

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

SPECTRUM HOLOBYTE INC

CIK: **878197** | IRS No.: **521728656** | State of Incorpor.: **DE** | Fiscal Year End: **0331**
Type: **10-Q** | Act: **34** | File No.: **000-19463** | Film No.: **96665423**
SIC: **7372** Prepackaged software

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended: September 30, 1996 Commission File Number: 0-19463

SPECTRUM HOLOBYTE, INC.

Exact Name of registrant as specified in its charter

Delaware 52-1728656

(State or other jurisdiction of (IRS Employer Identification
Incorporation or organization) Number)

2490 Mariner Square Loop, Suite 100, Alameda, CA 94501

(Address of Principal Executive Offices) (Zip Code)

(510) 522-3584

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

26,995,716 shares of Common Stock were outstanding as of October 31, 1996.

SPECTRUM HOLOBYTE, INC.

TABLE OF CONTENTS

	Page

PART I - FINANCIAL INFORMATION	
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Balance Sheets at September 30 and March 31, 1996	3
Consolidated Statements of Operations for the three and six months ended September 30, 1996 and 1995	4
Consolidated Statements of Cash Flows for the six months ended September 30, 1996 and 1995	5
Notes to Consolidated Financial Statements	6

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS 21

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K 21

SIGNATURES 23

EXHIBITS 24

2

SPECTRUM HOLOBYTE, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

ASSETS	September 30, 1996	March 31, 1996
	----- (UNAUDITED) <C>	----- <C>
<S>		
Current assets:		
Cash and cash equivalents	\$ 39,925	\$ 35,369
Accounts receivable, less allowances of \$8,403 and \$9,179	7,091	9,718
Inventories	3,796	3,673
Prepaid royalties	3,082	2,126
Other current assets	1,575	2,133
	-----	-----
Total current assets	55,469	53,019
Property and equipment, net	8,375	5,670
Goodwill, net	799	818
Investments	5,945	4,300
Other assets	1,172	2,115
	-----	-----
	\$ 71,760	\$ 65,922
	-----	-----
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Notes and borrowings under lines of credit	\$ -	\$ 504
Accounts payable	3,627	5,694
Salaries, wages and related accruals	4,667	3,909
Royalties payable	2,987	1,703
Current portion of capital lease obligations	296	431
Other current liabilities	5,797	5,093
	-----	-----
Total current liabilities	17,374	17,334
Capital lease obligations	247	384
Other liabilities	1,202	1,238
Long-term debt	32,969	50,000
	-----	-----
Total liabilities	51,792	68,956
Redeemable preferred stock, \$0.001 par value, 4,000,000 Series A shares issued and outstanding, redemption and liquidation amount of \$5,120 and \$4,980	5,881	5,881
Stockholders' equity (deficit):		
Preferred stock, \$0.001 par value, 9,000,000 shares authorized (of which 4,000,000 shares have been		

designated Series A):		
730,000 Series B convertible shares issued and outstanding at September 30, 1996	1	-
1,136,660 Series B-1 convertible shares issued and outstanding at September 30, 1996	1	-
Common stock, \$0.001 par value, 40,000,000 shares authorized, 26,261,866 and 24,282,813 shares issued and outstanding	26	24
Additional paid-in capital	141,780	119,923
Accumulated deficit	(127,261)	(128,456)
Foreign currency translation adjustment	(460)	(406)
	-----	-----
Total stockholders' equity (deficit)	14,087	(8,915)
	-----	-----
	\$ 71,760	\$ 65,922
	-----	-----

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

3

SPECTRUM HOLOBYTE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

<TABLE>

<CAPTION>

	Three Months Ended September 30,		Six Months Ended September 30,	
	1996	1995	1996	1995
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Net revenue	\$27,413	\$ 13,845	\$40,485	\$ 30,774
Cost of revenue	10,186	9,177	15,085	16,880
	-----	-----	-----	-----
Gross profit	17,227	4,668	25,400	13,894
Operating expenses:				
Sales and marketing	5,011	5,187	9,593	11,230
General and administrative	3,772	4,246	7,444	8,190
Research and development	6,215	6,277	11,903	14,544
	-----	-----	-----	-----
Total operating expenses	14,998	15,710	28,940	33,964
	-----	-----	-----	-----
Operating income (loss)	2,229	(11,042)	(3,540)	(20,070)
Interest expense, net	(154)	(296)	(635)	(485)
Other income (expense), net	(244)	(253)	1,823	(434)
	-----	-----	-----	-----
Net income (loss) before extraordinary item	1,831	(11,591)	(2,352)	(20,989)
Extraordinary item (note 5)	879	-	3,547	-
	-----	-----	-----	-----
Net income (loss)	\$ 2,710	\$ (11,591)	\$ 1,195	\$ (20,989)
	-----	-----	-----	-----
Net income (loss) per share:				
Net income (loss) before extraordinary item	\$ 0.06	\$ (0.49)	\$ (0.09)	\$ (0.92)
Extraordinary item, net of tax effect	0.03	-	0.13	-
	-----	-----	-----	-----
Net income (loss)	\$ 0.09	\$ (0.49)	\$ 0.04	\$ (0.92)
	-----	-----	-----	-----
Shares used in per share computations	28,214	23,666	26,674	23,037
	-----	-----	-----	-----

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

SPECTRUM HOLOBYTE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

<TABLE>

<CAPTION>

	Six Months Ended September 30,	
	1996	1995
<S>	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	\$ 1,195	\$ (20,989)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,021	1,775
Gain on the sale of investment in FASA	(1,895)	-
Extraordinary gain on the extinguishment of debt	(3,547)	-
Changes in assets and liabilities:		
Accounts receivable	1,471	6,090
Inventories	1,439	972
Prepaid royalties	(933)	(59)
Other current assets	921	139
Other assets	166	(462)
Accounts payable	(2,727)	(2,585)
Salaries, wages and related accruals	684	1,981
Royalties payable	1,269	1,050
Other current liabilities	362	(181)
Other liabilities	-	(548)
Net cash provided by (used in) operating activities	426	(12,817)
Cash flows from investing activities:		
Acquisitions of property and equipment, net	(1,491)	(1,602)
Acquisition of German distributor, net of cash acquired	(447)	-
Investment in Virtual World Entertainment Group, Inc.	(570)	-
Proceeds from the sale of investment in FASA	570	-
Net cash used in investing activities	(1,938)	(1,602)
Cash flows from financing activities:		
Extinguishment of debt	(2,959)	-
Proceeds from issuance of common stock, net of issuance costs	10,003	22,211
Borrowings under notes and lines of credit	-	751
Repayments under notes and lines of credit	(499)	(4,496)
Principal payments on capital lease obligations	(275)	(405)
Net cash provided by financing activities	6,270	18,061
Effect of exchange rate changes on cash	(202)	(128)
Increase in cash and cash equivalents	4,556	3,514
Cash and cash equivalents at beginning of period	35,369	7,723
Cash and cash equivalents at end of period	\$39,925	\$ 11,237
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 1,106	\$ 533
Cash paid for taxes	56	-
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Capital lease obligations incurred	\$ -	\$ 305

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL

SPECTRUM HOLOBYTE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The consolidated financial statements are the unaudited historical financial statements of Spectrum HoloByte, Inc. and subsidiaries (the "Company") and reflect all adjustments (consisting only of normal recurring accruals) that, in the opinion of management, are necessary for a fair presentation of interim period results. The consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1996, as filed with the Securities and Exchange Commission on June 28, 1996. The March 31, 1996 consolidated balance sheet included herein was derived from audited financial statements, but does not include all disclosures, including notes, required by generally accepted accounting principles.

The results of operations for the current interim period are not necessarily indicative of results to be expected for the entire current year or other future interim periods.

For the purposes of presentation the Company has indicated its interim fiscal periods as ending on September 30, 1996 and 1995. As the Company's annual fiscal period is accounted for on a 52-53 week year, the interim period financial statements included herein represent interim results through September 29, 1996 and October 1, 1995, respectively.

Certain amounts in the consolidated financial statements have been reclassified to conform with the current period's presentation. These reclassifications had no effect on previously reported earnings or stockholders' equity (deficit).

NOTE 2. NET INCOME (LOSS) PER SHARE OF COMMON STOCK

Net income (loss) per share has been computed by dividing the net income (loss) by the weighted average number of common shares and dilutive common stock equivalents outstanding for the period. Net income (loss) has been adjusted for cumulative but undeclared dividends on Series A preferred stock.

NOTE 3. ACQUISITIONS AND INVESTMENTS

OT SPORTS

The Company entered into a Limited Liability Company ("LLC") agreement with Capital Cities/ABC, Inc. ("ABC") effective July 1, 1995. The LLC (subsequently named "OT Sports") was formed for the purpose of developing a sports-based line of products. In May 1996, the Company sold its interest in OT Sports to ABC. Under the terms of the agreement, the Company received a note for \$250,000 which was paid in full in November 1996. The Company is not obligated to make future contributions to OT Sports.

FASA AND VIRTUAL WORLD

In fiscal 1995 and 1996, the Company invested a total of \$1.5 million in FASA Interactive Technologies, Inc. ("FASA"), a developer of interactive entertainment software for PC and next-generation console platforms. This investment was accounted for by the Company under the cost method of accounting. In June 1996, the Company sold its investment in FASA to FASA for approximately \$3.4 million. The Company received cash of \$570,000 and a \$2.8 million note bearing interest at a rate of 6% per annum and due June 2001. A gain of \$1.9 million was recorded on the sale of this investment.

Proceeds from the sale of this investment were reinvested in Virtual World Entertainment Group, Inc. ("VWEG"), a corporation formed for the purpose of acquiring Virtual World Entertainment, Inc., a developer and operator of location-based entertainment, and FASA. The investment in VWEG is being accounted for under the cost method of accounting.

SPECTRUM HOLOBYTE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

In June 1996, the Company entered into an agreement to acquire certain net assets of a German distributor of computer software and related products for DM1.2 million (approximately \$0.8 million). The transaction was accounted for as a purchase. Approximately \$130,000 of goodwill was recorded representing the excess of the purchase price over the identifiable net assets acquired. Goodwill is amortized on a straight-line basis over five years. The consolidated financial statements contain the operating results from the date of acquisition, which includes approximately \$2.2 million in net revenue.

NOTE 4. INVENTORIES

Inventories are stated at the lower of cost or market on a first-in, first-out (FIFO) basis, net of allowances for write-downs. Inventories at September 30, 1996 and March 31, 1996 consisted of (IN THOUSANDS):

	September 30, 1996	March 31, 1996
	-----	-----
Raw materials and work in process	\$ 899	\$ 705
Finished goods	2,897	2,968
	-----	-----
	\$3,796	\$3,673
	-----	-----
	-----	-----

NOTE 5. LONG-TERM DEBT

In June 1996, the Company exchanged 1,918,860 shares of Series B and Series B-1 preferred stock for subordinated notes with a face value of approximately \$14.9 million. An extraordinary gain of approximately \$2.7 million was realized on the retirement of the long-term debt. In July 1996, the Company repurchased subordinated notes with a face value of \$4.0 million for approximately \$2.9 million. An extraordinary gain of approximately \$0.9 million was realized on the retirement of the long-term debt.

