

TAKE TWO INTERACTIVE SOFTWARE INC
Form 10-KT
December 20, 2010

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-KT

o **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

OR

ý **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the transition period from November 1, 2009 to March 31, 2010.
Commission file number 0-29230**

TAKE-TWO INTERACTIVE SOFTWARE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

51-0350842
(I.R.S. Employer
Identification No.)

622 Broadway
New York, New York
(Address of principal executive offices)

10012
(Zip Code)

Registrant's Telephone Number, Including Area Code: **(646) 536-2842**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.01 par value	NASDAQ Global Select Market

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately \$712,231,000.

As of December 14, 2010, there were 85,351,968 shares of the Registrant's Common Stock outstanding.

Documents Incorporated by Reference:

Portions of the registrant's definitive proxy statement for the 2010 Annual Meeting of Stockholders are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-KT

INDEX

	PAGE
<u>PART I</u>	
<u>Item 1.</u> <u>Business</u>	1
<u>Item 1A.</u> <u>Risk Factors</u>	11
<u>Item 1B.</u> <u>Unresolved Staff Comments</u>	23
<u>Item 2.</u> <u>Properties</u>	23
<u>Item 3.</u> <u>Legal Proceedings</u>	24
<u>PART II</u>	
<u>Item 5.</u> <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	28
<u>Item 6.</u> <u>Selected Financial Data</u>	30
<u>Item 7.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
<u>Item 7A.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	59
<u>Item 8.</u> <u>Financial Statements and Supplementary Data</u>	60
<u>Item 9.</u> <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	60
<u>Item 9A.</u> <u>Controls and Procedures</u>	60
<u>Item 9B.</u> <u>Other Information</u>	61
<u>PART III</u>	
<u>Item 10.</u> <u>Directors and Executive Officers and Corporate Governance</u>	62
<u>Item 11.</u> <u>Executive Compensation</u>	62
<u>Item 12.</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	62
<u>Item 13.</u> <u>Certain Relationships and Related Transactions, and Director Independence</u>	62
<u>Item 14.</u> <u>Principal Accounting Fees and Services</u>	62
<u>PART IV</u>	
<u>Item 15.</u> <u>Exhibits, Financial Statement Schedules</u>	63
<u>Index to Financial Statements</u>	68
<u>Signatures</u>	114

Table of Contents

EXPLANATORY NOTE

On October 25, 2010, the Company's Board of Directors approved a change in the Company's fiscal year end from October 31 to March 31, as reported in the Company's Current Report on Form 8-K filed on October 25, 2010. The Company implemented the fiscal year end change to align its fiscal periods more closely with the seasonality of its business and improve comparability with industry peers. This Form 10-KT is a Transition Report and covers the period from, and includes financial information for, the five-month period from November 1, 2009 to March 31, 2010 (the "Transition Period").

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

The statements contained herein which are not historical facts are considered forward-looking statements under federal securities laws and may be identified by words such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "potential," "predicts," "projects," "seeks," "will," or words of similar meaning and include, but are not limited to, statements regarding the outlook for the Company's future business and financial performance. Such forward-looking statements are based on the current beliefs of our management as well as assumptions made by and information currently available to them, which are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Actual outcomes and results may vary materially from these forward-looking statements based on a variety of risks and uncertainties including, but not limited to, those discussed under the heading "Risk Factors," beginning on page 11. All forward-looking statements are qualified by these cautionary statements and apply only as of the date they are made. The Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business

General

We are a global publisher and developer of interactive entertainment software. Our business consists of our wholly-owned labels Rockstar Games and 2K, which publishes its titles under 2K Games, 2K Sports and 2K Play. We develop, publish, market and sell software titles for gaming and entertainment hardware platforms including: Sony's PlayStation®3 ("PS3") and PlayStation®2 ("PS2") computer entertainment systems; Sony's PSP® (PlayStation®Portable) ("PSP") system; Microsoft's Xbox 360® ("Xbox 360") video game and entertainment system; Nintendo's Wii ("Wii") and DS ("DS") systems; the PC; and Apple's iPhone® ("iPhone"), iPod® touch ("iPod touch") and iPad ("iPad"). We also selectively develop and publish titles for digital distribution via Sony's PlayStation®Network ("PSN") and Microsoft's Xbox LIVE® Marketplace ("Xbox LIVE") and Xbox LIVE® Arcade ("XBLA"), as well as digitally offer our PC titles through online download stores and services such as Steam. The global installed base for the prior generation of platforms, including PS2 and DS ("prior generation platforms") is substantial. The release of the PS3, Xbox 360, and Wii platforms ("current generation platforms") has further expanded the video game software market. We are continuing to increase the number of titles released on the current generation platforms while also developing titles for certain prior generation platforms such as PS2 and DS given their significant installed base, as long as it is economically attractive to do so. We have pursued a strategy of capitalizing on the widespread market acceptance of interactive entertainment, as well as the growing popularity of innovative action, adventure, racing, role-playing, sports and strategy games that appeal to the expanding demographic of video game players.

The demographics of the interactive entertainment industry audience have broadened significantly over the past few years, with video games becoming an increasingly popular form of mainstream entertainment. According to the Entertainment Software Association, more than two-thirds of all American households play PC or video games, with an estimated 68% of heads of households now playing games. The average game player is 35 years old and has been actively playing for 12 years. Despite the widening of this audience, the video game industry has not been immune to the ongoing challenges of the economic

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Table of Contents

environment. The "Global Video Game Market Update" published by *International Development Group* ("IDG") in February 2010 forecasts that the annual sales of video game software in North America, Europe, and Japan will decline from \$25.0 billion in 2009 to an estimated \$18.4 billion in 2014. In addition, IDG forecasts that the number of video game software units sold annually will also decline from 586.0 million in 2009 to an estimated 442.9 million in 2014. Details on the estimated global sales value and unit sales of console, handheld and PC software from 2009 through 2014 are as follows:

Global Sales of Console, Handheld and PC Software*	2009	2010E	2011E	2012E	2013E	2014E
Sales Value (in \$US, millions)	\$ 25,038	\$ 23,050	\$ 19,795	\$ 18,146	\$ 17,337	\$ 18,431
Units Sold (in millions)	586.0	587.7	539.2	506.4	467.5	442.9

*

Sales data and forecasts for North America, Europe, and Japan including PC and current and next generation console and handheld platforms.

Source:

International Development Group, February 2010

We were incorporated under the laws of the State of Delaware in 1993 and are headquartered in New York, New York with 2,202 employees globally. Our telephone number is (646) 536-2842 and our website address is www.take2games.com. We make all of our filings with the Securities and Exchange Commission ("SEC") available free of charge on our website under the caption "Corporate SEC Filings." Included in these filings are our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, which are available as soon as reasonably practicable after we electronically file or furnish such materials with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

Our website and the information contained therein or connected thereto are not intended to be incorporated into this Transition Report on Form 10-KT. You may also obtain copies of our reports without charge by writing to:

Take-Two Interactive Software, Inc.
622 Broadway
New York, NY 10012
Attn: Investor Relations

You may read and copy any document we file with the SEC at the SEC's public reference room at 100 F Street, NE, Room 1580, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a website that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including the Company) file electronically with the SEC. The SEC's website is www.sec.gov.

Discontinued operations

In February 2010, we completed the sale to SYNEX Corporation ("Synnex") of our Jack of all Games third party distribution business, which primarily distributed third party interactive entertainment software, hardware and accessories in North America for approximately \$44.0 million, including \$37.3 million in cash, subject to purchase price adjustments, and up to an additional \$6.7 million, subject to the achievement of certain items. The financial results of this business, which were previously reported as our distribution business, have been classified as discontinued operations in our Consolidated Statements of Operations for all periods presented. The assets and liabilities of this business are reflected as assets and liabilities of discontinued operations in the Consolidated Balance Sheets for all periods presented. See Note 3 to our Consolidated Financial Statements for additional information regarding discontinued operations.

Table of Contents

Strategy

Overview. We endeavor to be the most creative, innovative and efficient company in our industry. Our strategy is to capitalize on the interactive entertainment market, particularly the expanding demographics of video game players, and focus on creating premium quality games and successful franchises for which we can create sequels. We develop most of our frontline products internally and own the intellectual property associated with most of our titles, which we believe best positions us financially and competitively. We have established a portfolio of proprietary software content for the major hardware platforms in a wide range of genres including action, adventure, racing, role-playing, sports and strategy. We believe that our commitment to creativity and innovation is a distinguishing strength, allowing us to differentiate many of our products in the marketplace by combining advanced technology with compelling storylines and characters that provide unique gameplay experiences for consumers. We have created, acquired or licensed a group of highly recognizable brands to match the variety of consumer demographics we aspire to serve, ranging from adults to children and game enthusiasts to casual gamers.

Support Label Structure to Target Distinct Market Segments. Our business consists of our wholly-owned labels Rockstar Games and 2K, which publishes its titles under 2K Games, 2K Sports and 2K Play. Each group focuses on distinct product genres and target demographics. We expect Rockstar Games, our wholly-owned publisher of the hit *Grand Theft Auto* and *Midnight Club* franchises, to continue to be a leader in the action product category and create groundbreaking entertainment by leveraging our existing titles as well as developing new brands. We expect 2K Games, developer and publisher of our successful *Sid Meier's Civilization* series and our critically acclaimed *BioShock* franchise, to continue to develop new and successful franchises in the future. Our 2K Sports series, which includes *Major League Baseball 2K*, *NBA 2K* and *NHL 2K*, are generally published on an annual basis. 2K Play focuses on the market of casual and family-oriented games such as *Carnival Games*, an internally developed and owned franchise. 2K Play has leveraged this franchise through sequels and product extensions, including *Carnival Games MiniGolf*. We also have expansion initiatives in the rapidly growing Asia-Pacific markets, where our strategy is to broaden the distribution of our existing products, expand our business in Japan, and establish an online gaming presence, especially in China and Korea.

Maximize Product Selection and Development. Our primary strategy is to publish a select number of high quality titles based on internally owned and developed intellectual property, which typically provide higher margins than licensed products. We currently have 12 proprietary brands which we expect to leverage in the future. In addition, we will selectively develop titles based on licensed properties, including sports, and also publish externally developed titles.

We use a product investment review process to evaluate potential titles for investment, to review existing titles in development, and to assess titles after release to measure their performance in the market and the return on our investment. We apply this process to all of our products, whether internally or externally developed. The product investment review process includes reviews of each project at various stages of development by our executive management team and senior management of our publishing labels, and includes coordination between our sales and marketing personnel before the launch of the titles. This disciplined approach to product investment is expected to enhance the competitiveness and profitability of our titles.

We develop our products using a combination of our internal and external development resources acting under contract with us. We typically select our external developers based on their track record and expertise in developing products in the same category or genre. One developer will generally produce the same game for multiple platforms and will also produce sequels to an original game. We believe that selecting and using development resources in this manner allows us to leverage the particular expertise of our internal and external development resources, which we believe increases the quality of our products.

Diversify Revenue by Title, Genre, Platform, and Target Demographic. We believe the diversification of our product mix will reduce our operating risks and increase our revenue. We have expansion initiatives in the

Table of Contents

rapidly growing Asia-Pacific markets, where our strategy is to broaden the distribution of our existing products, expand our business in Japan, and establish an online gaming presence, especially in China and Korea. In addition, we expect to offer a wider variety of titles for an expanded group of customers through 2K Play, which is focused on family and casual games. To take advantage of their increasing installed base we selectively offer our titles on the PS3, Xbox 360, Wii, PS2, PSP, DS, PC, iPhone, iPod touch and iPad.

