INTERPLAY ENTERTAINMENT CORP
Form 10-Q/A
December 27, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q / A

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2005

or

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File Number 0-24363

Interplay Entertainment Corp.

(Exact name of the registrant as specified in its charter)

DelawareK3-0102707

(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

1682 Langley Avenue, Irvine, California 92614

(Address of principal executive offices)

(310) 432-1958

(Registrant's telephone number, including area code)

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 [X] No [_]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [_] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class	Issued and Outstanding at August 12, 2005
Common Stock, $0.001 par value	93,855,634

Note This amendment is being filed to correct an inadvertent error in exhibit 32.1.

The original referred to the quarter ended March 31,2005 and should have referred to the quarter ended June 30,2005 and is corrected in this amendment.

INTERPLAY ENTERTAINMENT CORP. AND SUBSIDIARIES

FORM 10-Q

JUNE 30, 2005

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTERPLAY ENTERTAINMENT CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share and per share amounts)

	June 30,	December 31,
ASSETS	**2005**	J004
Current Assets:	(unaudited)	
Cash	$ 31	$J9
Restricted Cash	-	J
Trade receivables from related parties, net of allowances		
of $2,370 and $2,370, respectively	6	I0
Trade receivables, net of allowances		
of $93 and $34	4	I39
Inventories	30	J6
Prepaid licenses and royalties	20	-
Deposits	M	-
Prepaid expenses	94	-
Other current assets	J1	I37
Total current assets	J11	K43
Property and equipment, net	312	L90
Other assets	24	0
Total assets	$M47	$ 833
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Current debt	$ 1,503	$I,575
Accounts payable	9,047	8,772
Accrued royalties	J,350	K,501
Deferred income	L75	L75

Advances from former related party L,125 K,872

Total current liabilities I7,500 I8195

Commitments and contingencies

Stockholders' Deficit:

Preferred stock, $0.001 par value 5,000,000 shares authorized;

no shares issued or outstanding, respectively,

Common stock, $0.001 par value 150,000,000 shares authorized;

93,855,634 shares issued and outstanding 94 94

Paid-in capital I21,640 I21,640

Accumulated deficit (138,792) (139,211)

Accumulated other comprehensive income I05 I15

Total stockholders'deficit (16,953) (17,362)

Total liabilities and stockholders' deficit $ 547 $ 833

See accompanying notes.

See accompanying notes.

INTERPLAY ENTERTAINMENT CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Six Months Ended

June 30,

2005 J004

Cash flows from operating activities: (In thousands) (In thousands)

Net (loss) income $L16 $ (2,858)

Adjustments to reconcile net (loss) income to

cash (used) provided by operating activities:

Depreciation and amortization I34 M07

Non-cash interest expense

Write off of fixed assets L4 636

Other (1)

Changes in operating assets and liabilities:

Cash Held in Trust (500)

Trade receivables from related parties 4 (467)

Trade receivables, net 135 (669)

Inventories (4) (53)

Prepaid licenses and royalties (20) (234)

Deposits (5) 0

Prepaid expenses (94) 0

Other current assets, net 68 827

Other assets 24

Accounts payable 206 4,277

Accrued royalties (1,151) 182

Other accrued liabilities (693)

Payables to related parties 253 (1,619)

Restricted cash 2

Accumulated and comprehensive income (10) _

Net cash provided by (used in) operating activities 2 (665)

Cash flows from investing activities:

Purchase of property and equipment - I4

Net cash used in investing activities - 14

Cash flows from financing activities:

Repayment of current debt - (507)

Net cash provided by (used in) financing activities - (507)

Effect of exchange rate changes on cash -

Net increase (decrease) in cash 2 (1,158)

Cash, beginning of period J9 I,171

Cash, end of period $K1 $I3

Supplemental cash flow information:

Cash paid for:

Interest $I2 $N

See accompanying notes.

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Interplay Entertainment Corp. (which we refer to as the "Company" in these Notes) and its subsidiaries reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of management, are necessary for a fair presentation of the results for the interim period in accordance with instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all information and footnotes required by accounting principles generally accepted in the United States ("GAAP") for complete financial statements. The results of operations for the current interim period are not necessarily indicative of results to be expected for the current year or any other period. The balance sheet at December 31, 2004 has been derived from the audited consolidated financial statements at that date, but does not include all information and footnotes required by GAAP for complete financial statements.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 as filed with the U.S. Securities and Exchange Commission ("SEC").

Factors Affecting Future Performance and Going Concern Status

The Company's independent public accountants included a "going concern" explanatory paragraph in their audit report on the December 31, 2004 consolidated financial statements which were prepared assuming that the Company will continue as a going concern.

To reduce working capital needs, the Company has implemented various measures including a reduction of personnel, a reduction of fixed overhead commitments, cancellation or suspension of development on future titles which management believes do not meet sufficient projected profit margins. All costs incurred and expected to be incurred associated with the restructuring activities of the Company are considered insignificant. Management will continue to pursue various alternatives to improve future operating results, and further expense reductions, some of which may have a long-term adverse impact on the Company's ability to generate successful future business activities.

In addition, the Company continues to seek and expects to require external sources of funding, including but not limited to, a sale or merger of the Company, a private placement of the Company's securities, the sale of selected assets, the licensing of certain product rights, selected distribution agreements, and/or other strategic transactions sufficient to provide short-term funding, and potentially achieve the Company's long-term strategic objectives.

The Company expects that it will need to substantially reduce its working capital needs and/or raise additional capital. However, no assurance can be given that alternative sources of funding could be obtained on acceptable terms, or at all. These conditions, combined with the Company's historical operating losses and its deficits in stockholders' equity and working capital, raise substantial doubt about the Company's ability to continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets and liabilities that might result from the outcome of this uncertainty.

See Note 5 for additional factors relating to the Company's going concern status.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made in preparing the condensed consolidated financial statements include, among others, sales returns and allowances, cash flows used to evaluate the recoverability of prepaid licenses and royalties, channel exposure and long-lived assets, and certain accrued liabilities related to litigation.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Interplay Entertainment Corp. and its wholly-owned subsidiaries, Interplay Productions Limited (U.K.), Interplay OEM, Inc., Interplay Productions Pty Ltd (Australia), Interplay Co., Ltd., (Japan) and Games On-line.com, Inc. All significant intercompany transactions have been eliminated.

Reclassifications

Certain reclassifications have been made to the prior period's condensed consolidated financial statements to conform to classifications used in the current period.

Revenue Recognition

Revenues are recorded when products are delivered to customers in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition" and SEC Staff Accounting Bulletin No. 104, Revenue Recognition. With the signing of the new Vivendi distribution agreement in August 2002, substantially all of the Company's sales were made by two related party distributors (Note 6), Vivendi, which owns less than 5

% of the outstanding shares of the Company's common stock at June 30, 2005, and Avalon Interactive Group Ltd. ("Avalon"), formerly Virgin Interactive Entertainment Limited, a wholly owned subsidiary of Titus, the Company's largest stockholder.