NOTE 6. ISSUANCE OF CONVERTIBLE PREFERRED STOCK

In June 1996, the Company issued 750,000 shares of Series B and 1,168,860 shares of Series B-1 convertible preferred stock in exchange for the retirement of subordinated notes with a face value of approximately \$14.9 million. Both the Series B and Series B-1 preferred stock are convertible into an equivalent number of common shares. In September 1996, 20,000 shares and 32,200 shares of Series B and Series B-1 preferred stock, respectively, were converted into common stock. Dividends on the Series B and Series B-1 preferred stock are non-cumulative and non-accruing, and shall be paid only at such time and such rate as determined by the Board of Directors. As of September 30, 1996, no dividends had been declared. Subject to the liquidation preference of the Series A preferred shares, the Series B and Series B-1 convertible preferred stock have a liquidation preference of \$8.00 per share and \$7.57 per share, respectively, plus all declared but unpaid dividends.

NOTE 7. ISSUANCE OF COMMON STOCK

In June 1996, the Company completed a private placement of 1,818,367 shares of common stock which generated approximately \$9.7 million in proceeds, after discounts, commissions and other issuance costs.

NOTE 8. CANCELLATION AND RE-GRANT OF STOCK OPTIONS

In June 1996, the Board of Directors of the Company approved the cancellation

of the majority of outstanding stock options with an exercise price in excess of \$5.375 per share and the re-grant of options to purchase an equivalent number of shares at \$5.375 per share. A total of 1,927,408 options were canceled and re-granted.

7

SPECTRUM HOLOBYTE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 9. LICENSE AGREEMENT WITH MITSUI & CO.

In April 1996, the Company's wholly-owned Japanese subsidiary ("Spectrum Japan") granted an exclusive license to Mitsui & Co., Ltd. ("Mitsui") for the localization, manufacturing, marketing and distribution of certain Company titles in Japan. The Company received an up-front license fee of approximately \$300,000, and will earn royalties based upon revenue generated by Mitsui during the three-year term of the agreement. In connection with the license agreement, Spectrum Japan subcontracted all of its employees to Mitsui and largely discontinued its operations in Japan. During the six months ended September 30, 1996, the Company recognized net revenue of \$406,000 related to the license agreement.

8

SPECTRUM HOLOBYTE, INC.

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

The following information should be read in conjunction with the consolidated historical financial information and the notes thereto included in ITEM 1 of this Quarterly Report and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1996, as filed with the Securities and Exchange Commission on June 28, 1996.

This Quarterly Report on Form 10-Q contains forward-looking statements which involve risks and uncertainties. The Company may, from time to time, make oral forward-looking statements. The factors discussed in "Risk Factors" below are important factors that could cause actual results to differ materially from those projected in any such forward-looking statements.

OVERVIEW

Spectrum HoloByte (the "Company") develops, publishes and distributes interactive entertainment software. The entertainment software market primarily consists of software products published for the following platforms:

- Compact-Disc Read-Only Memory ("CD-ROM") for the personal computer ("PC").
- Videogame consoles, which include 32-bit and 64-bit "next-generation" systems.

The Company primarily generates revenue from PC CD-ROM and next-generation, Sony PlayStation products. These products are distributed worldwide, although the majority of revenue is generated in North America and Europe.

See additional discussion in "Risk Factors" below.

SPECTRUM HOLOBYTE, INC.

OPERATING RESULTS

Consolidated net revenue generated in North America and the rest of the world consisted of the following (DOLLARS IN THOUSANDS):

<TABLE>

<CAPTION>

Three Months Ended September 30	Net Revenue		% CHANGE	% of Total	
	1996	1995		1996	1995
<S>	<C>	<C>	<C>	<C>	<C>
North America	\$7,541	\$8,388	-10.1%	27.5%	60.6%
International	19,872	5,457	264.2%	72.5%	39.4%
Consolidated	\$27,413	\$13,845	98.0%	100.0%	100.0%
Six Months Ended September 30					
North America	\$14,787	\$19,519	-24.2%	36.5%	63.4%
International	25,698	11,255	128.3%	63.5%	36.6%
Consolidated	\$40,485	\$30,774	31.6%	100.0%	100.0%

The following table sets forth the components of net revenue in dollars and as a percentage of net revenue (DOLLARS IN THOUSANDS):

Three Months Ended September 30	Net Revenue		% CHANGE	% of Total	
	1996	1995		1996	1995
PC CD-ROM	\$22,182	\$11,410	94.4%	80.9%	82.4%
PlayStation ("PSX")	2,856	-	-	10.4%	-
Other	2,375	2,435	-2.4%	8.7%	17.6%
Consolidated	\$27,413	\$13,845	98.0%	100.0%	100.0%
Six Months Ended September 30					
PC CD-ROM	\$31,130	\$25,463	22.3%	76.9%	82.7%
PlayStation ("PSX")	5,477	-	-	13.5%	-
Other	3,878	5,311	-27.0%	9.6%	17.3%
Consolidated	\$40,485	\$30,774	31.6%	100.0%	100.0%

</TABLE>

The increases in net revenue for the second quarter and first six months of fiscal 1997 as compared with the same periods of the prior year are due principally to the success of GRAND PRIX II and SID MEIER'S CIVILIZATION II, both for PC CD-ROM. GRAND PRIX II accounted for \$16.0 million of second quarter net revenue. SID MEIER'S CIVILIZATION II accounted for \$4.9 million and \$13.6 million of net revenue for the second quarter and first six months of fiscal 1997, respectively.

The decline in North American net revenue as compared to the second quarter and first six months of fiscal 1996 is due primarily to a decrease in the number of new titles introduced in North America. This decrease reflects the shift in the Company's focus to produce fewer, but higher quality titles with broad consumer appeal. The Company released ten titles, including four affiliated label titles, in North America in the first six months of fiscal 1996 (including STAR TREK: THE NEXT GENERATION "A FINAL UNITY"), which accounted for \$8.5 million in net revenue. In the first six months of fiscal

1997, the Company released three new titles in North America: TOP GUN: FIRE AT WILL (PSX), GUNSHIP 2000 (PSX) AND GRAND PRIX II (PC CD-ROM) which contributed \$6.5 million of net revenue. Partially offsetting this decrease was the success of SID MEIER'S CIVILIZATION II, which generated \$7.2 million of net revenue in North America during the six-month period.

International net revenue increased substantially from the second quarter and first six months of fiscal 1996 due primarily to shipments of GRAND PRIX II, which generated net revenue outside of the U.S. of \$14.9 million for the September 1996

SPECTRUM HOLOBYTE, INC.

quarter. Also contributing to the increase was the consolidation of the operations of Leisuresoft, a German distribution company acquired in June 1996. Net revenue from this distribution company accounted for 8% of consolidated net revenue for the second quarter of fiscal 1997.

Partially offsetting the increased net revenue was a decline in revenue from products published by affiliated label partners. This revenue accounted for 7% of total net revenue for the second quarter and 2% for the first six months of fiscal 1997, as compared to 22% and 15% of total net revenue for the second quarter and the first six months of fiscal 1996, respectively.

The following table sets forth cost of revenue and gross profit in dollars and as a percentage of net revenue (DOLLARS IN THOUSANDS):

<TABLE>
<CAPTION>

Three Months Ended September 30			% CHANGE	% of Net Revenue	
	1996	1995		1996	1995
<S>	<C>	<C>	<C>	<C>	<C>
Net Revenue	\$27,413	\$13,845	98.0%	100.0%	100.0%
Cost of Revenue	10,186	9,177	11.0%	37.2%	66.3%
Gross profit	\$17,227	\$4,668	269.0%	62.8%	33.7%
Six Months Ended September 30					
Net Revenue	\$40,485	\$30,774	31.6%	100.0%	100.0%
Cost of Revenue	15,085	16,880	-10.6%	37.3%	54.9%
Gross profit	\$25,400	\$13,894	82.8%	62.7%	45.1%

</TABLE>

The increases in gross profit as a percent of net revenue in the second quarter and first six months of fiscal 1997 as compared to the same periods in the prior year were primarily due to reduced product costs and a shift away from lower-margin, affiliated label products. In addition, product write-offs decreased as provisions were made in the quarter ended September 1995 to write-off older, back catalog floppy disk and 8/16-bit cartridge inventories.

Partially offsetting the increase in gross profit was the shipment of lower-margin PSX titles and the consolidation of the lower-margin operations of Leisuresoft. Additionally, royalties paid to third-party developers were 13% of net revenue in the first six months of fiscal 1997, up from 11% of net revenue in the comparable period of fiscal 1996 due to higher net revenue from externally-developed products such as GRAND PRIX II, which generate third-party royalty costs.

The following table sets forth operating expenses and interest and other income (expense) (DOLLARS IN THOUSANDS):

<TABLE>
<CAPTION>

	Costs and Expenses	% of Net Revenue
	-----	-----

Three Months Ended September 30	1996	1995	% CHANGE	1996	1995
<S>	<C>	<C>	<C>	<C>	<C>
Sales and marketing	\$ 5,011	\$ 5,187	-3.4%	18.3%	37.5%
General and administrative	3,772	4,246	-11.2%	13.8%	30.7%
Research and development	6,215	6,277	-1.0%	22.7%	45.3%
Total operating expenses	\$14,998	\$15,710	-4.5%	54.7%	113.5%
Interest and other expense	(\$ 398)	(\$ 549)	-27.5%	-1.5%	-4.0%

</TABLE>

11

SPECTRUM HOLOBYTE, INC.

Six Months Ended September 30	Costs and Expenses		% CHANGE	% of Net Revenue	
	1996	1995		1996	1995
<S>	<C>	<C>	<C>	<C>	<C>
Sales and marketing	\$9,593	\$11,230	-14.6%	23.7%	36.5%
General and administrative	7,444	8,190	-9.1%	18.4%	26.6%
Research and development	11,903	14,544	-18.2%	29.4%	47.3%
Total operating expenses	\$28,940	\$33,964	-14.8%	71.5%	110.4%
Interest and other income (expense)	\$ 1,188	(\$ 919)	-	2.9%	-3.0%

</TABLE>

Sales and marketing expenses decreased in the second quarter and first six months of fiscal 1997 as compared to the same periods in the prior year. These decreases were a result of the centralization of the Company's domestic marketing and sales functions, a reduction in distributor and retailer cooperative marketing costs, and lower variable marketing spending. The decrease in variable marketing expense was primarily due to the introduction of fewer new titles and more than \$400,000 of costs related to the release of STAR TREK: THE NEXT GENERATION "A FINAL UNITY" in fiscal 1996.