Leverage Emerging Technologies. We continually seek to capitalize on the technological advances in our industry that are leading to new revenue streams. We see opportunities in a variety of areas, including downloadable content, in-game advertising, micro-transactions, and social games. During the five months ended March 31, 2010, we released downloadable content for *Borderlands: The Zombie Island of Dr. Ned* and *Borderlands: Mad Moxxi's Underdome Riot*, both on Xbox LIVE and PSN, as well as *BioShock 2: Sinclair Solutions Tester Pack*, on Xbox LIVE, PSN and the PC. During the fiscal year ended October 31, 2009, we released downloadable content for *Grand Theft Auto IV* on Xbox LIVE, and downloadable content for *Midnight Club: Los Angeles South Central* on Xbox LIVE and PSN. We also released *NBA 2K10: Draft Combine*, a download-only experience on XBLA and PSN, and during the fiscal year ended October 31, 2008, we released downloadable content for *BioShock®* on PSN. We have also begun to develop and publish titles for the iPhone and iPod touch, including *Sid Meier's Civilization® Revolution* which was released during the fiscal year ended October 31, 2009, and casual gaming titles exclusively for XBLA, including the launch of *Axel & Pixel* during the fiscal year ended October 31, 2009, and *The Misadventures of P.B. Winterbottom*, which was released in February 2010. We are beginning to develop gaming experiences that capitalize on the increasing consumer adoption of social networks. We currently include in-game advertising in many of our sports titles. We also continue to pursue opportunities that exist for networked gameplay, particularly for our wholly-owned franchises, as well as micro-transactions, where gamers can pay to download additional content to enhance their game playing experience.

Expand International Business. The global market for interactive entertainment continues to grow and we seek to increase our presence internationally, particularly in Asia, Eastern Europe and Latin America. We have expansion initiatives in the Asian markets, where our strategy is to broaden the distribution of our existing products, expand our business in Japan, and establish an online gaming presence, especially in China and Korea. Historically, we typically distributed our products in Asia through license agreements with local publishers in Japan and Korea, and distribution agreements with local distributors of finished goods elsewhere in Asia. While we retain title to all intellectual property, under license agreements local publishers are responsible for localization of software content, distribution and marketing of the products in their respective local markets. We intend to continue to build upon these licensing relationships and also expand finished goods distribution strategies to grow our international business. During the fiscal year ended October 31, 2009, 2K Sports secured a multi-year license from the NBA to develop an online version of an NBA simulation game in China, Taiwan, South Korea and Southeast Asia. At the same time, 2K Sports also announced a partnership with Tencent Holdings Limited, one of China's leading online game operators, to co-develop and publish *NBA 2K Online* in China.

Our Publishing and Software Development Businesses

Revenue in our publishing business primarily is derived from the sale of internally developed software titles and software titles developed by third parties for our benefit. Operating margins in our publishing business are dependent in part upon our ability to continually release new, commercially successful products and to manage software product development costs. We have internal development studios located in Australia, Canada, China, Czech Republic, the United Kingdom, and the United States. As of March 31, 2010, we had a research and development staff of 1,641 employees with the technical capabilities to develop software titles for all major current and prior generation consoles, handheld hardware platforms and PCs in multiple languages and territories.

Operating margins associated with our externally developed titles, or titles for which we do not own the intellectual property, are generally lower because they require us to acquire licenses, provide minimum

Table of Contents

development guarantees, and pay third party royalties. Agreements with third party developers generally give us exclusive publishing and marketing rights and require us to make development payments, pay royalties based on product sales and satisfy other conditions. Development payments for software titles are typically recoupable against royalties otherwise due to developers based on software sales. Our agreements with third party developers generally provide us with the right to monitor development efforts and to cease making development payments if specified development milestones are not satisfied. We also regularly monitor the level of development payments in light of expected sales for the related titles.

The development cycle for our titles generally ranges from 12 to more than 24 months and our top-selling titles could take up to three years or longer to develop. Although we often simultaneously develop our software for multiple platforms, in certain cases it can take 9 to 12 months to adapt a product for additional hardware platforms after initial development for one platform is completed. The cost to develop a frontline software product generally ranges from \$10 million to \$40 million, with our top titles exceeding these amounts. We expect that development costs and time will continue to increase for current generation platforms.

We continue to explore new revenue streams as they evolve, including higher margin sources such as downloadable content and in-game advertising. During the five months ended March 31, 2010, we released downloadable content, allowing gamers to further expand their gameplay experience, for the following titles: *Borderlands: The Zombie Island of Dr. Ned*, *Borderlands: Mad Moxxi's Underdome Riot* and *BioShock 2: Sinclair Solutions Tester Pack*. During the fiscal year ended October 31, 2009, our downloadable content releases included *Grand Theft Auto IV: The Lost and Damned*, *Midnight Club: Los Angeles South Central Map Expansion* and *South Central Premium Upgrade*, *Grand Theft Auto: The Ballad of Gay Tony* and *NBA@2K10: Draft Combine*. We expect downloadable content to become more prevalent as broadband connectivity continues to gain popularity and digital delivery platforms such as Xbox LIVE and PlayStation Network gain additional customers.

Rockstar Games. Software titles published by our Rockstar Games label are primarily internally developed. We expect Rockstar Games, our wholly-owned publisher of the hit *Grand Theft Auto* and *Midnight Club* franchises, to continue to be a leader in the action product category and create groundbreaking entertainment by leveraging our existing franchises as well as developing new brands. We believe that Rockstar has established a uniquely original, popular cultural phenomenon with its *Grand Theft Auto* series and continues to expand on our established franchises by releasing sequels as well as offering downloadable episodes and content. During the fiscal year ended October 31, 2009, Rockstar released the critically acclaimed *Grand Theft Auto: Chinatown Wars* on the Nintendo DS and Sony PSP and, in January 2010, released it on the iPhone and iPod touch. In May 2010, Rockstar released the critically acclaimed *Red Dead Redemption* on Xbox 360 and PS3. Rockstar is also well known for developing brands in other genres, including the *Bully*, *Manhunt*, *Max Payne* and *Red Dead* franchises, and introduced a new brand in the music genre during the fiscal year ended October 31, 2009 with *Rockstar Games and Timbaland present Beaterator*.

2K. Our 2K label publishes its titles under 2K Games, 2K Sports and 2K Play:

2K Games. 2K Games has published a variety of popular entertainment properties across multiple genres and platforms and we expect 2K Games to continue to develop new and successful franchises in the future. 2K Games' internally owned and developed franchises include the critically acclaimed, multi-million unit selling *BioShock*, *Mafia*, and *Sid Meier's Civilization* series. In February 2010, 2K Games released *BioShock 2*, a new multiplayer experience that enhances the lore and fiction of the *BioShock* universe. 2K Games also expanded the *Sid Meier's Civilization* series by releasing *Sid Meier's Civilization® Revolution* onto mobile platforms for the iPhone, iPod touch and iPad. 2K Games expects to further expand upon the *Civilization* franchise by introducing *Sid Meier's Civilization® Network* on Facebook in the future. 2K Games has also published titles that were externally developed, such as *The Darkness*, *The Elder Scrolls IV: Oblivion®* and *Borderlands*, which has become another key franchise for 2K Games since its launch in October 2009.

Table of Contents

2K Sports. We develop most of our 2K Sports software titles through our internal development studios including the *Major League Baseball 2K* series, *NBA 2K* series, *NHL 2K* series, our *Top Spin* tennis series, and our *Don King* boxing title. 2K Sports has secured long-term, third party exclusive licensing relationships with Major League Baseball Properties, the Major League Baseball Players Association and Major League Baseball Advanced Media. In addition, 2K Sports has secured licensing agreements with the National Basketball Association ("NBA") and the National Hockey League ("NHL").

We also have expansion initiatives in the rapidly growing Asia markets, where our strategy is to broaden the distribution of our existing products, expand our business in Japan, and establish an online gaming presence, especially in China and Korea. During the fiscal year ended October 31, 2009, 2K Sports secured a multi-year license from the NBA to develop an online version of the NBA simulation game in China, Taiwan, South Korea and Southeast Asia. At the same time, 2K Sports also announced a partnership with Tencent Holdings Limited, one of China's leading online game operators, to co-develop and distribute *NBA 2K Online* in China.

2K Play. 2K Play focuses on developing and publishing titles for the growing market of casual and family-friendly games. 2K Play titles are developed by both internal development studios and third party developers. Internally developed titles include *Carnival Games* and *Birthday Party Bash*. In November 2009, 2K Play released a new licensed casual and family-friendly, internally developed game, *Ringling Bros. and Barnum & Bailey® Circus*. 2K Play also has a partnership with Nickelodeon to publish video games based on its top rated Nick Jr. titles such as *Dora the Explorer*; *Go, Diego, Go!*; *Ni Hao, Kai-lan* and *The Backyardigans*. In February 2010, 2K Play released *The Misadventures of P.B. Winterbottom* on XBLA and is working with several small independent developers to publish additional casual gaming titles for XBLA, such as *Axel & Pixel*. We expect family-oriented gaming to continue to be a component of our industry in the future.

Intellectual Property

Our business is highly dependent on the creation, acquisition, licensing and protection of intellectual property. Some of the intellectual property rights we have created or acquired for our internally-owned portfolio of brands are: *BioShock*, *Bully*, *Carnival Games*, *Darkness*, *Grand Theft Auto*, *Mafia*, *Manhunt*, *Max Payne*, *Midnight Club*, *Railroad Tycoon*, *Red Dead*, *Rockstar Games Presents Table Tennis*, *Sid Meier's Civilization*, *Sid Meier's Pirates!*, *Sid Meier's Railroads!*, *Smuggler's Run*, *Spec Ops*, and *Top Spin*. We believe that content ownership facilitates our internal product development efforts and maximizes profit potential. We attempt to protect our software and production techniques under copyright, trademark and trade secret laws as well as through contractual restrictions on disclosure, copying and distribution. Although we generally do not hold any patents, we obtain trademark and copyright registrations for many of our products.

We also enter into content license agreements, such as those with sports leagues and players associations, movie studios and performing talent, music labels and musicians. These licenses are typically limited to use of the licensed rights in products for specific time periods. In addition, we license and include console manufacturer technology in our products on a non-exclusive basis, which allows our games to be played on their respective hardware systems.

Arrangements with Platform Manufacturers

We have entered into license agreements with Sony, Microsoft, Nintendo and Apple to develop and publish software in Australia, Europe and North America. We are not required to obtain any licenses from hardware manufacturers to develop titles for the PC.

Table of Contents

Sony. Sony Computer Entertainment, Inc. grants us the right and license to develop, market, publish and distribute software titles for the PS3, PS2 and PSP. We are required to submit products to Sony for approval and to make royalty payments to Sony based on the number of units manufactured or revenue from downloaded content. In addition, products for the PS3, PS2 and PSP are required to be manufactured by Sony.

Microsoft. Under the terms of the license agreements that we have entered into with Microsoft Corporation and its affiliates, Microsoft granted us the right and license to develop, market, publish and distribute software titles for the Xbox 360. The agreements require us to submit products to Microsoft for approval and for us to make royalty payments to Microsoft based on the number of units manufactured or revenue from downloaded content. In addition, products for the Xbox 360 are required to be manufactured by Microsoft approved manufacturers.

Nintendo. Under the terms of the license agreements that we have entered into with Nintendo Co., Ltd. and its affiliates, Nintendo granted us the right and license to develop, market, publish and distribute software for Nintendo's Wii and DS. The agreements require us to submit products to Nintendo for approval and for us to make royalty payments to Nintendo based on the number of units manufactured. In addition, products for such platforms are required to be manufactured by Nintendo.