The Company recognizes revenue from sales by distributors, net of sales commissions, only as the distributor recognizes sales of the Company's products to unaffiliated third parties. For those agreements that provide the customers the right to multiple copies of a product in exchange for guaranteed amounts, revenue is recognized at the delivery and acceptance of the product master. Per copy royalties on sales that exceed the guarantee are recognized as earned. Guaranteed minimum royalties on sales, where the guarantee is not recognizable upon delivery, are recognized as the minimum payments come due.

The Company is generally not contractually obligated to accept returns, except for defective, shelf-worn and damaged products in accordance with negotiated terms. However, on a case by case negotiated basis, the Company permits customers to return or exchange products and may provide markdown allowances on products unsold by a customer. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 48, "Revenue Recognition when Right of Return Exists," revenue is recorded net of an allowance for estimated returns, exchanges, markdowns, price concessions and warranty costs. Such reserves are based upon management's evaluation of historical experience, current industry trends and estimated costs. The amount of reserves ultimately required could differ materially in the near term from the amounts included in the accompanying condensed consolidated financial statements.

The Company also engages in the licensing of rights on certain products. The terms of the licensing rights differ, but normally include the right to develop and distribute a product on a specific video game platform. For these activities, revenue is recognized when the rights have been transferred and no other obligations exist for the Company.

Stock-Based Employee Compensation

At June 30, 2005, the Company has one stock-based employee compensation plan. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. The following table illustrates the effect on net income (loss) and earnings (loss) per common share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

Recent Accounting Pronouncements

Recent accounting pronouncements discussed in the notes to the December 31, 2004 audited financial statements, filed previously with the SEC in Form 10-K, that were required to be adopted during the period ended June 30, 2005 did not have a significant impact on the Company's financial statements.

Note 2. Inventories

Inventories consist of the following:

	June 30,		December 31,
	2005		2004
	(Dollars in thousands)		
Packaged software	$ 30		

			$ 26

Inventory consists of packaged software and is at lower cost or market on a first in first out method.

Note 3. Prepaid licenses and royalties

Prepaid licenses and royalties consist of the following:

	June 30, 2005	December 31, J004
(Dollars in thousands)		
Prepaid royalties for titles in development	$J0	$H

Amortization of prepaid licenses and royalties is included in cost of goods sold and totaled $0 and $0 for the six months ended June 30, 2005 and 2004, respectively. Included in the amortization of prepaid licenses and royalties are write-offs of development projects that were cancelled because they were not expected to meet the Company's desired profit requirements. These amounts totaled $0 and $0 for the six months ended June 30, 2005 and 2004, respectively.

Note 4. Advances from Distributors and Others

Advances from distributors and original equipment manufacturers ("OEMs") consist of the following:

	June 30, 2005	December 31, J004
(Dollars in thousands)		
Advances for other distribution rights	$L75	$L75
Net advance from Vivendi distribution agreements	$L,125	$K,872

Note 5. Commitments and Contingencies

The Company is involved in various legal proceedings, claims and litigation arising in the ordinary course of business, including disputes arising over the ownership of intellectual property rights and collection matters. In the opinion of management, the outcome of known routine claims will not have a material adverse effect on the Company's business, financial condition, results of operations or cash flows. From time to time, the Company may also be engaged in legal proceedings arising outside of the ordinary course of business.

On September 16, 2002, Knight Bridging Korea Co., Ltd ("KBK") filed a $98.8 million complaint for damages against Atari Interactive, Inc. (formerly known as Infogrames Interactive, Inc.) and other Atari Interactive affiliates as well as our subsidiary GamesOnline.com, Inc., ("GOL") alleging, among other things, breach of contract, misappropriation of trade secrets, breach of fiduciary duties and breach of implied covenant of good faith in connection with an electronic distribution agreement dated November 2001 between KBK and GOL. KBK has alleged that GOL failed to timely deliver to KBK assets to a product, and that it improperly disclosed confidential information about KBK to Atari. KBK amended its complaint to add us as a separate defendant. GOL counterclaimed against KBK for breach of contract as KBK owes GOL $700,000 in guaranteed advanced fees under the term of the agreement. In addition, the Company filed an action against Atari Interactive for breach of indemnity, among other claims. In October 2004, the California Superior court dismissed the legal action of KBK against the Company and its subsidiary GOL and granted a judgment to GOL in the cross complaint from GOL against KBK for $890,730. GOL dismissed its action against Atari Interactive in April 2005.

On October 24, 2002, Synnex Information Technologies Inc ("Synnex") initiated legal proceedings against the company for various claims. The Company's attorney's have filed and obtained a motion to be relieved as counsel on August 10, 2004. The company has not yet retained replacement counsel in this action.

On November 25, 2002, Special Situations Fund III, Special Situations Cayman Fund, L.P., Special Situations Private Equity Fund, L.P., and Special Situations Technology Fund, L.P. (collectively, "Special Situations") initiated legal proceedings against us seeking damages of approximately $1.3 million, alleging, among other things, that we failed to secure a timely effective date for a Registration Statement for our shares purchased by Special Situations under a common stock subscription agreement dated March 29, 2002 and that we are therefore liable to pay Special Situations $1.3 million. This matter was settled and the case dismissed in December 2003. Special Situations had entered into a settlement agreement with us contemplating payments over time. We are currently in default of the settlement agreement.

On or about October 9, 2003, Warner Brothers Entertainment, Inc. ("Warner") filed suit against us in the Superior Court for the State of California, County of Orange, alleging default on an Amended and Restated Secured Convertible Promissory Note held by Warner dated April 30, 2002, with an original principal sum of $2.0 million. At the time the suit was filed, the current remaining principal sum due under the note was $1.4 million in principal including interest. We owe a remaining balance of approximately $0.34 million payable in one remaining installment.

In March 2004, we instituted litigation in the Superior Court for the State of California, Los Angeles County, against Battleborne Entertainment, Inc. ("Battleborne") Battleborne was developing a console product for us tentatively titled "Airborne: Liberation". Our complaint alleges that Battleborne repudiated the contract with us and subsequently renamed the product and entered into a development agreement with a different publisher. We seek a declaration from the court that we retain rights to the product, or damages.

In April 2004, Arden Realty Finance IV LLC ("Arden") filed an unlawful detainer action against the Company in the Superior Court for the State of California, County of Orange, alleging the Company's default under its corporate lease agreement. At the time the suit was filed, the alleged outstanding rent totaled $431,823. The Company was unable to pay the rent, and vacated the office space during the month of June 2004. On June 3, 2004, Arden obtained a judgment of approximately $588,000 exclusive of interest. In addition the Company is in the process of resolving a prior claim with the landlord in the approximate amount of $148,000, exclusive of interest. The Company has negotiated a forbearance agreement whereby Arden has agreed to accept payments commencing in January 2005 in the amount of $60,000 per month until the full amount is paid.

The Company has not accrued any amount for any remaining lease obligation, should such obligation exist. We are currently in default of the forbearance agreement.

In April 2004, Bioware Corporation filed an action against the Company in the Superior Court for the State of California, County of Orange, alleging breach of contract for failure to pay royalties. At the time of filing, Bioware alleged that it was owed approximately $156,000 under various agreements for which it obtained a writ of attachment to secure payment of the alleged obligation if it is successful at trial. Bioware also sought and obtained a temporary restraining order prohibiting the Company from transferring assets up to the amount sought in the writ of attachment. We successfully opposed the preliminary injunction and vacated the temporary restraining order. Bioware subsequently dismissed their action.

