base salary, which will be based both upon achievements by us of specified financial objectives and his attainment of individual objectives.

Effective June 9, 2008, Mr. Flynn was granted stock options to purchase 20,000 shares of our common stock with an exercise price equal to the last sales price of our common stock on the Pink Sheets on such date. The options vest 25% on June 9, 2009 and 6.25% each calendar quarter end thereafter commencing with the calendar quarter ending June 30, 2009, subject to his continued employment with us as of each applicable vesting date. All stock options expire on the tenth anniversary of the grant date.

Under the Agreement, if IESA successfully completes the merger with us, our Board of Directors has agreed to use its best efforts to cause IESA to agree to grant to Mr. Flynn a stock option with respect to the stock of IESA, in substitution for and cancellation of our option as described in the previous paragraph.

PART III

ITEM 10. ***DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE***

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our Annual Meeting of Stockholders to be held in 2008, entitled "Election of Directors" and "Executive Officers," to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 11. ***EXECUTIVE COMPENSATION***

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our Annual Meeting of Stockholders to be held in 2008, entitled "Executive Compensation," to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.***

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our Annual Meeting of Stockholders to be held in 2008, entitled "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 13. ***CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.***

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our Annual Meeting of Stockholders to be held in 2008, entitled "Certain Relationships and Related Transactions, and Director Independence," to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 14. ***PRINCIPAL ACCOUNTING FEES AND SERVICES***

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our Annual Meeting of Stockholders to be held in 2008, entitled "Principal Accountant Fees and Services," to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

PART IV

ITEM 15. ***EXHIBITS AND FINANCIAL STATEMENT SCHEDULES***

(a) The following documents are filed as part of this Report:
(i) Financial Statements. See Index to Financial Statements at Item 8 of this Report.
(ii) Financial Statement Schedule. See Index to Financial Statements at Item 8 of this Report.
(iii) Exhibits

2 .1 Agreement and Plan of Merger, dated April 30, 2008, among us, Infogrames Entertainment S.A. and Irata Acquisition Corp. is incorporated herein by reference to Exhibit 2.1 to our Current Report on Form 8-K filed on May 5, 2008.

3 .1 Restated Certificate of Incorporation is incorporated by reference to Exhibit 3.1 to our Annual Report on Form 10-K for the year ended March 31, 2006.

3 .2 Certificate of Amendment of Restated Certificate of Incorporation as filed with the Secretary of State of the State of Delaware on January 3, 2007 is incorporated herein by reference to Exhibit 99.1 to our Current Report on Form 8-K filed on January 9, 2007.

3 .3 Amended and Restated By-laws are incorporated herein by reference to Exhibit 3.2 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.

3 .4 Amendment No. 1 to Amended and Restated By-laws is incorporated by reference to Exhibit 3.2 to our Quarterly Report on Form 10-Q for the quarter ended December 31, 2003.

3 .5 Amendment No. 2 to Amended and Restated By-laws is incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on July 28, 2005.

3 .6 Amendment No. 3 to Amended and Restated By-laws is incorporated by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q for the quarter ended December 31, 2007.

4 .1 Specimen form of stock certificate of Common Stock is incorporated herein by reference to our Registration Statement on Form S-1 (File No. 333-14441) initially filed with the SEC on October 20, 1995, and all amendments thereto.

4 .2 Registration Rights Agreement by and among Joseph J. Cayre, Kenneth Cayre, Stanley Cayre, Jack J. Cayre, the Trusts listed on Schedule I attached thereto and us is incorporated herein by reference to an exhibit filed as a part of our Registration Statement on Form S-1 filed October 20, 1995.

4 .3 Second Amended and Restated Registration Rights Agreement, dated as of October 2, 2000, between California U.S. Holdings, Inc. and us is incorporated herein by reference to Exhibit 4.6 of our Registration Statement on Form S-2 (File No. 333-107819) initially filed with the SEC on August 8, 2003, and all amendments thereto.

10.1 Global Memorandum of Understanding Regarding Restructuring of Atari, Inc., dated December 2007, by and between us and Infogrames Entertainment S.A. is incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on December 10, 2007.

10.2 Distribution Agreement between Infogrames Entertainment SA, Infogrames Multimedia SA and us, dated as of December 16, 1999, is incorporated herein by reference to Exhibit 7 to the Schedule 13D filed by Infogrames Entertainment SA and California U.S. Holdings, Inc. on January 10, 2000.

10.3 Addendum to Distribution Agreement between Infogrames Entertainment SA and us, dated as of December 16, 1999, is incorporated herein by reference to Exhibit 10.26a to our Annual Report on Form 10-K for the fiscal year ended June 30, 2001.

10.4 Amendment to Distribution Agreement between Infogrames Entertainment SA and us dated as of July 1, 2000, is incorporated by reference to Exhibit 10.24a to our Transitional Report on Form 10-K for the transition period March 31, 2000 to June 30, 2000.

10.5 Distribution Agreement between Infogrames Entertainment SA and us, dated October 2, 2000, as supplemented on November 12, 2002 is incorporated by reference to Exhibit 10.4 to our Annual Report on Form 10-K for the fiscal year ended March 31, 2005.

10.6 Short Form Distribution Agreement, dated December 2007, by and among us, Infogrames Entertainment S.A., Atari Europe SAS and Atari Interactive Inc., is incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on December 10, 2007.

10.7 Agreement for Purchase and Sale of Assets, dated August 22, 2005, between us and Humongous, Inc. is incorporated herein by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.

10.8 Letter Agreement, dated March 5, 2008, submitted to our Board of Directors summarizing the principal terms upon which Infogrames Entertainment S.A. and/or our affiliates would potentially acquire the remaining equity interests in us is incorporated herein by reference to Exhibit 99.2 to our Current Report on Form 8-K filed on March 7, 2008.

10.9 Stock Transfer Agreement, dated August 22, 2005, among us, Infogrames Entertainment S.A. and Atari Interactive, Inc. (English Translation) is incorporated herein by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.

10.10 Termination and Transfer of Assets Agreement, dated December 4, 2007, by and among us, Infogrames Entertainment S.A. and Atari Interactive Inc. is incorporated by reference to Exhibit 10.4 of our Current Report on Form 8-K filed on December 10, 2007.

10.11 Liquidity Agreement, dated August 22, 2005, between us and Infogrames Entertainment S.A. incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.

10.12 Temporary Liquidity Facility Intercreditor Agreement, dated April 30, 2008, among us, Bluebay High Yield Investments (Luxembourg) S.A.R.L. and Infogrames Entertainment, S.A. is incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on May 5, 2008.

10.13 Distribution Agreement, dated August 22, 2005, between us and Humongous, Inc. incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.

10.14 Management and Services Agreement, dated as of March 31, 2006, between Infogrames Entertainment S.A. and us, is incorporated herein by reference to Exhibit 10.9 to our Annual Report on Form 10-K for the year ended March 31, 2006.

10.15 Services Agreement, dated as of March 31, 2006, between us and Infogrames Entertainment S.A. and its subsidiaries, is incorporated herein by reference to Exhibit 10.10 to our Annual Report on Form 10-K for the year ended March 31, 2006.

10.16	QA Services Agreement, dated December 2007, by and among us, Infogrames Entertainment S.A., Atari Interactive, Inc. and Humongous, Inc. is incorporated by reference to Exhibit 10.3 of our Current Report on Form 8-K filed on December 10, 2007.
10.17	Intercompany Services Agreements, dated December 2007, by and among us, Infogrames Entertainment S.A., Atari Interactive, Inc. and Humongous, Inc. is incorporated by reference to Exhibit 10.5 of our Current Report on Form 8-K filed on December 10, 2007.
10.18	Production Services Agreement, dated as of March 31, 2006, between us and Infogrames Entertainment S.A. and its subsidiaries, is incorporated herein by reference to Exhibit 10.11 to our Annual Report on Form 10-K for the year ended March 31, 2006.
10.19	Warehouse Services Contract, dated March 2, 1999, by and between us and Arnold Transportation Services, Inc. t/d/b/a Arnold Logistics is incorporated herein by reference to Exhibit 10.50 to our Annual Report on Form 10-K for the fiscal year ended March 31, 1999.
10.20	Loan and Security Agreement, dated as of May 13, 2005, among us, as Borrower, and HSBC Business Credit (USA) Inc., as Lender is incorporated by reference to Exhibit 10.20 to our Annual Report on Form 10-K for the year ended March 31, 2005.
10.21	First Amendment to Loan and Security Agreement, dated as of June 30, 2005, between us and HSBC Business Credit (USA) Inc. is incorporated herein by reference Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
10.22*	The 1995 Stock Incentive Plan (as amended on October 31, 1996) is incorporated herein by reference to Exhibit 10.1 to Amendment No. 2 to our Registration Statement on Form S-1, filed December 6, 1996.
10.23*	The 1997 Stock Incentive Plan is incorporated herein by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.
10.24*	The 1997 Stock Incentive Plan (as amended on June 17, 1998) is incorporated herein by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.
10.25*	The 2000 Stock Incentive Plan is incorporated herein by reference to Appendix B to our proxy statement dated June 29, 2000.
10.26*	Amendment No. 1 to 2000 Stock Incentive Plan is incorporated herein by reference to Exhibit A to our Information Statement dated November 27, 2000.
10.27*	Third Amendment to the Atari, Inc. 2000 Stock Incentive Plan is incorporated herein by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2004.
10.28*	Atari, Inc. 2005 Stock Incentive Plan is incorporated by reference to Exhibit 10.10 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
10.29*	Form of 2005 Stock Incentive Plan Option Award Agreement is incorporated herein by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the quarter ended December 31, 2005.
10.30*	Form of 2005 Stock Incentive Plan Restricted Stock Award Agreement is incorporated herein by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q for the quarter ended December 31, 2005.
10.31*	The 1998 Employee Stock Purchase Plan is incorporated herein by reference to Exhibit 10.6 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.
10.32*	Description of Registrant' s Annual Incentive Plan for fiscal 2008.**
10.33*	Employment Agreement with Bruno Bonnell, dated as of July 1, 2004 and effective as of April 1, 2004, is incorporated herein by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2004.
10.34*	Amendment No. 1 to Employment Agreement, dated as of November 23, 2005, between us and Bruno Bonnell is incorporated herein by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended December 31, 2005.
10.35*‡	Termination and General Release Agreement, dated October 15, 2004, by and between us and Denis Guyennot is incorporated herein by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the quarter ended December 31, 2004.
10.36*	Employment Agreement, dated September 1, 2006, by and between us and David R. Pierce is incorporated herein by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.

10.37* Amendment to Employment Agreement, dated May 1, 2007, between David Pierce and Atari, Inc., is incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 2, 2007.

10.38* Employment Agreement, dated March 31, 2008, between us and Jim Wilson is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 1, 2008.

10.39* Letter Agreement, dated January 29, 2008, between us and Arturo Rodriguez is incorporated by reference to Exhibit 99.1 to our Current Report on Form 8-K filed on February 4, 2008.

10.40* Consulting Agreement between us and Ann Kronen, dated as of November 8, 2006, is incorporated herein by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended December 31, 2006.

10.41 Compromise Agreement, dated August 12, 2005, by and among us, Reflections Interactive Limited and Martin Lee Edmondson is incorporated herein by reference to Exhibit 10.1 to our Amendment No. 1 to Registration Statement on Form S-3 (File No. 333-129099).

10.42‡ Licensed Publisher Agreement between us and Sony Computer Entertainment America, Inc., dated January 19, 2003, is incorporated herein by reference to Exhibit 10.62 to our Registration Statement on Form S-2 (File No. 333-107819) initially filed with the SEC on August 8, 2003, and all amendments thereto.

10.43‡ PlayStation® 2 Licensed Publisher Agreement between us and Sony Computer Entertainment America, Inc., dated April 1, 2000, as amended is incorporated by reference to Exhibit 10.45 to our Annual Report on Form 10-K for the year ended March 31, 2005.

10.44‡ Xbox® Publisher License Agreement between us and Microsoft Corporation, dated April 18, 2000, is incorporated herein by reference to Exhibit 10.63 to our Registration Statement on Form S-2 (File No. 333-107819) initially filed with the SEC on August 8, 2003, and all amendments thereto.***

10.45 Sublicense Agreement between us and Funimation Productions, Ltd., dated October 27, 1999, is incorporated herein by reference to Exhibit 10.64 to our Registration Statement on Form S-2 (File No. 333-107819) initially filed with the SEC on August 8, 2003, and all amendments thereto.***

10.46 Amendment One to the Sublicense Agreement between us and Funimation Productions, Ltd., dated April 20, 2002, is incorporated herein by reference to Exhibit 10.65 to our Registration Statement on Form S-2 (File No. 333-107819) initially filed with the SEC on August 8, 2003, and all amendments thereto.

10.47 Amendment Two to the Sublicense Agreement between us and Funimation Productions, Ltd., dated June 15, 2002, is incorporated herein by reference to Exhibit 10.66 to our Registration Statement on Form S-2 (File No. 333-107819) initially filed with the SEC on August 8, 2003, and all amendments thereto.

10.48 Amendment Three to the Sublicense Agreement between us and Funimation Productions, Ltd., dated October 15, 2002, is incorporated herein by reference to Exhibit 10.67 to our Registration Statement on Form S-2 (File No. 333-107819) initially filed with the SEC on August 8, 2003, and all amendments thereto.

10.49 Amendment Four to the Sublicense Agreement between us and Funimation Productions, Ltd., dated November 13, 2002, is incorporated herein by reference to Exhibit 10.68 to our Registration Statement on Form S-2 (File No. 333-107819) initially filed with the SEC on August 8, 2003, and all amendments thereto.

10.50 Amendment Five to the Sublicense Agreement between us and Funimation Productions, Ltd., dated February 21, 2003, is incorporated herein by reference to Exhibit 10.69 to our Registration Statement on Form S-2 (File No. 333-107819) initially filed with the SEC on August 8, 2003, and all amendments thereto.

10.51 Amendment Six to the Sublicense Agreement between us and Funimation Productions, Ltd., dated August 11, 2003, is incorporated herein by reference to Exhibit 10.83 to our Annual Report on Form 10-K for the year ended March 31, 2004.

10.52 Agreement Regarding Satisfaction of Debt and License Amendment among us, Infogrames Entertainment S.A. and California U.S. Holdings, Inc., dated September 4, 2003, is incorporated herein by reference to Exhibit 10.70 to our Registration Statement on Form S-2 (File No. 333-107819) initially filed with the SEC on August 8, 2003, and all amendments thereto.

10.53 Amended Trademark License Agreement between us and Infogrames Entertainment S.A., dated September 4, 2003, is incorporated herein by reference to Exhibit 10.71 to our Registration Statement on Form S-2 (File No. 333-107819) initially filed with the SEC on August 8, 2003, and all amendments thereto.

10.54 Amendment No. 1 Trademark License Agreement between us, Atari Interactive, Inc. and Infogrames Entertainment S.A. is incorporated herein by reference to Exhibit 10.6 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.

10.55 Trademark License Of The Test Drive Franchise, dated November 8, 2007, between us and Infogrames Entertainment S.A. is incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on November 13, 2007.

10.56 General Intellectual Property and Proprietary Rights (Other Than Trademark Rights) License Of The Test Drive Franchise, dated November 8, 2007, between us and Infogrames Entertainment S.A. is incorporated by reference to Exhibit 10.3 of our Current Report on Form 8-K filed on November 13, 2007.

10.57 Letter Agreement, dated July 18, 2007, between us and Infogrames Europe SA is incorporated by reference to Exhibit 10.61 to our Quarterly Report on Form 10-Q for the quarter ended December 31, 2007.

10.58 Letter Agreement, dated October 1, 2007, between us, Midland National Life Insurance Company, North American Company for Life and Health Insurance and Guggenheim Corporate Funding, LLC is incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on October 25, 2007.

10.59 Obligation Assignment and Securing Agreement, dated as of November 3, 2004, by and among us, Infogrames Entertainment SA, Atari Interactive, Inc., Atari Europe SAS, and Paradigm Entertainment, Inc. is incorporated herein by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the quarter ended December 31, 2004.

10.60 Secured Promissory Note of Atari Interactive, Inc. in the aggregate amount of $23,058,997.19 payable us is incorporated herein by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the quarter ended December 31, 2004.

10.61‡ Promissory Note of Atari Interactive, Inc., in the aggregate amount of $5,122,625 payable to us, is incorporated herein by reference to Exhibit 10.86 to our Annual Report on Form 10-K for the year ended March 31, 2004.

10.62‡ Promissory Note of Atari Interactive, Inc., in the aggregate amount of $2,620,280 payable to us, is incorporated herein by reference to Exhibit 10.87 to our Annual Report on Form 10-K for the year ended March 31, 2004.

10.63‡ Promissory Note of Paradigm Entertainment, Inc., in the aggregate amount of $828,870 payable to us, is incorporated herein by reference to Exhibit 10.88 to our Annual Report on Form 10-K for the year ended March 31, 2004.