The decreases in general and administrative expenses in the second quarter and first six months of fiscal 1997 as compared to the same periods in the prior year were primarily due to the consolidation of the Company's domestic finance and administration function. Additionally, the declines were due to decreased legal, accounting and recruiting fees. Partially offsetting this decrease was an increased bad debt provision of \$.9 million and \$1.7 million in the second quarter and first six months of fiscal 1997, respectively, due to concerns regarding the credit-worthiness of certain domestic distributors and retailers.

Research and development expenses decreased slightly in the second quarter of fiscal 1997 as compared to the same period in the prior year. The decline in expenses for the first six months of fiscal 1997 was due principally to reductions in development personnel. Additionally, in fiscal 1996, the Company recognized a \$500,000 increased charge to write-off development advances of discontinued products and \$400,000 of additional outside labor costs related mostly to the development of STAR TREK: THE NEXT GENERATION "A FINAL UNITY".

The decrease in interest and other expense in the second quarter of fiscal 1997 reflects lower interest expense due to the retirement of \$18.9 million in debt. Interest and other income for the first six months of fiscal 1997 includes a \$1.9 million gain from the sale of the Company's investment in FASA and reduced interest costs.

No income tax provision was recorded for the second quarter and the first six months of fiscal 1997 due to the utilization of net operating loss carryforwards generated in prior periods.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased by approximately \$4.6 million during the six-month period. This increase was principally due to a \$9.7 million equity financing in June 1996 offset partially by the repurchase of subordinated notes, the acquisition of capital equipment, and the purchase of certain net assets of Leisuresoft.

As of September 30, 1996, the Company's working capital was \$38.1 million compared to \$35.7 million at March 31, 1996. Net accounts receivable decreased due to increased collections coupled with \$0.8 million of write-offs of uncollectible accounts. Reserves for bad debts and sales returns as a percentage of gross accounts receivable increased from 49% at March 31, 1996 to 54% at September 30, 1996, due to the deteriorating financial condition of certain U.S. distributors and retailers.

Inventories decreased primarily due to the success of GRAND PRIX II and SID MEIER'S CIVILIZATION II, the return of excess inventories to a former affiliated label partner, and the Company's focus on fewer products.

12

SPECTRUM HOLOBYTE, INC.

As of September 30, 1996, the Company's primary source of liquidity included cash and cash equivalents of \$39.9 million. The Company uses working capital to finance ongoing operations, fund the development and marketing of new products and acquire capital equipment. Periodically, the Company may evaluate other business, product or technology opportunities that are complimentary to those of the Company.

In October 1996, a UK facility was obtained consisting of an overdraft/line of credit facility based upon qualifying receivables and certain other bank requirements for amounts up to a maximum credit limit of approximately \$2.9 million, bears interest at the rate of 2.75% over the bank's base rate, and expires September 1997. The acquisition of Leisuresoft provided a German facility consisting of an overdraft/line of credit facility based upon certain bank requirements for amounts up to a maximum credit limit of approximately \$325,000, bears interest at the German equivalent of the prime rate, and expires March 1997.

Management believes the existing cash and cash equivalents will be sufficient to meet the Company's liquidity and capital needs for the foreseeable future.

RISK FACTORS

THE FOLLOWING RISK FACTORS SHOULD BE CAREFULLY CONSIDERED IN EVALUATING THE COMPANY AND ITS BUSINESS PROSPECTS.

OPERATING LOSSES. Although the Company reported net income for the quarter and first six months ended September 30, 1996 of \$2.7 million or \$.09 per share, and \$1.2 million or \$.04 per share, respectively, the Company had net losses of approximately \$1.5 million, \$39.8 million, \$18.1 million and \$58.5 million for the first quarter of fiscal 1997 and the fiscal years 1996, 1995 and 1994, respectively. Since the merger with MicroProse in December 1993, the Company has not been able to achieve profitability on an annual basis. There can be no assurance that any of the Company's business strategies and tactics will be successful or that the Company will be able to sustain profitability.

SIGNIFICANT LEVERAGE. As of September 30, 1996, the Company had outstanding indebtedness for borrowed funds of approximately \$32.9 million, cumulative mandatorily redeemable preferred stock of \$5.9 million, and certain additional indebtedness. This substantial leverage will have several important consequences for the Company's future operations, including the following: (i) a substantial portion of the Company's cash flows from operations will be dedicated to the payment of interest on, and principal of, its indebtedness; (ii) the Company's ability to obtain additional financing in the future for capital expenditures, acquisitions, general corporate purposes or other purposes may be impaired; and (iii) the Company's ability to withstand competitive pressures, adverse economic conditions and adverse changes in governmental regulations and to make acquisitions or otherwise take advantage of significant business opportunities that may arise may be negatively impacted.

The Company in the future may enter into lines of credit or other borrowing

arrangements, any of which would add to the total outstanding indebtedness of the Company. The Company's ability to meet its debt service obligations and to reduce its total indebtedness will be dependent upon the Company's future performance, which will be subject to financial, business and other factors affecting the operations of the Company, many of which are beyond its control. If the Company is unable to generate sufficient cash flow from operations in the future to service its debt, it may be required to convert or refinance all or a portion of such debt, including the Notes (see below), or to obtain additional financing. However, there can be no assurance that any refinancing would be possible or that any additional financing could be obtained.

SPECTRUM HOLOBYTE, INC.

NASDAQ LISTING. The Company was notified in February 1996 by the Nasdaq Stock Market ("Nasdaq") that the Company was no longer in compliance with the net tangible assets requirement of the National Association of Securities Dealers' ByLaws for listing on the Nasdaq National Market. Nasdaq granted the Company a temporary exemption from the net tangible assets requirement. The exemption required that the Company achieve compliance with the listing on or before July 12, 1996.

In the first quarter of fiscal 1997, management implemented tactics to achieve compliance with the net tangible assets listing requirement. These actions enabled the Company to regain compliance with the Nasdaq National Market listing requirements as of the end of the fiscal quarter ended June 30, 1996. There can be no assurance that the Company will be able to maintain compliance with the listing requirements of the Nasdaq National Market in the future. If the Company is unable to maintain compliance, it may qualify for listing under the Nasdaq SmallCap Market. If for any reason the Company is unable to achieve and maintain compliance with the SmallCap listing requirements and is delisted from both the Nasdaq National Market and the Nasdaq SmallCap Market, the holders of the Company's 6 1/2 % Convertible Subordinated Notes Due 2002 (the "Notes") would be entitled to require the Company to repurchase all or any portion of such holders' Notes for cash at a price equal to the principal amount plus accrued interest. In such event, the Company's business, results of operations and financial condition would be materially and adversely affected.

FLUCTUATIONS IN OPERATING RESULTS; SEASONALITY. The Company's operating results have varied significantly in the past, and are expected to vary significantly in the future. This variability is a result of factors such as: 1) the commencement of volume shipments of significant new products, 2) the degree of market acceptance of the Company's products, 3) the introduction of products competitive with those of the Company, 4) the timing and market acceptance of new hardware and software product introductions, 5) the size and rate of growth of the consumer software market, 6) development and promotional expenses relating to the introduction of new products or new versions of existing products, 7) product returns and markdowns, 8) changes in pricing policies by the Company and its competitors, 9) the accuracy of retailers' forecasts of consumer demand, 10) the timing of orders from major customers, 11) order cancellations, 12) delays of shipment, and 13) write-offs of advance royalty payments. Because a majority of the unit sales for a product typically occurs in the first 90 to 120 days following the introduction of the product, the Company's revenue may increase significantly in a period in which a major product introduction occurs and may decline in following periods or in periods in which there are no major product introductions. The Company's expenses are based, in part, on expected future revenue. Certain overhead and product development expenses are fixed and do not vary directly in relation to revenue. Consequently, if net revenue is below expectations, the Company's operating results are likely to be materially and adversely affected. In certain past periods the Company's revenue or operating results were below the expectations of, and certain new products were not introduced when anticipated by, public market analysts and investors. These circumstances could recur in future periods, and in such event, the prices of the Company's common stock and Notes would likely be materially and adversely affected.

The entertainment software business is highly seasonal. Typically, net revenue is highest during the last calendar quarter (which includes the holiday buying season), declines in the first calendar quarter, is lowest in the second and increases in the third calendar quarter. This seasonal pattern is due primarily to the increased demand for entertainment software products during the year-end

holiday buying season. The Company's net revenue, however, is largely dependent on releases of major new products and, as such, may not necessarily reflect the seasonal patterns of the industry as a whole. The Company expects that its net revenue and operating results will continue to fluctuate significantly in the future.

SPECTRUM HOLOBYTE, INC.

DEPENDENCE ON NEW PRODUCT INTRODUCTIONS; PRODUCT DELAYS. A significant portion of the Company's fiscal year revenue is generated by products introduced during that fiscal year. The Company depends on both the timely introduction of successful new products or sequels to existing products to replace declining revenue from older products and continued revenue from back-catalog products. If for any reason revenue from new products or other activities fails to replace declining revenue from existing products, or if revenue from back-catalog titles declines significantly, the Company's business, operating results and financial condition may be materially and adversely affected. In order to maintain or grow its current revenue levels, the Company believes it will be necessary to develop or obtain rights to new products that achieve market acceptance, are developed for the appropriate platforms, are introduced in a timely manner and are able to sustain market acceptance. The Company is continuing to devote considerable resources toward the development of new products and has secured rights to intellectual properties owned by third parties. As is typical in the industry, while the Company maintains internally developed release schedules, there can be no assurance that new products under development will be released on schedule or at all, or that any such products will generate significant revenue. Historically, the Company has frequently missed product release schedules. To the extent that major new products are not released on schedule, both net revenue and gross profit are likely to be adversely affected. In addition, as access to distribution channels and retail shelf space becomes increasingly competitive, the Company's ability to produce and bring to market new and compelling products in a timely fashion plays an increasingly important role in the Company's ability to retain adequate access to these channels.

The Company's current production schedules contemplate that the Company will commence shipments of a number of new products in fiscal 1997. As with any software product, however, until all aspects of the development and initial distribution of a game are completed, there can be no assurance of its release date. Release dates will vary depending on quality assurance testing and other development factors. If the Company were unable to commence volume shipments of a significant new product during the scheduled quarter, the Company's revenue and earnings would likely be materially and adversely affected in that quarter. In the past, the Company has experienced significant delays in the introduction of certain new products. It is likely in the future that certain new products will not be released in accordance with the Company's internal development schedule or the expectations of public market analysts and investors. A significant delay in the introduction of, or the presence of a defect in, one or more new products could have a material adverse effect on the ultimate success of such products and on the Company's business, operating results and financial condition, particularly in the quarter in which such products were scheduled to be introduced.