Monte Cristo Multimedia, a French video game developer and publisher, filed a breach of contract complaint against the Company in the Superior Court for the State of California, County of Orange, on August 6, 2002, alleging damages in the amount of $886,406 plus interest, in connection with an exclusive distribution agreement. This claim was settled for $100,000, payable in twelve installments, however, the Company was unable to satisfy its payment obligations and consequently, Monte Cristo has filed a stipulated judgment against the Company in the amount of $100,000. If Monte Cristo executes the judgment, it will negatively affect the Company's cash flow, which could further restrict the Company's operations and cause material harm to our business.

Snowblind entered into a partial settlement agreement on June 23, 2004 following the suit filed by Snowblind on November 19, 2003. Snowblind filed a second amended complaint against the Company on or about July 12, 2004 claiming various causes of action including but not limited to, breach of contract, account stated, open book account, and recission. The action was settled in April 2005 and we granted Snowblind the exclusive license to develop games using the DARK ALLIANCE Trademark under certain conditions. We retained the right to develop massively multiplayer online games using the DARK ALLIANCE trademark.

In August 2003, Reflexive Entertainment, Inc. filed an action against the Company in the Orange County Superior Court that was settled in July 2004. The Company was unable to make the payments and Reflexive sought and obtained judgment against the company.

On March 27, 2003, KDG France SAS ("KDG") filed an action against Interplay OEM, Inc. and Herve Caen for various claims. On December 29, 2003 a settlement agreement was entered into whereby Herve Caen was dismissed from the action. Further the settlement was entered into with Interplay OEM only in the amount of $170,000 however KDG reserved its rights to proceed against the Company if the settlement payment was not made. As of this date the settlement payment was not made.

In July 2004, we entered into a tri-party agreement with Atari Interactive, Inc and Vivendi that allows Vivendi to resume North American and international distribution pursuant to their pre-existing agreements with us of certain Dungeons & Dragons games, including Baldur's Gate Dark Alliance II. The agreement provided for proceeds due us to be paid directly to Atari by Vivendi, up to an amount of $1.0 million of which approximately $100,000 was still outstanding as of June 30, 2005. As a result we did not receive any proceeds from Vivendi since July 2004.

The Company received notice from the Internal Revenue Service ("IRS") that it owes approximately $117,000 in payroll tax penalties which it has accrued for at June 30, 2005. An additional notice was received for the tax year ending 2003 regarding the reconciliation of 2003 payroll tax returns and a potential increase in taxes of $45,479 .

The Company was unable to meet certain 2004 payroll obligations to its employees; as a result several employees filed claims with the State of California Labor Board ("Labor Board"). The Labor Board has fined the Company approximately $10,000 for failure to meet its payroll obligations and set trial dates for August 2005.

The Company's property, general liability, auto, fiduciary liability, workers compensation and employment practices liability, have been cancelled. The Company subsequently entered into a new workers compensation insurance plan. The Labor Board fined the Company approximately $79,000 for having lost workers compensation insurance for a period of time. The Company is appealing the Labor Board fines. On December 29, 2004, Piper Rudnick LLP ("Piper

Rudnick") filed an action against Interplay Entertainment Corp. for various claims for unpaid services. We are currently evaluating the merit of this lawsuit.

Note 6. Earnings (loss) Per Common Share

Basic earnings or (loss) per common share is computed as net earnings attributable to common stockholders divided by the weighted-average number of common shares outstanding for the period and does not include the impact of any potentially dilutive securities. Diluted earnings per common share is computed by dividing the net earnings attributable to the common stockholders by the weighted average number of common shares outstanding plus the effect of any dilutive stock options and other equity instruments.

There were options and warrants outstanding to purchase and 9,798,218 and 9,962,718 shares of common stock at June 30, 2005 and 2004, respectively, which were excluded from the earnings per share computation for the three months ended March 31, 2004, as the exercise price was greater than the average market price of the common shares. The weighted average exercise price of the outstanding stock options and common stock warrants at June 30, 2005 and 2004 was $1.84 and $1.84 respectively.

Note 7. Related Parties

Amounts receivable from and payable to related parties are as follows:

	June 30, 2005	December 31, 2004
(Dollars in thousands)		
Receivables from related parties:		
Titus TSC	$K27	$K27
Titus KK	-	-
Titus Sarl	I8	I8
VIE Acquisition Group	6	I0
Avalon	J,025	J,025
Allowance for doubtful accounts	(2,370)	(2,370)
Total	$ 6	$I0
Payables to related parties:		
Titus GIE	-	-
Total	$ -	$ -

Distribution and Publishing Agreements

ACTIVITIES WITH RELATED PARTIES

It is our policy that related party transactions shall be reviewed and approved by a majority of our disinterested directors or our Independent Committee.

Our operations involve significant transactions with our majority stockholder Titus and its affiliates. We have a major distribution agreement with Avalon, an affiliate of Titus.

TRANSACTIONS WITH TITUS

Titus presently owns approximately 58 million shares of common stock, which represents approximately 62% of our outstanding common stock, our only voting security.

As of June 30, 2005 and December 31, 2004, Titus and its affiliates excluding Avalon owed us $365,000 and $355,000, respectively. We owed Titus and its affiliates excluding Avalon $0 and $0 as of June 30, 2005 and December 31, 2004 respectively.

TRANSACTIONS WITH TITUS AFFILIATES

TRANSACTIONS WITH AVALON, A WHOLLY OWNED SUBSIDIARY OF TITUS

We had an International Distribution Agreement with Avalon, a wholly owned subsidiary of Titus. Pursuant to this distribution agreement, Avalon provided for the exclusive distribution of substantially all of our products in Europe, Commonwealth of Independent States, Africa and the Middle East for a seven-year period ending February 2006, cancelable under certain conditions, subject to termination penalties and costs. Under this agreement, as amended, we paid Avalon a distribution fee based on net sales, and Avalon provided certain market preparation, warehousing, sales and fulfillment services on our behalf. In connection with the International Distribution Agreement with Avalon, we incurred distribution commission expense of $0 and $1.4.million, for the three months ended June 30, 2005, and 2004 respectively. This agreement was terminated as a result of Avalon's liquidation in February 2005.

TRANSACTIONS WITH TITUS SOFTWARE

In March 2003, we entered into a note receivable with Titus Software Corp., ("TSC"), a subsidiary of Titus, and advanced TSC $226,000. The note earns interest at 8% per annum and was due in February 2004. In May 2003, our Board of Directors rescinded the note receivable and demanded repayment of the $226,000 from TSC. As of the date of this filing the balance on the note with accrued interest has not been paid. The balance on the note receivable, with accrued interest, at June 30, 2004 was approximately $254,000. The total receivable due from TSC is approximately $327,000 as of June 30, 2005. The majority of the additional approximately $73,000 was due to TSC subletting office space and miscellaneous other items.