10.64 Agreement Regarding Issuance of Shares, dated September 15, 2005, between us and Infogrames Entertainment S.A. is incorporated herein by reference to Exhibit 10.7 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.

10.65 GT Interactive UK Settlement of Indebtedness Agreement, dated as of September 15, 2005, between us and Atari UK, Infogrames Entertainment S.A. and all of its subsidiaries is incorporated herein by reference to Exhibit 10.8 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.

10.66 Securities Purchase Agreement, dated September 15, 2005, between us and CCM Master Qualified Fund, Ltd. is incorporated herein by reference to Exhibit 10.1 to our Amendment No. 1 to Registration Statement on Form S-3 (File No. 333-129098) filed on November 18, 2005.

10.67 Securities Purchase Agreement, dated September 15, 2005, between us and Sark Master Fund, Ltd. is incorporated herein by reference to Exhibit 10.2 to our Amendment No. 1 to Registration Statement on Form S-3 (File No. 333-129098) filed on November 18, 2005.

10.68 Asset Purchase Agreement, dated July 13, 2006, between us and Reflections Interactive Ltd as the sellers and Ubisoft Holdings, Inc. and Ubisoft Entertainment Ltd as the purchasers, as amended by Amendment No. 1 dated August 3, 2006 is incorporated herein by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.

10.69 Credit Agreement, dated November 3, 2006, among Atari, Inc, the Lenders Party Hereto, and Guggenheim Corporate Funding, LLC, as Administrative Agent is incorporated herein by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended December 31, 2006.

10.70 Credit Agreement, dated April 30, 2008, between us and Infogrames Entertainment S.A., as Lender, is incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 5, 2008.

10.71 Waiver and Amendment to Credit Agreement, dated October 23, 2007, between us and Bluebay High Yield Investments (Luxembourg) S.A.R.L. is incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on October 25, 2007.

10.72 Waiver, Consent and Second Amendment to Credit Agreement, dated November 6, 2007, between us and Bluebay High Yield Investments (Luxembourg) S.A.R.L. is incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on November 13, 2007.

10.73 Waiver, Consent and Third Amendment to Credit Agreement, dated December 4, 2007, between us and Bluebay High Yield Investments (Luxembourg) S.A.R.L. is incorporated by reference to Exhibit 10.6 of our Current Report on Form 8-K filed on December 10, 2007.

10.74 Waiver, Consent and Fourth Amendment to Credit Agreement, dated April 30, 2008, between us and Bluebay High Yield Investments (Luxembourg) S.A.R.L. is incorporated herein by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on May 5, 2008.

10.75 Agreement of Lease, dated June 21, 2006, between us and Fifth and 38th LLC is incorporated by reference to Exhibit 10.58 to our Annual Report on Form 10-K for the year ended March 31,2007.

10.76 Partial Surrender of Lease Agreement and Modification Agreement, dated August 14, 2007, between us and W2007 417 Fifth Realty, LLC is incorporated by reference to Exhibit 10.59 to our Quarterly Report on Form 10-Q for the quarter ended December 31, 2007.

10.77 Amendment to Partial Surrender of Lease Agreement and Modification Agreement, dated November 27, 2007, between us and W2007 417 Fifth Realty, LLC is incorporated by reference to Exhibit 10.60 to our Quarterly Report on Form 10-Q for the quarter ended December 31, 2007.

10.78 Written Consent of the Majority Stockholder of Atari, Inc., dated October 5, 2007, by California U.S. Holdings, Inc. is incorporated by reference to Exhibit 99.1 of our Current Report on Form 8-K filed on October 9, 2007.

10.79* Employment Agreement, dated May 17, 2008, between Timothy J. Flynn and us.**

21.1 List of Subsidiaries.**

31.1 Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**

31.2 Acting Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**

32.1 Certification by the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.‡‡

32.2 Certification by the Acting Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.‡‡

99.1‡ Licensed PSP Publisher Agreement by and between us and Sony Computer Entertainment America, Inc., dated March 23, 2005, for PlayStation® Portable is incorporated by reference to Exhibit 99.1 to our Annual Report on Form 10-K for the year ended March 31, 2005.

99.2‡ Amendment to the Xbox® Publisher Licensing Agreement, dated March 1, 2005 is incorporated by reference to Amendment No. 2 to our Annual Report on Form 10-K/A for the year ended March 31, 2005.

99.3‡ Confidential License Agreement for Nintendo GameCubetm, by and between Nintendo of America, Inc. and us effective March 29, 2002 is incorporated by reference to Exhibit 99.3 to our Annual Report on Form 10-K for the year ended March 31, 2005.

99.4 First Amendment to Confidential License Agreement for Nintendo GameCubetm, by and between Nintendo of America, Inc. and us effective March 29, 2002 is incorporated herein by reference to Exhibit 99.1 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.

99.5‡	Xbox® 360 Publisher License Agreement between us and Microsoft Licensing GP, effective February 17, 2006, is incorporated herein by reference to Exhibit 99.5 to our Annual Report on Form 10-K for the year ended March 31, 2006.
99.6‡	Confidential License Agreement for Nintendo DS (Western Hemisphere), by and between Nintendo of America, Inc. and us effective October 14, 2005, is incorporated herein by reference to Exhibit 99.6 to our Annual Report on Form 10-K for the year ended March 31, 2006.

Exhibit indicated with an * symbol is a management contract or compensatory plan or arrangement.

** Exhibit indicated with an ** symbol is filed herewith.

*** All immaterial amendments/extensions to this agreement were filed as an exhibit 99 in our Quarterly Report for the respective period.

‡ Portions of this exhibit have been redacted pursuant to a confidential treatment request filed with the SEC.

Exhibit indicated with a ‡‡ is furnished herewith.

A copy of any of the exhibits included in the Annual Report on Form 10-K as amended, may be obtained by written request to Atari, Inc. upon payment of a fee of $0.10 per page to cover costs. Requests should be sent to Atari, Inc. at the address set forth on the front cover, attention Director, Investor Relations.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ATARI, INC.

By: /s/ JAMES WILSON
Name: James Wilson
Title: President and Chief Executive Officer

Date: June 30, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title(s)	Date
/s/ JAMES WILSON James Wilson	President and Chief Executive Officer (principal executive officer)	June 30, 2008
/s/ Arturo Rodriguez Arturo Rodriguez	Acting Chief Financial Officer, Vice President and Controller (principal financial and accounting officer)	June 30, 2008
/s/ Eugene I. Davis Eugene I. Davis	Chairman of the Board of Directors	June 30, 2008
Evence-Charles Coppee	Director	June 30, 2008
/s/ Wendell H. Adair, Jr. Wendell H. Adair, Jr.	Director	June 30, 2008
/s/ Bradley E. Scher Bradley E. Scher	Director	June 30, 2008
/s/ James B. Shein James B. Shein	Director	June 30, 2008

ATARI, INC. AND SUBSIDIARIES

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Atari, Inc.
New York, New York

We have audited the accompanying consolidated balance sheet of Atari, Inc. and subsidiaries (the "Company") as of March 31, 2008, and the related consolidated statement of operations, stockholders' equity and comprehensive income (loss) and cash flows for the year then ended. Our audit also included the consolidated financial statement schedule listed at Item 15. These consolidated financial statements and the consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the consolidated financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at March 31, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth as of March 31, 2008 and for the year then ended therein.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has experienced significant operating losses. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

J.H. Cohn LLP

Roseland, New Jersey
June 30, 2008

ATARI, INC. AND SUBSIDIARIES

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Atari, Inc.
New York, New York

We have audited the accompanying consolidated balance sheet of Atari, Inc. and subsidiaries (the "Company") as of March 31, 2007, and the related consolidated statement of operations, stockholders' equity and comprehensive income (loss) and cash flows for the year in the period ended March 31, 2007. Our audits also included the consolidated financial statement schedule listed at Item 15. These consolidated financial statements and the consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the consolidated financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at March 31, 2007, and the results of its operations and its cash flows for the year in the period ended March 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has experienced significant operating losses. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Statement No. 123(R), "Share Based Payment", as revised, effective April 1, 2006. As discussed in Note 1 to the consolidated financial statements, effective March 31, 2007, the Company elected application of Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements".

DELOITTE & TOUCHE LLP

New York, New York
September 18, 2007

ATARI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31, 2007	March 31, 2008
	(in thousands, except share data)	
ASSETS		
Current assets:		
Cash	$7,603	$11,087
Accounts receivable, net of allowances of $14,148 and $1,912 at March 31,2007 and March 31, 2008, respectively	6,473	640
Inventories, net	8,843	4,276
Due from related parties (Note 13)	1,799	885
Prepaid expenses and other current assets	10,229	8,188
Assets of discontinued operations (Note 19)	645	–
Total current assets	35,592	25,076
Property and equipment, net of accumulated depreciation of $30,945 and $21,813 at March 31, 2007 and 2008, respectively	4,217	6,313
Security deposits	1,940	1,373
Other assets	1,070	671
Total assets	$42,819	$33,433
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities:		
Accounts payable	$11,013	$5,378
Accrued liabilities	13,381	14,472
Royalties payable	4,282	2,825
Due to related parties (Note 13)	5,703	1,197
Credit facility (Note 14)	–	14,000
Total current liabilities	34,379	37,872
Due to related parties − long term (Note 13)	1,912	3,576
Related party license advance	–	5,296
Long-term liabilities	3,434	7,101
Total liabilities	39,725	53,845
Commitments and contingencies (Note 15)		
Stockholders' equity (deficiency):		
Preferred stock, $0.01 par value, 5,000,000 shares authorized, none issued or outstanding	–	–
Common stock, $0.10 par value, 30,000,000 shares authorized, 13,477,920 shares issued and outstanding at March 31, 2007 and 2008	1,348	1,348
Additional paid-in capital	760,527	760,712
Accumulated deficit	(761,299)	(784,945)
Accumulated other comprehensive income	2,518	2,473
Total stockholders' equity (deficiency)	3,094	(20,412)
Total liabilities and stockholders' equity (deficiency)	$42,819	$33,433

The accompanying notes are an integral part of these consolidated financial statements.

ATARI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended March 31,	
	2007	2008
	(in thousands, except per share data)	
Net revenues	$122,285	$80,131
Costs, expenses, and income:		
Cost of goods sold	72,629	40,989
Research and product development expenses	30,077	13,599
Selling and distribution expenses	25,296	19,411
General and administrative expenses	21,788	17,672
Restructuring expenses	709	6,541
Impairment of goodwill	54,129	–
Gain on sale of intellectual property	(9,000)	–
Gain on sale of development studio assets	(885)	–
Atari trademark license expense	2,218	2,218
Depreciation and amortization	2,968	1,563
Total costs, expenses, and income	199,929	101,993
Operating loss	(77,644)	(21,862)
Interest income (expense), net	301	(1,452)
Other income	77	53
Loss from continuing operations before (benefit from) provision for income taxes	(77,266)	(23,261)
(Benefit from) provision for income taxes	(10,680)	73
Loss from continuing operations	(66,586)	(23,334)
Loss from discontinued operations of Reflections Interactive Ltd, net of tax provision of $7,559 and $0, respectively	(3,125)	(312)
Net (loss)	$(69,711)	$(23,646)
Basic and diluted net loss per share:		
Loss from continuing operations	$(4.94)	$(1.73)
Loss from discontinued operations of Reflections Interactive Ltd, net of tax	(0.23)	(0.02)
Net loss	$(5.17)	$(1.75)
Basic weighted average shares outstanding	13,477	13,478
Diluted weighted average shares outstanding	13,477	13,478

See Note 13 for detail of related party amounts included within the line items above.

The accompanying notes are an integral part of these consolidated financial statements.

ATARI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended March 31, 2007	2008
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(69,711)	$(23,646)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Loss from discontinued operations of Reflections Interactive Ltd	3,125	312
Noncash tax benefit included in continuing operations associated with tax provision of discontinued operations of Reflections Interactive Ltd	(7,559)	–
Escrow receivable associated with sale of Reflections Interactive Ltd	626	–
Impairment of goodwill	54,129	–
Write-off of acquired intangible and other web-related assets	2,401	–
Gain on sale of intellectual property	(9,000)	–
Gain on sale of development studio assets	(885)	–
Adjustment for noncash gain on sale of development studio assets	200	–
Stock-based compensation expense	1,587	185
Atari trademark license expense	2,218	2,218
Depreciation and amortization	2,968	1,563
Related party allocation of executive resignation agreement	771	–
Accrued interest on related party license	–	296
Accrued interest	1	192
Amortization of deferred financing fees	202	705
Recognition of deferred income	(328)	(77)
Write-off of property and equipment	–	11
Gain on sale of property and equipment	(74)	–
Noncash income on cash collateralized security deposit	(11)	(5)
Changes in operating assets and liabilities:		
Receivables, net	5,616	5,832
Inventories, net	11,243	4,566
Due from related parties	2,893	914
Due to related parties	(4,561)	(5,062)
Prepaid expenses and other current assets	2,532	2,113
Accounts payable	(13,672)	(5,639)
Accrued liabilities	(7,316)	673
Royalties payable	(9,186)	(1,457)
Long-term deferred tax liability	(2,123)	–
Other long-term liabilities	1,852	719
Other assets	2,949	(655)
Net cash (used in) continuing operating activities	(29,113)	(16,242)
Net cash (used in) provided by discontinued operations	(7,826)	334
Net cash (used in) operating activities	(36,939)	(15,908)

ATARI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS − (Continued)

	Years Ended March 31,	
	2007	2008
	(in thousands)	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of intellectual property	9,000	−
Proceeds from sale of development studio assets	1,550	−
Purchase of acquired intangible assets	(1,737)	−
(Increase) decrease in restricted security deposit collateralizing letter of credit	(1,764)	859
Purchases of property and equipment	(837)	(407)
Proceeds from sale of property and equipment	179	−
Net cash provided by continuing investing activities	6,391	452
Net cash provided by discontinued operations	23,366	−
Net cash provided by investing activities	29,757	452
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under third party credit facility	15,000	14,000
Payments under third party credit facility	(15,000)	−
Proceeds from exercise of stock options	4	−
Proceeds from related party license advance	−	5,000
Payments under capitalized lease obligation	(220)	(72)
Net cash (used in) provided by continuing financing activities	(216)	18,928
Net cash provided by discontinued operations	−	−
Net cash (used in) provided by financing activities	(216)	18,928
Effect of exchange rates on cash	53	12
Net (decrease) increase in cash	(7,345)	3,484
Cash − beginning of fiscal year	14,948	7,603
Cash − end of fiscal year	$7,603	$11,087
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$249	$552
Cash paid for taxes	$−	$72
Income tax refunds	$1,047	$−
SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING AND FINANCING ACTIVITIES:		
Consideration accrued for purchase of capitalized licenses	$1,816	$3,400
Consideration accrued for purchase of acquired intangible assets	$554	$−
Capitalization of leasehold improvements funded by landlord	$1,217	$3,263

The accompanying notes are an integral part of these consolidated financial statements.

ATARI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIENCY) AND COMPREHENSIVE INCOME (LOSS)
For the Years Ended March 31, 2007 and 2008

	Common Stock Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
			(in thousands)			
Balance, March 31, 2006	**13,477**	**$1,348**	**$758,165**	**$(688,730)**	**$2,429**	**$73,212**
Adjustment to opening stockholders' equity	−	−	−	(2,858)	−	(2,858)
Comprehensive loss:						
Net loss	−	−	−	(69,711)	−	(69,711)
Foreign currency translation adjustment	−	−	−	−	89	89
Total comprehensive loss						(69,622)
Related party allocation of executive resignation agreement	−	−	771	−	−	771
Exercise of stock options	1	−	4	−	−	4
Stock-based compensation expense	−	−	1,587	−	−	1,587
Balance, March 31, 2007	**13,478**	**1,348**	**760,527**	**(761,299)**	**2,518**	**3,094**
Comprehensive loss:						
Net loss	−	−	−	(23,646)	−	(23,646)
Foreign currency translation adjustment	−	−	−	−	(45)	(45)
Total comprehensive loss						(23,691)
Stock-based compensation expense	−	−	185	−	−	185
Balance, March 31, 2008	**13,478**	**$1,348**	**$760,712**	**$(784,945)**	**$2,473**	**$(20,412)**

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 − OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

We are a publisher of video game software that is distributed throughout the world and a distributor of video game software in North America. We publish and distribute video games for all platforms, including Sony PlayStation 2, PlayStation 3 and PSP, Nintendo Wii and DS, and Microsoft Xbox and Xbox 360, as well as for personal computers, or PCs. The products we publish or distribute extend across most major video game genres, including action, adventure, strategy, role playing and racing.

Through our relationship with our majority stockholder, Infogrames Entertainment S.A., a French corporation ("IESA"), listed on Euronext, our products are distributed exclusively by IESA throughout Europe, Asia and certain other regions. Similarly, we exclusively distribute IESA' s products in the United States and Canada. Furthermore, we distribute product in Mexico through various non-exclusive agreements. At March 31, 2008, IESA owns approximately 51% of us, through its wholly owned subsidiary California U.S. Holdings, Inc. ("CUSH"). As a result of this relationship, we have significant related party transactions (Note 13).