The process of developing software products such as those offered by the Company is extremely complex and is expected to become more complex and expensive in the future as consumers demand products with more sophisticated and elaborate multimedia features and as new platforms and technologies are supported. At the same time, the introduction of new technologies and competitive products, the increase in competition for retail shelf space among software products and other factors may cause the effective lives of the Company's products to become shorter and the Company's ability to introduce new products on a timely basis to become increasingly important. As the Company intends to focus its resources on a smaller number of titles, its exposure to the risks of delays of any one title will increase.

UNCERTAINTY OF MARKET ACCEPTANCE; UNPREDICTABLE PRODUCT LIFE CYCLES. Consumer preferences for entertainment software products are continually and rapidly changing and are extremely difficult to predict. Few entertainment software products achieve sustained market acceptance, for example, beyond one holiday buying season. There can be no assurance that new products introduced by the Company will achieve any significant degree of market acceptance, or that acceptance, if achieved, will be sustained for any significant period. Further, there can be no assurance that such products will not be subject to changes in

consumer preferences or that product life cycles will be sufficient to permit the Company to recover development and other associated costs. In addition, sales of any single title of the Company's entertainment software products will decline over time. A majority of the unit sales for a product typically occurs in the first 90 to 120 days after the product is introduced. Therefore, the Company cannot rely on the sales of current products to sustain its business in the future. Failure of new products or platforms to achieve or sustain market acceptance would have a material and adverse effect on the Company's business, operating results and financial condition. In addition, the Company does not carry significant inventory of its new products. As a result, significant production delays would have a material and adverse effect on the Company's business and operating results. Further, if demand for a particular product is greater than anticipated,

15

SPECTRUM HOLOBYTE, INC.

the Company may not have sufficient inventory to meet customer demands.

COMPETITION. The entertainment software industry is intensely competitive and in the process of consolidation. The Company's competitors vary in size from very small companies with limited resources to very large corporations with greater financial, marketing and product development resources than those of the Company. The Company competes primarily with other developers of PC entertainment and video game entertainment software. Significant competitors of the Company in the entertainment software industry include Electronic Arts, Sierra On-Line, Lucas Arts, Interplay, GT Interactive, Maxis, Acclaim Entertainment, and Broderbund Software, along with Virgin Interactive in Europe. Additionally, the entry and participation of new industries and companies, including diversified entertainment companies, in markets in which the Company competes may adversely affect the Company's performance in such markets. The availability of significant financial resources has become a major competitive factor in the entertainment software industry, principally as a result of the technical sophistication of advanced multimedia computer game products requiring substantial investments in research and development and the increasing need to license products and rights to use other intellectual properties from third parties. Also, competitors with large product lines and popular titles typically have greater leverage with retailers and distributors and other customers who may be willing to promote titles with less consumer appeal in return for access to such competitors' most popular titles.

The Company believes that large diversified entertainment, cable and telecommunications companies, in addition to large software companies such as Microsoft, are increasing their focus on the interactive entertainment market, which will result in greater competition for the Company. In particular, many of the Company's competitors are developing on-line interactive computer games and interactive networks that will be competitive with the Company's products. As competition increases, significant price competition and reduced profit margins may result. In addition, competition from new technologies may reduce demand in markets in which the Company has traditionally competed. Prolonged price competition or reduced demand as a result of competing technologies would have a material and adverse effect on the Company's business, financial condition and operating results. There can be no assurance that the Company will be able to compete successfully against current or future competitors or that competitive pressures faced by the Company will not materially and adversely affect its business, operating results and financial condition.

Retailers of the Company's products typically have a limited amount of shelf space and promotional resources, and there is intense competition among consumer software producers for adequate levels of shelf space and promotional support from retailers. To the extent that the number of consumer software products and computer platforms increases, this competition for shelf space may intensify. Due to increased competition for limited shelf space, retailers and distributors are increasingly in a better position to negotiate favorable terms of sale, including price discounts and product return policies. Retailers often require software publishers to pay fees in exchange for preferred shelf space. The Company's products constitute a relatively small percentage of a retailer's sales volume, and there can be no assurance that retailers will continue to purchase the Company's products or provide the Company's products with adequate levels of shelf space and promotional support.

As more consumers own multimedia PCs, the distribution channels for entertainment software have changed, and are expected to continue to change,

to increasingly depend on mass merchandisers, on-line services and the Internet to reach the broader market. There can be no assurance that the Company will make this transition successfully. In addition, while this trend has increased the number of distribution channels, it has intensified competition for shelf space because these new channels generally carry only top-selling titles. In addition, other types of retail outlets and methods of product distribution, such as online services and the Internet, may become important in the future, and it will be important for the Company to gain access to these channels of distribution. There can be no assurance that the Company will gain such access or that the Company's access will allow the Company to maintain its historical levels of sales volume.

CONCENTRATION OF CUSTOMER BASE; RISK OF CUSTOMER BUSINESS FAILURE; PRODUCT RETURNS. The Company principally sells its products to retailers and distributors, who in turn resell the products to consumers. During the quarter and first six months ended September 30, 1996, sales to the top ten such customers represented approximately 48% and 47% of the Company's net revenue, respectively. Sales are typically made on credit, with terms that vary depending upon the customer and the nature of the product. The Company does not hold collateral to secure

16

SPECTRUM HOLOBYTE, INC.

payment. Retailers and distributors compete in a volatile industry and are subject to the risk of business failure. Certain of the Company's distributors and retailers have recently experienced financial difficulties and the Company has increased its reserves accordingly. However, the business failure of a significant distributor or customer could have a material and adverse effect on the Company's business, operating results and financial condition.

The Company is exposed to the risk of product returns from distributors and retailers. The Company currently maintains a stock balancing policy that allows distributors and retailers to return products subject to certain conditions. The Company provides reserves for returns that it believes are adequate, and the Company's agreements with various customers place certain limits on product returns. However, new product introductions by the Company or its competitors, or changes in consumer demand from that anticipated, could cause customers to seek to return inventory to the Company. Due to the unpredictability of consumer demand and the uncertainties associated with a rapidly changing market, there can be no assurance that the Company or its customers will be able to forecast demand accurately. Consistent with industry trends, the Company has accepted substantial increased product returns and markdowns on products in the last fiscal year and the Company could continue to be forced to accept such returns and markdowns in the distribution channel to maintain its relationships with retailers and its access to distribution channels. These returns and markdowns are likely to increase in periods in which the Company does not have a significant number of new product introductions. Any significant amount of product returns or markdowns could have a material and adverse effect on the Company's business, operating results and financial condition.

DEPENDENCE UPON STRATEGIC RELATIONSHIPS. The Company's business strategy relies to a significant extent on its strategic relationships with other companies and on its alliances with key developers. Certain agreements allow third parties to approve a product prior to its release, and therefore, subject the product to delay. There can be no assurance that these relationships will be successful or that the Company will continue to maintain and develop strategic relationships, or that licenses between the Company and any third party will be renewed or extended at their expiration dates. For example, the Company's licenses from Paramount Pictures Corporation for the STAR TREK: THE NEXT GENERATION property expire on December 31, 1998, and for the TOP GUN property on April 30, 1998. In addition, these agreements may be terminated at Paramount's option in the event that the Company fails to meet certain specified milestone dates. The Company's failure to renew or extend a key license or maintain its strategic relationships could materially and adversely affect the Company's business, operating results and financial condition. In addition, under certain key license agreements, the Company must obtain approval on a timely basis from the licensor in order to market products it develops under the license. There can be no assurance that the Company will obtain such approval, and failure to do so could have a material and adverse effect on the Company's operating results, financial condition and business prospects.

SPECTRUM HOLOBYTE, INC.

CHANGES IN TECHNOLOGY AND PRODUCT PLATFORMS. The market for entertainment software, including entertainment software platforms, is undergoing rapid technological change. As a result, the Company must continually anticipate and adapt its products to emerging platforms and evolving consumer preferences. The introduction of new platforms and technologies can render existing products obsolete and unmarketable. Development of entertainment software products for new hardware platforms requires substantial investments in research and development for technologies such as enhanced sound, digitized speech, music and video and requires the Company to anticipate and develop products for those platforms that will ultimately be successful. Such research and development efforts, which generally require 12 to 24 months, must occur well in advance of the release of new platforms in order to introduce products on a timely basis following the release of such platforms. In addition, the Company expects that the trend toward more complex multimedia products and increasing product development costs will continue for the foreseeable future.

Although the Company intends to develop and market games for certain advanced and emerging platforms, these development and marketing efforts may require greater financial and technical resources than those currently possessed by the Company. In addition, there can be no assurance that the platforms for which the Company develops products will achieve market acceptance and, as a result, there can be no assurance that the Company's development efforts with respect to such new platforms will lead to marketable products or products that generate sufficient revenue to offset research and development costs incurred in connection with their development. There can be no assurance that the Company will be successful in developing and marketing products for new platforms. Failure to develop products for new platforms that achieve significant market acceptance may have a material and adverse effect on the Company's business, operating results and financial condition. The Company is developing games that may be played interactively over on-line services and the Internet, but there can be no assurance that the market for networked videogame play will evolve or develop as anticipated. Consumer preferences change continually and are extremely difficult to predict. Even if a market for networked videogame play develops, no assurance can be given that the Company's products will meet the requirements of such market and achieve market acceptance.

The Company is heavily dependent on the success of the entertainment software developed for use on the PC. However, there are multiple, competing and incompatible formats being introduced in this new market. PlayStation, Sega Saturn, 3DO Multiplayer and Nintendo's Ultra 64 are currently available. There can be no assurance that the Company's strategy of developing primarily for the PC or the other platforms the Company chooses to support ultimately will be successful. The development, marketing and distribution of products for game consoles the Company chooses to support will involve substantial investment and risks. The Company believes that the principal target audience for game consoles may be younger than the Company's traditional customers, and there can be no assurance that the Company's products will be successful with this different audience. In addition, the Company anticipates that products in the game console market will require substantially greater expenditures for marketing, advertising and inventory buildup, often before the market acceptance of a product is known. Inventory will be two or more times more expensive as a result of license fees that are required to be prepaid to the manufacturers of the hardware platforms. Further, game console products will be sold through channels that overlap with, but are somewhat different from, the retail channels currently utilized by the Company, and the Company will be competing in distribution against much larger organizations with greater financial resources. There can be no assurance that the Company will be successful in marketing and distributing software for game consoles.