In May 2003, we paid TSC $60,000 to cover legal fees in connection with a lawsuit against Titus. As a result of the payment, our CEO requested that we credit the $60,000 to amounts we owed to him arising from expenses incurred in connection with providing services to us. Our Board of Directors is in the process of investigating the details of the transaction, including independent counsel review as appropriate, in order to properly record the transaction.

TRANSACTIONS WITH TITUS JAPAN

In June 2003, we began operating under a representation agreement with Titus Japan K.K. ("Titus Japan"), a majority-controlled subsidiary of Titus, pursuant to which Titus Japan represents us as an agent in regards to certain sales transactions in Japan. This representation agreement has not yet been approved by our Board of Directors and is currently being reviewed by them. Our Board of Directors has approved the payments of certain amounts to Titus Japan in connection with certain services already performed by them on our behalf. As of March 31, 2005 we had a zero balance with Titus Japan. During the six months ending June 30, 2005 our Japanese subsidiary accrued to Titus Japan approximately $,$135,224 in commissions, marketing and publishing staff services.

Our Japanese subsidiary had approximately $ $268,000 in revenue in the six months ending June 30, 2005.

TRANSACTIONS WITH TITUS SARL

As of June 30, 2005 and 2004 we have receivables of $18,000 and $43,000 respectively for product development services that we provided. Titus SARL was placed into involuntary liquidation in January 2005. These receivables have been fully reserved.

TRANSACTIONS WITH TITUS GIE

In February 2004, we engaged the services of GIE Titus Interactive Group, a wholly owned subsidiary of Titus, for a three-month service agreement pursuant to which GIE Titus or its agents shall provide to us certain foreign administrative and legal services at a rate of $5,000 per month for three months. As of June 30, 2005, we had a zero balance with Titus GIE Interactive Group. Titus GIE was placed into involuntary liquidation in January 2005.

Note 8. Segment and Geographical Information

The Company operates in one principal business segment, which is managed primarily from the Company's U.S. headquarters.

Net revenues by geographic regions were as follows:

	Three months ended June 30,				Six months ended June 30,			
	2005		2004		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)							
North America	$ 10	3%	$ 333	10%	$ 46	4%	$ 684	6%
International	404	86%	1,626	52%	1,102	87%	9,490	82%
OEM, royalty and licensing	54	11%	1,183	38%	113	9%	1,377	12%
	$ 468	100%	$ 3,142	100%	$ 1,261	100%	$ 11,551	100%

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

Cautionary Statement

Interplay Entertainment Corp., which we refer to in this Report as "we," "us," or "our," is a developer and publisher of interactive entertainment software for both core gamers and the mass market. The information contained in this Form 10-Q is intended to update the information contained in our Annual Report on Form 10-K for the year ended December 31, 2004, as amended, and presumes that readers have access to, and will have read, the "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and other information contained in such Form 10-K, as amended.

This Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and such forward-looking statements are subject to the safe harbors created thereby. For this purpose, any statements contained in this Form 10-Q, except for historical information, may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "should," "estimate" or "continue" or the negative or other variations thereof or comparable terminology are intended to help identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements.

The forward-looking statements included herein are based on current expectations that involve a number of risks and uncertainties, as well as on certain assumptions. For example, any statements regarding future cash flow, revenue or expense expectations, including those forward-looking statements in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations", financing activities, future cash flows, cash constraints, sales or mergers and cost reduction measures are forward-looking statements and there can be no assurance that we will effect any or all of these objectives in the future. Specifically, the forward-looking statements in this Item 2 assume that we will continue as a going concern. Risks and Uncertainties that may affect our future results are discussed in more detail in the section titled "Risk Factors" in Item 7 of our Form 10-K for the year ended December 31, 2004 filed with the U.S. Securities and Exchange Commission (the "SEC"). Assumptions relating to our forward-looking statements involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the assumptions underlying the forward-looking statements are reasonable, our industry, business and operations are subject to substantial risks, and the inclusion of such information should not be regarded as a representation by management that any particular objective or plans will be achieved. In addition, risks, uncertainties and assumptions change as events or circumstances change. We disclaim any obligation to publicly release the results of any revisions to these forward-looking statements which may be made to reflect events or circumstances occurring subsequent to the filing of this Form 10-Q with the SEC or otherwise to revise or update any oral or written forward-looking statement that may be made from time to time by us or on our behalf.

Management's Discussion of Critical Accounting Policies

Our discussion and analysis of our 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. The preparation of these condensed consolidated 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, among others, those related to revenue recognition, prepaid licenses and royalties and software development costs. We base our estimates on historical experience and on various other assumptions that are believed 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 may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in preparation of our condensed consolidated financial statements.

Revenue Recognition

We record revenues when we deliver products to customers in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition." and SEC Staff Accounting Bulletin No. 104, Revenue Recognition.

Commencing in August 2001, substantially all of our sales are made by two distributors, Vivendi, and Avalon, an affiliate of our majority shareholder Titus. We recognize revenue from sales by distributors, net of sales commissions, only as the distributor recognizes sales of our products to unaffiliated third parties. For those agreements that provide the customers the right to multiple copies of a product in exchange for guaranteed amounts, we recognize revenue at the delivery and acceptance of the product gold master. We recognize per copy royalties on sales that exceed the guarantee as copies are sold.

We generally are not contractually obligated to accept returns, except for defective, shelf-worn and damaged products. However, on a case-by-case negotiated basis, we permit customers to return or exchange products and may provide price concessions to our retail distribution customers on unsold or slow moving products. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 48, "Revenue Recognition when Right of Return Exists," we record revenue net of a provision for estimated returns, exchanges, markdowns, price concessions, and warranty costs. We record such reserves based upon management's evaluation of historical experience, current industry trends and estimated costs. The amount of reserves ultimately required could differ materially in the near term from the amounts provided in the accompanying consolidated financial statements.

We provide customer support only via telephone and the Internet. Customer support costs are not significant and we charge such costs to expenses as we incur them.

We also engage in the licensing of rights on certain products. The terms of the licensing rights differ, but normally include the right to develop and distribute a product on a specific video game platform. We recognize revenue when the rights have been transferred and no other obligations exist for the Company.

Prepaid Licenses and Royalties

Prepaid licenses and royalties consist of license fees paid to intellectual property rights holders for use of their trademarks or copyrights. Also included in prepaid royalties are prepayments made to independent software developers under developer arrangements that have alternative future uses. These payments are contingent upon the successful completion of milestones, which generally represent specific deliverables and advances are recoupable against future sales based upon the contractual royalty rate. We amortize the cost of licenses, prepaid royalties and other outside production costs to cost of goods sold over six months commencing with the initial shipment in each region of the related title. We amortize these amounts at a rate based upon the actual number of units shipped with a minimum amortization of 75% in the first month of release and a minimum of 5% for each of the next five months after release. This minimum amortization rate reflects our typical product life cycle. Our management relies on forecasted revenue to evaluate the future realization of prepaid royalties and charges to cost of goods sold any amounts they deem unlikely to be fully realized through future sales. Such costs are classified as current and non current assets based upon estimated product release date. If actual revenue, or revised sales forecasts, fall below the initial forecasted sales, the charge may be larger than anticipated in any given quarter.