Going Concern

Until 2005, we were actively involved in developing video games and in financing development of video games by independent developers, which we would publish and distribute under licenses from the developers. However, beginning in 2005, because of cash constraints, we substantially reduced our involvement in development of video games, and announced plans to divest ourselves of our internal development studios.

During fiscal 2007, we sold a number of intellectual properties and development facilities in order to obtain cash to fund our operations. During 2007, we raised approximately $35.0 million through the sale of the rights to the *Driver* games and certain other intellectual property, and the sale of our Reflections Interactive Ltd ("Reflections") and Shiny Entertainment ("Shiny") studios. By the end of fiscal 2007, we did not own any development studios.

The reduction in our development activities has significantly reduced the number of games we publish. During fiscal 2008, our revenues from publishing activities were $69.8 million, compared with $104.7 million during fiscal 2007.

For the year ended March 31, 2007, we had an operating loss of $77.6 million, which included a charge of $54.1 million for the impairment of our goodwill, which is related to our publishing unit. For the year ended March 31, 2008, we incurred an operating loss of approximately $21.9 million. We have taken significant steps to reduce our costs such as our May 2007 and November 2007 workforce reduction of approximately 20% and 30%, respectively. Our ability to deliver products on time depends in good part on developers' ability to meet completion schedules. Further, our releases in fiscal 2008 were even fewer than our releases in fiscal 2007. In addition, most of our releases for fiscal 2008 were focused on the holiday season. As a result our cash needs have become more seasonal and we face significant cash requirements to fund our working capital needs.

The following series of events and transactions which have occurred since September 30, 2007, have caused or are part of our current restructuring initiatives intended to allow us to devote more resources to focusing on our distribution business strategy, provide liquidity, and to mitigate our future cash requirements:

Guggenheim Corporate Funding LLC Covenant Default

As of September 30, 2007, our only borrowing facility was an asset-based secured credit facility that we established in November 2006 with a group of lenders for which Guggenheim Corporate Funding LLC ("Guggenheim") was the administrative agent. The credit facility consisted of a secured, committed, revolving line of credit in an initial amount up to $15.0 million (subject to a borrowing base calculation), which initially included a $10.0 million sublimit for the issuance of letters of credit. On October 1, 2007, the lenders provided a waiver of covenant defaults as of June 30, 2007 and reduced the aggregate borrowing commitment of the revolving line of credit to $3.0 million.

Removal of the Atari, Inc. Board of Directors

On October 5, 2007, CUSH, via a written consent, removed James Ackerly, Ronald C. Bernard, Michael G. Corrigan, Denis Guyennot, and Ann E. Kronen from the Board of Directors of Atari. On October 15, 2007, we announced the appointment of Wendell Adair, Eugene I. Davis, James B. Shein, and Bradley E. Scher as independent directors of our Board. Further, we have also appointed Curtis G. Solsvig III, as our Chief Restructuring Officer and have retained AlixPartners (of which Mr. Solsvig is a Managing Director) to assist us in evaluating and implementing strategic and tactical options through our restructuring process.

Transfer of the Guggenheim credit facility to BlueBay High Yield Investments (Luxembourg) S.A.R.L.

On October 18, 2007, we consented to the transfer of the loans outstanding ($3.0 million) under the Guggenheim credit facility to funds affiliated with BlueBay Asset Management plc and to the appointment of BlueBay High Yield Investments (Luxembourg) S.A.R.L. , or BlueBay, as successor administrative agent. BlueBay Asset Management plc is a significant shareholder of IESA. On October 23, 2007, we entered into a waiver and amendment with BlueBay for, as amended, a $10.0 million Senior Secured Credit Facility ("Senior Credit Facility"). The Senior Credit Facility matures on December 31, 2009, charges an interest rate of the applicable LIBOR rate plus 7% per year, and eliminates certain financial covenants.

As of December 31, 2007, we are in violation of our weekly cash flow covenants. BlueBay our lender has not waived this violation and we have entered into a forbearance agreement which states our lender will not exercise its rights on our facility until the earlier of (i) March 14, 2008, (ii) additional covenant defaults except for the ones existing as the date of this report or (iii) if any action transpires which is viewed to be adverse to the position of the lender (See Note 8). As of March 31, 2008, we continued to be in violation of our BlueBay covenants (See Waiver, Consent and Fourth Amendment Below).

Test Drive Intellectual Property License

On November 8, 2007, we entered into two separate license agreements with IESA pursuant to which we granted IESA the exclusive right and license, under its trademark and intellectual property rights, to create, develop, distribute and otherwise exploit licensed products derived from our series of interactive computer and video games franchise known as "Test Drive" and "Test Drive Unlimited" (the "Franchise") for a term of seven years (collectively, the "TDU Agreements").

IESA paid us a non-refundable advance, fully recoupable against royalties to be paid under each of the TDU Agreements, of (i) $4 million under a trademark agreement ("Trademark Agreement") and (ii) $1 million under an intellectual property agreement ("IP Agreement"), both advances of which shall accrue interest at a yearly rate of 15% throughout the term of the applicable agreement (collectively, the "Advance Royalty"). Under the Trademark Agreement, the base royalty rate is 7.2% of net revenue actually received by IESA from the sale of licensed products, or, in lieu of the foregoing royalties, 40% of net revenue actually received by IESA from the exploitation of licensed products on the wireless platform. Under the IP Agreement, the base royalty rate is 1.8% of net revenue actually received by IESA from the sale of licensed products, or, in lieu of the foregoing royalties, 10% of net revenue actually received by IESA from the exploitation of licensed products on the wireless platform.

Overhead Reduction

On November 13, 2007, we announced a plan to lower operating expenses by, among other things, reducing headcount. The plan included (i) a reduction in force to consolidate certain operations, eliminate certain non-critical functions, and refocus certain engineering and support functions, and (ii) transfer of certain product development and business development employees to IESA in connection with the termination of a production services agreement between us and IESA. We expect that, after completion of the plan during fiscal 2009, total headcount will be reduced by approximately 30.0%. See Note 20.

Global Memorandum of Understanding

On December 4, 2007, we entered into a Global Memorandum of Understanding Regarding Restructuring of Atari, Inc. ("Global MOU") with IESA, pursuant to which we agreed, in furtherance of our restructuring plan, to the supersession or termination of certain existing agreements and the entry into certain new agreements between IESA and/or its affiliates and us. See the Short Form Distribution Agreement, Termination and Transfer of Assets Agreement, QA Service Agreement and the Intercompany Service Agreement described below.

The Global MOU also contemplated the execution of a Waiver, Consent and Third Amendment to the Credit Agreement, as amended, among us and BlueBay. This Third Amendment to the Credit Agreement raised our credit limit with BlueBay to $14.0 million (See Note 14).

Furthermore, we agreed with IESA that during the third fiscal quarter of 2008, IESA and us shall discuss an extension of the termination date of the Trademark License Agreement, dated September 4, 2003, as amended, between us and Atari Interactive, Inc., a majority owned subsidiary of IESA, ("Atari Interactive").

Short Form Distribution Agreement

We entered into a Short Form Distribution Agreement with IESA (together with two of its affiliates) that supersedes, with respect to games to be distributed on or after the effective date of the Short Form Distribution Agreement, the two prior Distribution Agreements between us and IESA dated December 16, 1999 and October 2, 2000. The Short Form Distribution Agreement is a binding agreement between the parties that sets forth the principal terms of a Long Form Distribution Agreement to be negotiated and entered into by the parties, as consented by BlueBay, on or before March 14, 2008. Pursuant to the Short Form Distribution Agreement, IESA granted us the exclusive right for the term of the Short Form Distribution Agreement to contract with IESA for distribution rights in the contemplated territory to all interactive entertainment software games developed by or on behalf of IESA that are released in packaged media format. For any game, IESA may also grant us the distribution rights to the game' s digital download format in the contemplated territory, which will automatically revert to IESA if the annual gross revenues received by us with respect to such game is less than the agreed upon target. With respect to massively multiplayer online games, casual games and games played through an Internet browser, IESA granted us the exclusive right to distribute and sell such games in both the packaged media format and digital download format, if IESA makes such games available in the packaged media format.

Our exclusive distribution territory is the region covered by the United States, Canada and Mexico. However, if net receipts for games distributed in Mexico are less than the agreed upon target during a given year, the distribution rights in Mexico shall automatically revert to IESA at the end of the relevant year (two years from the effective date) of the term of exclusivity.

The distribution of each game would be subject to a sales plan and specific commitments (i) by us, regarding the amount of the initial order, minimum number of units to be manufactured, minimum amount required to be invested by us for marketing and promotion of such game, and the royalties to be paid, which shall equal (x) a flat per-unit fee per manufactured unit or (y) a percentage of net receipts less a distribution fee paid to us equal to 70% of net receipts; and (ii) by IESA, regarding the anticipated delivery date and expected quality and rating of the game. In the event we and IESA do not initially agree to the terms of such commitments for a particular game, IESA may negotiate with third parties regarding the distribution of such game, but IESA cannot accept a third party offer for distribution rights without first giving us ten days to match the offer.

The term of exclusivity rights under the Short Form Distribution Agreement is three years, unless terminated earlier in accordance with the agreement. The term may automatically be shortened to two years if the net receipts from the games distributed thereunder after the first year is less than 80% of a target to be mutually determined. Thereafter, the term shall automatically extend for consecutive one year periods unless written notice of non-extension is delivered within one-year of the expiration date.

IESA retains the rights to distribute games in the digital download format for which IESA and we have not agreed to distribution commitments. IESA agreed to pay the Company a royalty equal to 8% of the online net revenues that IESA receives via the online platform attributable to such games in exchange for the grant of a trademark license for Atari.com. Furthermore, IESA shall have the sole and exclusive right to operate the Atari.com Internet site, for which the terms will be subject to a separate agreement to be entered into on or before March 14, 2008, which has been postponed (see "Agreement and Plan of Merger" in this Note 1 below). IESA agreed to place a link from the Atari.com Internet site to the Company' s Internet site where we distribute games in the digital download format for which IESA and us have agreed to distribution commitments.

Termination and Transfer of Assets Agreement

We have entered into a Termination and Transfer of Assets Agreement (the "Termination and Transfer Agreement") with IESA (together with its affiliate), pursuant to which the parties terminated the Production Services Agreement, between us and IESA, dated as of March 31, 2006, IESA agreed to hire a significant part of our Production Department team and certain related assets were transferred to IESA.

Pursuant to the Termination and Transfer Agreement, we agreed to transfer to IESA substantially all of the computer, telecommunications and other office equipment currently being used by the transferred Production team personnel to perform production services. In consideration of the transfer, IESA agreed to pay us approximately $0.1 million, representing, in aggregate, the agreed upon current net book value for the fixed assets being transferred and the replacement cost for the development assets being transferred.

Furthermore, IESA agreed to offer employment to certain of our Production team personnel identified to be transitioned. Certain of those employees are permitted to continue providing oversight and supervisory services to us until January 31, 2008 at either no cost or at a discounted cost plus a fee.

QA Services Agreement

We entered into the QA Services Agreement ("QA Agreement") with IESA (together with two of its affiliates), pursuant to which we would either directly or indirectly through third party vendors provide IESA with certain quality assurance services until March 31, 2008.

Pursuant to the QA Agreement, IESA agreed to pay us the cost of the quality assurance services plus a 10% premium. In addition, IESA agreed to pay certain retention bonuses payable to employees providing the services to IESA or its affiliates who work directly on IESA projects or are otherwise general QA support staff.

Intercompany Services Agreement

We entered into an Intercompany Services Agreement with IESA (together with two of its affiliates) that supersedes the Management and Services Agreement and the Services Agreement, each between us and IESA dated March 31, 2006.

Under the Intercompany Services Agreement, we will provide to IESA and its affiliates certain intercompany services, including legal, human resources and payroll, finance, IT and management information systems (MIS), and facilities management services, at the costs set forth therein. The annualized fee is approximately $2.6 million. The term of the Intercompany Services Agreement shall continue through June 30, 2008, with three-month renewal periods.

Agreement and Plan of Merger

On April 30, 2008, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with IESA and Irata Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of IESA ("Merger Sub"). Under the terms of the Merger Agreement, Merger Sub will be merged with and into us, with Atari continuing as the surviving corporation after the Merger, and each outstanding share of Atari common stock, par value $0.10 per share, other than shares held by IESA and its subsidiaries and shares held by Atari stockholders who are entitled to and who properly exercise appraisal rights under Delaware law, will be cancelled and converted into the right to receive $1.68 per share in cash (the "Merger Consideration"). As a result of the Merger Agreement, we will become a wholly owned indirect subsidiary of IESA.

IESA and us have made customary representations, warranties and covenants in the Merger Agreement, including covenants restricting the solicitation of competing acquisition proposals, subject to certain exceptions which permit our board of directors to comply with its fiduciary duties.

Under the Merger Agreement, IESA and us has certain rights to terminate the Merger Agreement and the Merger. Upon the termination of the Merger Agreement under certain circumstances, we must pay IESA a termination fee of $0.5 million.

The transaction was negotiated and approved by the Special Committee of the Company' s board of directors, which consists entirely of directors who are independent of IESA. Based on such negotiation and approval, our board of directors approved the Merger Agreement and recommended that our stockholders vote in favor of the Merger Agreement. We expect to call a special meeting of stockholders to consider the Merger in the third quarter of calendar 2008. Since IESA controls a majority of our outstanding shares, IESA has the power to approve the transaction without the approval of our other stockholders.

Credit Agreement

In connection with the Merger Agreement, the Company also entered into a Credit Agreement with IESA under which IESA committed to provide up to an aggregate of $20 million in loan availability. The Credit Agreement with IESA will terminate when the merger takes place or when the Merger Agreement terminates without the merger taking place. See Note 14.

Waiver, Consent and Fourth Amendment

In conjunction with the Merger Agreement, we entered into a Waiver, Consent and Fourth Amendment to our BlueBay Credit Facility under which, among other things, (i) BlueBay agreed to waive our non-compliance with certain representations and covenants under the Credit Agreement, (ii) BlueBay agreed to consent to us entering into the a credit facility with IESA, (iii) BlueBay agreed to provide us consent in entering into the Merger Agreement with IESA, and (iv) BlueBay and us agreed to certain amendments to the Existing Credit Facility.

With the Fourth Amendment, as of April 30, 2008 and through June 24, 2008, we are in compliance with our BlueBay credit facility.

Although, the above transactions provided cash financing that should meet our need through our fiscal 2009 second quarter (i.e., the quarter ending September 30, 2008), management continues to pursue other options to meet our working capital cash requirements but there is no guarantee that we will be able to do so, if the proposed transaction in which IESA would acquire us is not completed.

Historically, we have relied on IESA to provide limited financial support to us, through loans or, in recent years, through purchases of assets. However, IESA has its own financial needs, and its ability to fund its subsidiaries' operations, including ours, is limited. Therefore, there can be no assurance we will ultimately receive any funding from IESA, if the proposed transaction in which IESA would acquire us is not completed.

The uncertainty caused by these above conditions raises substantial doubt about our ability to continue as a going concern, unless the merger with a subsidiary of IESA is completed. Our consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We continue to explore various alternatives to improve our financial position and secure other sources of financing which could include raising equity, forming both operational and financial strategic partnerships, entering into new arrangements to license intellectual property, and selling, licensing or sub-licensing selected owned intellectual property and licensed rights. We continue to examine the reduction of working capital requirements to further conserve cash and may need to take additional actions in the near-term, which may include additional personnel reductions.

The above actions may or may not prove to be consistent with our long-term strategic objectives, which have been shifted in the last fiscal year, as we have discontinued our internal and external development activities. We cannot guarantee the completion of these actions or that such actions will generate sufficient resources to fully address the uncertainties of our financial position.

NASDAQ Delisting

On December 21, 2007, we received a notice from NASDAQ advising that in accordance with NASDAQ Marketplace Rule 4450(e)(1), we had 90 calendar days, or until March 20, 2008, to regain compliance with the minimum market value of our publicly held shares required for continued listing on the NASDAQ Global Market, as set forth in NASDAQ Marketplace Rule 4450(b)(3). We received this notice because the market value of our publicly held shares (which is calculated by reference to our total shares outstanding, less any shares held by officers, directors or beneficial owners of 10% or more) was less than $15.0 million for 30 consecutive business days prior to December 21, 2007.

On March 24, 2008, we received a NASDAQ Staff Determination Letter from the NASDAQ Listing Qualifications Department stating that we had failed to regain compliance with the Rule during the required period, and that the NASDAQ Staff had therefore determined that our securities were subject to delisting, with trading in our securities to be suspended on April 2, 2008 unless we requested a hearing before a NASDAQ Listing Qualifications Panel (the “Panel”).

On March 27, 2008, we requested a hearing, which stayed the suspension of trading and delisting until the Panel issued a decision following the hearing. The hearing was held on May 1, 2008.