Apple. Under the terms of the license agreements that we have entered into with Apple and Apple Subsidiaries, Apple granted us the right and license to develop applications for the iPhone, iPod touch and iPad. The agreements require us to submit products to Apple for approval and for us to pay commissions based on prices paid by end users.

Manufacturing

Sony, Nintendo and Microsoft either manufacture or control selection of approved manufacturers of software products sold for use on their respective hardware platforms. We place a purchase order for the manufacture of our products with Sony, Nintendo or Microsoft and then send software code and a prototype of the product to the manufacturer, together with related artwork, user instructions, warranty information, brochures and packaging designs for approval, defect testing and manufacture. Games are generally shipped within two to three weeks of receipt of our purchase order and all materials.

Production of PC software is performed by third party vendors in accordance with our specifications and includes CD-ROM pressing, assembly of components, printing of packaging and user manuals and shipping of finished goods. We send software code and a prototype of a title, together with related artwork, user instructions, warranty information, brochures and packaging designs to the manufacturers. Games are generally shipped within two weeks of receipt of our manufacturing order.

We occasionally experience difficulties or delays in the manufacture of our titles; however such delays have not significantly harmed our business to date. We have not experienced material delays due to manufacturing defects. Our software titles typically carry a 90-day limited warranty.

Sales

We sell software titles to retail outlets in North America, Europe and Asia through direct relationships with large retail customers and third party distributors. Our customers in North America include leading mass merchandisers such as Wal-Mart; specialty retailers such as GameStop; video stores such as Blockbuster; electronics stores such as Best Buy; toy stores such as Toys "R" Us; national and regional drug stores; and supermarket and discount store chains. Our European customers include Media Markt, Game Group, and GEM Distribution. We have sales operations in the Asia-Pacific region, Australia, Austria, Canada, France, Germany, the Netherlands, New Zealand, Spain, Switzerland, the United Kingdom and the United States.

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Table of Contents

We are dependent on a limited number of customers that account for a significant portion of our sales. Sales to our five largest customers during the five months ended March 31, 2010 accounted for approximately 55.7% of our net revenue, with GameStop and Wal-Mart accounting for 24.1% and 14.9%, respectively. Sales to our five largest customers during the fiscal year ended October 31, 2009 accounted for approximately 56.4% of our net revenue, with GameStop, Wal-Mart and Best Buy accounting for 19.3%, 16.5% and 10.1%, respectively. No other customer accounted for more than 10.0% of our net revenue during the five months ended March 31, 2010 and fiscal year ended October 31, 2009.

We also digitally distribute our titles, downloadable content and micro transactions direct to consoles, PCs, and communications devices. While digital distribution is a growing business for our industry and company, we continue to view packaged goods and traditional retailers as being the primary channel for the sale of our products for the foreseeable future.

Marketing

Our marketing and promotional efforts are intended to maximize exposure and broaden distribution of our titles, promote brand name recognition, assist retailers and properly position, package and merchandise our titles.

We market titles by:

Implementing public relations campaigns, using print and online advertising, television, radio spots and outdoor advertising. We believe that we label and market our products in accordance with the applicable principles and guidelines of the Entertainment Software Rating Board, or the ESRB, an independent self-regulatory body that assigns ratings and enforces advertising guidelines for the interactive software industry.

Actively pursuing relationships with participants in the music and entertainment industries. We believe that the shared demographics between various media and some of the software titles marketed by our publishing labels provide excellent cross-promotional opportunities. We continue to work with popular recording artists to create sophisticated game soundtracks, enter into agreements to license high-profile names and likenesses, and make arrangements for co-branding opportunities.

Satisfying certain shelf life and sales requirements under our agreements with hardware manufacturers in order to qualify for Sony's Greatest Hits Programs and Microsoft's Platinum Hits Program. In connection with these programs, we receive manufacturing discounts from Sony and Microsoft. Similarly, Nintendo has also established a Player's Choice Program for the Wii.

Stimulating continued sales by reducing the wholesale prices of our products to retailers at various times during the life of a product. Price concessions may occur at any time in a product's life cycle, but typically occur three to nine months after a product's initial launch. During the five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2009, 2008 and 2007, price concessions to retailers amounted to \$53.2 million, \$41.4 million, \$49.4 million, \$41.9 million and \$48.2 million, respectively. In certain international markets, we also provide volume rebates to stimulate continued product sales.

We also employ various other marketing methods designed to promote consumer awareness, including in-store promotions and point-of-purchase displays, direct mail, co-operative advertising, as well as attendance at trade shows. We employ separate sales forces for our publishing and distribution operations. As of March 31, 2010, we had a sales and marketing staff of 232 people.

Our products generally sell at retail prices ranging from \$19.99 to \$59.99 in North America. Products designed for the iPhone, iPod touch and iPad generally sell at retail prices ranging from \$4.99 to \$9.99 in

Table of Contents

North America. Products that are designated Sony's Greatest Hits (for PS3, PS2 and PSP) and Microsoft's Platinum Hits (for Xbox 360) generally sell at prices ranging from \$19.99 to \$29.99 in North America.

Product Procurement

We procure products from suppliers principally using standard purchase orders based on our assessment of market demand, as well as pre-orders from retailers. We carry inventory quantities that we believe are necessary to provide rapid response to retailer orders. We utilize electronic data interchange with many of our customers to enhance the efficiency of placing and shipping orders and receiving payments.

Competition

In our publishing business, we compete with:

Companies that range in size and cost structure from very small with limited resources to very large companies with greater financial, marketing and technical personnel and other resources than ours, including Activision Blizzard, Electronic Arts and THQ, and international companies, such as Capcom, Square Enix, Konami, Namco-Bandai, SEGA and Ubisoft.

Sony, Microsoft and Nintendo for licenses to properties and the sale of interactive entertainment software, each of which is a large developer and marketer of software for its own platforms. Each of these competitors has the financial resources to withstand significant price competition and to implement extensive advertising campaigns.

Other software, hardware, entertainment and media for limited retail shelf space and promotional resources. The competition is intense among an increasing number of newly introduced entertainment software titles and hardware for adequate levels of shelf space and promotional support.

Other forms of entertainment such as motion pictures, television and audio, online computer programs and other forms of entertainment which may be less expensive or provide other advantages to consumers.

Competition in the entertainment software industry is based on innovation, features, playability, and product quality; brand name recognition; compatibility with popular platforms; access to distribution channels; price; marketing; and customer service. Our business is driven by hit titles, which require increasing budgets for development and marketing. Competition for our titles is influenced by the timing of competitive product releases and the similarity of such products to our titles and may result in loss of shelf space or a reduction in sell-through of our titles at retail stores.

Trends and Factors Impacting our Business

Product Release Schedule. Our financial results are impacted by the timing of our product releases and the commercial success of those titles. Our *Grand Theft Auto* products in particular have historically accounted for a substantial portion of our revenue. The timing of our *Grand Theft Auto* releases varies significantly, which in turn impacts our financial performance on a quarterly and annual basis.

Economic Environment and Retailer Performance. We continue to monitor the adverse changes in economic conditions which may have unfavorable impacts on our businesses, such as deteriorating consumer demand, pricing pressure on our products, credit quality of our receivables, and foreign currency exchange rates. Our business is dependent upon a limited number of customers who account for a significant portion of our revenue. The unfavorable economic environment has impacted several of our customers, and is expected to continue to do so in the future. Bankruptcies or consolidations of our large retail customers could seriously hurt our business, due to uncollectible accounts receivables and the concentration of purchasing power among the remaining large retailers. Our business is also negatively

Table of Contents

impacted by the actions of certain of our large customers, who sell used copies of our games, which reduces demand for new copies of our games. We have begun to offer downloadable episodes for certain of our titles, which require the user to have a copy of the original game. While this may serve to reduce some used game sales, we expect sales of used games to continue to increase.

Hardware Platforms. The majority of our products are made for the hardware platforms developed by three companies—Sony, Microsoft and Nintendo. When new hardware platforms are introduced, demand for software based on older platforms declines, which may negatively impact our business. Additionally, our development costs are generally higher for titles based on new platforms, and we have limited ability to predict the consumer acceptance of the new platforms, which may impact our sales and profitability. As a result, we believe it is important to focus our development efforts on a select number of titles, which is consistent with our strategy.

International Operations. Sales in international markets, primarily in Europe, have accounted for a significant portion of our revenue. We have also recently expanded our Asian operations in an effort to increase our geographical scope and diversify our revenue base. We are subject to risks associated with foreign trade, including credit risks and consumer acceptance of our products, and our financial results may be impacted by fluctuations in foreign currency exchange rates.

International Operations

Sales in international markets, principally in the United Kingdom and other countries in Europe, have accounted for a significant portion of our net revenue. For the five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2009, 2008 and 2007, approximately 34.1%, 39.8%, 42.2%, 49.1% and 40.7%, respectively, of our net revenue was earned outside the United States. We are subject to risks inherent in foreign trade, including increased credit risks, tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays and international political, regulatory and economic developments, all of which can have a significant impact on our operating results. See Notes 1 and 18 to the Consolidated Financial Statements.

Segment and Geographic Information

See Note 18 to the Consolidated Financial Statements.

Employees

As of March 31, 2010, we had 2,202 full-time employees, of which 1,161 were employed outside of the United States. None of our employees are subject to collective bargaining agreements. We consider our relations with employees to be satisfactory.

Table of Contents

Item 1A. Risk Factors

Our business is subject to many risks and uncertainties, which may affect our future financial performance. Because of the risks and uncertainties described below, as well as other factors affecting our operating results and financial condition, past financial performance should not be considered to be a reliable indicator of future performance and our business and financial performance could be harmed and the market value of our securities could decline.

Risks relating to our business

We are dependent on the future success of our Grand Theft Auto products and we must continue to publish "hit" titles or sequels to such "hit" titles in order to compete successfully in our industry.

Grand Theft Auto and certain of our other titles are "hit" products and have historically accounted for a substantial portion of our revenue. If we fail to continue to develop and sell new commercially successful "hit" titles or sequels to such "hit" titles or experience any delays in product releases or disruptions following the commercial release of our "hit" titles or their sequels, our revenue and profits may decrease substantially and we may incur losses. In addition, competition in our industry is intense and a relatively small number of hit titles account for a large portion of total revenue in our industry. Hit products offered by our competitors may take a larger share of consumer spending than we anticipate, which could cause revenue generated from our products to fall below our expectations. If our competitors develop more successful products or services at lower price points or based on payment models perceived as offering better value (such as pay-for-play or subscription-based models), or if we do not continue to develop consistently high quality and well-received products and services, our revenue and profitability may decline.

We are subject to product development risks which could result in delays and additional costs, and we must adapt to changes in software technologies.

We depend on our internal development studios and third party software developers to develop new interactive entertainment software within anticipated release schedules and cost projections. The development cycle for new titles generally ranges from 12 to more than 24 months, and our top-selling titles could take up to three years or longer to develop. Development times and costs of current generation software have increased substantially as a result of the additional and enhanced features available in the newest games. Further, after development of a product it may take between 9 and 12 additional months to develop the product for other hardware platforms. If our third party software developers experience unanticipated development delays, financial difficulties or additional costs we will not be able to release titles according to our schedule and at budgeted costs. Certain of our licensing and marketing agreements also contain provisions that would impose penalties if we fail to meet agreed upon game release dates. There can be no assurance that our products will be sufficiently successful so that we can recoup these costs or make a profit on these products.

Additionally, in order to stay competitive, our internal development studios must anticipate and adapt to rapid technological changes affecting software development. Any inability to respond to technological advances and implement new technologies could render our products obsolete or less marketable.

The market for our titles is characterized by short product life cycles. The inability of our products to achieve significant market acceptance, delays in product releases or disruptions following the commercial release of our products may have a material adverse effect on our operating results.