RISK OF SOFTWARE ERRORS OR FAILURES. Software products as complex as those offered by the Company may contain undetected errors when first introduced or when new versions are released. In the past, the Company has discovered software errors in certain of its product offerings after their introduction and has experienced delays or lost revenue during the period required to correct these errors. The Company's products must maintain compatibility with certain

hardware, software and accessories. Any changes that result in incompatibility could result in significant product returns and customer service costs. In particular, the PC hardware environment is characterized by a wide variety of nonstandard peripherals (such as sound and graphics cards) and configurations that make prerelease testing for programming or compatibility errors very difficult and time consuming. There can be no assurance that, despite testing by the Company, errors will not be found in new products or releases after commencement of commercial shipments, resulting in loss of or delay in market acceptance, which could have a material and adverse effect on the Company's business, operating results and financial condition. The risk of

18

SPECTRUM HOLOBYTE, INC.

undetected product errors can be expected to increase as products and their development processes become more complex and as growing competition leads to increased pressure to reduce time to market.

DEPENDENCE ON KEY PERSONNEL; MANAGEMENT CHANGES. The Company's future success depends in large part on the continued service of its key product development, technical and management personnel and on its ability to continue to attract, motivate and retain highly qualified employees, including additional management personnel. The loss of certain key employees could have a material and adverse effect on the Company's business. In addition, the Company depends on teams of programmers, game designers and artists. Competition for these skilled employees is intense, and the loss of the services of key development personnel could have a material and adverse effect upon the Company's current business, new product development efforts and prospects. Sid Meier, the Company's former Executive Vice President of Product Development, resigned in May 1996. He will continue as a consultant until the completion of MAGIC: THE GATHERING. Since January 1, 1996, the Company has hired a new Senior Vice President of Sales, Senior Vice President of Operations, Senior Vice President of Marketing, and a Senior Vice President of Development Studios and intends to hire other senior management positions including a new Chief Financial Officer. The Company has also hired a financial consultant to advise the Chief Executive Officer on financial planning, controls and reporting structures. The Chief Executive Officer and other officers and senior managers of the Company can be expected to expend significant time and effort in the transition process as new officers assume their positions with the Company and become integrated into the Company, its operations and its culture. There can be no assurance that qualified personnel can be readily identified and hired wherever necessary, that any new personnel will be successfully integrated into the Company, its operations and culture, or that new personnel, if hired, will improve the Company's business, operations or operating results. The Company does not currently have key person life insurance on any employees.

USE OF INDEPENDENT SOFTWARE DEVELOPERS. In addition to marketing internally developed software, the Company also markets entertainment software created by independent software developers. The cost to retain independent developers is increasing in the form of guaranteed advances and royalties. Additionally, the Company has less control over the scheduling and the quality of work of independent contractors than that of its own employees. Furthermore, the Company's agreements to publish and market certain independent software developers' titles will terminate after specified dates unless renewed. The Company's business and future operating results will depend in part on the Company's continued ability to attract and maintain relationships with skilled independent software developers, and to enter into and renew product development agreements with such developers. There can be no assurance that the Company will be able to maintain such relationships or enter into and renew such agreements.

INTERNATIONAL REVENUE. International net revenue represented approximately 64%, 49%, and 29% of the Company's net revenue for the first six months of fiscal 1997, and for fiscal years ended March 31, 1996 and 1995, respectively. The Company expects that international net revenue will continue to account for a significant portion of its net revenue in future periods. International revenue is subject to inherent risks, including unexpected changes in regulatory requirements, tariffs and other economic barriers, fluctuating exchange rates, difficulties in staffing and managing foreign operations and the possibility of difficulty in accounts receivable collection. Because the Company does not believe exposure to foreign currency losses is currently material, the Company currently has no formal financial instruments in place as a hedge against foreign currency risks. In some markets, localization of the Company's products is essential to achieve market penetration. The Company may incur substantial costs and experience delays in localizing its products, and there can be no

assurance that any localized product will ever generate significant revenue. These or other factors could have a material and adverse effect on the Company's future international revenue and, consequently, on the Company's business, operating results and financial condition.

RECOVERY OF PREPAID ROYALTIES AND GUARANTEES. The Company, from time to time, enters into agreements with licensors of intellectual property and developers of games that involve advance payments of royalties and guaranteed minimum royalty payments. If the sales volumes of products subject to such arrangements are not sufficient to recover such advances and guarantees, the Company will be required to write-off unrecovered portions of such payments. The Company has been required to write-off a material portion of these advances in past fiscal quarters and, if the Company must write-off additional portions of such advances or ultimately accrue for the guarantees, its results of operations may be materially and adversely affected.

19

SPECTRUM HOLOBYTE, INC.

INTELLECTUAL PROPERTY. The Company regards the software that it owns or licenses as proprietary and relies primarily on a combination of copyrights, trade secret laws, patent and trademark laws, nondisclosure agreements and other copy protection methods to protect its product and proprietary rights. It is the Company's policy that all employees and third-party developers sign nondisclosure agreements. There can be no assurance that these measures will be sufficient to protect the Company's intellectual property rights against infringement. The Company owns or licenses various trademarks and copyrights. However, the Company has no license agreements with the end users of its products and does not copy protect its software. Rather, the Company relies on the copyright laws to prevent unauthorized distribution of its software. Existing copyright laws afford only limited protection. It may be possible for unauthorized parties to copy the Company's products or to reverse engineer or otherwise obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's products is difficult, and software piracy can be expected to be a persistent problem. Further, the laws of certain countries in which the Company's products are or may be distributed do not protect the Company's products and intellectual property rights to the same extent as the laws of the United States.

The Company believes that its products, trademarks and other proprietary rights do not infringe on the proprietary rights of parties. As the number of entertainment software products in the industry increases, the Company believes that software increasingly will become the subject of claims that such software infringes upon the rights of others. From time to time, the Company has received communications from parties asserting that features or content of certain of its products may infringe upon intellectual property rights of such parties. The Company believes such claims have been without merit. To date, no such claims have had an adverse effect on the Company's ability to develop, market or sell its products. There can be no assurance that existing or future infringement claims against the Company will not result in costly litigation or require the Company to license the intellectual property rights of parties. There can be no assurance that such licenses will be available on reasonable terms or at all.

STRATEGIC RESTRUCTURING. In fiscal 1996 and early fiscal 1997, the Company undertook a strategic restructuring with the goals of better integrating the operations of Spectrum HoloByte and MicroProse, streamlining product development efforts and reducing operating costs. Certain domestic operations were streamlined and consolidated in California, including marketing, operations, customer support, finance and product planning. The Company largely discontinued its Japanese operations, and entered into an exclusive three-year distribution agreement in Japan which is expected to generate royalties in future periods. The Company's domestic affiliated label programs were largely terminated and the number of products being published and actively marketed was significantly reduced in order to focus the Company's sales and distribution efforts. As a result of these changes, the Company has improved operating efficiencies, reduced headcount and reduced operating costs. There can be no assurance, however, that the Company will be successful in meeting the objectives of this restructuring. Furthermore, as a result of reducing the number of the Company's products, there can be no assurance that the Company's expected revenue will be sufficient to generate operating profits.

VOLATILITY OF PRICE OF STOCK AND NOTES. There has been a history of significant volatility in the market prices of companies engaged in the entertainment

software industry, including the Company. It is likely that the market price of the Company's common stock will continue to be highly volatile and the price of the Company's Notes will also be subject to such fluctuations. Factors such as the timing and market acceptance of new product introductions by the Company, the introduction of new products by the Company's competitors, loss of key personnel of the Company, variations in quarterly operating results or changes in market conditions in the entertainment software industry may have a significant impact on the market price of the Company's common stock and Notes. In the past, the Company has experienced fluctuations in its operating results, and it is likely that in some future quarter the Company's revenue or operating results will be below the expectations of, and certain new products will not be introduced when anticipated by, public market analysts and investors. In such event, the price of the Company's common stock would likely be materially adversely affected. Volatility in the price of the Company's common stock, changes in prevailing interest rates and changes in perceptions of the Company's creditworthiness may in the future adversely affect the price of the Notes.

SPECTRUM HOLOBYTE, INC.

Part II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On July 9, 1996, a lawsuit entitled Acclaim Entertainment, Inc. v. Spectrum HoloByte California, Inc. No. 96-2462 WHO, was filed in the United States District Court for the Northern District of California. MicroProse Software, Inc. was also named as a defendant. The complaint alleged various causes of action related to an exclusive license Acclaim holds from Wizard of the Coast, Inc. ("WOTC") to develop certain computer game products based on the world and characters of the MAGIC: THE GATHERING card game. Acclaim alleged that its license is being infringed by the MAGIC:THE GATHERING computer game being developed by the Company, which also holds an exclusive license from WOTC.

On September 20, 1996, the Company filed an answer and counterclaim denying the allegations in the complaint and asserting claims for unfair competition, copyright infringement, and interference with contract against Acclaim.

On November 4, 1996, the Company, MicroProse and Acclaim entered into an agreement settling the lawsuit. Under the terms of the settlement, the Company is not required to make any monetary payment or alter its computer game product. The parties have agreed to differentiate their respective titles in the marketplace. Acclaim will market its product for Windows 95 under the name MAGIC: THE GATHERING-BATTELMAGE. The title will be positioned as a real-time, multi-player strategy game, based on the characters and scenarios of the fantasy adventure world of MAGIC:THE GATHERING. The Company's title will be released under the MicroProse brand name and will be positioned as an interactive version of the MAGIC:THE GATHERING card game. The Company's title will feature a fantasy world developed by the Company to simulate the features of the MAGIC:THE GATHERING card game, including card collection, deck-building and dueling.

The parties have also agreed to coordinate the release dates for their respective products. Acclaim will have the right to release its title on or before January 10, 1997, and the Company has agreed not to release its product until after such date. In the event Acclaim releases its title on or before January 10, 1997, then the Company will release its title no earlier than February 1, 1997.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) THE FOLLOWING EXHIBITS ARE FILED HEREWITH:

EXHIBIT NUMBER	DESCRIPTION
3.1+	Certificate of Incorporation of the Registrant
3.2	Amended Bylaws of Registrant

- 4.1+ Specimen Common Stock Certificate of the Registrant
- 4.2+ Warrants issuable to the Grotech Investors and Corporate Venture Partners, L.P., dated as of October 17, 1991
- 4.3+ Form of Warrant issuable to Paragon Investors, dated July 1992
- 4.4+ Form of Warrant, issued to Ince & Co. (incorporated by reference to Exhibit 2.3 of Spectrum HoloByte, Inc.'s Quarterly Report on Form 10-Q, File No. 0-19463, filed on December 31, 1994)
- 4.5+ Registration Rights Agreement, dated June 12, 1995 by and among Spectrum HoloByte, Inc. and Stephen Barcia and Maria Barcia (incorporated by reference to Exhibit 2.3 of Spectrum HoloByte, Inc.'s Current Report on Form 8-K, File No. 0-19463, filed on June 27, 1995)
- 4.6+ Registration Rights Agreement, dated as of May 16, 1995, by and among Spectrum HoloByte, Inc. and IPWEL LTD (incorporated by reference to Exhibit 4.7 of Spectrum HoloByte, Inc.'s Registration on Form S-3, File No. 33-94580, filed October 24, 1995)
- 4.7+ Registration Rights Agreement, dated as of May 16, 1995, by and among Spectrum HoloByte, Inc. and GFL Advantage Fund Limited (incorporated by reference to Exhibit 4.8 of Spectrum HoloByte, Inc.'s Registration on Form S-3, File No. 33-94580, filed October 24, 1995)
- 4.8+ Registration Rights Agreement, dated as of August 28, 1995, by and among Spectrum HoloByte, Inc. and GFL Advantage Fund Limited (incorporated by reference to Exhibit 4.9 of Spectrum HoloByte, Inc.'s Registration on Form S-3, File No. 33-94580, filed October 24, 1995)
- 4.9+ Registration Rights Agreement, dated as of June 27, 1995, by and among Spectrum HoloByte, Inc. and Banque Scandinave en Suisse (incorporated by reference to

SPECTRUM HOLOBYTE, INC.