On May 7, 2008, we received a letter from The NASDAQ Stock Market advising us that the Panel had determined to delist our securities from The NASDAQ Stock Market, and suspended trading in our securities effective with the open of business on Friday, May 9, 2008. We have 15 calendar days from May 7, 2008 to request that the NASDAQ Listing and Hearing Review Council review the Panel’ s decision. We have requested such review. Requesting a review does not by itself stay the trading suspension action.

Following the delisting of our securities, our common stock beginning trading on the Pink Sheets®, a real-time quotation service maintained by Pink Sheets LLC.

Staff Accounting Bulletin No. 108

In September 2006, the SEC released SAB No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” SAB No. 108 permits us to adjust for the cumulative effect of errors relating to prior years, not previously identified, in the carrying amount of assets and liabilities as of the beginning of the current fiscal year, with an offsetting adjustment to the opening balance of retained earnings in the year of implementation. SAB No. 108 also permits us to correct the immaterial effects of these errors on fiscal 2007 quarters the next time we file these prior period interim financial statements on Form 10-Q. As such, we do not intend to amend previously filed reports with the SEC. During the March 31, 2007 audit, in accordance with SAB No. 108, we have adjusted our opening retained earnings for fiscal 2007 and the unaudited quarterly financial data for the first three quarters of fiscal 2007 for the effects of the errors described below. We consider these errors to be individually and collectively immaterial to prior periods.

Inventory Write-off related to the lower-of-cost or market adjustment

During our year end financial closing, we determined that in previous periods we did not properly record a lower-of-cost-or-market adjustment to our inventory. As such, we have written off inventory based on facts and circumstances known and available at March 31, 2006 and prior. This inventory write-off of $0.7 million decreases the balances in opening retained earnings and inventory as of April 1, 2006, as presented in the table below.

Deferred Tax Liability

During our year end financial closing, we determined that we had not established a deferred tax liability for the deferred tax consequences of a temporary difference that arose from a difference in the book and tax basis of goodwill. As such, we have adjusted our opening retained earnings for fiscal 2007.

	Inventory Write-off	Deferred Tax Liability	Total
Cumulative effect on inventory as of April 1, 2006	$(735)	$−	$(735)
Cumulative effect on long-term deferred tax liability as of April 1, 2006	$−	$(2,123)	$(2,123)
Cumulative effect on retained earnings as of April 1, 2006	$(735)	$(2,123)	$(2,858)

Principles of Consolidation

The consolidated financial statements include the accounts of Atari, Inc. and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

Revenue recognition, sales returns, price protection, other customer related allowances and allowance for doubtful accounts

Revenue is recognized when title and risk of loss transfer to the customer, provided that collection of the resulting receivable is deemed probable by management.

Sales are recorded net of estimated future returns, price protection and other customer related allowances. We are not contractually obligated to accept returns; however, based on facts and circumstances at the time a customer may request approval for a return, we may permit the return or exchange of products sold to certain customers. In addition, we may provide price protection, co-operative advertising and other allowances to certain customers in accordance with industry practice. These reserves are determined based on historical experience, market acceptance of products produced, retailer inventory levels, budgeted customer allowances, the nature of the title and existing commitments to customers. Although management believes it provides adequate reserves with respect to these items, actual activity could vary from management' s estimates and such variances could have a material impact on reported results.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make payments when due or within a reasonable period of time thereafter. If the financial condition of our customers were to deteriorate, resulting in an inability to make required payments, additional allowances may be required.

Concentration of Credit Risk

We extend credit to various companies in the retail and mass merchandising industry for the purchase of our merchandise which results in a concentration of credit risk. This concentration of credit risk may be affected by changes in economic or other industry conditions and may, accordingly, impact our overall credit risk. Although we generally do not require collateral, we perform ongoing credit evaluations of our customers and reserves for potential losses are maintained.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include allowances for bad debts, returns, price protection and other customer promotional programs, obsolescence expense, and goodwill impairment. Actual results could materially differ from those estimates. During the fourth quarter of fiscal 2007, we recorded an impairment charge in the amount of $54.1 million, and as of March 31, 2007, our goodwill balance is zero (see Note 6).

Cash

Cash consists of cash in banks. As of March 31, 2007 and March 31, 2008, we have no cash equivalents.

Inventories

Inventories are stated at the lower of cost (average cost method) or market. Allowances are established to reduce the recorded cost of obsolete inventory and slow moving inventory to its net realizable value.

Property and Equipment

Property and equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

	Useful Lives
Computer equipment	3 years
Capitalized computer software	3-5 years
Furniture and fixtures	7 years
Machinery and equipment	5 years

Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful lives of the related assets.

Fair Values of Financial Instruments

Financial Accounting Standards Board (“FASB”) Statement No. 107, “Disclosures About Fair Value of Financial Instruments,” requires disclosure of the fair value of financial instruments for which it is practicable to estimate. We believe that the carrying amounts of our financial instruments, including cash, accounts receivable, inventories, prepaid expenses and other current assets, accounts payable, accrued liabilities, royalties payable, assets of discontinued operations, and amounts due to and from related parties, reflected in the consolidated financial statements approximate fair value due to the short-term maturity and the denomination in U.S. dollars of these instruments.

Long-Lived Assets

We review long-lived assets, such as property and equipment, for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If the estimated fair value of the asset is less than the carrying amount of the asset plus the cost to dispose, an impairment loss is recognized as the amount by which the carrying amount of the asset plus the cost to dispose exceeds its fair value, as defined in FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

Research and Product Development Expenses

Research and product development expenses related to the design, development, and testing of newly developed software products, both internal and external, are charged to expense as incurred. Research and product development expenses also include royalty payments (milestone payments) to third-party developers for products that are currently in development. Once a product is sold, we may be obligated to make additional payments in the form of backend royalties to developers which are calculated based on contractual terms, typically a percentage of sales. Such payments are expensed and included in cost of goods sold in the period the sales are recorded.

Rapid technological innovation, shelf-space competition, shorter product life cycles and buyer selectivity have made it difficult to determine the likelihood of individual product acceptance and success. As a result, we follow the policy of expensing milestone payments as incurred, treating such costs as research and product development expenses.

Licenses

Licenses for intellectual property are capitalized as assets upon the execution of the contract when no significant obligation of performance remains with us or the third party. If significant obligations remain, the asset is capitalized when payments are due or when performance is completed as opposed to when the contract is executed. These licenses are amortized at the licensor' s royalty rate over unit sales to cost of goods sold. Management evaluates the carrying value of these capitalized licenses and records an impairment charge in the period management determines that such capitalized amounts are not expected to be realized. Such impairments are charged to cost of goods sold if the product has released or previously sold, and if the product has never released, these impairments are charged to research and product development expenses.

Atari Trademark License

In connection with a recapitalization completed in fiscal 2004, Atari Interactive, a wholly-owned subsidiary of IESA, extended the term of the license under which we use the Atari trademark to ten years expiring on December 31, 2013. We issued 200,000 shares of our common stock to Atari Interactive for the extended license and will pay a royalty equal to 1% of our net revenues during years six through ten of the extended license. We recorded a deferred charge of $8.5 million, representing the fair value of the shares issued, which was expensed monthly until it became fully expensed in the first quarter of fiscal 2007. The monthly expense was based on the total estimated cost to be incurred by us over the ten-year license period; upon the full expensing of the deferred charge, this expense is being recorded as a deferred liability owed to Atari Interactive, to be paid beginning in year six of the license.

Goodwill and Acquired Intangible Assets

Goodwill is the excess purchase price paid over identified intangible and tangible net assets of acquired companies. Goodwill is not amortized, and is tested for impairment at the reporting unit level annually or when there are any indications of impairment, as required by FASB Statement No. 142, "Goodwill and Other Intangible Assets." A reporting unit is an operating segment for which discrete financial information is available and is regularly reviewed by management. We only have one reporting unit, our publishing business, to which goodwill is assigned.

A two-step approach is required to test goodwill for impairment for each reporting unit. The first step tests for impairment by applying fair value-based tests (described below) to a reporting unit. The second step, if deemed necessary, measures the impairment by applying fair value-based tests to specific assets and liabilities within the reporting unit. Application of the goodwill impairment tests require judgment, including identification of reporting units, assignment of assets and liabilities to each reporting unit, assignment of goodwill to each reporting unit, and determination of the fair value of each reporting unit. The determination of fair value for each reporting unit could be materially affected by changes in these estimates and assumptions. Such changes could trigger impairment. During the fourth quarter of fiscal 2007, we recorded an impairment charge in the amount of $54.1 million, and as of March 31, 2007, our goodwill balance is zero (see Note 6).

Intangible assets are assets that lack physical substance. During fiscal 2007, we recorded acquired intangible assets for website development costs (related to the Atari Online website, including a URL), which are accounted for in accordance with Emerging Issues Task Force ("EITF") 00-02, "Accounting for Web Site Development Costs." EITF 00-02 requires that web site development costs be treated as computer software developed for internal use, and that costs incurred in the application and development stages be capitalized in accordance with AICPA Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." As of March 31, 2007, we determined that certain of the acquired intangible assets previously capitalized no longer provided a future benefit to the company, as management decided at the end of the fourth quarter to move to an outsourced technology model; these costs were written off, and the charge of $2.4 million is included in research and product development expenses for the year ended March 31, 2007 (Note 6).

Advertising Expenses

Advertising costs are expensed as incurred. Advertising expenses for the years ended March 31, 2007 and 2008 amounted to approximately $12.9 million and $10.3 million, respectively.

Income Taxes

We account for income taxes using the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates in effect for the years in which the differences are expected to reverse. We record an allowance to reduce tax assets to an estimated realizable amount. We monitor our tax liability on a quarterly basis and record the estimated tax obligation based on our current year-to-date results and expectations of the full year results.

Foreign Currency Translation and Foreign Exchange Gains (Losses)

Assets and liabilities of foreign subsidiaries have been translated at year-end exchange rates, while revenues and expenses have been translated at average exchange rates in effect during the year. Cumulative translation adjustments have been reported as a component of accumulated other comprehensive income.

Foreign exchange gains or losses arise from exchange rate fluctuations on transactions denominated in currencies other than the functional currency. For the years ended March 31, 2007 and 2008, foreign exchange losses were $0.4 million and $0.3 million, respectively.

Shipping, Handling and Warehousing Costs

Shipping, handling and warehousing costs incurred to move product to the customer are charged to selling and distribution expense. For the years ended March 31, 2007 and 2008, these charges were approximately $5.0 million and $3.6 million, respectively.

Recent Accounting Pronouncements

In September 2006, the FASB issued FASB Statement No. 157, "Fair Value Measurements," ("Statement No. 157") which provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. Furthermore, in February 2007, the FASB issued FASB Statement No. 159, "The Fair Value Option for Financial Assets and Liabilities," ("Statement No. 159") which permits an entity to measure certain financial assets and financial liabilities at fair value, and report unrealized gains and losses in earnings at each subsequent reporting date. Its objective is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes without having to apply complex hedge accounting provisions. Statement No. 159 is effective for fiscal years beginning after November 15, 2007, but early application is encouraged. The requirements of Statement No. 157 are adopted concurrently with or prior to the adoption of Statement No. 159. We do not anticipate the adoption of these statements to have a material effect on our financial statements.

See Note 12 regarding the Company' s adoption of FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109)" which is effective for fiscal years beginning after December 15, 2006.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations" ("SFAS 141R"). SFAS 141R retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141R defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. SFAS 141R is effective for business combination transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are evaluating the impact, if any, the adoption of this statement will have on our results of operations, financial position or cash flows.

In April 2008, the FASB issued FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). This change is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other GAAP. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The requirement for determining useful lives must be applied prospectively to intangible assets acquired after the effective date and the disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. We do not expect the adoption of this statement to have a material impact on our results of operations, financial position or cash flows.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"). This Statement amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. We are evaluating the impact, if any, the adoption of this statement will have on our results of operations, financial position or cash flows.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities − an amendment of FASB Statement No. 133" ("SFAS 161"). This Statement changes the disclosure requirements for derivative instruments and hedging activities. Under SFAS 161, entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity' s financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are evaluating the impact, if any, the adoption of this statement will have on our results of operations, financial position or cash flows.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with GAAP for nongovernmental entities. SFAS 162 is effective 60 days following the SEC' s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." We do not expect the adoption of this statement to have a material impact on our results of operations, financial position or cash flows.

In December 2007, the FASB ratified the Emerging Issues Task Force' s ("EITF") consensus on EITF Issue No 07-1, "Accounting for Collaborative Arrangements" that discusses how parties to a collaborative arrangement (which does not establish a legal entity within such arrangement) should account for various activities. The consensus indicates that costs incurred and revenues generated from transactions with third parties (i.e. parties outside of the collaborative arrangement) should be reported by the collaborators on the respective line items in their income statements pursuant to EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal Versus Net as an Agent". Additionally, the consensus provides that income statement characterization of payments between the participation in a collaborative arrangement should be based upon existing authoritative pronouncements; analogy to such pronouncements if not within their scope; or a reasonable, rational, and consistently applied accounting policy election. EITF Issue No. 07-1 is effective for interim or annual reporting periods in fiscal years beginning after December 15, 2008, and is to be applied retrospectively to all periods presented for collaborative arrangements existing as of the date of adoption. We are currently evaluating the impact, if any, the adoption of this standard will have on our results of operations, financial position or cash flows.

NOTE 2 − STOCK-BASED COMPENSATION

Effective April 1, 2006, we adopted FASB Statement No. 123(R), "Share-Based Payment," which requires the measurement and recognition of compensation expense at fair value for employee stock awards. Through March 31, 2006, we accounted for employee stock option plans under the intrinsic value method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Any equity instruments issued, other than to employees, for acquiring goods and services were accounted for using fair value at the date of grant. We also previously adopted the disclosure provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation," as amended by FASB Statement No. 148, "Accounting for Stock-Based Compensation − Transition and Disclosure − an Amendment of FASB Statement No. 123," which required us to disclose pro forma information as if we had applied fair value recognition provisions.

We have adopted FASB Statement No. 123(R) using the modified prospective method in which we are recognizing compensation expense for all awards granted after the required effective date and for the unvested portion of previously granted awards that remained outstanding at the date of adoption. Under this transition method, the measurement as well as our method of amortization of costs for share-based payments granted prior to, but not vested as of, April 1, 2006 would be based on the same estimate of the grant-date fair value and the same amortization method that was previously used in our FASB Statement No. 123 pro forma disclosure. Prior period results have not been restated, as provided for under the modified prospective method.

At March 31, 2008, we had one stock incentive plan, under which we could issue a total of 1,500,000 shares of common stock as stock options or restricted stock, of which approximately 574,000 were still available for grant as of March 31, 2008. Upon approval of this plan, our previous stock option plans were terminated, and we were no longer able to issue options under those plans; however, options originally issued under the previous plans continue to be outstanding. All options granted under our current or previous plans have an exercise price equal to or greater than the market value of the underlying common stock on the date of grant; options vest over four years and expire in ten years.

The recognition of stock-based compensation expense increased our loss from continuing operations before income tax benefit, our loss from continuing operations, and our net loss by $1.6 million for the year ended March 31, 2007, and increased our basic and diluted loss per share amount by $0.12 for the year ended March 31, 2007. For the year ended March 31, 2008, stock-based compensation expense increased our net loss by $0.2 million and increased our basic and diluted loss per share amount by $0.01.

We have recorded a full valuation allowance against our net deferred tax asset, so the settlement of stock-based compensation awards will not result in tax deficiencies that could impact our consolidated statement of operations. Because the tax deduction from current period settlement of awards has not reduced taxes payable, the settlement of awards has no effect on our cash flow from operating and financing activities.

The following table summarizes the classification of stock-based compensation expense in our consolidated statement of operations (in thousands):

	Year Ended March 31,	
	2007	2008
Research and product development expenses	$865	$9
Selling and distribution expenses	$88	$(25)
General and administrative expenses	$634	$201

The weighted average fair value of options granted during the years ended March 31, 2007 and 2008 was $4.62 and $0.87, respectively. The fair value of our options is estimated using the Black-Scholes option pricing model. This model requires assumptions regarding subjective variables that impact the estimate of fair value. Our policy for attributing the value of graded vest share-based payment is a single option straight-line approach. The following table summarizes the assumptions used to compute the weighted average fair value of option grants:

	Year Ended March 31,	
	2007	2008
Anticipated volatility	81%	74%
Dividend yield	0 %	0 %
Expected term	4	4

The weighted average risk-free interest rate for the years ended March 31, 2007 and 2008 was 4.78% and 2.46%, respectively.

FASB Statement No. 123(R) requires that the Company recognize stock-based compensation expense for the number of awards that are ultimately expected to vest. As a result, the expense recognized must be reduced for estimated forfeitures prior to vesting, based on a historical annual forfeiture rate, which is 10.1% for March 31, 2007 and 12.0% for March 31, 2008. Estimated forfeitures shall be assessed at each balance sheet date and may change based on new facts and circumstances. Prior to the adoption of FASB Statement No. 123(R), forfeitures were accounted for as they occurred when included in required pro forma stock compensation disclosures.