The market for video games is characterized by short product lives and frequent introductions of new products. New products may not achieve significant market acceptance, generate sufficient sales or be introduced in a timely manner to permit us to recover development, manufacturing and marketing costs associated with these products. The life cycle of a title generally involves a relatively high level of sales

Table of Contents

during the first few months after introduction followed by a rapid decline in sales. Because revenue associated with an initial product launch generally constitutes a high percentage of the total revenue associated with the life of a product, delays in product releases or disruptions following the commercial release of one or more new products could have a material adverse effect on our operating results and cause our operating results to be materially different from our expectations.

Our business is subject to the continued popularity of current generation video game platforms and our ability to develop commercially successful products for these platforms.

We derive most of our revenue from the sale of products for play on video game platforms manufactured by third parties, such as Sony's PS3 and PSP, Microsoft's Xbox 360 and Nintendo's Wii and DS. The success of our business is subject to the continued popularity of these platforms and our ability to develop commercially successful products for these platforms.

If the average price of our prior generation software titles continues to decline or if we are unable to sustain launch pricing on current generation titles, our operating results may suffer.

The interactive entertainment software and hardware industry is characterized by the introduction of new and enhanced generations of products and evolving industry standards. Current generation titles for the PS3, Xbox 360 and Wii have been offered at premium retail prices since the launch of such consoles. We expect to continue to price current generation titles at a premium level. However, circumstances may arise in which we may need to reduce prices for such titles. For example, the current economic downturn has reduced consumer demand and some of our competitors have temporarily dropped and may continue to drop the pricing of their games for promotional purposes. In addition, retailers have been increasingly funding their own promotional pricing programs. Continued promotional pricing could require us to reduce prices on our current generation titles. If we are unable to sustain launch pricing on these current generation titles, it will have a material adverse effect on our margins, profitability and operating results.

Consumer demand for software for prior generation platforms has declined as newer and more advanced hardware platforms achieve market acceptance. Consequently, pricing for prior generation titles across the industry has declined and we expect it to continue to decline. Furthermore, prior generation titles may be subject to price reductions earlier in their product life cycles than we experienced in prior years. As a result, we have reduced prices for our prior generation software titles and we expect to continue to reduce prices for such software titles, which will have a negative impact on our operating results. These changes may cause the value of our inventory to decline substantially or to become obsolete.

We depend on our key management and product development personnel.

Our continued success will depend to a significant extent on our senior management team and our relationship with ZelnickMedia Corporation ("ZelnickMedia"). Our Executive Chairman, Chief Executive Officer and Chief Operating Officer are partners of ZelnickMedia. We are also highly dependent on the expertise, skills and knowledge of certain of our Rockstar employees responsible for content creation and development of our *Grand Theft Auto* titles and titles based on other brands. Although we entered into employment agreements with members of the creative team of our Rockstar Games publishing label, we may not be able to continue to retain these personnel at current compensation levels, or at all.

The loss of the services of our executive officers, ZelnickMedia or our key Rockstar employees could significantly harm our business. In addition, if one or more key employees were to join a competitor or form a competing company, we may lose additional personnel, experience material interruptions in product development, delays in bringing products to market and difficulties in our relationships with licensors, suppliers and customers, which would significantly harm our business. Failure to continue to attract and retain other qualified management and creative personnel could adversely affect our business and prospects.

Table of Contents

The recent decline in consumer spending and other adverse changes in the economy have negatively affected our business and any further declines in consumer spending or other adverse changes in the economy could have a material adverse impact on our business and operating results.

Most of our products involve discretionary spending on the part of consumers. We believe that consumer spending is influenced by general economic conditions and the availability of discretionary income. This makes our products particularly sensitive to general economic conditions and economic cycles as consumers are generally more willing to make discretionary purchases, including purchases of products like ours, during periods in which favorable economic conditions prevail. As a result of the current national and global economic downturn, overall consumer spending has declined and retailers globally have taken a more conservative stance in ordering game inventory. Continued adverse economic conditions such as a prolonged U.S. or international general economic downturn, including periods of increased inflation, unemployment levels, tax rates, interest rates, energy prices or declining consumer confidence could also reduce consumer spending. Reduced consumer spending has and may continue to result in reduced demand for our products and may also require increased selling and promotional expenses, which has had and may continue to have an adverse impact on our business, financial condition and operating results. Furthermore, uncertainty and adverse changes in the economy could also increase the risk of material losses on our investments, increase costs associated with developing and publishing our products, increase the cost and availability of sources of financing, and increase our exposure to material losses from bad debts, any of which could have a material adverse impact on our financial condition and operating results. If economic conditions worsen, our business, financial condition and operating results could be adversely affected.

Our quarterly operating results are dependent on the release of "hit" titles and are highly seasonal which may cause our quarterly operating results to fluctuate significantly.

We have experienced and may continue to experience wide fluctuations in quarterly operating results. The release of a "hit" title typically leads to a high level of sales during the first few months after introduction followed by a rapid decline in sales. In addition, the interactive entertainment industry is highly seasonal, with sales typically higher during the fourth calendar quarter, due primarily to increased demand for games during the holiday season. Demand for and sales of our sports titles are also seasonal in that they are typically released just prior to the start of the sport season which they depict. Our failure or inability to produce "hit" titles or introduce products on a timely basis to meet seasonal fluctuations in demand could adversely affect our business and operating results. The uncertainties associated with software development, manufacturing lead times, production delays and the approval process for products by hardware manufacturers and other licensors make it difficult to predict the quarter in which our products will ship and therefore may cause us to fail to meet financial expectations.

We may not be able to adequately adjust our cost structure in a timely fashion in response to a sudden decrease in demand.

A significant portion of our selling and general and administrative expense is attributable to expenses for personnel and facilities. In the event of a significant decline in revenue, we may not be able to dispose of facilities, reduce personnel or make other changes to our cost structure without disruption to our operations or without significant termination and exit costs. Management may not be able to implement such actions in a timely manner, if at all, to offset an immediate shortfall in revenue and profit. Moreover, reducing costs may impair our ability to produce and develop software titles at sufficient levels in the future.

Table of Contents

Returns of our published titles by our customers and price concessions granted to our customers may adversely affect our operating results.

We are exposed to the risk of product returns and price concessions with respect to our customers. Our distribution arrangements with customers generally do not give them the right to return titles to us or to cancel firm orders. However, we sometimes accept product returns from our distribution customers for stock balancing and negotiate accommodations for customers, which include credits and returns, when demand for specific products falls below expectations. We accept returns and grant price concessions in connection with our publishing arrangements and revenue is recognized after deducting estimated reserves for returns and price concessions. While we believe that we can reliably estimate future returns and price concessions, if return rates and price concessions for our products exceed our reserves, our revenue could decline.

Increased sales of used video game products could lower our sales.

Certain of our larger customers sell used video games, which are generally priced lower than new video games. If our customers continue to increase their sales of used video games, it could negatively affect our sales of new video games and have an adverse impact on our operating results.

A limited number of customers account for a significant portion of our sales. The loss of a principal customer could seriously hurt our business.

A substantial portion of our product sales are made to a limited number of customers. Our sales are made primarily pursuant to purchase orders without long-term agreements or other commitments, and our customers may terminate their relationship with us at any time. Certain of our customers may decline to carry products containing mature content. The loss of our relationships with principal customers or a decline in sales to principal customers, including as a result of a product being rated "AO" (age 18 and over), could materially adversely affect our business and operating results. Furthermore, our customers may also be placed into bankruptcy, become insolvent or be liquidated due to the current economic downturn, the global contraction of credit or for other factors. Bankruptcies or consolidations of certain large retail customers could seriously hurt our business, including as a result of uncollectible accounts receivable from such customers and the concentration of purchasing power among remaining large retailers.

If our marketing and advertising efforts fail to resonate with our customers, our business and operating results could be adversely affected.

Our products are marketed worldwide through a diverse spectrum of advertising and promotional programs such as television and online advertising, print advertising, retail merchandising, website development and event sponsorship. Our ability to sell our products and services is dependent in part on the success of these programs. If the marketing for our products and services fails to resonate with our customers, particularly during the holiday season or other key selling periods, or if advertising rates or other media placement costs increase, these factors could have a material adverse impact on our business and operating results.

We rely on a primary distribution service provider for a significant portion of our products and the failure of this service provider to perform as expected could harm our operating results.

We sell our products to our customers in the United States primarily through a distribution service provider, Ditan Distribution, LLC ("Ditan"). Ditan provides shipping, receiving, warehouse management and related functions. If Ditan does not perform these services in a satisfactory manner, or if we desire or are required to replace Ditan as our primary distributor and are unable to do so, our sales and operating results could suffer.

Table of Contents

The interactive entertainment software industry is highly competitive.

We compete for both licenses to properties and the sale of interactive entertainment software with Sony, Microsoft and Nintendo, each of which is a large developer and marketer of software for its own platforms. We also compete with domestic game publishers, such as Electronic Arts, Activision Blizzard and THQ and international publishers, such as Capcom, Square Enix, Konami, Namco-Bandai, SEGA and Ubisoft. As our business is dependent upon our ability to develop hit titles, which require increasing budgets for development and marketing, the availability of significant financial resources has become a major competitive factor in developing and marketing software games. Some of our competitors have greater financial, technical, personnel and other resources than we do and are able to finance larger budgets for development and marketing and make higher offers to licensors and developers for commercially desirable properties. Our titles also compete with other forms of entertainment, such as motion pictures, television and audio and video products featuring similar themes, online computer programs and other entertainment, which may be less expensive or provide other advantages to consumers.

A number of software publishers who compete with us have developed and commercialized or are currently developing online games for use by consumers over the Internet. If technological advances significantly increase the availability of online games and if consumer acceptance of online gaming grows substantially, it could result in a decline in our platform-based software sales and negatively impact sales of our products.

Increased competition for limited shelf space and promotional support from retailers could affect the success of our business and require us to incur greater expenses to market our titles.

Retailers have limited shelf space and promotional resources and competition is intense among newly introduced interactive entertainment software titles for adequate levels of shelf space and promotional support. Competition for retail shelf space is expected to increase, which may require us to increase our marketing expenditures to maintain desirable sales levels of our titles. Competitors with more extensive lines and more popular titles may have greater bargaining power with retailers. Accordingly, we may not be able, or we may have to pay more than our competitors, to achieve similar levels of promotional support and shelf space.

Our business is dependent on our ability to enter into successful software development arrangements with third parties.

Our success depends on our ability to continually identify and develop new titles on a timely basis. We rely on third party software developers for the development of some of our titles. Quality third party developers are continually in high demand. Software developers who have developed titles for us in the past may not be available to develop software for us in the future. Due to the limited number of third party software developers and the limited control that we exercise over them, these developers may not be able to complete titles for us on a timely basis or within acceptable quality standards, if at all. We have entered into agreements with third parties to acquire the rights to publish and distribute interactive entertainment software as well as to use licensed intellectual properties in our titles. These agreements typically require us to make development payments, pay royalties and satisfy other conditions. Our development payments may not be sufficient to permit developers to develop new software successfully, which could result in material delays and significantly increase our costs to bring particular products to market. Software development costs, promotion and marketing expenses and royalties payable to software developers and third party licensors have increased significantly in recent years and reduce potential profits derived from sales of our software. Future sales of our titles may not be sufficient to recover development payments and advances to software developers and licensors, and we may not have adequate financial and other resources to satisfy our contractual commitments to such developers. If we fail to satisfy our obligations under agreements with third party developers and licensors, the agreements may be terminated or

Table of Contents

modified in ways that are burdensome to us, and have a material adverse affect on our financial condition and operating results.