We evaluate the recoverability of prepaid licenses and royalties on a product by product basis. Prepaid royalties for products that are cancelled are expensed in the period of cancellation to cost of goods sold. In addition, a charge to cost of sales is recorded when our forecast for a particular game indicates that un-amortized capitalized costs exceed the net realizable value of that asset. The net realizable value is the estimated net future proceeds from our distributors that are reduced by previously capitalized cost and the estimated future cost of completing the game. If a revised game sales forecast is less than our current game sales forecast, or if actual game sales are less than management's forecast, it is possible we could accelerate the amortization of prepaid licenses and royalties previously capitalized. Once the charge has been taken, that amount is not expensed in future quarters when the product shipped.

During the six months ended June 30, 2005 and 2004, we recorded prepaid licenses and royalties impairment charges to cost of goods sold of $0 million and $0 million respectively. Our prepaid royalty balances at June 30, 2005 was $0, net of reserves of $.869 million.

Software Development Costs

Our internal research and development costs, which consist primarily of software development costs, are expensed as incurred. SFAS No. 86, "Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed", provides for the capitalization of certain software development costs incurred after technological feasibility of the software is established or for development costs that have alternative future uses. Under our current practice of developing new products, the technological feasibility of the underlying software is not established until substantially all of the product development is complete. We have not capitalized any software development costs on internal development projects, as the eligible costs were determined to be insignificant.

Other Significant Accounting Policies

Other significant accounting policies not involving the same level of measurement uncertainties as those discussed above, are nevertheless important to an understanding of the Company's financial statements. The policies related to consolidation and loss contingencies require difficult judgments on complex matters that are often subject to multiple sources of authoritative guidance. Certain of these matters are among topics currently under reexamination by accounting standards setters and regulators. Although no specific conclusions reached by these standard setters appear likely to cause a material change in our accounting policies, outcomes cannot be predicted with confidence.

Results of Operations

The following table sets forth certain selected consolidated statements of operations data, segment data and platform data for the periods indicated in dollars and as a percentage of total net revenues:

INTERPLAY ENTERTAINMENT CORP. AND SUBSIDIARIES				
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS				
(Unaudited)				
	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
	(In thousands, except per share amounts)			

	% of Net		% of Net		% of Net		% of Net
	Amount	Revenues	Amount	Revenues	Amount	Revenues	Amount	Revenues
Net revenues	$ 468	100%	$ 3,142	100%	$ 1,261	100%	$ 11,551	100%
Cost of goods sold	96	21%	1,359	43%	267	21%	6,442	56%
Gross Profit	372	79%	1,783	57%	994	79%	5,109	44%
Operating expenses:								
Marketing and sales	44	9%	386	12%	139	11%	1,374	12%
General and administrative	606	129%	1,147	37%	1,261	100%	2,356	20%
Product development	65	14%	1,433	46%	146	12%	3,441	30%
Total operating expenses	715	153%	2,966	94%	1,546	123%	7,171	62%
Operating income (loss)	(343)	-73%	(1,183)		(552)	-44%	(2,062)	-18%
Other income (expense):								
Other Income (Expenses)	974	208%	(676)	-22%	968	77%	(689)	-6%
			(95)	-3%			(107)	-1%

Income Taxes								
Net income (loss)	$ 631	135%	$ (1,954)	-62%	$ 416	33%	$ (2,858.00)	-25%
Net Income by geographic region:								
North America	$ 10	2%	$ 333.00	11%	46	4%	684	6%
International	404	86%	1,626	52%	1,102	87%	9,490	82%
OEM, royalty and licensing	54	12%	1,183	38%	113	9%	1,377	12%
	$ 468	100%	$ 3,142	100%	$ 1,261	100%	$ 11,551	100%
Net Revenue by platform								
Personal Computers	$ 142	30%	$ 311	10%	$ 341	27%	$ 1,017	9%
Video game Console	272	58%	1,648	52%	807	64%	9,157	79%
OEM, royalty and licensing	54	12%	1,183	38%	113	9%	1,377	12%
	$ 468	100%	$ 3,142	100%	$ 1,261	100%	$ 11,551	100%

North America, International and OEM, Royalty and Licensing Net Revenues

Geographically, our net revenues for the three and six months ended June 30, 2005 and 2004 break down as follows: (in thousands)

Three Months Ended June 30	2005	2004	Change	% Change

North America	$10	$333	$(323)	(97%)
International	404	1,626	(1,222)	(75%)
OEM, Royalty & Licensing	54	1,183	(1,129)	(95%)
Net Revenues	468	3,142	(2,674)	(85%)

Six Months Ended June 30	2005	2004	Change	% Change
North America	$46	$684	$(638)	(93%)
International	1,102	9,490	(8,388)	(88%)
OEM, Royalty & Licensing	113	1,377	(1,264)	(92%)
Net Revenues	1,261	11,551	(10,290)	(89%)

Net revenues for the three months ended June 30, 2005 were $ $.5 million, a decrease of 85%compared to the same period in 2004. This decrease resulted from a 97% decrease in North America net revenues, 95% decrease in OEM, royalties and licensing revenues and by a 75% decrease in international net revenues.

Net revenues for the six months ended June 30, 2005 were $1.3 million, a decrease of 89% compared to the same period in 2004. This decrease resulted from a 93% decrease in North America net revenues and 92% decrease in OEM, Royalty and licensing revenues and a 88% decrease in International net revenues.

North America net revenues for the three months ended June 30, 2005 were $.01 million, a decrease of 97% compared to the same period in 2004. The decrease in North America net revenues in 2005 was mainly due to delivering no product gold master and catalog sales eroding with time, resulting in a decrease in North America sales of $.32 million.

North America net revenues for the six months ended June 30, 2005 were $.05 million a decrease of 93% compared to the same period in 2004. The decrease in North America net revenues in 2005 was mainly due to delivering no product gold masters in 2005 and catalog sales eroding with time, resulting in a decrease in North America sales of $.64 million.

International net revenues for the three months ended June 30, 2005 were $.4 million, a 75% decrease compared to the same period in 2004. The decrease in International net revenues for the three months ended June 30, 2005 was mainly due to releasing two new titles in the 2004 period as compared to zero in the 2005 period. Overall, we had a $1.2 million decrease in net revenue compared to the 2004 period.

International net revenues for the six months ended June 30, 2005 were $1.1 million, a 88% decrease compared to the same period in 2004. The decrease in International net revenues for the six months ended June 30, 2005 was mainly due to releasing *Baldur's Gate: Dark Alliance II and Fallout: Brotherhood of Steel* in Europe during the first six months of 2004 compared to no new title in 2005.

OEM, royalty and licensing net revenues for the three months ended June 30, 2005 were $.05 million, a decrease of 95% compared to the same period in 2004.

OEM, royalty and licensing net revenues for the six months ended June 30, 2005 were $.1 million, a decrease of 92% compared to the same period in 2004.