The following table summarizes our option activity under our stock-based compensation plans for the years ended March 31, 2007 and 2008:

	Shares (in thousands)	Weighted Average Exercise Price
Options outstanding at March 31, 2006	752	$77.97
Granted	628	$7.28
Exercised	(2)	$3.40
Forfeited	(110)	$13.57
Expired	(156)	$157.27
Options outstanding at March 31, 2007	1,112	$33.45
Granted	737	$1.55
Exercised	−	$0.00
Forfeited	(465)	$10.07
Expired	(457)	$59.12
Options outstanding at March 31, 2008	927	$7.18
Options exercisable at March 31, 2008	126	$39.45

As of March 31, 2008, the weighted average remaining contractual term of options outstanding and exercisable was 9.2 years and 5.0 years, respectively, and there was no aggregate intrinsic value related to options outstanding and exercisable due to a market price lower than the exercise price of all options as of that date. As of March 31, 2008, the total future unrecognized compensation cost related to outstanding unvested options is $2.2 million, which will be recognized as compensation expense over the remaining weighted average vesting period of 3.8 years.

The following table summarizes information concerning currently outstanding and exercisable options (shares in thousands):

Range of Exercise Price	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$1.45 - 7.40	848	9.7	$2.37	48	$7.33
$18.40 - 76.00	59	4.5	$46.10	58	$46.27
$78.00 - 365.63	20	0.1	$95.84	20	$95.84
	927			126	

NOTE 3 − NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding for the period. Diluted net income (loss) per share reflects the potential dilution that could occur from shares of common stock issuable through stock-based compensation plans including stock options and warrants using the treasury stock method. The following is a reconciliation of basic and diluted loss from continuing operations and income (loss) per share (in thousands, except per share data):

	Years Ended March 31,	
	2007	2008
Basic and diluted earnings per share calculation:		
Loss from continuing operations	$(66,586)	$(23,334)
Loss from discontinued operations of Reflections Interactive Ltd, net of tax provision of $7,559 and $0, respectively	(3,125)	(312)
Net loss	$(69,711)	$(23,646)
Basic weighted average shares outstanding	13,477	13,478
Dilutive effect of stock options and warrants	−	−
Diluted weighted average shares outstanding	13,477	13,478
Basic and diluted net (loss) per share:		
Loss from continuing operations	$(4.94)	$(1.73)
Loss from discontinued operations of Reflections Interactive Ltd, net of tax	(0.23)	(0.02)
Net loss	$(5.17)	$(1.75)

The number of antidilutive shares that was excluded from the diluted earnings per share calculation for the years ended March 31, 2007 and 2008 was approximately 924,000 and 929,000, respectively. For the years ended March 31, 2007 and 2008, the shares were antidilutive due to the net loss for the year.

NOTE 4 − STOCKHOLDERS' EQUITY

Warrants

As of March 31, 2008, we had warrants outstanding to purchase an aggregate of approximately 2,499 shares of our common stock. The warrants have an expiration date of November 2012 and an exercise price of $24.20.

CCM Master Qualified Fund, Ltd.

Pursuant to a Securities Purchase Agreement with CCM Master Qualified Fund, Ltd. ("CCM"), dated September 15, 2005, CCM purchased approximately 380,000 shares (post- reverse split) for $13.00 per share, or $4.94 million in aggregate. Pursuant to such agreement, if our common stock is delisted from the NASDAQ Global Market, CCM is entitled to a monthly cash payment equal to 1% of the number of shares that CCM then holds (of the 380,000) times the $13.00 per share purchase price paid therefor. We have accrued the amount of this penalty starting from the date of delisting through the anticipated time of completion of the merger with IESA, which equals approximately $0.2 million and is included as part of our accrued liabilities.

NOTE 5 − CONCENTRATION OF CREDIT RISK

As of March 31, 2007, we had two customers whose accounts receivable exceeded 10% of total accounts receivable:

	March 31, 2007	For the Year Ended March 31, 2007
	% of Accounts Receivable	% of Net Revenues(1)
Customer 1	34%	19%
Customer 2	20%	9%
	54%	28%

As of March 31, 2008, we had four customers whose accounts receivable exceeded 10% of total accounts receivable:

	March 31, 2008	For the Year Ended March 31, 2008
	% of Accounts Receivable	% of Net Revenues(1)
Customer 1	30%	27%
Customer 2	17%	7%
Customer 3	13%	12%
Customer 4	11%	19%
	71%	65%

(1) Excluding international royalty, licensing, and other income.

Due to the timing of cash receipts, field inventory levels along with anticipated price protection reserves and lower sales in the final quarter of the year, certain customers were in net credit balance positions within our accounts receivable at March 31, 2007 and 2008. As a result, $0.8 million and $2.6 million was reclassified to accrued liabilities to properly state our assets and liabilities as of March 31, 2007 and 2008, respectively.

With the exception of the largest customers noted above, accounts receivable balances from all remaining individual customers were less than 10% of our total accounts receivable balance.

NOTE 6 − GOODWILL AND ACQUIRED INTANGIBLE ASSETS

The change in goodwill for the year ended March 31, 2007 is as follows:

	March 31, 2007
Beginning balance	$66,398
Sale of Humongous Entertainment studio	−
Sale of Reflections Interactive Ltd development studio	(12,269)
Impairment of goodwill	(54,129)
Ending balance	$−

During the year ended March 31, 2007, we allocated $12.3 million of the goodwill associated with our publishing business to the sale of our previously wholly-owned development studio Reflections and related *Driver* intellectual property. See Note 19.

A two-step approach is required to test goodwill for impairment for each reporting unit (see Note 1). In fiscal 2007, we completed the first step of the annual goodwill impairment testing as of December 31, 2006 with regard to the goodwill associated with our publishing business. As part of step one, we considered three methodologies to determine the fair-value of our reporting unit. The first, which we believe is our primary and most reliable approach, is a market capitalization approach. This aligns our market capitalization at the balance sheet date to our publishing business, as we believe this measure is a good indication of third-party determination of fair value. The second approach entails determining the fair value of the reporting unit using a discounted cash flow methodology, which requires significant judgment to estimate the future cash flows and to determine the appropriate discount rates, growth rates, and other assumptions. The third approach is an orderly sale of assets process, which values the publishing unit based on estimated sale price of assets and intellectual property, less any related liabilities. Due to our history of operating losses and diminishing financial performance, we do not place heavy reliance on the second approach. The third approach is not a commonly used analysis; therefore, we place minimal reliance on that approach as well.

However, during the fourth quarter ended March 31, 2007, our market capitalization declined significantly. As this measure is our primary indicator of the fair value of our publishing unit, management considered this decline to be a triggering event, requiring us to perform an impairment analysis. As of March 31, 2007, we completed this analysis and our management, with the concurrence of the Audit Committee of our Board of Directors, has concluded that an impairment charge of $54.1 million should be recognized. This is a noncash charge and has been recorded in the fourth quarter of fiscal 2007.

The change in acquired intangible assets (included in other assets) for the years ended March 31, 2007 and March 31, 2008 is as follows (in thousands):

	March 31,	
	2007	2008
Beginning balance	$−	$140
Additions	2,291	−
Write-off	(2,151)	−
Ending balance	$140	$140

During the year ended March 31, 2007, we capitalized as acquired intangible assets $2.3 million of costs incurred with several third party contractors in connection with the development of our Atari Online website, as well as costs incurred to purchase a URL. During the fourth quarter of fiscal 2007, it was determined that certain of the acquired intangible assets previously capitalized no longer provided a future benefit to the company, as management decided at the end of the fourth quarter to move to an outsourced technology model; these costs were written off, and the charge is included in research and product development expenses within our publishing segment. The remaining asset is related to the purchased URL and will not be amortized until the website is operational, which will occur in fiscal 2009. The balance is included in other assets on our consolidated balance sheet as of March 31, 2008.

NOTE 7 − INVENTORIES, NET

Inventories consist of the following (in thousands):

	March 31, 2007	March 31, 2008
Finished goods	$8,226	$3,847
Return inventory	615	424
Raw materials	2	5
	$8,843	$4,276

NOTE 8 − PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following (in thousands):

	March 31, 2007	March 31, 2008
Licenses short-term	$7,054	$4,361
Prepaid insurance	802	911
Reflections escrow receivable	626	28
Royalties receivable	495	494
Deferred financing fees	209	380
Taxes receivable	90	156
Receivable from landlord	−	448
Trade deposits and other professional retainers	−	997
Other prepaid expenses and current assets	953	413
	$10,229	$8,188

NOTE 9 − PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following (in thousands):

	March 31, 2007	March 31, 2008
Capitalized computer software	$18,242	$18,409
Computer equipment	9,243	4,395
Leasehold improvements	5,241	4,493
Furniture and fixtures	2,195	587
Machinery and equipment	241	242
	35,162	28,126
Less: accumulated depreciation	(30,945)	(21,813)
	$4,217	$6,313

Depreciation expense for the years ended March 31, 2007 and 2008 amounted to approximately $3.0 million and $1.6 million, respectively.

NOTE 10 − ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

	March 31, 2007	March 31, 2008
Accrued third-party development expenses	$2,660	$4,122
Accrued professional fees and other services	2,578	1,991
Accrued distribution services	2,061	247
Accrued salary and related costs	1,581	743
Accrued advertising	1,222	629
Accounts receivable credit balances	828	2,619
Taxes payable	299	453
Deferred income	231	277
Accrued freight and handling fees	193	136
Delisting penalty owed to shareholder	−	200
Restructuring reserve (Note 20)	54	1,759
Other	1,674	1,296
	$13,381	$14,472

NOTE 11 − LONG-TERM LIABILITIES

Long-term liabilities consist of the following (in thousands):

	March 31, 2007	March 31, 2008
Deferred rent	$1,880	$2,624
Landlord allowance	1,213	4,228
Deferred income − long-term	325	249
Other long-term liabilities	16	−
	$3,434	$7,101

NOTE 12 − INCOME TAXES

Loss from continuing operations before (benefit from) provision for income taxes consisted of (in thousands):

	Years Ended March 31,	
	2007	2008
United States	$(77,307)	$(23,297)
Foreign	41	36
Loss before (benefit from) provision for income taxes	$(77,266)	$(23,261)

The components of the (benefit from) provision for income taxes are as follows (in thousands):

	Years Ended March 31,	
	2007	2008
Current:		
Federal	$−	$ −
State and local	−	73
Foreign	(998)	−
Total	(998)	73
Deferred:		
Federal	(8,216)	−
State and Local	(1,466)	−
Foreign	−	−
Total	(9,682)	−
(Benefit from) provision for income taxes	$(10,680)	$ 73

We allocate income taxes between continuing and discontinued operations in accordance with FASB Statement No. 109, "Accounting for Income Taxes," particularly paragraph 140, which states that all items, including discontinued operations, should be considered for purposes of determining the amount of tax benefit that results from a loss from continuing operations and that should be allocated to continuing operations. FASB Statement No. 109 is applied by tax jurisdiction, and in periods in which there is a pre-tax loss from continuing operations and pre-tax income in another category, such as discontinued operations, tax expense is first allocated to the other sources of income, with a related benefit recorded in continuing operations.

During the year ended March 31, 2007, we recorded a tax benefit of $7.6 million in accordance with paragraph 140 of FASB Statement No. 109 (see above), as well as a tax benefit from the reversal of a deferred tax liability of $2.1 million, associated with the impairment of our goodwill, compounded by a tax benefit of approximately $1.0 million primarily from the favorable outcome of a tax examination of our dormant UK subsidiary.

A reconciliation of the benefit from provision for income taxes from continuing operations computed at the federal statutory rate to the reported benefit from provision for income taxes is as follows (in thousands):

	Years Ended March 31,	
	2007	2008
(Benefit from) provision for income taxes computed at the federal statutory rate	$(27,043)	$(8,143)
Income taxes (benefit) expense income taxes resulting from:		
Permanent differences and other	4,273	21
State and local taxes, net of federal tax effect	(952)	−
Difference between U.S. and foreign income tax rates	(4)	−
Reversal of reserves and settlement of tax examinations	(999)	73
Loss for which no benefit was received	14,045	8,122
(Benefit from) provision for income taxes	$(10,680)	$73

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of our net deferred tax asset are as follows (in thousands):

	March 31, 2007	March 31, 2008
Deferred tax asset:		
Inventory valuation	$843	$1,517
Deferred income	20	77
Net operating loss carryforwards	209,659	221,262
Restructuring reserve	22	831
Allowances for bad debts, returns, price protection and other customer promotional programs	5,471	1,815
Depreciation and amortization	15,229	13,792
Atari trademark license expense	736	1,590
Research and development credit carryforwards	8,069	7,972
Sub-total	240,049	248,856
Less: valuation allowance	(240,049)	(248,856)
Net deferred tax asset	$−	$−

The valuation allowance increased by approximately $8.8 million, primarily related to current year losses for which no benefit was provided.

As of March 31, 2008, we had federal net operating loss carryforwards of approximately $574.7 million. The net operating loss carryforwards will expire beginning in 2012 through 2028 and may be subject to annual limitations provided by Section 382 of the Internal Revenue Code.

As of March 31, 2008, we have federal research and development credits of approximately $6.7 million and state research and development credits of approximately $1.6 million. These credits will expire beginning in 2011. We also have $0.2 million in federal alternative minimum tax credits which can be carried forward indefinitely.

As of March 31, 2008, there were no undistributed earnings for our 100% owned foreign subsidiaries.

The Company adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”), on April 1, 2007. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance at March 31, 2007	$340
Increases in tax positions for prior years	3
Decreases in tax positions for prior years	−
Increases in tax positions for current year	44
Settlements	(53)
Lapse in statute of limitations	−
Balance at March 31, 2008	$334

The amount of unrecognized tax benefits if recognized that would reduce the annual effective tax rate is $0.4 million. As of April 1, 2007 and March 31, 2008 the Company had approximately $0.1 million of accrued interest and penalties, respectively. The Company expects $0.1 million of its unrecognized tax benefits, interest and penalty to reverse over the next 12 months.

The Company is subject to taxation in the U.S. and various state jurisdictions. The Company was previously subject to taxation in the United Kingdom. The Company' s federal tax returns for tax years ended March 31, 2005 through March 31, 2007 remain subject to examination. The Company files in numerous state jurisdictions with varying statues of limitations. During fiscal 2007, the Company completed a tax examination in the United Kingdom ("UK") through the period ended March 31, 2004 and has terminated its UK business activities.

NOTE 13 − RELATED PARTY TRANSACTIONS

Relationship with IESA

As of March 31, 2008, IESA beneficially owned approximately 51% of our common stock. IESA renders management services to us (systems and administrative support) and we render management services and production services to Atari Interactive and other subsidiaries of IESA. Atari Interactive develops video games, and owns the name "Atari" and the Atari logo, which we use under a license. IESA distributes our products in Europe, Asia, and certain other regions, and pays us royalties in this respect. IESA also develops (through its subsidiaries) products which we distribute in the U.S., Canada, and Mexico and for which we pay royalties to IESA (Note 1). Both IESA and Atari Interactive are material sources of products which we bring to market in the United States, Canada and Mexico. During fiscal 2008, international royalties earned from IESA were the source of 3.2% of our net revenues. Additionally, during the year ended March 31, 2008, IESA and its subsidiaries (primarily Atari Interactive) were the source of approximately 25.6%, respectively, of our net publishing product revenue.

Historically, IESA has incurred significant continuing operating losses and has been highly leveraged. On September 12, 2006, IESA announced a multi-step debt restructuring plan, subject to its shareholders' approval, which would significantly reduce its debt and provide liquidity to meet its operating needs. On November 15, 2006, IESA shareholders approved the debt restructuring plan, permitting IESA to execute on this plan. As of March 31, 2008, IESA has raised 150 million Euros, of which approximately 40 million Euros has paid down outstanding short-term and long-term debt. The remaining 100 million euros (less approximately 6 million Euro in fees) will be committed to fund IESA' s development program. Although this recent transaction has brought in additional financing, IESA' s ability to fund, among other things, its subsidiaries' operations remains limited. Our results of operations could be materially impaired if IESA fails to fund Atari Interactive, as any delay or cessation in product development could materially decrease our revenue from the distribution of Atari Interactive and IESA products. If the above contingencies occurred, we probably would be forced to take actions that could result in a significant reduction in the size of our operations and could have a material adverse effect on our revenue and cash flows.

Additionally, although Atari is a separate and independent legal entity and we are not a party to, or a guarantor of, and have no obligations or liability in respect of IESA' s indebtedness (except that we have guaranteed the Beverly, MA lease obligation of Atari Interactive), because IESA owns the majority of our common stock, potential investors and current and potential business/trade partners may view IESA' s financial situation as relevant to an assessment of Atari. Therefore, if IESA is unable to address its financial issues, it may taint our relationship with our suppliers and distributors, damage our business reputation, affect our ability to generate business and enter into agreements on financially favorable terms, and otherwise impair our ability to raise and generate capital.