We cannot publish our titles without the approval of hardware licensors that are also our competitors.

We are required to obtain licenses from Sony, Microsoft and Nintendo, which are also our competitors, to develop and publish titles for their respective hardware platforms. Our existing platform licenses require that we obtain approval for the publication of new titles on a title-by-title basis. As a result, the number of titles we are able to publish for these hardware platforms, our ability to manage the timing of the release of these titles and, accordingly, our net revenue from titles for these hardware platforms, may be limited. If a licensor chooses not to renew or extend our license agreement at the end of its current term, or if a licensor were to terminate our license for any reason or does not approve one or more of our titles, we may be unable to publish that title as well as additional titles for that licensor's platform. Termination of any such agreements or disapproval of titles could seriously hurt our business and prospects. We may be unable to continue to enter into license agreements for certain current generation platforms on satisfactory terms or at all. Failure to enter into any such agreement could also seriously hurt our business.

Our platform licensors control the fee structures for online distribution of our games on their platforms.

Certain platform licensors have retained the right to change the fee structures for online distribution of both paid content and free content (including patches and corrections) on their platforms. Each licensor's ability to set royalty rates makes it difficult for us to forecast our costs. Increased costs could negatively impact our operating margins. We may be unable to distribute our content in a cost-effective or profitable manner through this distribution channel, which could adversely impact our business and results of operations.

We submit our products for rating by the Entertainment Software Rating Board ("ESRB") in the United States and other voluntary or government ratings organizations in foreign countries. Failure to obtain a target rating for certain of our products could negatively impact our ability to distribute and sell those games, as could the re-rating of a game for any reason.

We voluntarily submit our game products to the ESRB, a U.S.-based non-profit and independent ratings organization. The ESRB system provides consumers with information about game content using a rating symbol that generally suggests the appropriate player age group and specific content descriptors, such as graphic violence, profanity or sexually explicit material. The ESRB may impose significant penalties on game publishers for violations of its rules related to rating or marketing games, including revocation of a rating or monetary fines up to \$1 million. Other countries require voluntary or government backed ratings as prerequisites for product sales. In some instances, we may have to modify our products in order to market them under the target rating, which could delay or disrupt the release of our products. In addition, some of our titles may not be sold at all or without extensive edits in certain countries, such as Germany.

In the United States, if the ESRB rates a game as "AO" (age 18 and older), platform licensors may not certify the game and retailers may refuse to sell it. In addition, some consumers have reacted to re-ratings or controversial game content by refusing to purchase such games, demanding refunds for games that they had already purchased, and refraining from buying other games published by us. Many of our Rockstar titles and certain of our 2K Games titles have been rated "M" (age 17 and older) by the ESRB. If we are unable to obtain "M" ratings and instead receive "AO" ratings on future versions of those or similar titles as a result of changes in the ESRB's ratings standards or for other reasons, including the adoption of legislation in this area, our business and prospects could be negatively affected. If any of our games are re-rated by the ESRB or other foreign based ratings organizations, we could be exposed to litigation, administrative fines and penalties and other potential liabilities, and our operating results and financial condition could be significantly impacted.

Table of Contents

We have implemented processes to comply with the requirements of the ESRB and other ratings organizations and properly display the designated rating symbols and content descriptions. Nonetheless, these processes are subject to human error, circumvention, overriding and reasonable resource constraints. If a video game we published were found to contain undisclosed pertinent content, the ESRB could re-rate a game, retailers could refuse to sell it and demand that we accept the return of any unsold copies or returns from customers, and consumers could refuse to buy it or demand that we refund their money. This could have a material negative impact on our operating results and financial condition. In addition, we may be exposed to litigation, administrative fines and penalties and our reputation could be harmed, which could impact sales of other video games we sell. If any of these consequences were to occur, our business and financial performance could be significantly harmed.

Content policies adopted by retailers, consumer opposition and litigation could negatively impact sales of our products.

Retailers may decline to sell interactive entertainment software containing what they judge to be graphic violence or sexually explicit material or other content that they deem inappropriate for their businesses. If retailers decline to sell our products based upon their opinion that they contain objectionable themes, graphic violence or sexually explicit material or other generally objectionable content, or if any of our previously "M" rated series products are rated "AO," we might be required to significantly change or discontinue particular titles or series, which in the case of our best selling *Grand Theft Auto* titles could seriously affect our business. Consumer advocacy groups have opposed sales of interactive entertainment software containing objectionable themes, violence or sexual material or other objectionable content by pressing for legislation in these areas and by engaging in public demonstrations and media campaigns. Additionally, although lawsuits seeking damages for injuries allegedly suffered by third parties as a result of video games have generally been unsuccessful in the courts, claims of this kind have been asserted against us from time to time and may be asserted and be successful in the future.

Our business and products are subject to potential legislation. The adoption of such proposed legislation could limit the retail market for our products.

Several proposals have been made for federal legislation to regulate our industry. Such proposals seek to prohibit the sale of products containing content included in some of our games. If any such proposals are enacted into law, it may limit the potential market for some of our games in the United States, and adversely affect our operating results. Other countries, such as Germany, have adopted laws regulating content both in packaged games and those transmitted over the Internet that are stricter than current United States laws. In the United States, proposals have also been made by numerous state legislators to regulate and prohibit the sale of interactive entertainment software products containing certain types of violent or sexual content to under 17 or 18 audiences. While such legislation to date has been enjoined by industry and retail groups, the adoption into law of such legislation in federal and/or in state jurisdictions in which we do significant business could severely limit the retail market for some of our games.

We may need to raise additional capital if we continue to incur losses.

We incurred losses during the five months ended March 31, 2010 and fiscal year ended October 31, 2009, and we may continue to incur losses. If we incur losses in the future, we may be required to raise additional capital in order to fund our operations. We could seek to raise capital in a number of ways, including through the issuance of debt or equity, or through other financing arrangements. During the fiscal year ended October 31, 2007, we entered into a senior secured line of credit agreement (and expanded the line of credit in November 2007), which requires us to make periodic interest or other debt service payments. In addition, during the fiscal year ended October 31, 2009 we issued convertible senior notes, which require us to make periodic interest payments to the holders of the convertible senior notes. If we borrow additional funds, further debt service payments would probably be necessary. In addition, the terms of

Table of Contents

additional debt may impose significant restrictions on our ability to operate our business. If we seek financing through the sale of equity or equity-based securities (such as our convertible senior notes), our current stockholders will suffer dilution in their percentage ownership of common stock. We cannot be certain as to our ability to raise additional capital in the future or under what terms capital would be available, particularly in light of the current economic downturn which has, among other consequences, led to the depression of stock prices and the tightening of credit. If we need to raise capital and are not successful in doing so, we will have to consider other options that may include, but are not limited to, a reduction in our expenditures for internal and external new product development, reductions in overhead expenses, and sales of intellectual property and other assets. These actions, should they become necessary, will likely result in a reduction in the size of our operations and could materially affect the prospects of our business.

Continued turmoil in the credit markets may affect our ability to raise additional capital.

Ongoing turmoil in the credit markets may make it difficult for us to obtain financing, on acceptable terms or at all, for working capital, capital expenditures, acquisitions and other investments. Liquidity in credit markets has contracted significantly, making terms for certain financings less attractive. These difficulties could adversely affect our operations and financial performance.

We are subject to risks and uncertainties of international trade, including fluctuations in the values of local foreign currencies against the dollar.

Sales in international markets, primarily in Europe, have accounted for a significant portion of our net revenue. We have also recently expanded our Asian operations in an effort to increase our geographical scope and diversify our revenue base. We are subject to risks inherent in foreign trade, including increased credit risks, tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays, and international political, regulatory and economic developments, all of which can have a significant impact on our operating results. All of our international sales are made in local currencies, which could fluctuate against the dollar. While we may use forward exchange contracts to a limited extent to seek to mitigate foreign currency risk, our operating results could be adversely affected by unfavorable foreign currency fluctuations.

We face risks from our international operations.

We are subject to certain risks because of our international operations, particularly as we seek to grow our business and presence outside of the United States. Changes to and compliance with a variety of foreign laws and regulations may increase our cost of doing business and our inability or failure to obtain required approvals could harm our international and domestic sales. Trade legislation in either the United States or other countries, such as a change in the current tariff structures, import/export compliance laws or other trade laws or policies, could adversely affect our ability to sell or to distribute in international markets. We incur additional legal compliance costs associated with our international operations and could become subject to legal penalties in foreign countries if we do not comply with local laws and regulations which may be substantially different from those in the United States. In many foreign countries, particularly in those with developing economies, it may be common to engage in business practices that are prohibited by United States laws and regulations, such as the Foreign Corrupt Practices Act, and by local laws, such as laws prohibiting corrupt payments to government officials. Although we implement policies and procedures designed to ensure compliance with these laws, there can be no assurance that all of our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, including those based in or from countries where practices which violate such laws may be customary, will not take actions in violation of our policies. Any such violation, even if prohibited by our policies, could have a material adverse effect on our business.

Table of Contents

If we are unable to protect the intellectual property relating to our software, the commercial value of our products will be adversely affected and our competitive position could be harmed.

We develop proprietary software and have obtained the rights to publish and distribute software developed by third parties. We attempt to protect our software and production techniques under copyright, trademark and trade secret laws as well as through contractual restrictions on disclosure, copying and distribution. Our software is susceptible to piracy and unauthorized copying. Unauthorized third parties may be able to copy or to reverse engineer our software to obtain and use programming or production techniques that we regard as proprietary. Well organized piracy operations have also proliferated in recent years, resulting in the ability to download pirated copies of our software over the Internet. Although we attempt to incorporate protective measures into our software, piracy of our products could negatively impact our future profitability.

If we infringe on or are alleged to infringe on the intellectual property rights of third parties, our business could be adversely affected.

With advances in technology, game content and software graphics are expected to continue to become more realistic. As a result, we believe that interactive entertainment software will increasingly become the subject of claims that such software infringes on the intellectual property rights of others. From time to time, we receive notices from third parties or are named in lawsuits by third parties alleging infringement of their proprietary rights. Although we believe that our software and technologies and the software and technologies of third party developers and publishers with whom we have contractual relations do not and will not infringe or violate proprietary rights of others, it is possible that infringement of proprietary rights of others may occur. Any claims of infringement, with or without merit, could be time consuming, costly and difficult to defend. Moreover, intellectual property litigation or claims could require us to discontinue the distribution of products, obtain a license or redesign our products, which could result in additional substantial costs and material delays.

Data breaches involving the source code for our products could adversely affect our revenues.

We securely store the source code for our interactive entertainment software products as it is created. A breach, whether physical, electronic or otherwise, of the systems on which such source code and other sensitive data is stored could lead to damage or piracy of our software. If we are subject to data security breaches, we may have a loss in sales or increased costs arising from the restoration or implementation of additional security measures which could materially and adversely affect our profitability.

Our software is susceptible to errors, which can harm our financial results and reputation.

The technological advancements of new hardware platforms result in the development of more complex software products. As software products become more complex, the risk of undetected errors in new products increases. We may need to produce and distribute patches in order to repair such errors, which could be costly and may distract our developers from working on new products. If, despite testing, errors are found in new products or releases after shipments have been made, we could experience a loss of or delay in timely market acceptance, product returns, loss of revenue, increases in costs relating to the repair of such errors and damage to our reputation.

If we acquire or invest in other businesses, intellectual properties or other assets, we may be unable to integrate them with our business, our financial performance may be impaired and/or we may not realize the anticipated financial and strategic goals for such transactions.