EXHIBIT NUMBER	DESCRIPTION
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	Exhibit 4.10 of Spectrum HoloByte, Inc.'s Registration on Form S-3, File No. 33-94580, filed October 24, 1995)
4.10+	Registration Rights Agreement, dated as of August 25, 1995, by and among Spectrum HoloByte, Inc. and PJP International, Ltd. (incorporated by reference to Exhibit 4.11 of SpectrumHoloByte, Inc.'s Registration on Form S-3, File No. 33-94580, filed October 24, 1995)
4.11+	Registration Rights Agreement, dated as of May 16, 1995, by and among Spectrum HoloByte, Inc. and Tanner, Owen & Co. Incorporated (incorporated by reference to Exhibit 4.12 of Spectrum HoloByte, Inc.'s Registration on Form S-3, File No. 33-94580, filed October 24, 1995)
4.12+	Registration Rights Agreement, dated as of September 6, 1995, by and among Spectrum HoloByte, Inc. and Tanner, Owen & Co. Incorporated (incorporated by reference to Exhibit 4.13 of Spectrum HoloByte, Inc.'s Registration on Form S-3, File No. 33-94580, filed October 24, 1995)
4.13+	Indenture, dated as of September 15, 1995, between Spectrum HoloByte, Inc. and Chemical Trust Company of California (incorporated by reference to Exhibit 3 of Spectrum HoloByte, Inc.'s Current Report on Form 8-K, File No. 0-19463, filed October 17, 1995)

- 4.14+ Registration Rights Agreement, dated as of September 26, 1995, by and among Spectrum HoloByte, Inc. and Robertson, Stephens & Company, L.P., Jeffries & Company, Inc. and Piper Jaffray Inc. (incorporated by reference to Exhibit 4 of Spectrum HoloByte, Inc.'s Current Report on Form 8-K, File No. 0-19463, filed October 17, 1995)
- 4.15+ Certificate of Designation for Series B Convertible Preferred Stock
- 4.16+ Certificate of Designation for Series B-1 Convertible Preferred Stock
- 10.1+ Form of Purchase Agreement, by and between Spectrum HoloByte, Inc. and certain investors, effective June 26, 1996 (incorporated by reference to Exhibit 4.3 of Spectrum HoloByte, Inc.'s Registration on Form S-3, File No. 333-08385, filed July 18, 1996)
- 11.1 Statement Re: Computation of Net Income (Loss) Per Share
- 27.1 Statement Re: Financial Data Schedule

+ Previously filed.

(B) REPORTS ON FORM 8-K:

None.

22

SPECTRUM HOLOBYTE, INC.

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, on November 13, 1996.

SPECTRUM HOLOBYTE, INC.

By: /s/ Stephen M. Race

Stephen M. Race
CHIEF EXECUTIVE OFFICER, ACTING CHIEF
FINANCIAL OFFICER AND DIRECTOR

23

BYLAWS
OF SPECTRUM HOLOBYTE, INC.

TABLE OF CONTENTS
OF
SPECTRUM HOLOBYTE, INC.

	PAGE

ARTICLE I - CORPORATE OFFICERS	1
1.1 REGISTERED OFFICE.	1
1.2 OTHER OFFICES.	1
ARTICLE II - MEETING OF STOCKHOLDERS	1
2.1 PLACE OF MEETINGS.	1
2.2 ANNUAL MEETING	1
2.3 SPECIAL MEETINGS	2
2.4 NOTICE OF STOCKHOLDERS' MEETINGS	2
2.5 ADVANCE NOTICE OF STOCKHOLDER NOMINEES AND STOCKHOLDER BUSINESS.	2
2.6 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE	3
2.7 QUORUM	3
2.8 ADJOURNED MEETING; NOTICE.	4
2.9 VOTING	4
2.10 WAIVER OF NOTICE	4
2.11 STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING	4
2.12 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING; GIVING CONSENTS.	4
2.13 PROXIES.	5
2.14 LIST OF STOCKHOLDERS ENTITLED TO VOTE.	5
2.15 CONDUCT OF BUSINESS.	6
ARTICLE III - DIRECTORS.	6
3.1 POWERS.. . . .	6
3.2 NUMBER OF DIRECTORS.	6
3.3 ELECTION QUALIFICATION AND TERM OF OFFICE OF DIRECTORS	6
3.4 RESIGNATION AND VACANCIES.	6
3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE	7
3.6 FIRST MEETINGS	7
3.7 REGULAR MEETINGS	8
3.8 SPECIAL MEETINGS; NOTICE	8

TABLE OF CONTENTS
(CONTINUED)

	PAGE

3.9 QUORUM	8
3.10 WAIVER OF NOTICE	8
3.11 ADJOURNED MEETING; NOTICE.	9
3.12 CONDUCT OF BUSINESS.	9
3.13 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING.	9
3.14 FEES AND COMPENSATION OF DIRECTORS	9
3.15 APPROVAL OF LOANS TO OFFICERS.	9
ARTICLE IV - COMMITTEES. . . . .	.10
4.1 COMMITTEES OF DIRECTORS. . . . .	.10
4.2 COMMITTEE MINUTES. . . . .	.10
4.3 MEETINGS AND ACTION OF COMMITTEES. . . . .	.10
ARTICLE V - OFFICERS . . . . .	.11
5.1 OFFICERS . . . . .	.11
5.2 ELECTION OF OFFICERS . . . . .	.11
5.3 REMOVAL AND RESIGNATION OF OFFICERS. . . . .	.11
5.4 CHAIRMAN OF THE BOARD. . . . .	.12
5.5 PRESIDENT. . . . .	.12
5.6 VICE PRESIDENTS. . . . .	.12
5.7 SECRETARY. . . . .	.12
5.8 TREASURER. . . . .	.13
5.9 ASSISTANT SECRETARY. . . . .	.13
5.10 AUTHORITY AND DUTIES OF OFFICERS . . . . .	.13
ARTICLE VI - INDEMNITY . . . . .	.14
6.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS. . . . .	.14
6.2 INDEMNIFICATION OF OTHERS. . . . .	.14
6.3 INSURANCE. . . . .	.15
ARTICLE VII - RECORDS AND REPORTS. . . . .	.15
7.1 MAINTENANCE AND INSPECTION OF RECORDS. . . . .	.15
7.2 INSPECTION BY DIRECTORS. . . . .	.15
7.3 REPRESENTATION OF SHARES OF OTHER CORPORATIONS . . . . .	.16

TABLE OF CONTENTS
(CONTINUED)

	PAGE

ARTICLE VIII - GENERAL MATTERS . . . . .	.16
8.1 STOCK CERTIFICATES; PARTLY PAID SHARES . . . . .	.16
8.2 LOST CERTIFICATES. . . . .	.16
8.3 CONSTRUCTION; DEFINITIONS. . . . .	.17
8.4 DIVIDENDS. . . . .	.17
8.5 FISCAL YEAR. . . . .	.17
8.6 SEAL . . . . .	.17
8.7 TRANSFER OF STOCK. . . . .	.17
8.8 STOCK TRANSFER AGREEMENTS. . . . .	.18
8.9 REGISTERED STOCKHOLDERS. . . . .	.18
ARTICLE IX - AMENDMENTS. . . . .	.18
ARTICLE X - DISSOLUTION. . . . .	.18
ARTICLE XI - CUSTODIAN . . . . .	.19
11.1 APPOINTMENT OF A CUSTODIAN IN CERTAIN CASES. . . . .	.19
11.2 DUTIES OF CUSTODIAN. . . . .	.19

BYLAWS

OF

SPECTRUM HOLOBYTE, INC.

ARTICLE I

CORPORATE OFFICERS

1.1 REGISTERED OFFICE

The registered office of the corporation in the State of Delaware shall be in the City of Wilmington, Country of New Castle, State of Delaware. The name of the registered agent of the corporation at such location is Corporation Trust Company.

1.2 OTHER OFFICES

The board of directors may at any time establish other offices at any place or places where the corporation is qualified to do business.

ARTICLE II

MEETING OF STOCKHOLDERS

2.1 PLACE OF MEETINGS

Meetings of stockholders shall be held at the principal executive offices of the corporation, or at any other place, within or outside the State of Delaware, designated by the board of directors. In the absence of any such designation, stockholders' meetings shall be held at the principal executive offices of the corporation.

2.2 ANNUAL MEETING

An annual meeting of stockholders shall be held for the election of directors at such date, time and place, either within or without the State of Delaware, as may be designated by resolution of the board of directors from time to time. Any other proper business may be transacted at the annual meeting.

2.3 SPECIAL MEETINGS

A special meeting of the stockholders may be called at any time by the board of directors, by the chairman of the board, or by the president. No other person or entity may call a special meeting of the stockholders under any circumstances.

If a special meeting is called, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the secretary of the corporation. No business may be transacted at such special meeting otherwise than specified in such notice. The secretary shall cause notice to be promptly given to the stockholders entitled to vote, in accordance with the provisions of Sections 2.4 and 2.5, that a meeting will be held at the time requested by the person or persons who called the meeting, not less than thirty-five (35) nor more than sixty (60) days after the receipt of the request. If the notice is not given within twenty (20) days after the receipt of the request, the Board of Directors, chairman of the board, president, as applicable, requesting the meeting may give notice.