See Agreement and Plan of Merger under Note 1.

Summary of Related Party Transactions

The following table provides a detailed break out of related party amounts within each line of our consolidated statements of operations (in thousands):

Income (Expense)	Years Ended March 31, 2007	2008
Net revenues	*$122,285*	*$80,131*
Related party activity:		
Royalty income(1)	5,243	2,599
License income(1)	2,464	6,522
Sale of goods	972	953
Production, quality and assurance testing and other services	3,576	2,308
Total related party net revenues	12,255	12,382
Cost of goods sold	*(72,629)*	*(40,989)*
Related party activity:		
Distribution fee for Humongous, Inc. products	(5,318)	(7,885)
Royalty expense(2)	(11,365)	(4,619)
Total related party cost of goods sold	(16,683)	(12,504)
Research and product development expenses	*(30,077)*	*(13,599)*
Related party activity:		
Development expenses(3)	(7,224)	(294)
Related party allocation of executive resignation agreement	(771)	−
Other miscellaneous development expenses	(229)	6
Total related party research and product development Expenses	(8,224)	(288)
Selling and distribution expenses	*(25,296)*	*(19,411)*
Related party activity:		
Miscellaneous purchase of services	(151)	−
Total related party selling and distribution expenses	(151)	−
General and administrative expenses	*(21,788)*	*(17,672)*
Related party activity:		
Management fee revenue	3,020	3,056
Management fee expense	(3,000)	(2,030)
Office rental and other services(4)	184	−
Total related party general and administrative expenses	204	1,026
Restructuring expenses	*(709)*	*(6,541)*
Related party activity:		
Office rental(4)	(467)	−
Total related party restructuring expenses	(467)	−
Interest income (expense), net	*301*	*(1,452)*
Related party activity:		
Related party interest on license advance(5)	−	(296)
Total related party interest income, net	−	(296)
(Loss) from discontinued operations of Reflections Interactive Ltd, net of tax provision of $7,559 and $0, respectively	*(3,125)*	*(312)*
Related party activity:		
Royalty income(1)	(1,871)	−
License income(1)	556	−
Total related party (loss) from discontinued operations of Reflections Interactive Ltd, net of tax	(1,315)	−

(1) We have entered into a distribution agreement with IESA and Atari Europe which provides for IESA' s and Atari Europe' s distribution of our products across Europe, Asia, and certain other regions pursuant to which IESA, Atari Europe, or any of their subsidiaries, as applicable, will pay us 30.0% of the gross margin on such products or 130.0% of the royalty rate due to the developer, whichever is greater. We recognize this amount as royalty income as part of net revenues, net of returns. Additionally, we earn license income from related parties Glu Mobile (see below).

(2) We have also entered into a distribution agreement with IESA and Atari Europe, which provides for our distribution of IESA' s (or any of its subsidiaries') products in the United States, Canada, and Mexico, pursuant to which we will pay IESA either 30.0% of the gross margin on such products or 130.0% of the royalty rate due to the developer, whichever is greater. We recognize this amount as royalty expense as part of cost of goods sold, net of returns.

(3) We engage certain related party development studios to provide services such as product development, design, and testing.

(4) In July 2002, we negotiated a sale-leaseback transaction between Atari Interactive and an unrelated party. As part of this transaction, we guaranteed the lease obligation of Atari Interactive. The lease provides for minimum monthly rental payments of approximately $0.1 million escalating nominally over the ten year term of the lease. During fiscal 2006, when the Beverly studio (which held the office space for Atari Interactive) was closed, rental payments were recorded to restructuring expense. We also received indemnification from IESA from costs, if any, that may be incurred by us as a result of the full guaranty.

We received a $1.3 million payment for our efforts in connection with the sale-leaseback transaction. Approximately $0.6 million, an amount equivalent to a third-party broker' s commission, was recognized during fiscal 2003 as other income, while the remaining balance of $0.7 million was deferred and is being recognized over the life of the sub-lease. Accordingly, during the years ended March 31, 2007 and 2008, approximately $0.1 million of income was recognized in each period. As of March 31, 2007 and March 31, 2008, the remaining balance of approximately $0.4 million and $0.3 million, respectively, is deferred and is being recognized over the life of the sub-lease. Although the Beverly studio was closed in fiscal 2006 as part of a restructuring plan, the space was not sublet; the lease expired June 30, 2007.

Additionally, we provide management information systems services to Atari Australia for which we are reimbursed. The charge is calculated as a percentage of our costs, based on usage, which is agreed upon by the parties.

(5) Represents interest charged to us from the license advance from the Test Drive license. See Note 1 and Test Drive Intellectual Property License below.

Balance Sheet

The following amounts are outstanding with respect to the related party activities described above (in thousands):

	March 31,	
	2007	2008
Due from/(Due to) − current		
IESA(1)	$(1,494)	$−
Atari Europe(2)	280	94
Eden Studios(3)	(595)	125
Atari Studio Asia(3)	(401)	−
Humongous, Inc.(4)	(2,218)	(537)
Atari Interactive(5)	(992)	(79)
Other miscellaneous net receivables	1,516	85
Net due to related parties − current	$(3,904)	$(312)
Due from/(Due to) − long-term		
Atari Interactive (see *Atari Trademark License* below)	(1,912)	(3,576)
Net due to related parties	$(5,816)	$(3,888)

The current balances reconcile to the balance sheet as follows (in thousands):

	March 31,	
	2007	2008
Due from related parties	$1,799	$885
Due to related parties	(5,703)	(1,197)
Net due to related parties − current	$(3,904)	$(312)

(1) Balances comprised primarily from the management fees charged to us by IESA and other recharges of cost incurred on our behalf.

(2) Balances comprised of royalty income or expense from our distribution agreements with IESA and Atari Europe relating to properties owned or licensed by Atari Europe.

(3) Represents net payables related to related party development activities.

(4) Represents distribution fees owed to Humongous, Inc., a related party, related to sale of their product, as well as liabilities for inventory purchased.

(5) Comprised primarily of royalties owed to Atari Interactive, offset by receivables related to management fee revenue and production and quality and assurance testing services revenue earned from Atari Interactive.

Atari Name License

In May 2003, we changed our name to Atari, Inc. upon obtaining rights to use the Atari name through a license from IESA, which IESA acquired as a part of the acquisition of Hasbro Interactive Inc. (“Hasbro Interactive”). In connection with a debt recapitalization in September 2003, Atari Interactive extended the term of the license under which we use the Atari name to ten years expiring on December 31, 2013. We issued 200,000 shares of our common stock to Atari Interactive for the extended license and will pay a royalty equal to 1% of our net revenues during years six through ten of the extended license. We recorded a deferred charge of $8.5 million, which was being amortized monthly and which became fully amortized during the first quarter of fiscal 2007. The monthly amortization was based on the total estimated cost to be incurred by us over the ten-year license period. Upon full amortization of the deferred charge, we began recording a long-term liability at $0.2 million per month, to be paid to Atari Interactive beginning in year six of the term of the license. During the year ended March 31, 2007, we recorded expense of $2.2 million, with $0.3 million expensed against the deferred charge that remained at March 31, 2006, and the remainder of the expense recorded in due to related party − long term. As of March 31, 2007, $1.9 million relating to this obligation is included in due to related party − long term. During the year ended March 31, 2008, we recorded expense of $1.7 million against due to related party − long term. As of March 31, 2008, $3.6 million relating to this obligation is included in long-term liabilities and approximately $0.6 is in short-term liabilities.

Sale of Hasbro Licensing Rights

On July 18, 2007, IESA, agreed to terminate a license under which it and we, and our sublicensees, had developed, published and distributed video games using intellectual property owned by Hasbro, Inc. In connection with that termination, on the same date, we and IESA entered into an agreement whereby IESA agreed to pay us $4.0 million. In addition, pursuant to the agreements between IESA and Hasbro, Hasbro agreed to assume our obligations under any sublicenses that we had the right to assign to it. As of March 31, 2008, we have received full payment of the $4.0 million and have recorded the same amount as other income as part of our publishing net revenues for the year ended March 31, 2008.

Test Drive Intellectual Property License

On November 8, 2007, we entered into two separate license agreements with IESA pursuant to which we granted IESA the exclusive right and license, under its trademark and intellectual and property rights, to create, develop, distribute and otherwise exploit licensed products derived from the Test Drive Franchise for a term of seven years. IESA paid us a non-refundable advance, fully recoupable against royalties to be paid under each of the TDU Agreements, of (i) $4 million under the Trademark Agreement and (ii) $1 million under the IP Agreement, both advances accrue interest at a yearly rate of 15% throughout the term of the applicable agreement (See Note 1). As of March 31, 2008, the balance of this related party license advance is approximately $5.3 million of which $0.3 million relates to accrued interest.

Related Party Transactions with Employees or Former Employees

License Revenue from Glu Mobile

We record license income from Glu Mobile, for which a member of our Board of Directors, until October 5, 2007, Denis Guyennot, is the Chief Executive Officer of activities in Europe, the Middle East, and Africa. This results in treatment of Glu Mobile as a related party. During the year ended March 31, 2007, license income recorded from Glu Mobile was $3.0 million of which $0.6 million is included in loss for discontinued operations. As of March 31, 2007, receivables from Glu Mobile were $1.3 million. For the year ended March 31, 2008, we recorded $1.2 million of related party income related to Glu Mobile as a related party. As of March 31, 2008, we had no related party receivables from Glu Mobile. Upon the removal of Mr. Guyennot from our Board of Directors on October 5, 2007, Glu Mobile no longer is a related party.

Compromise Agreement with Martin Lee Edmondson

On August 31, 2005, pursuant to a Compromise Agreement executed on August 12, 2005 between us, Reflections, and Martin Lee Edmondson, a former employee of Reflections, we issued 155,766 shares to Mr. Edmondson as part of the full and final settlement of a dismissal claim and any and all other claims that Mr. Edmondson had or may have had against us and Reflections, except for personal injury claims, accrued pension rights, non-waivable claims, claims to enforce rights under the Compromise Agreement, and claims for financial compensation for services rendered (if any) in connection with our game *Driver: Parallel Lines*. The share issuance was valued at $2.1 million and the issuance was recorded as a reduction of royalties payable. The Compromise

Agreement also included a cash payment of $2.2 million paid in twelve equal installments beginning on September 1, 2005, as well as a one time payment of $0.4 million payable on September 1, 2005. The expense related to this settlement was fully recorded during fiscal 2005. As of March 31, 2006, the remaining liability due to Mr. Edmondson was $0.9 million and was included in liabilities of discontinued operations. During fiscal 2007, the remaining balance was fully paid, and Reflections was sold to a third party (Note 19). As of March 31, 2007, no balance remains outstanding related to this liability.

Consultation Agreement with Ann Kronen

On November 8, 2006, we entered into a Consulting Agreement with Ann E. Kronen, then a member of our Board of Directors (the “Kronen Agreement”) until October 5, 2007 in which Ms. Kronen was removed from our board (Note 1). The term of the Kronen Agreement commenced effective August 1, 2006 and ends on March 31, 2007, with automatic one year extensions unless terminated on thirty days notice prior to the end of the current term. Pursuant to the Consulting Agreement, Ms. Kronen will provide (i) product development, and (ii) business development and relationship management services on behalf of us, for which she will be compensated in monthly payments, and reimbursement for any reasonable and pre-approved expenses incurred in connection with such services. During fiscal 2007, we recorded approximately $0.1 million of expense related to this agreement. During fiscal 2008, we recorded and expense a settlement payment ending our contract with Ms. Kronen for a nominal amount. Including that payment, we expensed approximately $0.2 million during fiscal 2008.

Related Party Allocation of Executive Resignation Agreement

On April 4, 2007, IESA entered into an agreement with Bruno Bonnell, its founder, CEO, and the Chairman of its Board, under which Mr. Bonnell agreed to resign from his duties as a Director and CEO of IESA and from all the offices he holds with subsidiaries of IESA, including Atari and its subsidiaries. Mr. Bonnell was also the Chairman of our Board, our Chief Creative Officer and our Acting Chief Financial Officer, and previously had been our Chief Executive Officer. IESA agreed to pay Mr. Bonnell a total of approximately 3.0 million Euros ($4.0 million), including applicable foreign taxes. Management has determined that we have benefited from this separation, and that approximately $0.8 million of the payments IESA made should be allocated to the benefit we received. Our consolidated statement of operations for the year ended March 31, 2007 reflects a charge in this amount. As we are not obligated to make any payments, this amount has been recorded as a capital contribution as of March 31, 2007.

NOTE 14 − DEBT

Credit Facilities

On November 3, 2006, we established a secured credit facility with several lenders for which Guggenheim was the administrative agent. The Guggenheim credit facility was to terminate and be payable in full on November 3, 2009. The credit facility consisted of a secured, committed, revolving line of credit in an initial amount up to $15.0 million, which included a $10.0 million sublimit for the issuance of letters of credit. Availability under the credit facility was determined by a formula based on a percentage of our eligible receivables. The proceeds could be used for general corporate purposes and working capital needs in the ordinary course of business and to finance acquisitions subject to limitations in the Credit Agreement. The credit facility bore interest at our choice of (i) LIBOR plus 5% per year, or (ii) the greater of (a) the prime rate in effect, or (b) the Federal Funds Effective Rate in effect plus 2.25% per year. Additionally, we were required to pay a commitment fee on the undrawn portions of the credit facility at the rate of 0.75% per year and we paid to Guggenheim a closing fee of $0.2 million. Obligations under the credit facility were secured by liens on substantially all of our present and future assets, including accounts receivable, inventory, general intangibles, fixtures, and equipment, but excluding the stock of our subsidiaries and certain assets located outside of the U.S.

The credit facility included provisions for a possible term loan facility and an increased revolving credit facility line in the future. The credit facility also contained financial covenants that required us to maintain enumerated EBITDA, liquidity, and net debt minimums, and a capital expenditure maximum. As of June 30, 2007, we were not in compliance with all financial covenants. On October 1, 2007, the lenders provided a waiver of covenant defaults as of June 30, 2007 and reduced the aggregate availability under the revolving line of credit to $3.0 million.

On October 18, 2007, we consented to the transfer of the loans outstanding ($3.0 million) under the Guggenheim credit facility to funds affiliated with BlueBay Asset Management plc and to the appointment of BlueBay High Yield Investments (Luxembourg) S.A.R.L. ("BlueBay"), as successor administrative agent. BlueBay Asset Management plc is a significant shareholder of IESA. On October 23, 2007, we entered into a waiver and amendment with BlueBay for, as amended, a $10.0 million Senior Secured Credit Facility ("Senior Credit Facility"). The Senior Credit Facility matures on December 31, 2009, charges an interest rate of the applicable LIBOR rate plus 7% per year, and eliminates certain financial covenants. On December 4, 2007, under the Waiver Consent and Third Amendment to the Credit Facility, as part of entering the Global MOU, BlueBay raised the maximum borrowings of the Senior Credit Facility to $14.0 million. The maximum borrowings we can make under the Senior Credit Facility will not by themselves provide all the funding we will need. As of March 31, 2008, we are in violation of our weekly cash flow covenants (see Waiver, Consent and Fourth Amendment in this Note 14 below). Management continues to seek additional financing and is pursuing other options to meet the cash requirements for funding our working capital cash requirements but there is no guarantee that we will be able to do so.

As of March 31, 2008, we have drawn the full $14.0 million on the Senior Credit Facility.

Waiver, Consent and Fourth Amendment

In conjunction with the Merger Agreement, we entered into a Waiver, Consent and Fourth Amendment to our BlueBay Credit Facility under which, among other things, (i) BlueBay agreed to waive our non-compliance with certain representations and covenants under the Credit Agreement, (ii) BlueBay agreed to consent to us entering into the a credit facility with IESA, (iii) BlueBay agreed to provide us consent in entering into the Merger Agreement with IESA, and (iv) BlueBay and us agreed to certain amendments to the Existing Credit Facility.

With the Fourth Amendment, as of April 30, 2008 and through June 24, 2008, we are in compliance with our BlueBay credit facility.

IESA Credit Agreement

On April 30, 2008, we entered into a Credit Agreement with IESA (the "IESA Credit Agreement"), under which IESA committed to provide up to an aggregate of $20 million in loan availability at an interest rate equal to the applicable LIBOR rate plus 7% per year, subject to the terms and conditions of the IESA Credit Agreement (the "New Financing Facility"). The New Financing Facility will terminate when the merger takes place or when the Merger Agreement terminates without the merger taking place. We will use borrowings under the New Financing Facility to fund our operational cash requirements during the period between the date of the Merger Agreement and the closing of the Merger. The obligations under the New Financing Facility are secured by liens on substantially all of our present and future assets, including accounts receivable, inventory, general intangibles, fixtures, and equipment. We have agreed that we will make monthly prepayments on amounts borrowed under the New Financing Facility of its excess cash. We will not be able to reborrow any loan amounts paid back under the New Financing Facility other than loan amounts prepaid from excess cash. Also, we are required to deliver to IESA a budget, which is subject to approval by IESA in its commercially reasonable discretion, and which shall be supplemented from time to time.