Platform Net Revenues

Our platform net revenues for the three and six months ended June 30, 2005 and 2004 break down as follows: (in thousands)

Three Months Ended June 30	2005	2004	Change	% Change
Personal Computer	$142	$311	(169)	54%)
Video Game Console	272	1,648	(1,376)	(83%)
OEM, Royalty & Licensing	54	1,183	(1,129)	(95%)
Net Revenues	468	3,142	(2,674)	(85%)

Six Months Ended June 30	2005	2004	Change	% Change
Personal Computer	$341	$1,017	$(676)	(32%)
Video Game Console	807	9,157	(8,350)	(91%)
OEM, Royalty & Licensing	113	1,377	(1,264)	(92%)
Net Revenues	1,261	11,551	(10,290)	(89%)

PC net revenues for the three months ended June 30, 2005 were $.14 million, a decrease of 54% compared to the same period in 2004. The decrease in PC net revenues in 2005 was primarily due to lower back catalog sales. Video game console net revenues were $.27 million, a decrease of 83% for the three months ended June 30, 2005 compared to the same period in 2004, mainly due to lower back catalog sales

PC net revenues for the six months ended June 30, 2005 were $.34million, a decrease of 32% compared to the same period in 2004. The decrease in PC net revenues in the six months ended June 30, 2005 was primarily due to lower back catalog sales. Video Game console net revenues were $.8 million, a decrease of 91% for the six months ended June 30, 2005 compared to the same period in 2004.

Cost of Goods Sold; Gross Profit Margin

Our net revenues, cost of goods sold and gross margin for the three and six months ended June 30, 2005 and 2004 break down as follows: (in thousands)

Three Months Ended June 30	2005	2004	Change	% Change
Net Revenues	$468	$3,142	$(2,674)	(85%)
Cost of Goods Sold	96	1,359	(1,263)	(93%)

Gross Profit Margin	372	1,783	(1,411)	(79%)

Six Months Ended June 30	2005	2004	Change	% Change
Net Revenues	$1,261	$11,551	(10,290)	(89%)
Cost of Goods Sold	267	6,442	(6,175)	(96%)
Gross Profit Margin	994	5,109	(4,115)	(81%)

Three Months Ended June 30	2005	2004	Change
Net Revenues	100%	100%	0%
Cost of Goods Sold	21%	43%	(22%)
Gross Profit Margin	79%	57%	22%

Six Months Ended June 30	2005	2004	Change
Net Revenues	100%	100%	0%
Cost of Goods Sold	21%	56%	(35%)
Gross Profit Margin	79%	44%	35%

Cost of goods sold related to PC and video game console net revenues represents the manufacturing and related costs of interactive entertainment software products, including costs of media, manuals, duplication, packaging materials, assembly, freight and royalties paid to developers, licensors and hardware manufacturers. For sales of titles under the new 2002 distribution arrangement with Vivendi, our cost of goods consists of royalties paid to developers. Cost of goods sold related to royalty-based net revenues primarily represents third party licensing fees and royalties paid by us. Typically, cost of goods sold as a percentage of net revenues for video game console products is higher than cost of goods sold as a percentage of net revenues for PC based products due to the relatively higher manufacturing and royalty costs associated with video game console and affiliate label products. We also include in the cost of goods sold the amortization of prepaid royalty and license fees paid to third party software developers. We expense prepaid royalties over a period of six months commencing with the initial shipment of the title at a rate based upon the number of units shipped. We evaluate the likelihood of future realization of prepaid royalties and license fees quarterly, on a product-by-product basis, and charge the cost of goods sold for any amounts that we deem unlikely to realize through future product sales.

Our cost of goods sold decreased 22% to $.096 million in the three months ended June 30, 2005 compared to the same period in 2004. The decrease was due to lower shipments.

Our cost of goods sold decreased 35% to $.267 million in the six months ended June 30, 2005 compared to the same period in 2004

Our gross margin increased to 79% for the three months ended June 30, 2005 from 57% in the comparable period in 2004.

Our gross margin increased to 79% for the six months ended June 30, 2005 period from 44% in the comparable 2004 period.

Marketing and Sales

Our marketing and sales expense for the three months ended June 30, 2005 and 2004 break down as follows: (in thousands)

Marketing and Sales	2005	2004	Change	% Change
Three Months Ended June 30	$44	$386	$(342)	(89%)
Six Months Ended June 30	139	1,374	(1,235)	(90%)

Marketing and sales expenses primarily consist of advertising and retail marketing support, sales commissions, marketing and sales personnel, customer support services and other related operating expenses. Marketing and sales expenses for the three months ended June 30, 2005 were $.4 million, a 89% decrease as compared to the 2004 period. Marketing and sales expenses for the six months ended June 30, 2005 were $.139 million a 90% decreased as compared to the same period during 2004. The decrease for the three months and six months ended June 30, 2005 as compared to the same period in 2004 is due primarily to no new title being released in 2005.

General and Administrative

Our general and administrative expense for the three and six months ended June 30, 2005 and 2004 break down as follows: (in thousands)

General and Administrative	2005	2004	Change	% Change
Three Months Ended June 30	$606	$1,174	$(568)	(48%)
Six Months Ended June 30	1,261	2,356	(1,095)	(46%)

General and administrative expenses primarily consist of administrative personnel expenses, facilities costs, professional fees, bad debt expenses and other related operating expenses. General and administrative expenses for the three months ended June 30, 2005 were $.606 million, a 48% decrease as compared to the same period in 2004. The decrease is mainly due to decreases in personnel costs and general expenses. General and administrative expenses for the six months ended June 30, 2005 were $1.3 million a 46% decrease as compared to the same period in 2004. The decrease is mainly due to decreases in personnel costs and general expenses as a result of a reduction in administrative personnel during 2005.

Product Development

Our product development expense for the three and six months ended June 30, 2005 and 2004 break down as follows: (in thousands)

Product Development	2005	2004	Change	% Change

Three Months Ended June 30	$65	$1,433	$(1,368)	(95%)
Six Months Ended June 30	146	3,441	(3,295)	(96%)

Product development expenses for the three months ended June 30, 2005 were $.07 million, a 95% decrease as compared to the same period in 2004. This decrease is due to a virtual suspension in product development personnel costs and general expenses during the quarter. Product development expenses for the six months ended June 30, 2005 were $.15 million, an 96% decrease as compared to the same period in 2004. The decrease is mainly due to an $3.3 million decrease in personnel costs and general expenses as a result of a reduction in product development personnel during 2005.

Other Income Expense, Net

Our other expense for the three months ended June 30, 2005 and 2004 break down as follows: (in thousands)

Other (Income) Expenses	2005	2004	Change	% Change
Three Months Ended June 30	(974)	$676	$(1,650)	244%
Six Months Ended June 30	(968)	(689)	279	40%

Other income consists primarily of the release of accrued royalty obligations in the amount of $.92 million, recovery of bad debt in the amount of $.05 million, foreign currency exchange transactions gains and losses interest expense on debt. Other income for the three months ended was $.97 million as compared to expenses of $.676 million expenses in the same period in 2004. The decrease is attributable to a settlement in 2005 compared to the write down of the Avalon accounts receivable in 2004.

Liquidity and Capital Resources

As of June 30, 2005, we had a working capital deficit of approximately 17million, and our cash balance was approximately $.03 million. We currently have no cash reserves and are unable to pay current liabilities. We cannot continue in our current form without obtaining additional financing or income.