2.4 NOTICE OF STOCKHOLDERS' MEETINGS

All notices of meetings of stockholders shall be in writing and shall be

sent or otherwise given in accordance with Section 2.6 of these bylaws not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting. The notice shall specify the place, date, and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

2.5 ADVANCE NOTICE OF STOCKHOLDER NOMINEES AND STOCKHOLDER BUSINESS

To be properly brought before an annual meeting or special meeting, nominations for the election of director or other business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (b) otherwise properly brought before the meeting by or at the direction of the board of directors, or (c) otherwise properly brought before the meeting by a stockholder. For such nominations or other business to be considered properly brought before the meeting by a stockholder, such stockholder must have given timely notice and in proper form of his intent to bring such business before such meeting. To be timely, such stockholder's notice must be delivered to or mailed and received by the secretary of the corporation not less than ninety (90) days prior to the meeting; provided, however, that in the event that less than one-hundred (100) days notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. To be in proper form, a stockholder's notice to the secretary shall set forth:

(i) the name and address of the stockholder who intends to make the nominations or propose the business and, as the case may be, the name and address of the person or persons to be nominated or the nature of the business to be proposed;

-2-

(ii) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and, if applicable, intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice or introduce the business specified in the notice;

(iii) if applicable, a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder;

(iv) such other information regarding each nominee or each matter of business to be proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the nominee been nominated, or

intended to be nominated, or the matter been proposed, or intended to be proposed by the board of directors; or

(v) if applicable, the consent of each nominee to serve as director of the corporation if so elected.

The chairman of the meeting may refuse to acknowledge the nomination of any person or the proposal of any business not made in compliance with the foregoing procedure.

2.6 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE

Written notice of any meeting of stockholders, if mailed, is given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the corporation. An affidavit of the secretary or an assistant or of the transfer agent of the corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

2.7 QUORUM

The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation. If, however, such quorum is not present or represented at any meeting of the stockholders, then either (i) the chairman of the meeting or (ii) the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented. At such adjourned meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting as originally noticed.

When a quorum is present or represented at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provisions of the statutes

-3-

or of the certificate of incorporation, a different vote is required, in which case such express provision shall govern and control the decision of the question.

2.8 ADJOURNED MEETING; NOTICE

When a meeting is adjourned to another time or place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time

and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

2.9 VOTING

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.12 and Section 2.14 of these bylaws, subject to the provisions of Sections 217 and 218 of the General Corporation Law of Delaware (relating to voting rights of fiduciaries, pledgors and joint owners of stock and to voting trusts and other voting agreements).

Except as may otherwise be provided in the certificate of incorporation, each stockholder be entitled to one vote for each share of capital stock held by such stockholder.

2.10 WAIVER OF NOTICE

Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

2.11 STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING

The stockholders of the corporation may not take action by written consent without a meeting but must take any such actions at a duly called annual or special meeting.

2.12 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING; GIVING CONSENTS.

In order that the corporation may determine the stockholders entitled to notice of, or to vote at, any meeting of stockholders or any adjournment thereof or entitled to express consent or dissent to

corporate action in writing without a meeting (if otherwise permitted by these bylaws and the corporation's certificate of incorporation), or entitled

to receive payment of any dividend or other distribution or allotment of any rights or entitled to receive any rights in respect of any conversion or exchange of stock or for the purpose of any other lawful action, the board of may fix, in advance, a record date, which shall be not more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action.

If the board of directors does not so fix a record date, the fixing of such record date shall be governed by the provisions of Section 213 of the General Corporation Law of Delaware.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall approve to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

2.13 PROXIES

Each stockholder entitled to vote at a meeting of stockholders or entitled to express consent or dissent to corporate action in writing without a meeting (if otherwise permitted by these bylaws and the corporation's certificate of incorporation) may authorize another person, or persons to act for him by a written proxy, signed by the stockholder and filed with the secretary of the corporation, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or otherwise) by the stockholder or the stockholder's attorney-in-fact. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212(c) of the General Corporation Law of Delaware.

2.14 LIST OF STOCKHOLDERS ENTITLED TO VOTE

The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. The stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list of stockholders or the books of the corporation, or to vote in person or by proxy at any meeting of stockholders and of the number of shares held by each such stockholder.

2.15 CONDUCT OF BUSINESS

Meetings of stockholders shall be presided over by the chairman of the board, if any, or in his absence by the president, or in his absence by a vice president, or, in the absence of the foregoing persons by a chairman designated by the board of directors, or in the absence of such designation by a chairman chosen at the meeting. The secretary shall act as secretary of the meeting, but in his absence the chairman of the meeting may appoint any person to act as secretary of the meeting. The chairman of any meeting of stockholders shall determine the order of business and the procedures at the meeting, including such matters as the regulation of the manner of voting and conduct of business.

ARTICLE III

DIRECTORS

3.1 POWERS.

Subject to the provisions of the General Corporation Law of Delaware and any limitations in the certificate of incorporation or these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

3.2 NUMBER OF DIRECTORS

The number of directors that shall constitute the whole board shall be determined by resolution of the Board of Directors or by the stockholders at the annual meeting of the stockholders.

3.3 ELECTION QUALIFICATION AND TERM OF OFFICE OF DIRECTORS

Each director shall hold office until his successor is elected and qualified or until his earlier resignation or removal. Directors need not be stockholders unless so required by the Certificate of Incorporation or these bylaws. Election of directors need not be by written ballot.

3.4 RESIGNATION AND VACANCIES

Any director may resign at any time upon written notice to the corporation. Any vacancy occurring in the board of directors may be filled by a majority of the remaining members of the board of directors, although such majority is less than a quorum, or by a plurality of the votes cast at a meeting of stockholders, and each director so elected shall hold office until the expiration of the term of office of the director whom he has replaced.

Unless otherwise provided in the certificate of incorporation or these bylaws:

(i) Vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

(ii) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the General Corporation Law of Delaware.

If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole board (as constituted immediately prior to any such increase), then the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten (10) percent of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the General Corporation Law of Delaware as far as applicable.

3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE

The board of directors of the corporation may hold meetings, both regular and special, either within or outside the State of Delaware.

Unless otherwise restricted by the certificate of incorporation or those bylaws, members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or any committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

3.6 FIRST MEETINGS

The first meeting of each newly elected board of directors shall be held at such time and place as shall be fixed by the vote of the stockholders at the annual meeting and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a

-7-

quorum shall be present. In the event of the failure of the stockholders to fix the time or place of such meeting of the newly elected board of directors, or in the event such meeting is not held at the time and place so fixed by the stockholders, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the board of directors, or as shall be specified in a written waiver signed by all of the directors.

3.7 REGULAR MEETINGS

Regular meetings of the board of directors may be held without notice at such time and at such place, within or without the State of Delaware, as shall from time to time be determined by the board.

3.8 SPECIAL MEETINGS; NOTICE

Special meetings of the board of directors may be held at such time and at such place, within or without the State of Delaware, whenever called by the chairman of the board, the president, the secretary or a majority of the directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone or facsimile to each director or sent by first-class mail or telegram, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation. If the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. If the notice is delivered personally or by telephone, facsimile or by telegram, it shall be delivered personally or by telephone, facsimile or to the telegraph company at least forty-eight (48) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the place of the meeting, if the meeting is to be held at the principal executive office of the corporation.

3.9 QUORUM

At all meetings of the board of directors, a majority of the number of

authorized directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation.

3.10 WAIVER OF NOTICE

Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of any regular or special meeting of the directors, or

-8-

members of a committee of directors, need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

3.11 ADJOURNED MEETING; NOTICE

If a quorum is not present at any meeting of the board of directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

3.12 CONDUCT OF BUSINESS

Meetings of the board of directors shall be presided over by the of the board, if any, or in his absence by the president, or in their absence by a chairman chosen at the meeting. The secretary shall act as secretary of the meeting, but in his absence the chairman of the meeting may appoint any person to act as secretary of the meeting. The chairman of any meeting shall determine the order of business and the procedures at the meeting.

3.13 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any meeting of the board of directors, or of any committee thereof, may be taken without a meeting if all members of the board or committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the board or committee.

3.14 FEES AND COMPENSATION OF DIRECTORS

Unless otherwise restricted by the certificate of incorporation or these bylaws, the board of directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the board of directors and may be paid a fixed sum for attendance at each meeting of the board of directors or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

3.15 APPROVAL OF LOANS TO OFFICERS

The corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiary, including any officer or employee who is a director of the corporation or its subsidiary, whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest and may be unsecured, or secured in such manner as the board of directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing in this section shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

-9-

ARTICLE IV

COMMITTEES

4.1 COMMITTEES OF DIRECTORS

The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, with each committee to consist of one or more of the directors of the corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors or in the bylaws of the corporation, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority to (i) amend the certificate of incorporation (except that a committee may, to the extent authorized in the

resolution or resolutions providing for the issuance of shares of stock adopted by the board of directors as provided in Section 151(a) of the General Corporation Law of Delaware, fix any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation), (ii) adopt an agreement of merger or consolidation under Sections 251 or 252 of the General Corporation Law of Delaware, (iii) recommend to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, (iv) recommend to the stockholders a dissolution of the corporation or a revocation of a dissolution, or (v) amend the bylaws of the corporation; and, unless the board resolution establishing the committee, the bylaws or the certificate of incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law of Delaware.

4.2 COMMITTEE MINUTES

Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

4.3 MEETINGS AND ACTION OF COMMITTEES

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Section 3.5 (place of meetings and meetings by telephone), Section 3.7 (regular meetings), Section 3.8 (special meetings and notice), Section 3.9 (quorum), Section 3.10 (waiver of notice), Section 3.11 (adjournment and notice of adjournment), Section 3.12

-10-

(conduct of business) and Section 3.13 (action without a meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members; provided, however, that the time of regular meetings of committees may also be called by resolution of the board of directors and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

ARTICLE V

OFFICERS

5.1 OFFICERS

The officers of the corporation shall be a president, one or more vice presidents, secretary and a treasurer. The corporation may also have, at the discretion of the board of directors, a chairman of the board, one or more assistant vice presidents, assistant secretary and any such other officers as may be appointed in accordance with the provisions of Section 5.2 of these bylaws. Any number of offices may be held by the same person.

5.2 ELECTION OF OFFICERS

Except as otherwise provided in this Section 5.2, the officers of the corporation shall be chosen by the board of directors, subject to the rights, if any, of an officer under any contract of employment. The board of directors may appoint, or empower the president to appoint (whether or not such officer is described in this Article V), such officers and agents of the business as the corporation may require, each of whom shall hold office for such period, have such authority, and perform duties as we provided in these bylaws or as the board of directors may from time to time determine. Any vacancy occurring in any office of the corporation shall be filled by the board of directors or may be filled by the president (if the president appointed such officer).

5.3 REMOVAL AND RESIGNATION OF OFFICERS

Subject to the rights, if any, of an officer under any contract or employment, any officer may be removed, either with or without cause, by a vote of the majority of the board of directors at any regular or special meeting of the board or, except in the case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors or, in the case of an officer appointed by the president, by the president.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make

-11-

it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

5.4 CHAIRMAN OF THE BOARD

The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise and perform such other powers and duties as may from time to time be assigned to him by the board of directors or as may be prescribed by these bylaws. If there is no

president, then the chairman of the board shall also be the chief executive officer of the corporation and, shall have the powers and duties prescribed in Section 5.5 of these bylaws.