If appropriate opportunities present themselves, we may acquire or make investments in businesses, intellectual properties and other assets that we believe are strategic. We may not be able to identify, negotiate or finance any future acquisition or investment successfully. Even if we do succeed in acquiring

Table of Contents

or investing in a business, intellectual property or other asset, such acquisitions and investments involve a number of risks, including:

retaining key employees and maintaining the key business and customer relationships of the businesses we acquire;

cultural challenges associated with integrating employees from an acquired company or business into our organization;

the possibility that the combined company would not achieve the expected benefits, including any anticipated operating and product synergies, of the acquisition as quickly as anticipated or that the costs of, or operational difficulties arising from, an acquisition would be greater than anticipated;

significant acquisition-related accounting adjustments, particularly relating to an acquired company's deferred revenue, that may cause reported revenue and profits of the combined company to be lower than the sum of their stand-alone revenue and profits;

significant accounting charges resulting from the completion and integration of a sizeable acquisition and increased capital expenditures, including potential impairment charges incurred to write down the carrying amount of intangible assets generated as a result of an acquisition;

the possibility that we will not discover important facts during due diligence that could have a material adverse impact on the value of the businesses we acquire, including the possibility that a change of control of a company we acquire triggers a termination of contractual or intellectual property rights important to the operation of its business;

the need to integrate an acquired company's accounting, management information, human resource and other administrative systems to permit effective management and timely reporting, and the need to implement or remediate controls, procedures and policies appropriate for a public company in an acquired company that, prior to the acquisition, lacked these controls, procedures and policies;

litigation or other claims in connection with, or inheritance of claims or litigation risks as a result of, an acquisition, including claims from terminated employees, customers or other third parties; and

to the extent that we engage in strategic transactions outside of the United States, we face additional risks, including risks related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries.

Future acquisitions and investments could also involve the issuance of our equity and equity-linked securities (potentially diluting our existing stockholders), the incurrence of debt, contingent liabilities or amortization expenses, write-offs of goodwill, intangibles, or acquired in-process technology, or other increased cash and non-cash expenses such as stock-based compensation. Any of the foregoing factors could harm our financial condition or prevent us from achieving improvements in our financial condition and operating performance that could have otherwise been achieved by us on a stand-alone basis. Our stockholders may not have the opportunity to review, vote on or evaluate future acquisitions or investments.

Our ability to acquire licenses to intellectual property, especially for sports titles, impacts our revenue and profitability. Competition for these licenses may make them more expensive and increase our costs.

Many of our products are based on or incorporate intellectual property owned by others. For example, our 2K Sports products include rights licensed from major sports leagues and players' associations. Similarly, some of our other titles are based on licenses of popular entertainment

products. Competition for these licenses is intense. If we are unable to maintain these licenses or obtain additional licenses on reasonable

Table of Contents

economic terms or with significant commercial value, our revenue and profitability could decline significantly. Competition for these licenses may also increase the advances, guarantees and royalties that we must pay to the licensor, which could significantly increase our costs and adversely affect our profitability. In addition, on certain intellectual property licenses, we are subject to guaranteed minimum payments, royalties or standards of performance and may not be able to terminate these agreements prior to their stated expiration. If such licensed products do not generate revenues in excess of such minimum guarantees, our profitability will be adversely impacted.

We are subject to contractual covenants which place certain limitations on how we manage our business.

Our credit agreement and the indenture governing our convertible senior notes limit our ability to take various actions, including incurring additional debt, paying dividends, repurchasing shares and acquiring or disposing of assets or businesses. In addition, we have granted a security interest in connection with certain compensatory arrangements which limits our ability to incur senior debt in excess of certain amounts. Accordingly, we may be restricted from taking actions that management believes would be desirable and in the best interests of us and our stockholders. Our credit agreement and the indenture also require us to satisfy specified financial and non-financial covenants. A breach of any of the covenants contained in our credit agreement could result in an event of default under the agreement and under the indenture governing our convertible senior notes and would allow our lenders and noteholders to pursue various remedies, including accelerating the repayment of any outstanding indebtedness.

Our involvement, and the involvement of some of our former executive officers, in a wide variety of lawsuits, investigations and proceedings has had, and may in the future have, a material adverse effect on us.

We and some of our former officers, directors and employees have recently been the subject of three separate governmental investigations and a substantial amount of litigation and other proceedings relating to the subject matter of those investigations. While most of these matters have been resolved, several remain outstanding. See "Item 3. Legal Proceedings." These investigations, litigation and other proceedings have imposed significant costs on us, including professional fees, penalties and settlement costs, and the diversion of the time and attention of our management team.

Even if resolved favorably, the remaining litigation could continue to be time consuming and result in additional costs of the kind described above, any of which could adversely affect our business, operating results and financial condition. We also may be subject to heightened scrutiny in the future as a result of our historical legal proceedings, including an increased likelihood of a government investigation occurring and an increased likelihood that any such investigation is more extensive than in the past. Furthermore, any future fines, restrictions or other penalties imposed as a result of any such investigation may be more severe than those which may be imposed on a company without our history.

We may be required to record a significant charge to earnings if our goodwill becomes impaired.

We are required under generally accepted accounting principles to review our goodwill for impairment at least annually or more frequently when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that may be considered a change in circumstances, indicating a requirement to reevaluate whether our goodwill continues to be recoverable, include a significant decline in stock price and market capitalization, slower growth rates in our industry or other materially adverse events. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill is determined. This may adversely impact our operating results.

Table of Contents

Our reported financial results could be adversely affected by the application of existing or future accounting standards to our business as it evolves.

The frequency of accounting policy changes may continue to accelerate. For example, standards regarding software revenue recognition have and could further significantly affect the way we account for revenue related to our products and services. We expect that a significant portion of our games will be online-enabled in the future, and we could be required to recognize the related revenue over an extended period of time rather than at the time of sale. As we enhance, expand and diversify our business and product offerings, the application of existing or future financial accounting standards, particularly those relating to the way we account for revenue, could have a significant adverse effect on our reported results although not necessarily on our cash flows.

Risks relating to our common stock

For purposes of this section "Risks relating to our common stock," references to "the Company," "we," "our," and "us" refer only to Take-Two Interactive Software, Inc. and not to its subsidiaries.

Additional issuances of equity securities by us would dilute the ownership of our existing stockholders.

We may issue equity or equity-based securities (such as our convertible senior notes) in the future in connection with acquisitions or strategic transactions, to adjust our ratio of debt to equity, including through repayment of outstanding debt, to fund expansion of our operations or for other purposes. To the extent we issue additional equity securities, the percentage ownership of our existing stockholders would be reduced.

Future sales or other issuances of our common stock could adversely affect its market price.

The sale of substantial amounts of our common stock could adversely impact its price. The sale or the availability for sale of a large number of shares of our common stock in the public market could cause the price of our common stock to decline. The issuance of shares of our common stock upon conversion of our convertible senior notes could also adversely affect the price of our common stock.

Our stock price has been volatile and may continue to fluctuate significantly.

The market price of our common stock historically has been, and we expect will continue to be, subject to significant fluctuations. These fluctuations may be due to factors specific to us including those discussed in the risk factors in this section as well as others not currently known to us or that we currently do not believe are material, to changes in securities analysts' earnings estimates or ratings, to our results or future financial guidance falling below our expectations and analysts' and investors' expectations, to factors affecting the computer, software, entertainment, media or electronics industries, or to national or international economic conditions.

Stock markets, in general, have experienced over the years, and continue to experience, significant price and volume fluctuations that have affected market prices for companies such as ours and that may be unrelated or disproportionate to the operating performance of the affected companies. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance.

The convertible senior note hedge and warrant transactions entered into in connection with the offering of our convertible senior notes may affect the value of the notes and our common stock.

In connection with the offering of our convertible senior notes, we entered into convertible senior note hedge transactions which are expected to reduce the potential dilution upon conversion of the notes. However, we also entered into warrant transactions which could separately have a dilutive effect on our

Table of Contents

earnings per share to the extent that the market price per share of our common stock exceeds the applicable strike price of the warrants. In addition, the counterparties to the hedge and warrant transactions, and/or their respective affiliates, may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock in secondary market transactions at any time prior to the maturity of the notes (and are likely to do so during any observation period related to a conversion of notes). This activity could also cause or avoid an increase or a decrease in the market price of our common stock or the notes.

Delaware law, our charter documents and provisions of our debt agreements may impede or discourage a takeover, which could cause the market price of our shares to decline.

We are a Delaware corporation, and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of us, even if a change in control would be beneficial to our existing stockholders. Our Board has the power, without stockholder approval, to adopt a stockholder rights plan and/or to designate the terms of one or more series of preferred stock and issue shares of preferred stock. In addition, we may under certain circumstances involving a change of control, be obligated to repurchase all or a portion of our convertible senior notes and any potential acquirer would be required to assume our obligations related to any outstanding notes. We or any possible acquirer may not have available financial resources necessary to repurchase those notes. The ability of our Board to create and issue a new series of preferred stock and certain provisions of Delaware law, our certificate of incorporation and bylaws and the indenture governing our notes could impede a merger, takeover or other business combination involving us or discourage a potential acquirer from making a tender offer for our common stock, which, under certain circumstances, could reduce the market price of our common stock and the value of any outstanding notes.

Our ability to use net operating loss carryforwards to reduce future years' taxes could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code.

Section 382 of the Internal Revenue Code contains rules that limit the ability of a company to use its net operating loss carryforwards in years after an ownership change, which is generally defined as any change in ownership of more than 50% of its stock over a three-year testing period. These rules generally operate by focusing on ownership changes among stockholders owning directly or indirectly 5% or more of the stock of a company and/or any change in ownership arising from a new issuance of stock by the company. If, as a result of future transactions involving our common stock, including purchases or sales of stock by 5% stockholders, we undergo cumulative ownership changes which exceed 50% over the testing period, our ability to use our net operating loss carryforwards would be subject to additional limitations under Section 382.

Generally, if an ownership change occurs, the annual taxable income limitation on the use of net operating loss carryforwards is equal to the product of the applicable long-term tax exempt rate and the value of the company's stock immediately before the ownership change. Depending on the resulting limitation, a portion of our net operating loss carryforwards could expire before we would be able to use them.

Our inability to fully utilize our net operating losses to offset taxable income generated in the future could have a material and negative impact on our future financial position and results of operations.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

Our principal executive offices are located at 622 Broadway, New York, New York in approximately 48,000 square feet of space under a lease expiring in 2012 for an annual rent of approximately \$1.9 million. During

Table of Contents

the five months ended March 31, 2010, we also subleased an additional 16,000 square feet at this location under a lease expiring in April 2010 for an annual rent of approximately \$0.2 million.

Take-Two Interactive Software Europe, our wholly-owned subsidiary, leases 12,500 square feet of office space in Windsor, United Kingdom for an annual rent of approximately \$0.6 million plus taxes and utilities, which expires in 2011. Rockstar North, our wholly-owned subsidiary, leases 42,000 square feet of office space in Edinburgh, Scotland, for an annual rent of approximately \$3.2 million. That lease expires in 2014.

2K corporate offices and two development studios occupy approximately 61,000 square feet of leased office space in Novato, California. The lease provides for an annual rent of approximately \$2.0 million and expires in 2013.

In addition, our other subsidiaries lease office space in Sydney and Canberra, Australia; Vienna, Austria; Mississauga, Toronto and Vancouver, Canada; Brno and Prague, Czech Republic; Paris, France; Munich, Germany; Breda, Netherlands; Madrid, Spain; Auckland, New Zealand; Geneva, Switzerland; London, Lincoln, and Leeds, United Kingdom; Newton, Singapore; Shanghai, China; Seoul, Korea; Tokyo, Japan and in the United States Camarillo, San Diego, and Northridge, California; Sparks, Maryland; Andover and Quincy, Massachusetts; Cincinnati, Ohio; Austin, Texas and Bellevue, Washington; for an aggregate annual rent of approximately \$8.5 million.