NOTE 15 − COMMITMENTS AND CONTINGENCIES

Contractual Obligations

As of March 31, 2008, royalty and license advance obligations, milestone payments and future minimum lease obligations under non-cancelable operating and capital lease obligations were as follows (in thousands):

	Contractual Obligations				
Fiscal Year	Royalty and License Advances(1)	Milestone Payments(2)	Operating Lease Obligations(3)	Capital Lease Obligations(4)	Total
2009	$100	$500	$1,567	$12	$2,179
2010	−	−	1,827	−	1,827
2011	−	−	1,768	−	1,768
2012	−	−	1,178	−	1,178
2013	−	−	1,329	−	1,329
Thereafter	−	−	12,301	−	12,301
Total	$100	$500	$19,970	$12	$20,582

(1) We have committed to pay advance payments under certain royalty and license agreements. The payments of these obligations are dependent on the delivery of the contracted services by the developers.

(2) Milestone payments represent royalty advances to developers for products that are currently in development. Although milestone payments are not guaranteed, we expect to make these payments if all deliverables and milestones are met timely and accurately.

(3) We account for our office leases as operating leases, with expiration dates ranging from fiscal 2009 through fiscal 2022. Rent expense and sublease income for the years ended March 31, 2007 and 2008, is as follows (in thousands):

	Year Ended March 31,	
	2007	2008
Rent expense	$3,760	$3,889
Sublease income	$(653)	$(967)

Renewal of New York Lease

During June 2006, we entered into a new lease with our current landlord at our New York headquarters for approximately 70,000 square feet of office space for our principal offices. The term of this lease commenced on July 1, 2006 and is to expire on June 30, 2021. Upon entering into the new lease, our prior lease, which was set to expire in December 2006, was terminated. The rent under the new lease for the office space is approximately $2.4 million per year for the first five years, increases to approximately $2.7 million per year for the next five years, and increases to $2.9 million per year for the last five years of the term. In addition, we must pay for electricity, increases in real estate taxes and increases in porter wage rates over the term. The landlord is providing us with a one year rent credit of $2.4 million and an allowance of $4.5 million to be used for building out and furnishing the premises, of which $1.2 million has been recorded as a deferred credit as of March 31, 2007; the remainder of the deferred credit will be recorded as the improvements are completed, and will be amortized against rent expense over the life of the lease. A nominal amount of amortization was recorded during the year ended March 31, 2007. For the year ended March 31, 2008, we recorded an additional deferred credit of $3.3 million and amortization against the total deferred credits of approximately $0.3 million. Shortly after signing the new lease, we provided the landlord with a security deposit under the new lease in the form of a letter of credit in the initial amount of $1.7 million, which has been cash collateralized and is included in security deposits on our consolidated balance sheet (reduced by $0.8 million in August 2007). On August 14, 2007, we and our new landlord, W2007 Fifth Realty, LLC, amended the lease under which we occupy space in 417 Fifth Avenue, New York City, to reduce the space we occupy by approximately one-half, effective December 31, 2007. As a result, our rent under the amended lease will be reduced from its current approximately $2.4 million per year to approximately $1.2 million per year from January 1, 2008 through June 30, 2011, approximately $1.3 million per year for the five years thereafter, and approximately $1.5 million per year for the last five years of the term.

(4) We maintain several capital leases for computer equipment. Per FASB Statement No. 13, "Accounting for Leases," we account for capital leases by recording them at the present value of the total future lease payments. They are amortized using the straight-line method over the minimum lease term. As of March 31, 2007, the net book value of the assets, included within property and equipment on the balance sheet, was $0.1 million, net of accumulated depreciation of $0.5 million. As of March 31, 2008, the net book value of the assets was approximately $0.1 million, net of accumulated depreciation of approximately $0.6 million.

Litigation

As of March 31, 2008, our management believes that the ultimate resolution of any of the matters summarized below and/or any other claims which are not stated herein, if any, will not have a material adverse effect on our liquidity, financial condition or results of operations. With respect to matters in which we are the defendant, we believe that the underlying complaints are without merit and intend to defend ourselves vigorously.

Bouchat v. Champion Products, et al. (Accolade)

This suit involving Accolade, Inc. (a predecessor entity of Atari) was filed in 1999 in the District Court of Maryland. The plaintiff originally sued the NFL claiming copyright infringement of a logo being used by the Baltimore Ravens that plaintiff allegedly designed. The plaintiff then also sued nearly 500 other defendants, licensees of the NFL, on the same basis. The NFL hired White & Case to represent all the defendants. Plaintiff filed an amended complaint in 2002. In 2003, the District Court held that plaintiff was precluded from recovering actual damages, profits or statutory damages against the defendants, including Accolade. Plaintiff has appealed the District Court' s ruling to the Fourth Circuit Court of Appeals. White & Case continues to represent Accolade and the NFL continues to bear the cost of the defense.

Ernst & Young, Inc. v. Atari, Inc.

On July 21, 2006 we were served with a complaint filed by Ernst & Young as Interim Receiver for HIP Interactive, Inc. This suit was filed in New York State Supreme Court, New York County. HIP is a Canadian company that has gone into bankruptcy. HIP contracted with us to have us act as its distributor for various software products in the U.S. HIP is alleging breach of contract claims; to wit, that we failed to pay HIP for product in the amount of $0.7 million. We will investigate filing counter claims against HIP, as HIP owes us, via our Canadian Agent, Hyperactive, for our product distributed in Canada. Our answer and counterclaim were filed in August of 2006 and we initiated discovery against Ernst & Young at the same time. Settlement discussions commenced in September 2006 and are currently on-going.

Research in Motion Limited v. Atari, Inc. and Atari Interactive, Inc.

On October 26, 2006 Research in Motion Limited ("RIM") filed a claim against Atari, Inc. and Atari Interactive, Inc. ("Interactive") (together "Atari") in the Ontario Superior Court of Justice. RIM is seeking a declaration that (i) the game BrickBreaker, as well as the copyright, distribution, sale and communication to the public of copies of the game in Canada and the United States, does not infringe any Atari copyright for Breakout or Super Breakout (together "Breakout") in Canada or the United States, (ii) the audio-visual displays of Breakout do not constitute a work protected by copyright under Canadian law, and (iii) Atari holds no right, title or interest in

Breakout under US or Canadian law. RIM is also requesting the costs of the action and such other relief as the court deems. Breakout and Super Breakout are games owned by Atari Interactive, Inc. On January 19, 2007, RIM added claims to its case requesting a declaration that (i) its game Meteor Crusher does not infringe Atari copyright for its game Asteroids in Canada, (ii) the audio-visual displays of Asteroids do not constitute a work protected under Canadian law, and (iii) Atari holds no right, title or interest in Asteroids under Canadian law. In August 2007, the Court ruled against Atari' s December 2006 motion to have the RIM claims dismissed on the grounds that there is no statutory relief available to RIM under Canadian law. Each party will now be required to deliver an affidavit of documents specifying all documents in their possession, power and control relevant to the issues in the Ontario action. Following the exchange of documents, examinations for discovery will be scheduled.

FUNimation License Agreement

We are a party to two license agreements with FUNimation Productions, Ltd. ("FUNimation") pursuant to which we distribute the Dragonball Z software titles. On October 18, 2007, FUNimation delivered a notice purporting to terminate the license agreements based on alleged breaches of the license agreements. We disputed the validity of the termination notices and continued to distribute the titles covered by the license agreements. We and FUNimation settled this dispute for approximately $3.3 million which is comprised of royalty expense of $1.7 million and $1.6 million related to minimum advertising commitment shortfalls. This resulted in an additional charge of $2.8 million during the year ended March 31, 2008, recorded during the second quarter of fiscal 2008. The settlement was paid for with $2.5 million in cash during the third quarter of fiscal 2008 and a reduction of our Funimation prepaid license advance by approximately $0.8 million.

Stanley v. IESA, Atari, Inc and Atari, Inc Board of Directors

On April 18, 2008, Christian M. Stanley, a purported stockholder of Atari ("Plaintiff"), filed a Verified Class Action Complaint against us, certain of our directors and former directors, and Infogrames, in the Delaware Court of Chancery. In summary, the complaint alleges that our directors breached their fiduciary duties to our unaffiliated stockholders by entering into an agreement that allows Infogrames to acquire the outstanding shares of our common stock at an unfairly low price. An Amended Complaint was filed on May 20, 2008, updating the allegations of the initial complaint to challenge certain provisions of the definitive merger agreement. On the same day, Plaintiff filed motions to expedite the suit and to preliminarily enjoin the merger.

The Plaintiff alleges that the $1.68 per share offering price represents no premium over the closing price of our stock on March 5, 2008, the last day of trading before we announced the proposed merger transaction. Plaintiff alleges that in light of Infogrames' approximately 51.6% ownership of us, our unaffiliated stockholders have no voice in deciding whether to accept the proposed merger transaction, and Plaintiff challenges certain of the "no shop" and termination fee provisions of the merger agreement. Plaintiff claims that the named directors are engaging in self-dealing and acting in furtherance of their own interests at the expense of those of our unaffiliated stockholders. Plaintiff asks the court to enjoin the proposed merger transaction, or alternatively, to rescind it in the event that it is consummated. In addition, Plaintiff seeks damages suffered as a result of the directors' alleged violation of their fiduciary duties. The parties have agreed to expedited proceedings contemplating a hearing in mid-August on Plaintiff' s motion for a preliminary injunction.

We believe the suit to be entirely without merit and intend to oppose the action vigorously.

NOTE 16 − EMPLOYEE SAVINGS PLAN

We maintain an Employee Savings Plan (the "Plan") which qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. The Plan is available to all United States employees who meet the eligibility requirements. Under the Plan, participating employees may elect to defer a portion of their pretax earnings, up to the maximum allowed by the Internal Revenue Service with matching of 100% of the first 3% and 50% of the next 6% of the employee' s contribution provided by us. Generally, the Plan' s assets in a participant' s account will be distributed to a participant or his or her beneficiaries upon termination of employment, retirement, disability or death. All Plan administrative fees are paid by us. Generally, we do not provide our employees any other post-retirement or post-employment benefits, except discretionary severance payments upon termination of employment. Plan expense approximated $0.2 million and $0.4 million, for the years ended March 31, 2007 and 2008, respectively.

NOTE 17 − GAIN ON SALE OF DEVELOPMENT STUDIO ASSETS

Sale of Shiny Entertainment

In September 2006, we sold to a third party certain development assets of our Shiny studio for $1.8 million. We recorded a gain of $0.9 million, which represented the difference between the proceeds from the sale and the net book value of the property and equipment sold. There was no allocation of goodwill to Shiny as a result of this sale, as it has been determined that the Shiny studio did not constitute a business in accordance with FASB Statement No. 142, "Goodwill and Other Intangible Assets." The gain on sale is reflected in our consolidated statements of operations for the year ended March 31, 2007.

NOTE 18 − SALE OF INTELLECTUAL PROPERTY

In the first quarter of fiscal 2007, we entered into a Purchase and Sale Agreement with a third party to sell and assign all rights, title, and interest in the *Stuntman* franchise, along with a development agreement with the current developer for the creation of this game. The cash proceeds from the sale were $9.0 million, which was recorded as a gain on sale of intellectual property during the year ended March 31, 2007.

NOTE 19 − DISCONTINUED OPERATIONS

Sale of Reflections

In the first quarter of fiscal 2007, following the guidance established under FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," management committed to a plan to sell Reflections.

In August 2006, we sold to a third party the *Driver* intellectual property and certain assets of Reflections for $24.0 million. We maintained sell-off rights for three months for all *Driver* products, excluding *Driver: Parallel Lines*, which we maintained until the end of the third quarter of fiscal 2007. The tangible assets included in the sale were property and equipment only. Goodwill allocated to Reflections was $12.3 million. During the second quarter of fiscal 2007, we recorded a gain in the amount of the difference between the proceeds from the sale and the book value of Reflections' property and equipment and the goodwill allocation. The gain recorded was approximately $11.5 million, and was included in loss from discontinued operations of Reflections in the second quarter of fiscal 2007.

Balance Sheets

At March 31, 2007, the assets of Reflections are presented separately on our consolidated balance sheet. The balances at March 31, 2007 represent assets associated with Reflections and the *Driver* franchise that were not included in the sale. The components of the assets of discontinued operations are as follows (in thousands):

	March 31, 2007
Assets:	
Prepaid expenses and other current assets	$310
Other assets	335
Total assets	$645

As of March 31, 2008, no assets are presented as discontinued operations.

Results of Operations

As Reflections represented a component of our business and its results of operations and cash flows can be separated from the rest of our operations, the results for the periods presented are disclosed as discontinued operations on the face of the consolidated statements of operations. Net revenues and (loss) from discontinued operations, net of tax, for the year ended March 31, 2007 and 2008, respectively, are as follows (in thousands):

	Year Ended March 31, 2007	2008
Net revenues	$(630)	$−
Loss from operations of Reflections Interactive Ltd	(7,038)	(312)
Gain on sale of Reflections Interactive Ltd	11,472	−
Income before provision for income taxes from discontinued operations of Reflections Interactive Ltd	4,434	(312)
Provision for income taxes	7,559	−
Loss from discontinued operations of Reflections Interactive Ltd	$(3,125)	$(312)

NOTE 20 − RESTRUCTURING

In fiscal 2007, restructuring expenses of $0.7 million consisted primarily of true ups to the present value of all future lease payments and sublease income recorded in fiscal 2006, as required by FASB Statement No. 146, “Accounting for Costs Associated with Exit or Disposal Activities,” as well as additional severance and miscellaneous charges.

In fiscal 2008, we announced a plan to lower operating expenses by, among other things, reducing headcount in phases. The first reduced our workforce by 20% in May 2007 and the second in November 2007 which reduced our workforce an additional 30%. The November 2007 plan included (i) a reduction in force to consolidate certain operations, eliminate certain non-critical functions, and refocus certain engineering and support functions, and (ii) transfer of certain product development and business development employees to IESA in connection with the termination of a production services agreement between us and IESA.

The charge for restructuring is comprised of the following (in thousands):

	Years Ended March 31, 2007	2008
Restructuring consultants and legal fees (2)	$−	$4,237
Previous periods severance expenses	87	−
May severance and retention expenses (1)	−	787
November severance and retention expenses (2)	−	1,223
Lease related costs (3)	595	294
Miscellaneous costs	27	−
Total	$709	$6,541

The following is a reconciliation of our restructuring reserve for March 31, 2007 and 2008 (in thousands):

	Balance at March 31, 2006	Accrued Amounts	Reclasses	Cash Payments, Net	Balance at March 31, 2007
Short term					
Severance and retention expenses (1) and (2)	$1,886	$87	$−	$(1,973)	$−
Lease related costs (3)	245	595	53	(839)	54
Miscellaneous costs	32	27	−	(59)	−
Total	2,163	709	53	(2,871)	54
Long term					
Lease related costs (3)	56	−	(53)	−	3
Total	56	−	(53)	−	3
Total	$2,219	$709	$−	$(2,871)	$57

	Balance at March 31, 2007	Accrued Amounts	Reclasses	Cash Payments, Net	Balance at March 31, 2008
Short term					
Severance and retention expenses (1) and (2)	$−	$2,010	$−	$(1,341)	$669
Restructuring consultants and legal fees (2)	−	4,237	−	(3,147)	1,090
Lease related costs (3)	54	−	3	(57)	−
Total	54	6,247	3	(4,545)	1,759
Long term					
Lease related costs (3)	3	−	(3)	−	−
Total	3	−	(3)	−	−
Total	$57	$6,247	$−	$(4,545)	$1,759

(1) In the first quarter of fiscal 2008, management announced a plan to reduce our total workforce by 20%, primarily in general and administrative functions.

(2) In the third quarter of fiscal 2008, as part of the removal of the Board of Directors and the hiring of a restructuring firm, management announced an additional workforce reduction of 30%, primarily in research and development and general and administrative functions. This restructuring is anticipated to cost us approximately $5.0 to $6.0 million dollars of which $1.0 to $1.5 million would relate to severance arrangements (See Note 1).

(3) As part of a restructuring plan implemented in fiscal 2005, we recorded the present value of all future lease payments, less the present value of expected sublease income to be recorded, primarily for the Beverly and Santa Monica offices, in accordance with FASB Statement No. 146. Through the remainder of the related leases, FASB Statement No. 146 requires us to record expense to adjust the present value recorded in 2005 to the actual expense and income recorded for the month.

NOTE 21 − OPERATIONS BY REPORTABLE SEGMENTS AND GEOGRAPHIC AREAS

We have three reportable segments: publishing, distribution and corporate. Our publishing segment is comprised of business development, strategic alliances, product development, marketing, packaging, and sales of video game software for all platforms. Distribution constitutes the sale of other publishers' titles to various mass merchants and other retailers. Corporate includes the costs of senior executive management, legal, finance, and administration. The majority of depreciation expense for fixed assets is charged to the corporate segment and a portion is recorded in the publishing segment. This amount consists of depreciation on computers and office furniture in the publishing unit. Historically, we do not separately track or maintain records, other than those for goodwill (all historically attributable to the publishing segment, and fully impaired as of March 31, 2007) and a nominal amount of fixed assets, which identify assets by segment and, accordingly, such information is not available.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. We evaluate performance based on operating results of these segments. There are no intersegment revenues.