5.5 PRESIDENT

Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, if there be such an officer, the president, unless otherwise determined by the board of directors, shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have general supervision, direction, and control of the business and the officers of the corporation. He shall preside at all meetings of the stockholders and, in the absence or nonexistence of a chairman of the board, at all meetings of the board of directors. He shall have the general powers and duties of management usually vested in the office of president of a corporation and shall have such other powers and duties as may be prescribed by the board of directors or these bylaws.

5.6 VICE PRESIDENTS

In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, these bylaws, the president or the chairman of the board.

5.7 SECRETARY

The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the board of directors may direct, a book of minutes of all meetings and actions of directors, committees of directors, and stockholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a share register, or a duplicate share register, showing the names of all stockholders and their

addresses, the number and classes of shares held by each, the number and date of

certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required to be given by law or by these bylaws. He shall keep the seal of the corporation, if one be adopted in safe custody and shall have other powers and perform such other duties as may be prescribed by the board of directors or by these bylaws.

5.8 TREASURER

The treasurer shall keep and maintain, or cause to be kept and maintained, and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and shares. The books of account shall at all reasonable times be open to inspection by any director.

The treasurer shall deposit all money and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the board of directors. He shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the president and directors, whenever they request it, an account of all of his directors, whenever they request it, an account of all of his transactions as treasurer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or these bylaws.

5.9 ASSISTANT SECRETARY

The assistant secretary, or, if there is more than one, the assistant secretaries in the order determined by the stockholders or board of directors (or if there be no such determination, then in the order of their election) shall, in the absence of the secretary or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the board of directors or the stockholders may from time to time prescribe.

5.10 AUTHORITY AND DUTIES OF OFFICERS

In addition to the foregoing authority and duties, all officers of the corporation shall respectively have such authority and perform such duties in the management of the business of the corporation as may be designated from time to time by the board of directors or the stockholders.

INDEMNITY

6.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS

The corporation shall, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware, as these laws may be amended and supplemented from time to time, indemnify each of its directors and officers against expenses (including attorneys' fees), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding, or threatened proceeding, arising by reason of the fact that such person is or was an agent of the corporation. For purposes of this Section 6.1, a "director" or "officer" of the corporation includes any person (i) who is or was a director or officer of the corporation, (ii) who is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, including, without limitation, any direct or indirect subsidiary of the corporation, or (iii) who was a director or officer of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation; provided, however, that the corporation shall indemnify any such agent in connection with a proceeding initiated by such agent only if such proceeding was authorized by the Board of Directors of the corporation. The indemnification provided in this Article VI shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any bylaw, agreement or vote of stockholders or disinterested directors or otherwise, both as to action in their official capacities and as to action in another capacity while holding such office.

6.2 INDEMNIFICATION OF OTHERS

The corporation shall have the power, to the extent and in the manner permitted by the General Corporation Law of Delaware, to indemnify each of its employees and agents (in addition to directors and officers) against expenses (including attorneys' fees), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding arising by reason of the fact that such person is or was an agent of the corporation. For purposes of this Section 6.2, an "employee" or "agent" of the corporation includes any person (i) who is or was an employee or agent of the corporation, (ii) who is or was serving at the request of the corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including, without limitation, any direct or indirect subsidiary of the corporation, or (iii) who was an employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation; provided, however, that the corporation shall indemnify any such agent in connection with a proceeding initiated by such agent only if such proceeding was authorized by the Board of Directors of the corporation. The indemnification provided in this Article VI shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any bylaw, agreement or vote of stockholders or disinterested directors or otherwise.

6.3 INSURANCE

The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of the General Corporation Law of Delaware.

ARTICLE VII

RECORDS AND REPORTS

7.1 MAINTENANCE AND INSPECTION OF RECORDS

The corporation shall, either at its principal executive office or at such place or places as designated by the board of directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these bylaws as amended to date, accounting books, and other records.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholders. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business.

7.2 INSPECTION BY DIRECTORS

Any director shall have the right to examine the corporation's stock ledger, a list of its holders, and its other books and records for a purpose reasonably related to his position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with references

to the inspection, or award such other and further relief as the Court may deem just and proper.

-15-

7.3 REPRESENTATION OF SHARES OF OTHER CORPORATIONS

The chairman of the board, the president, any vice president, the treasurer, the secretary or assistant secretary of this corporation, or any other person authorized by the board of directors or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

ARTICLE VIII

GENERAL MATTERS

8.1 STOCK CERTIFICATES; PARTLY PAID SHARES

The shares of a corporation shall be represented by certificates, provided that the board of directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the board of directors, every holder of stock represented by certificates and, upon request, every holder of uncertificated shares, shall be entitled to have a certificate signed by, or in the name of the corporation by the chairman the board of directors, or the president or vice-president, and by the treasurer, or the secretary or an assistant secretary of such corporation representing the number of shares registered in certificated form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, or upon the books and records of the corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated.

Upon the declaration of any dividend on fully paid shares, the corporation shall declare a dividend upon partly paid shares of the same but only upon the basis of the percentage of the consideration actually paid thereon.

8.2 LOST CERTIFICATES

Except as provided in this Section 8.2, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The corporation may issue a new certificate of stock or uncertificated shares in the place of any

-16-

certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or his legal representative, to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged lose, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

8.3 CONSTRUCTION; DEFINITIONS

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the Delaware General Corporation Law shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

8.4 DIVIDENDS

The directors of the corporation, subject to any restrictions contained in the certificate of incorporation, may declare and pay dividends upon the shares of its capital stock pursuant to the General Corporation Law of Delaware. Dividends may be paid in cash, in property, or in shares of the corporation's capital stock.

The directors of the corporation may set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve.

8.5 FISCAL YEAR

The fiscal year of the corporation shall be fixed by resolution of the board of directors and may be changed by the board of directors.

8.6 SEAL

The corporation may adopt a corporate seal, which may be altered at pleasure, and may use the same by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

8.7 TRANSFER OF STOCK

Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction in its books.

-17-

8.8 STOCK TRANSFER AGREEMENTS

The corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the corporation to restrict the transfer of shares of stock of the corporation of any one or more classes owned by such stockholders in any manner not prohibited by the General Corporation Law of Delaware.

8.9 REGISTERED STOCKHOLDERS

The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner, shall be entitled to hold liable for calls and assessments the person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE IX

AMENDMENTS

The original or other bylaws of the corporation may be adopted, amended or repealed by the stockholders entitled to vote; provided, however, that the corporation may, in its certificate of incorporation, confer the power to adopt, amend or repeal bylaws upon the directors. The fact that such power has been so conferred upon the directors shall not divest the stockholders of the power, nor limit their power to adopt, amend or repeal bylaws pursuant to the voting procedures for stockholder actions otherwise set forth in these bylaws as amended from time to time.

ARTICLE X

DISSOLUTION

If it should be deemed advisable in the judgment of the board of directors of the corporation that the corporation should be dissolved, the board, after the adoption of a resolution to that effect by a majority of the whole board at any meeting called for that purpose, shall cause notice to be mailed to each stockholder entitled to vote thereon of the adoption of the resolution and of a meeting of stockholders to take action upon the resolution.

At the meeting a vote shall be taken for and against the proposed dissolution. If a majority of the outstanding stock of the corporation entitled to vote thereon votes for the proposed dissolution, then a certificate stating that the dissolution has been authorized in accordance with the provisions of Section 275 of the General Corporation Law of Delaware and setting forth the names and residences of the directors and officers shall be executed, acknowledged, and filed and shall become effective in

-18-

accordance with Section 103 of the General Corporation Law of Delaware. Upon such certificate's becoming effective in accordance with Section 103 of the General Corporation Law of Delaware, the corporation shall be dissolved.

ARTICLE XI

CUSTODIAN

11.1 APPOINTMENT OF A CUSTODIAN IN CERTAIN CASES

The Court of Chancery, upon application of any stockholder, may appoint one or more persons to be custodians and, if the corporation is insolvent, to be receivers, of and for the corporation when:

(i) at any meeting held for the election of directors the stockholders are so divided that they have failed to elect successors to directors whose terms have expired or would have expired upon qualification of their successors; or

(ii) the business of the corporation is suffering or is threatened with irreparable injury because the directors are so divided respecting the management of the affairs of the corporation that the required vote for action by the board of directors cannot be obtained and the stockholders are unable to terminate this division; or

(iii) the corporation has abandoned its business and has failed within a reasonable time to take steps to dissolve, liquidate or distribute its assets.

11.2 DUTIES OF CUSTODIAN

The custodian shall have all the powers and title of a receiver appointed under Section 291 of the General Corporation Law of Delaware, but the authority of the custodian shall be to continue the business of the corporation and not to liquidate its affairs and distribute its assets, except when the Court of Chancery otherwise orders and except in cases arising under Sections 226(a)(3) or 352(a)(2) of the General Corporation Law of Delaware.

-19-

CERTIFICATE OF SECRETARY OF
SPECTRUM HOLOBYTE, INC.

The undersigned, Gregory S. Kennedy, Esq., hereby certifies that he is the duly elected and acting Secretary of Spectrum HoloByte, Inc., a Delaware corporation (the "Corporation"), and that the Bylaws attached hereto constitute the Bylaws of said Corporation as duly adopted by resolution of the Board of Directors at a duly and validly called regular meeting of the Board of Directors on the 30th day of October, 1996.

IN WITNESS WHEREOF, the undersigned has hereunto subscribed his name this 12th day of November, 1996.

Gregory S. Kennedy, Esq., Secretary

EXHIBIT 11.1

SPECTRUM HOLOBYTE, INC.
STATEMENT RE: COMPUTATION OF NET INCOME (LOSS) PER SHARE
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

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	Three Months Ended September 30,		Six Months Ended September 30,	
	1996	1995	1996	1995
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Net income (loss) before extraordinary item	\$ 1,831	\$ (11,591)	\$ (2,352)	\$ (20,989)
Cumulative dividends on Series A preferred stock	(70)	(70)	(140)	(140)
Net income (loss) for the purposes of calculating the earnings per share before extraordinary item	1,761	(11,661)	(2,492)	(21,129)
Extraordinary item, net of tax effect	879	-	3,547	-
Net income (loss) for the purposes of calculating the earnings per share	\$ 2,640	\$ (11,661)	\$ 1,055	\$ (21,129)
Shares used in per share computations	28,214	23,666	26,674	23,037
Net income (loss) per share:				
Net income (loss) before extraordinary item	\$ 0.06	\$ (0.49)	\$ (0.09)	\$ (0.92)
Extraordinary item, net of tax effect	0.03	-	0.13	-
Net income (loss)	\$ 0.09	\$ (0.49)	\$ 0.04	\$ (0.92)

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF OPERATIONS FOUND ON PAGES 3 AND 4 OF THE COMPANY'S 10-Q FOR THE YEAR-TO-DATE, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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