Item 3. Legal Proceedings

Various lawsuits, claims, proceedings and investigations are pending involving us and certain of our subsidiaries as described below in this section. Depending on the amount and the timing, an unfavorable resolution of some or all of these matters could materially affect our business, financial condition, results of operations or cash flows. We have appropriately accrued amounts related to certain legal and other proceedings discussed below. While there is a possibility that a loss may be incurred in excess of the amounts accrued in our financial statements, we believe that such losses, unless otherwise disclosed, would not be material. In addition to the matters described herein, we are, or may become, involved in routine litigation in the ordinary course of business which we do not believe to be material to our business, financial condition, results of operations or cash flows. This Item 3 has been updated to correspond to Note 14 of our Consolidated Financial Statements, which reflects subsequent events through the date of the issuance of the Consolidated Financial Statements.

Consumer Class Action and City of Los Angeles Litigation Grand Theft Auto: San Andreas. Beginning in July 2005, several consumers on behalf of all purchasers of our *Grand Theft Auto: San Andreas* game, and the City Attorney for the City of Los Angeles on behalf of the State of California, filed complaints alleging that we engaged in consumer deception and false advertising, breached an implied warranty of merchantability and were unjustly enriched as a result of our alleged failure to disclose that *Grand Theft Auto: San Andreas* contained "hidden" content. For pretrial purposes, these cases all were consolidated and transferred to the United States District Court for the Southern District of New York (the "SDNY Court"). We agreed to a settlement of these cases in December 2007; however, in July 2008, the SDNY Court declined to certify the proposed settlement class on the basis that, under controlling case law issued after the parties negotiated the settlement, the plaintiffs could no longer meet their burden of showing that the case could proceed on the proposed class basis, regardless of whether the purpose of certification was for litigation or settlement. The plaintiffs subsequently applied for, and on April 15, 2009 the U.S. Court of Appeals for the Second Circuit granted, permission to file an interlocutory appeal.

All of these cases have now been resolved. In January 2010, we entered into a settlement agreement with the individual plaintiffs to resolve their claims on a non-class basis, on non-material financial terms, and the SDNY Court dismissed their case on February 16, 2010. The LA City Attorney action was thereafter dismissed by stipulation of the parties on May 4, 2010.

Table of Contents

Securities Class Action Grand Theft Auto: San Andreas and Option Backdating. In February and March 2006, four purported class action complaints were filed against us and certain of our then current and former officers and directors in the SDNY Court. The actions were consolidated, and in April 2007 the lead plaintiffs filed a consolidated second amended complaint which contained allegations related to purported "hidden content" contained in *Grand Theft Auto: San Andreas* and the backdating of stock options, including the investigation thereof conducted by the Special Litigation Committee of the Board of Directors and the restatement of our financial statements relating thereto. This complaint was filed against us, our former Chief Executive Officer, our former Chief Financial Officer, our former Chairman of the Board, our Rockstar Games subsidiary, and one officer and one former officer of our Rockstar Games subsidiary. The lead plaintiffs sought unspecified compensatory damages and costs including attorneys' fees and expenses. In April 2008, the Court dismissed, with leave to amend, all claims as to all defendants relating to *Grand Theft Auto: San Andreas* and certain claims as to our former CEO, CFO and certain director defendants relating to the backdating of stock options. In September 2008, the lead plaintiff filed a third amended consolidated complaint seeking to reinstate these claims, which we opposed. On August 31, 2009, we entered into a memorandum of understanding with the lead plaintiffs to comprehensively settle all claims asserted by them against us, our Rockstar Games subsidiary and all of the current and former officers and directors named in the actions. On June 29, 2010, the SDNY Court granted preliminary approval of the settlement. In accordance with the terms of the settlement, \$20.1 million was placed into an escrow fund for the benefit of class members. Our insurance carriers contributed \$15.3 million of this payment, and the Company contributed \$4.8 million, which had previously been accrued for in our financial statements. In addition to the payment to the settlement fund, we will also supplement the substantial changes that we have already implemented in our corporate governance policies and practices with certain additional changes. On October 12, 2010, the Court gave its final approval to the settlement, and subsequently issued its Final Judgment and Order of Dismissal on October 19, 2010. No appeal of the Court's Judgment was filed by the deadline of November 18, 2010. Neither we, our subsidiary nor any of the individuals admit any wrongdoing as part of the proposed settlement agreement.

Wilamowsky v. Take-Two et al. On September 29, 2010, an individual claiming to be a shareholder of Take-Two and a potential member of the class on whose behalf the Securities Class Action described above was brought, filed a Complaint in the United States District Court for the Southern District of New York against the Company, and its former Chief Executive Officer and three former directors. Wilamowsky, who requested exclusion from the Securities Class Action settlement, alleged that he sold short shares of Take-Two stock during the class period. As a result of the same misstatements that were alleged in the Securities Class Action to have maintained the Company's stock price at artificially high levels, Wilamowsky claims he was forced to cover his short sales with purchases of Take-Two stock at prices that were higher than the true value of those shares. Wilamowsky's Complaint alleges against all defendants violations of §10(b) of the Exchange Act and Rule 10b-5, breaches of fiduciary duty and unjust enrichment. In addition, the Complaint alleges violations §20(a) of the Exchange Act against our former Chief Executive Officer.

On November 17, 2010, the Company and the individual defendants sought leave to file motions to dismiss all of Wilamowsky's claims, in accordance with the presiding judge's individual rules. A pre-motion hearing to address defendants' request was held on December 14, 2010, at which the requested leave was granted, and January 14, 2011 was scheduled for the filing of defendants' motions. We believe Wilamowsky's claims are without merit and intend to defend against them vigorously.

St. Clair Derivative Action. In January 2006, the St. Clair Shores General Employees Retirement System filed a purported class and derivative action complaint in the SDNY Court against us, as nominal defendant, and certain of our directors and certain former officers and directors. Certain of the factual allegations in this action are similar to those in the securities class action described above. The plaintiff asserts that certain defendants breached their fiduciary duty by selling their stock while in possession of certain material non-public information and that we violated Section 14(a) of the Exchange Act and

Table of Contents

Rule 14a-9 thereunder by failing to disclose material facts in our 2003, 2004 and 2005 proxy statements in which we solicited approval to increase share availability under our 2002 Stock Option Plan. The plaintiff seeks the return of all profits from the alleged insider trading conducted by the individual defendants who sold our stock, unspecified compensatory damages with interest and its costs in the action. In March 2007, the Special Litigation Committee moved to dismiss the complaint based on, among other things, the Committee's conclusion that "future pursuit of this action is not in the best interests of Take-Two or its shareholders." In August 2007, the plaintiff filed an Amended Derivative and Class Action Complaint alleging, among other things, that defendants breached their fiduciary duties in connection with the issuance of proxy statements from 2001 through 2005. In September 2007, the Special Litigation Committee moved to dismiss the Amended Complaint or to consolidate certain of its claims with the securities class action. In July 2008, the Court dismissed all claims against us and all claims against all defendants that arose out of the plaintiff's derivative claims. The Court expressly did not determine whether these claims would entitle the putative class to monetary damages, but invited briefs from the individual defendants on this point. In October 2008, these individuals moved to dismiss the remaining claims against them. Briefing was concluded as of January 16, 2009. On September 15, 2009, the case was reassigned to Judge Sullivan, who denied the pending motions to dismiss without prejudice pending an October status conference. At that status conference, the Court reinstated the motions to dismiss, and oral argument on those motions was held November 23, 2009. Those motions to dismiss were granted in their entirety on September 9, 2010, and the deadline for any appeals to be filed expired on October 13, 2010. The case is now concluded.

Derivative Action Option Backdating. In July and August 2006, shareholders Richard Lasky and Raeda Karadsheh filed purported derivative actions in the SDNY Court against us, as nominal defendant, and certain of our directors and certain former officers and directors. These actions were consolidated in November 2006 and the plaintiffs filed a consolidated complaint in January 2007, which focused exclusively on our historical stock option granting practices, alleging violations of federal and state law, including breaches of fiduciary duties, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment. The complaints sought unspecified damages against all of the individual defendants, reimbursement from certain of the defendants of bonuses or other incentive or equity-based compensation paid to them, equitable and other relief relating to the proceeds from certain of the defendants' alleged improper trading activity in our stock, adoption of certain corporate governance proposals and recovery of litigation costs. These matters were referred to the Special Litigation Committee, which moved to dismiss certain parties from the litigation and to have any claims against the remaining parties be assigned to us for disposition by our management and Board of Directors. On April 21, 2009, the Court granted the Special Litigation Committee's motion in its entirety, dismissing all claims against all named defendants except Ryan A. Brant, James David, Larry Muller, and Kelly G. Sumner, and assigning those remaining claims to the Company as the sole party plaintiff. On June 15, 2009, the former shareholder plaintiffs applied for the entry of final judgment in order to permit the immediate appeal of the Court's April 21, 2009 order dismissing certain defendants and terminating the former shareholder plaintiffs from consolidated action, which application the Court denied on March 5, 2010. Also on June 15, 2009, as directed by the Court, the Company filed an amended complaint against the remaining defendants in the suit. Upon defendants' motions, the Court on March 31, 2010 dismissed as time barred all claims based upon options awards granted prior to July 12, 2001, and the disclosure claims against Larry Muller and James David. Still pending were the Company's disclosure claims against Ryan A. Brant and Kelly G. Sumner, as well as all claims against the four defendants related to options awards granted to them after July 12, 2001. The Company settled these remaining claims against Brant, Sumner, and David, and dismissed them with prejudice. The Company also dismissed its claims against Muller, without prejudice. The deadline for any appeal to be filed expired on November 19, 2010, and the case is now concluded.

Strickland et al. Personal Injury Action. In February 2005, the personal representatives of the Estates of Arnold Strickland, James Crump and Ace Mealer brought an action in the Circuit Court of Fayette County, Alabama against us, Sony Computer Entertainment America Inc., Sony Corporation of America,

Table of Contents

Wal-Mart, GameStop and Devin Moore, alleging under Alabama's manufacturers' liability and wrongful death statutes that our video games resulted in "copycat violence" that caused the deaths of Messrs. Strickland, Crump and Mealer by Mr. Moore. The suit seeks damages (including punitive damages) against all of the defendants in excess of \$600.0 million. Upon the Company's motion, on July 29, 2009 the Court entered an order excluding Plaintiff's expert testimony and granting summary judgment to the Company. Plaintiff Steve Strickland filed a Notice of Appeal on August 10, 2009 and briefing was completed on June 3, 2010. The Alabama Supreme Court affirmed the lower court decision and dismissed the appeal on September 24, 2010. The plaintiffs did not file an appeal within the necessary time frame and the decision in our favor cannot be challenged. This matter is now resolved.

We intend to vigorously defend all of the above pending matters.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***Market Information*

Our common stock trades on the NASDAQ Global Select Market under the symbol "TTWO." The following table sets forth, for the periods indicated, the range of the high and low sale prices for our common stock as reported by NASDAQ.

	High	Low
Five Month Transition Period Ended March 31, 2010		
November 1, 2009 to January 31, 2010	\$ 12.15	\$ 7.00
February 1, 2010 to March 31, 2010	10.55	8.94
Fiscal Year Ended October 31, 2009		
First Quarter	\$ 13.03	\$ 6.84
Second Quarter	9.94	5.56
Third Quarter	10.01	7.52
Fourth Quarter	12.57	9.19
Fiscal Year Ended October 31, 2008		
First Quarter	\$ 19.45	\$ 13.53
Second Quarter	27.61	15.50
Third Quarter	27.95	22.70
Fourth Quarter	25.75	10.81

The number of record holders of our common stock was 91 as of December 14, 2010.