The results of operations for Reflections are not included in our segment reporting below as they are classified as discontinued operations in our condensed consolidated financial statements. Prior to its classification as discontinued operations, the results for Reflections were part of the publishing segment.

Our reportable segments are strategic business units with different associated costs and profit margins. They are managed separately because each business unit requires different planning, and where appropriate, merchandising and marketing strategies.

The following summary represents the consolidated net revenues, operating (loss) income, depreciation and amortization, and interest expense, net, by reportable segment for the years ended March 31, 2007 and 2008 (in thousands):

	Publishing	Distribution	Corporate	Total
Year ended March 31, 2007:				
Net revenues	$104,650	$17,635	$−	$122,285
Operating (loss) income (1) (2) (3)	(52,003)	1,145	(26,077)	(76,935)
Depreciation and amortization	(517)	−	(2,451)	(2,968)
Interest income, net	−	139	162	301
Year ended March 31, 2008:				
Net revenues	$69,755	$10,376	$−	$80,131
Operating income (loss) (1)	3,423	2,403	(21,147)	(15,321)
Depreciation and amortization	(173)	−	(1,390)	(1,563)
Interest expense, net	−	−	(1,452)	(1,452)

(1) Operating (loss) for the Corporate segment for the years ended March 31, 2007 and 2008 excludes restructuring charges of $0.7 million and $6.5 million, respectively. Including restructuring charges, total operating loss for the years ended March 31, 2007 and 2008 is $77.6 million and $21.9 million, respectively.

(2) Operating (loss) for the publishing segment for the year ended March 31, 2007 includes a gain on the sale of intellectual property of $9.0 million and a gain on the sale of development studio assets of $0.9 million.

(3) Operating (loss) for the publishing segment for the year ended March 31, 2007 includes impairment of goodwill of $54.1 million.

Net revenues by product are as follows (in thousands):

	March 31, 2007	March 31, 2008
Publishing net product revenues:		
Console		
PlayStation 2	$31,047	$17,475
Xbox 360	10,582	431
Nintendo Wii	7,346	9,822
Plug and play	2,449	21
Xbox	262	208
Game Cube	175	1
Total console	51,861	27,958
Handheld		
PlayStation Portable	6,647	6,290
Game Boy Advance	3,410	13
Nintendo DS	1,749	3,599
Game Boy Color	−	16
Total handheld	11,806	9,918
PC	23,788	14,888
Total publishing net product revenues	87,455	52,764
International royalty income (Note 13)	5,243	2,599
Licensing and other income	11,952	14,392
Total publishing net revenues	104,650	69,755
Distribution net revenues	17,635	10,376
Total net revenues	$122,285	$80,131

Information about our operations in the United States and Europe (revenue based on location product is shipped from) for the years ended March 31, 2007 and 2008 are presented below (in thousands):

	United States	Europe	Total
Year ended March 31, 2007:			
Net revenues(1)	$122,285	−	$122,285
Operating (loss)(2)	(74,873)	(2,771)	(77,644)
Capital expenditures(3)	837	8	845
Total assets(4)	42,049	770	42,819
Year ended March 31, 2008:			
Net revenues(1)	$80,131	−	$80,131
Operating (loss) income(2)	(21,899)	37	(21,862)
Capital expenditures(3)	407	−	407
Total assets(4)	32,774	659	33,433

(1) United States net revenues include royalties on sales of our product sold internationally. For the years ended March 31, 2007 and 2008 the royalties were $5.2 million and $2.6 million, respectively.

(2) Operating income (loss) for Europe for the years ended March 31, 2007 and 2008 includes operating expenses of $4.7 million and $0.3 million, respectively, for the Reflections studio, which was sold to a third party in the second quarter of fiscal 2007 (Note 19). These expenses are included in (loss) from discontinued operations for each period presented.

(3) Capital expenditures for Europe for all periods presented are property and equipment purchases for the Reflections studio, which is presented as a discontinued operation for the year ended March 31, 2007, and was sold to a third party in the second quarter of fiscal 2007 (Note 19).

(4) Total assets for Europe for the years ended March 31, 2007 and 2008 include assets of $0.6 million and $0.5 million, respectively, for the Reflections studio, which was sold to a third party in the second quarter of fiscal 2007 (Note 19). The assets are included in assets of discontinued operations for the year ended March 31, 2007.

NOTE 22 − UNAUDITED QUARTERLY FINANCIAL DATA

Summarized unaudited quarterly financial data for the fiscal year ended March 31, 2007 is as follows (in thousands, except per share amounts):

	June 30, 2006	September 30, 2006	December 31, 2006	March 31, 2007
Net revenues	$19,474	$28,588	$47,277	$26,946
Operating (loss) income	(4,713)	(9,623)	1,711	(65,019)
(Loss) income from continuing operations	(4,759)	(4,477)	1,082	(58,432)
(Loss) income from discontinued operations of Reflections Interactive Ltd, net of tax	(2,537)	4,410	(1,727)	(3,271)
Net (loss)	(7,296)	(67)	(645)	(61,703)
Basic and diluted (loss) income from continuing operations per share	$(0.35)	$(0.33)	$0.08	$(4.33)
Basic and diluted (loss) income from discontinued operations of Reflections Interactive Ltd, net of tax, per share	$(0.19)	$0.32	$(0.13)	$(0.24)
Basic and diluted net (loss) per share	$(0.54)	$(0.01)	$(0.05)	$(4.57)
Weighted average shares outstanding − basic and diluted	13,477	13,478	13,478	13,478

ATARI, INC. AND SUBSIDIARIES

SCHEDULE II − VALUATION AND QUALIFYING ACCOUNTS (in thousands)

Description	Balance Beginning of Period	Additions Charged to Net Revenues	Additions Charged to Operating Expenses	Deductions/ or Reclasses to Accrued Liabilities	Balance End of Period
Allowance for bad debts, returns, price protection and other customer promotional programs:					
Year ended March 31, 2008	$14,148	$15,571	$168	$(27,975)	$1,912
Year ended March 31, 2007	$30,918	$22,428	$269	$(39,467)	$14,148

Description	Balance Beginning of Period	Additions Charged to Cost of Goods Sold	Additions Charged to Operating Expenses	Deductions	Balance End of Period
Reserve for obsolescence:					
Year ended March 31, 2008	$1,859	$2,511	$−	$(656)	$3,714
Year ended March 31, 2007	$2,427	$2,486	$−	$(3,054)	$1,859

Exhibit 10.32

ATARI, INC.
DESCRIPTION OF REGISTRANT' S FISCAL
YEAR 2008 ANNUAL INCENTIVE PLAN

Target annual bonuses are set for each eligible employee based upon a percentage of base salary. Bonuses are calculated based on three components, one of which relates to the U.S. Company' s and/or the business unit' s profit and revenue results, one of which is measured against worldwide cash flow, profit and revenue results, and in the case of production related employees, one of which is based on the timeliness of product delivery. If Atari, Inc.' s worldwide operating profit attainment for the fiscal year is less than 80% of the Company' s plan, no bonus is required to be paid for the fiscal year; bonuses then become discretionary. If profits and/or revenue exceed plan for the fiscal year the bonus rate is accelerated for the incremental profits and revenue above plan, with a maximum of 150% payout of the bonus target.

Exhibit 10.79

May 17, 2008

Timothy J. Flynn
74 Sanborn Lane
Reading, MA 01867
Cell: (415) 713-4745
Home: (781) 942-2368

Dear Tim:

On behalf of Atari, Inc. ("Atari" or the "Company"), I am very pleased to extend to you an offer of employment with our Company, with a start date of June 9, 2008 (the "Employment Date"). We believe that you will be a tremendous addition to the team, and we are all very excited about the prospect of you joining us. The purpose of this letter is to confirm the terms and conditions of our offer of employment to you.

1. Position: You will serve in an exclusive full-time capacity as Senior Vice President of Sales, reporting to the undersigned as the Company' s President and Chief Executive Officer.

2. Work Location. Your reporting base will be Atari' s headquarters in New York, and you will be required to spend one week per month at our headquarters. You will not, however, be required to relocate your residence to the New York area.

3. Base Salary: Your starting annual base salary for this position is $250,000.00, which will be paid to you in equal installments on a semi-monthly basis. It is our current practice to pay our employees on the 5th and the 20th of each month.

4. Sign-on Bonus: You are eligible to receive a one-time sign-on bonus of $25,000.00 (Gross). This bonus will be paid to you after 60 days of continuous employment with Atari, less all applicable local, state, and federal taxes. Should you voluntarily terminate your employment at Atari or be terminated for cause by Atari within one year of your date of hire, you will be required to repay the total amount (Gross) of the sign-on bonus back to the Company.

5. Stock Options: (a) Effective on the Employment Date, Atari will grant to you, subject to the terms and conditions of the standard option award agreement and the 2005 Stock Incentive Plan, options to purchase 20,000 shares of Atari' s common stock (the "Atari Option"). The exercise price of shares granted under the Atari Option shall be equal to the last sales price of the common stock on the date of grant. The Atari Option will vest as follows: (1) 25% of the shares on your first anniversary of the Employment Date, and (2) the remainder vesting 6.25% per quarter thereafter (commencing with the quarter ending June 30, 2009), subject to your continued employment with Atari as of each applicable vesting date.

(b) All unvested stock options (whether granted pursuant to the Atari Option, or otherwise thereafter) and all vested but unexercised stock options will terminate in accordance with the provisions of the applicable stock plan pursuant to which they were granted. All stock options shall expire on the tenth anniversary of the grant date.

(c) If Atari' s majority shareholder, IESA shall successfully complete an acquisition of the minority interests in Atari (as previously announced), Atari' s Board will use its best efforts to cause IESA to agree to grant to you a stock option with respect to the stock of IESA (the "IESA Option"), in substitution of the Atari Option. The number of shares subject to the IESA Option shall be determined such that the present value of the IESA Option shall be approximately equal to the present value of the Atari Option, using a Black-Scholes or other reasonable option valuation methodology and carry similar if not equal vesting schedules and terms as set forth in the Atari Option.

You hereby agree to the grant of such IESA Option in substitution for and cancellation of the Atari Option.

6. Bonus Potential: You will also be eligible to receive an annual bonus of forty percent (40%) of your then-current annual base salary if specified "performance goals" for the applicable fiscal year are satisfied. The "performance goals" for the annual bonus will be based both upon achievements by Atari of specified financial objectives and your attainment of individual objectives, over the course of the relevant fiscal year. You must be an active employee at the time that bonuses are paid in order to receive any bonus payment for the applicable fiscal year. Should your employment terminate before that time you will not be eligible to receive any payment or pro-ration of any annual bonus payment.

7. Benefits: As a full-time employee, you are eligible to participate in our benefits program, and shall commence participation on the Employment Date or as soon as permitted thereafter under the terms of any individual plan. This program includes life, medical, dental, vision and disability insurance, a 401(k) account plan (which includes a company match), medical and dependent care reimbursement accounts, paid holidays and vacation. In accordance with current Atari policy, you will initially be entitled to fifteen (15) vacation days and five (5) sick days per year, to be accrued and taken in accordance with Company policy. All of these benefits are subject to Atari policies and the applicable plan documents, which may be amended and/or terminated by Atari at any time, and the highlights of which are provided in the Benefit Overview document, which you have been provided. We will review our benefit information with you in detail and answer any questions that you may have when you begin your employment.

8. At-Will Employment: Your employment relationship with Atari is "at will" and you have the right to terminate that employment relationship at any time. Although we hope you will remain with us and be successful here, Atari, must, and does, retain the right to terminate the employment relationship at any time, with or without prior notice, and with or without cause or good reason. Your status as an at-will employee cannot be modified except through a written agreement, signed by the President and Chief Executive Officer of the Company.

Atari, Inc. 417 5th Avenue New York, NY 10016

9. Severance: Notwithstanding Section 8, above, if your employment with Atari is terminated, you will be eligible for severance in accordance with the Company' s policies (currently one year for Senior Vice Presidents) but for the purposes of clarity you will not receive severance if you are terminated for cause or you resign.

10. Conditions of Employment: As a condition of your employment, you agree to sign and abide by all of the provisions of the enclosed standard Proprietary Information and Inventions Agreement, as well as the Code of Ethics, Standards and Conduct. You agree to hold in confidence any proprietary or confidential information received as an employee of Atari, and you agree that, as your employer, Atari shall own any and all of the products, proceeds and results of your services, including all ideas or suggestions and other intellectual property (collectively. "IP") related to Atari' s business, including any game, media or the electronic entertainment business that you create or make while employed by Atari. To the extent Atari is not deemed the owner of such IP by virtue of the employment relationship, you hereby irrevocably assign each such IP and all rights therein to Atari as if each such IP were a work-for-hire commissioned by and for Atari. We wish to impress upon you that we do not wish you to bring to Atari any confidential materials and/or proprietary from any of your former employers; nor do we want you to violate any other obligations to any of your former employers.

11. Legal Right To Work: Federal law requires that you provide satisfactory proof of eligibility for employment within the United States, by completing the USCIS Employment Eligibility Verification Form I-9. Please bring in original documentation with you on your first day of employment.

12. Governing Law. This letter and all matters related to your employment with Atari will be governed by and construed according to the laws of the State of New York as applied to agreements entered into and to be performed within the State of New York. Venue for any action arising under this letter agreement shall be New York, New York.

Tim, we at Atari are delighted to welcome you as a member of our team. We have achieved our outstanding reputation largely through the efforts of our employees and believe that you will play an important role in our continued success. In return, we believe that you will be both challenged and rewarded by your job opportunities during your employment with us.

We look forward to you joining Atari and anxiously await your response to this offer which will remain in effect for seven days from the date on this letter. Please signify your acceptance of our offer by signing and returning one (1) of the enclosed letters and a signed copy of the Confidentiality Agreement/Intellectual Property Rights Assignment and the Code of Ethics, Standards of Conduct and Confidentiality policy. All documents should be returned to Kelly Valentine in our Human Resources Department. Her confidential fax number is (212) 726-6533. Please also mail all originals in a timely manner. In the meantime, should you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Jim Wilson
JIM WILSON
President and Chief Executive Officer

Offer of Employment Agreed and Accepted:

I am pleased to accept employment on the terms and conditions as stated above.

Name: /s/ Timothy J. Flynn Date: 5-20-08
Timothy J. Flynn

Atari, Inc. 417 5th Avenue New York, NY 10016

Exhibit 21.1

LIST OF SUBSIDIARIES*

Name in Corporate Articles	Jurisdiction
R-New UK Studio Limited	UK
GT Interactive Software France SARL	France
GT Interactive Europe Holdings BV	Holland
GT Interactive Software GmbH**	Germany
GT Value GmbH	Germany
GT Interactive Software Europe Ltd.**	UK
GT Interactive Holdings Ltd.	UK
GT Distribution Ltd.	UK
Bamblewood Computers Ltd.	UK
Renegade Interactive Ent. Ltd.	UK
Premier European Promotions Ltd.	UK
One Stop Direct Ltd.	UK
Wizardworks (UK) Ltd.	UK
Software Sourcerers Ltd.	UK

* All entities, except for R-New UK Studio Limited, do not conduct business operations and R-New UK Studio Limited has very limited operations, consisting of transitioning matters related to the sale of its assets to Ubisoft Entertainment Limited (or its affiliated entities) and serving as a sub-landlord.

** Denotes a direct subsidiary that itself has non-operating subsidiaries.

Exhibit 31.1

CERTIFICATION

I, James Wilson, certify that:

1. I have reviewed this annual report on Form 10-K for the period ended March 31, 2008, of Atari, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting.

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of registrant' s board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

By: /s/ James Wilson
Name: James Wilson
Title: Chief Executive Officer

Date: June 30, 2008

Exhibit 31.2

CERTIFICATION

I, Arturo Rodriguez, certify that:

1. I have reviewed this annual report on Form 10-K for the period ended March 31, 2008, of Atari, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting.

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of registrant' s board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

By: /s/ Arturo Rodriguez
Name: Arturo Rodriguez
Title: Acting Chief Financial Officer

Date: June 30, 2008

Exhibit 32.1

CERTIFICATION OF THE CEO OF ATARI, INC. PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Atari, Inc. (the "Company") on Form 10-K for the fiscal year ended March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James Wilson, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ James Wilson
Name: James Wilson
Title: Chief Executive Officer

Date: June 30, 2008

Exhibit 32.2

CERTIFICATION OF THE ACTING CFO OF ATARI, INC. PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Atari, Inc. (the "Company") on Form 10-K for the fiscal year ended March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Arturo Rodriguez, Acting Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ Arturo Rodriguez
Name: Arturo Rodriguez
Title: Acting Chief Financial Officer

Date: June 30, 2008