On April 16, 2004, Arden Realty, our landlord filed an unlawful detainer action against us alleging unpaid rent of approximately $432,000. We were unable to pay our rent, and vacated the office space during the month of June 2004. On June 3, 2004, our Landlord obtained a judgment of approximately $588,000 exclusive of interest. We also owe an additional approximately $148,000 on a prior settlement with the Landlord. We negotiated a forbearance agreement whereby Arden has agreed to accept payments commencing in January 2005 in the amount of $60,000 per month until the full amount is paid. We are currently in default of this agreement.

We have received notice from the Internal Revenue Service ("IRS") that we owe approximately $117,000 in payroll tax penalties for late payment of payroll taxes in the 3rd and 4th quarters of 2003 and the 1st and 2nd quarters of 2004. Such amount has been accrued at December 31, 2004. We have received notice from the California Employment Development Department that we owe payroll taxes and penalties of approximately $101,000. We have received notice from the State Board of Equalization that we owe approximately $64,000 in State Use Tax. We have also received notice from the Orange County Treasurer that we owe approximately $28,000 in property taxes. Such amounts have been accrued at June 30, 2005.

We were unable to meet certain 2004 payroll obligations to our employees as a result several employees filed claims with the State of California Labor Board ("Labor Board"). The Labor Board has fined us approximately $10,000 for failure to meet our payroll obligations and set trial dates for August 2005.

Since we were having difficulty meeting our payroll obligations on a timely basis to our employees a large number of our employees stopped reporting to work in late May and early June 2004. We were subsequently evicted from our building at 16815 Von Karman Avenue in Irvine, California in mid June 2004. We had a core group of approximately 5 employees on payroll on June 30, 2005. All employees have not been paid for the period August through December 31, 2004. Since we have been unable to pay the employees we have continuing liability to them.

Our property, general liability, auto, fiduciary liability, workers compensation, directors and officers, and employment practices liability insurance policies, have been cancelled. We obtained a new workers' compensation insurance policy. The Labor Board fined us approximately $79,000 for not having worker's compensation coverage for a period of time. Our health insurance was also cancelled but was subsequently reinstated. We are appealing the Labor Board fines.

We entered into tri-party agreements with Atari Interactive, Inc. and Vivendi and Avalon that allows Vivendi to resume North American distribution, and Avalon to resume International distribution pursuant to their pre-existing agreements with us of certain Dungeons & Dragons games, including BALDUR'S GATE: DARK ALLIANCE II. Vivendi has paid Atari approximately $902,000 as of June 30, 2005.

Interplay licensed to Bethesda Softworks LLC, "Bethesda" the rights to develop FALLOUT 3 on all platforms for $1.175 million minimum guaranteed advance against royalties. Bethesda also has an option to develop two sequels FALLOUT 4, and FALLOUT 5 for $1.0 million minimum guaranteed advance against royalties per sequel. Interplay retained the rights to develop a massively multiplayer online game using the Fallout Trademark.

We have substantially reduced our operating expenses. We need to reduce our continuing liabilities. We have to raise additional capital or financing. If we do not receive sufficient financing we may (i) liquidate assets, (ii) sell the company (iii) seek protection from our creditors including the filing of voluntary bankruptcy or being the subject of involuntary bankruptcy, and/or (iv) continue operations, but incur material harm to our business, operations or financial conditions. These conditions, combined with our historical operating losses and our deficits in stockholders' equity and working capital, raise substantial doubt about our ability to continue as a going concern.

Additionally, we have reduced our fixed overhead commitments, and cancelled or suspended development on future titles which management believes do not meet sufficient projected profit margins, and scaled back certain marketing programs associated with the cancelled projects. Management will continue to pursue various alternatives to improve future operating results.

We continue to seek external sources of funding, including but not limited to, incurring debt, the sale of assets or stock, the licensing of certain product rights in selected territories, selected distribution agreements, and/or other strategic transactions sufficient to provide short-term funding, and potentially achieve our long-term strategic objectives.

We have been operating without a credit facility since October 2001, which has adversely affected cash flow. We continue to face difficulties in paying our vendors, and employees, and have pending lawsuits as a result of our continuing cash flow difficulties. We expect these difficulties to continue during 2005.

Historically, we have funded our operations primarily through the use of lines of credit, cash flow from operations, including royalty and distribution fee advances, cash generated by the sale of securities, and the sale of assets.

Our primary capital needs have historically been working capital requirements necessary to fund our operations, the development and introduction of products and related technologies and the acquisition or lease of equipment and other assets used in the product development process. Our operating activities used cash of $.014 million during the six months ended June 30, 2005.

Avalon distributed our products in Europe, the commonwealth of Independent States, Africa and the Middle East. Our distribution agreement with Avalon was terminated following Avalon's involuntary judicial liquidation in February 2005. In March 2005 we appointed our wholly owned subsidiary, Interplay Productions Ltd, as our distributor in Europe and other selected territories. As a result, we cannot guarantee our ability to collect fully the debts we believe are due and owed to us from Avalon. We subsequently fully reserved the Avalon receivable.

Currently there is no internal development of new titles going on.

If operating revenues from product releases are not sufficient to fund our operations, no assurance can be given that alternative sources of funding could be obtained on acceptable terms, or at all. These conditions, combined with our deficits in stockholders' equity and working capital, raise substantial doubt about our ability to continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets and liabilities that may result from the outcome of this uncertainty. There can be no guarantee that we will be able to meet all contractual obligations or liabilities in the future, including payroll obligations.

Off Balance Sheet Arrangements

We do not have any off-balance sheet arrangements under which we have obligations under a guaranteed contract that has any of the characteristics identified in paragraph 3 of FASB Interpretation No. 45 "Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". We do not have any retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to such entity for such assets. We also do not have any obligation, including a contingent obligation, under a contract that would be accounted for as a derivative instrument. We have no obligations, including a contingent obligation arising out of a variable interest (as referenced in FASB Interpretation No. 46, Consolidation of Variable Interest Entities, as amended) in an unconsolidated entity that is held by, and material to, us, where such entity provides financing, liquidity, market risk or credit risk support to, or engages in leasing, hedging or research and development services with us.

Contractual Obligations

The following table summarizes certain of our contractual obligations under non-cancelable contracts and other commitments at June 30, 2005, and the effect such obligations are expected to have on our liquidity and cash flow in future periods: (in thousands)

		Less than			More than
Contractual Obligations	Total	I Year	I-3 Years	K-5 Years	M Years
Developer License Commitments (1)	$L,694	$K,051	$I,643		
Lease Commitments (2)	$O37	$O37	$ -		
Payroll Taxes (3)	$K27	$K27	$ -		

Other Commitments (4) $I,476 $ 970 $M06

Total $ 7,234 $ 5,085 $J,149

We will need to substantially reduce our working capital needs, continue to consummate certain sales of assets and/or raise additional financing to meet our contractual obligations.

(1) Developer/Licensee Commitments: The products produced by us are designed and created by our employee designers and artists and by non-employee software developers ("independent developers"). We typically advance development funds to the independent developers during development of our games, usually in installment payments made upon the completion of specified development milestones, which payments are considered advances against subsequent royalties based on the sales of the products. These terms are typically set forth-in written agreements entered into with the independent developers. In addition we have content license contracts that contain minimum guarantee payments and marketing commitments that are not dependent on any deliverables. These developer and content license commitments represent the sum of (1) minimum marketing commitments under royalty bearing licensing agreements, and (2) minimum payments and advances against royalties due under royalty-bearing licenses and developer agreements.

(2) Lease Commitments: Our headquarters were located in Irvine, California where we leased approximately 81,000 square feet of office space. This lease would have expired in June 2006. On or about April 16, 2004, Arden Realty Finance IV LLC filed an unlawful detainer action against us in the Superior Court for the State of California, County of Orange, alleging our default under our corporate lease agreement. At the time the suit was filed, the alleged outstanding rent totaled $431,823. We were unable to satisfy this obligation and reach an agreement with our landlord, the we subsequently forfeited our lease and vacated the building. Arden Realty obtained a judgment for approximately $588,000 exclusive of interest. We also owe an additional approximate $149,000 making a total owed to Arden of approximately $737,000. We negotiated a forbearance agreement whereby Arden has agreed to accept payments commencing in January 2005 in the amount of $60,000 per month until the full amount is paid we have been unable to make any of the $60,000 per month payments. We have monthly rental agreements in Irvine, CA and Beverly Hills, California for our operations.

(3) We have received notice from the Internal Revenue Service ("IRS") that we owe approximately $117,000 in payroll tax penalties for late payment of payroll taxes in the 3rd and 4th quarters of 2003 and the 1st and 2nd quarters of 2004. Such amount has been accrued at March 31, 2005. We have received additional notice from the IRS corresponding to the reconciliation of tax year ended 2003 with a potential increase of $45,480 in payroll taxes, the company will be responding to this notice.

We have received notice from the California Unemployment Development Department that we owe payroll taxes and penalties of approximately $101,000. We have received notice from the State Board of Equalization that we owe approximately $64,000 in State Use Tax.

The Orange County Treasurer has adjusted the 2001-2003 property tax statements accordingly and refunded the balance to Interplay .Interplay is in the process of resolving the 2004 year with the Orange County Treasurer.

(4) Other Commitments: Consist of payment plans entered into with various creditors.

Activities with Related Parties

Incorporated by reference to Note 7 to the Condensed Consolidated Financial Statements as of June 30, 2005.

Item 3.

Quantitative and Qualitative Disclosures about Market Risk

We do not have any derivative financial instruments as of June 30, 2005. However, we are exposed to certain market risks arising from transactions in the normal course of business, principally the risk associated with foreign currency fluctuations. We do not hedge our interest rate risk, or our risk associated with foreign currency fluctuations.

INTEREST RATE RISK

Currently, we do not have a line of credit, but we anticipate we may establish a line of credit in the future.

FOREIGN CURRENCY RISK

Our earnings are affected by fluctuations in the value of our foreign subsidiary's functional currency, and by fluctuations in the value of the functional currency of our foreign receivables.

We recognized gains of $0 and $150 during the six months ended June 31, 2005 and 2004 respectively, primarily in connection with foreign exchange fluctuations in the timing of payments received on accounts receivable which have been from Avalon. Avalon was liquidated in February 2005. The receivables were fully reserved.

Item 4. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and interim Chief Financial Officer of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon this evaluation, our Chief Executive Officer and interim Chief Financial Officer concluded that our disclosure controls and procedures are effective, at the reasonable assurance level, in timely alerting him to material information required to be included in this report.

There were no changes made in our internal controls over financial reporting that occurred during the quarter ended March 31, 2005 that have materially affected or are reasonably likely to materially affect these controls.

Our management, including the CEO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material errors. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations on all internal control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, and/or by management override of the control. The design of any system of internal control is also based in part upon certain assumptions about the likelihood of future events, and there can be no absolute assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in circumstances, and/or the degree of compliance with the policies and procedures may deteriorate.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The information required in this Item 1 is incorporated herein by reference to the information in "Note 5. Commitments and Contingencies" to our condensed consolidated financial statements located in Item 1, Part 1 of this Report.

Item 3. Defaults Upon Senior Securities

We have received several notices of default on payment on principal and interest from Warner Bros. Entertainment Inc. on an Amended and Restated Secured Convertible Promissory Note, dated April 30, 2002, with an original principal sum of $2,000,000. Subsequently, we entered into a payment plan with Warner Bros., of which we are currently in default. As of the date of this filing, the balance of the amount due under the note by us is $0.34 million payable in one remaining installment.

Item 6. Exhibits

(a) Exhibits - The following exhibits, other than exhibit 32.1 which is being furnished herewith, are filed as part of this report:

Exhibit Number	Exhibit Title
31.1	Certificate of Hervé Caen, Chief Executive Officer of Interplay Entertainment Corp. pursuant to Rule 13a-14(a) of the Securities and Exchange Act of 1934, as amended.
31.2	Certificate of Hervé Caen, Interim Chief Financial Officer of Interplay Entertainment Corp. pursuant to Rule 13a-14(a) of the Securities and Exchange Act of 1934, as amended.
32.1	Certificate of Hervé Caen, Chief Executive Officer and Interim Chief Financial Officer of Interplay Entertainment Corp. pursuant to Rule 13a-14(b) of the Securities and Exchange Act of 1934, as amended.

SIGNATURES

Pursuant to the requirements 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.

INTERPLAY ENTERTAINMENT CORP.

Date: August 19, 2005 By: /s/ HERVE CAEN

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EXHIBIT 31.1

Certification of CEO Pursuant to
Securities Exchange Act Rules 13a-15(e) and 15d-14(e)
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Hervé Caen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Interplay Entertainment Corp.;

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)) for the registrant and have:

a)

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our 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) 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

c) 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; and

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 the registrant's board of directors (or persons performing the equivalent functions):

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.

Date: August 19, 2005

Hervé Caen
Chief Executive Officer

EXHIBIT 31.2

Certification of Interim CFO Pursuant to
Securities Exchange Act Rules 13a-15(e) and 15d-15(a)
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Hervé Caen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Interplay Entertainment Corp.;

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)) for the registrant and have:

a)

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our 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) 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

c) 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; and

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 the registrant's board of directors (or persons performing the equivalent functions):

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.

Date: August 19, 2005

—

Hervé Caen
Interim Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO

Securities Exchange Act Rules 13a-14(b) AND 15d-14(b)

AS ADOPTED PURSUANT SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

(SUBSECTIONS (a) AND (b) OF SECTION 1350, CHAPTER 63 OF TITLE 18,

UNITED STATES CODE)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of Title 18, United States Code), the undersigned officer of Interplay Entertainment Corp., a Delaware corporation (the "Company"), does hereby certify with respect to the Quarterly Report of the Company on Form 10-Q for the quarter ended June 30, 2005 as filed with the U.S. Securities and Exchange Commission (the "10-Q Report") that, to the best of the undersigned's knowledge:

1. the 10-Q 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 10-Q Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 19, 2005

/s/ Hervé Caen

Hervé Caen
Chief Executive Officer and Interim Chief Financial Officer