Dividend Policy

We have never declared or paid cash dividends. We currently anticipate that all future earnings will be retained to finance the growth of our business and we do not expect to declare or pay any cash dividends in the foreseeable future. The payment of dividends in the future is within the discretion of our Board of Directors and will depend upon future earnings, capital requirements and other relevant factors. Our current credit agreement restricts the payment of dividends on our stock.

Securities Authorized for Issuance under Equity Compensation Plans

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

Table of Contents

Stock Performance Graph

The following line graph compares, from October 31, 2004 through March 31, 2010, the cumulative total stockholder return on our common stock with the cumulative total return on the stocks comprising the NASDAQ Composite Index and the stocks comprising a peer group index consisting of Activision Blizzard, Electronic Arts and THQ. The comparison assumes \$100 was invested on October 31, 2004 in our common stock and in each of the following indices and assumes reinvestment of all cash dividends, if any, paid on such securities. We have not paid any cash dividends and, therefore, our cumulative total return calculation is based solely upon stock price appreciation and not upon reinvestment of cash dividends. Historical stock price is not necessarily indicative of future stock price performance.

COMPARISON OF 65 MONTH CUMULATIVE TOTAL RETURN*
Among Take-Two Interactive Software, Inc., The NASDAQ Composite Index and a Peer Group
March 2010

*
 \$100 invested on October 31, 2004 in stock or index-including reinvestment of dividends.

	October 31, 2004	October 31, 2005	October 31, 2006	October 31, 2007	October 31, 2008	October 31, 2009	March 31, 2010
Take-Two Interactive Software, Inc.	100.00	93.99	63.69	85.49	54.00	49.94	44.94
NASDAQ Composite-Total Returns	100.00	108.15	121.64	148.10	89.88	107.94	126.26
TTWO Peer Group	100.00	137.41	132.17	159.45	84.93	70.74	77.80

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Table of Contents

Item 6. Selected Financial Data

The following tables present selected financial data for the five months ended March 31, 2010 and the five fiscal years ended October 31, 2009 (in thousands, except per share data). Periods labeled "as adjusted" have been adjusted to reflect the sale of our third party distribution business which has been classified as discontinued operations (see Note 3 to the Consolidated Financial Statements) and the retroactive application of new accounting guidance relating to our Convertible Debt (see Notes 2 and 12 to the Consolidated Financial Statements).

STATEMENT OF OPERATIONS DATA:	Five Months Ended March 31,	Fiscal Year Ended October 31,				
	2010	2009 (as adjusted)	2008 (as adjusted)	2007 (as adjusted)	2006 ⁽²⁾ (as adjusted)	2005 ⁽³⁾ (as adjusted)
Net revenue	\$ 359,231	\$ 701,057	\$ 1,231,106	\$ 695,828	\$ 761,427	\$ 859,472
Cost of goods sold	222,396	467,576	709,719	475,737	573,314	475,783
Gross profit	136,835	233,481	521,387	220,091	188,113	383,689
Selling and marketing	72,402	141,962	154,396	115,203	121,760	145,218
General and administrative	43,466	130,376	166,228	145,657	149,631	117,533
Research and development	25,279	63,748	63,929	48,455	64,258	73,724
Business reorganization and related			4,478	17,467		
Impairment of goodwill and long-lived assets					15,608	
Depreciation and amortization	6,622	17,574	21,322	21,206	20,042	16,807
Total operating expenses	147,769	353,660	410,353	347,988	371,299	353,282
Income (loss) from operations	(10,934)	(120,179)	111,034	(127,897)	(183,186)	30,407
Interest and other, net	(11,352)	(5,771)	(3,279)	(629)	3,468	5,143
Income (loss) from continuing operations before income taxes	(22,286)	(125,950)	107,755	(128,526)	(179,718)	35,550
Provision for income taxes	4,266	4,487	13,271	9,943	2,254	3,997
Income (loss) from continuing operations	(26,552)	(130,437)	94,484	(138,469)	(181,972)	31,553
Income (loss) from discontinued operations, net of taxes	(2,250)	(10,017)	2,613	63	(2,917)	3,761
Net income (loss)	\$ (28,802)	\$ (140,454)	\$ 97,097	\$ (138,406)	\$ (184,889)	\$ 35,314
Earnings (loss) per share:						
Continuing operations	\$ (0.34)	\$ (1.70)	\$ 1.23	\$ (1.93)	\$ (2.56)	\$ 0.45
Discontinued operations	(0.03)	(0.13)	0.03		(0.04)	0.05
Basic earnings (loss) per share	\$ (0.37)	\$ (1.83)	\$ 1.26	\$ (1.93)	\$ (2.60)	\$ 0.50
Continuing operations	\$ (0.34)	\$ (1.70)	\$ 1.22	\$ (1.93)	\$ (2.56)	\$ 0.44
Discontinued operations	(0.03)	(0.13)	0.03		(0.04)	0.05
Diluted earnings (loss) per share	\$ (0.37)	\$ (1.83)	\$ 1.25	\$ (1.93)	\$ (2.60)	\$ 0.49
Weighted average shares outstanding ⁽¹⁾ :						
Basic	78,453	76,815	77,254	71,860	71,012	70,646
Diluted	78,453	76,815	77,666	71,860	71,012	71,655

Table of Contents

BALANCE SHEET DATA:	As of March 31,		As of October 31,			
	2010	2009	2008	2007	2006	2005
	(as adjusted)					
Cash and cash equivalents	\$ 145,838	\$ 102,083	\$ 280,277	\$ 77,757	\$ 132,480	\$ 107,195
Working capital	216,733	274,274	358,355	186,362	281,327	365,878
Total assets	839,276	1,007,128	1,083,352	831,143	868,806	935,220
Long-term debt	99,865	97,063	70,000	18,000		
Total liabilities	318,653	461,502	468,234	359,989	318,414	249,390
Stockholders' equity	520,623	545,626	615,118	471,154	550,392	685,830

- (1) Basic and diluted weighted average shares outstanding for the fiscal years ended October 31, 2008 and 2005 include participating shares of 2,215,000 and 787,000, respectively, in accordance with new accounting guidance related to earnings per share that was adopted by the Company on November 1, 2009 (see Note 1 to the Consolidated Financial Statements). The Company incurred a net loss for the five months ended March 31, 2010 and fiscal years ended October 31, 2009, 2007 and 2006; therefore, the basic and diluted weighted average shares outstanding exclude participating shares because their impact would be antidilutive.
- (2) Net income (loss) includes a \$63.5 million charge to income tax expense for an increase in our valuation allowance for deferred tax assets, reflecting uncertain realization of future tax deductions.
- (3) We incurred substantial product returns and other costs related to our *Grand Theft Auto: San Andreas* title, which was temporarily re-rated "AO" from "M." The resulting impact on our consolidated results of operations in fiscal 2005 was a reduction of \$24.5 million, \$5.9 million, and \$18.6 million from net revenue, cost of goods sold and income from operations, respectively.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Dollars in thousands, except per share amounts)

Overview

Our Business

We are a global publisher and developer of interactive entertainment software. Our business consists of our wholly-owned labels Rockstar Games and 2K, which publishes its titles under 2K Games, 2K Sports and 2K Play. We develop, publish, market and sell software titles for gaming and entertainment hardware platforms including: Sony's PlayStation®3 ("PS3") and PlayStation®2 ("PS2") computer entertainment systems; Sony's PSP® (PlayStation®Portable) ("PSP") system; Microsoft's Xbox 360® ("Xbox 360") video game and entertainment system; Nintendo's Wii ("Wii") and DS ("DS") systems; the PC; and Apple's iPhone® ("iPhone"), iPod® touch ("iPod touch") and iPad ("iPad"). We also selectively develop and publish titles for digital distribution via Sony's PlayStation® Network ("PSN") and Microsoft's Xbox LIVE® Marketplace ("Xbox LIVE") and Xbox LIVE® Arcade ("XBLA"), as well as digitally offer our PC titles through online download stores and services such as Steam. The global installed base for the prior generation of platforms, including PS2 and DS ("prior generation platforms") is substantial. The release of the PS3, Xbox 360, and Wii platforms ("current generation platforms") has further expanded the video game software market. We are continuing to increase the number of titles released on the current generation platforms while also developing titles for certain prior generation platforms such as PS2 and DS given their significant installed base, as long as it is economically attractive to do so. We have pursued a strategy of capitalizing on the widespread market acceptance of interactive entertainment, as well as the growing popularity of innovative action, adventure, racing, role-playing, sports and strategy games that appeal to the expanding demographic of video game players.

We endeavor to be the most creative, innovative and efficient company in our industry. Our strategy is to capitalize on the interactive entertainment market, particularly the expanding demographics of video game players, and focus on creating premium quality games and successful franchises for which we can create sequels. We develop most of our frontline products internally and own the intellectual property associated with most of our titles, which we believe best positions us financially and competitively. We have established a portfolio of proprietary software content for the major hardware platforms in a wide range of genres including action, adventure, racing, role-playing, sports and strategy. We believe that our commitment to creativity and innovation is a distinguishing strength, allowing us to differentiate many of our products in the marketplace by combining advanced technology with compelling storylines and characters that provide unique gameplay experiences for consumers. We have created, acquired or licensed a group of highly recognizable brands to match the variety of consumer demographics we aspire to serve, ranging from adults to children and game enthusiasts to casual gamers.

Revenue is primarily derived from the sale of internally developed software titles and software titles developed by third parties for our benefit. Operating margins are dependent in part upon our ability to continually release new, commercially successful products and to manage software product development costs. We have internal development studios located in Australia, Canada, China, Czech Republic, the United Kingdom and the United States.

We expect Rockstar Games, our wholly-owned publisher of the hit *Grand Theft Auto* and *Midnight Club* franchises, to continue to be a leader in the action product category and create groundbreaking entertainment by leveraging our existing franchises as well as developing new brands. Software titles published by our Rockstar Games label are primarily internally developed. We believe that Rockstar has established a uniquely original, popular cultural phenomenon with its *Grand Theft Auto* series and continues to expand on our established franchises by releasing sequels as well as offering downloadable episodes and content. In January 2010, Rockstar released the highly rated *Grand Theft Auto: Chinatown Wars* on the iPhone and iPod touch, and in May 2010, Rockstar released the critically acclaimed *Red Dead*

Table of Contents

Redemption on Xbox 360 and PS3. Rockstar is also well known for developing brands in other genres, including *Bully*, *Manhunt* and *Max Payne* franchises.

2K Games has published a variety of popular entertainment properties across multiple genres and platforms and we expect 2K Games to continue to develop new and successful franchises in the future. 2K Games' internally owned and developed franchises include the critically acclaimed, multi-million unit selling *BioShock*, *Mafia*, and *Sid Meier's Civilization* series. In February 2010, 2K Games released *BioShock 2*, a new multiplayer experience that enhances the lore and fiction of the *BioShock* universe. 2K Games also expanded the *Sid Meier's Civilization* series by releasing *Sid Meier's Civilization® Revolution* onto mobile platforms for the iPhone, iPod touch and iPad. 2K Games expects to further expand upon the *Civilization* franchise by introducing *Sid Meier's Civilization® Network* on Facebook in the future. 2K Games has also published titles that were externally developed, such as *The Darkness*, *The Elder Scrolls IV: Oblivion®* and *Borderlands*, which has become another key franchise for 2K Games since its launch in October 2009.

Our 2K Sports series, which includes *Major League Baseball 2K*, *NBA 2K* and *NHL 2K*, provides annual revenue streams since they are generally published on a yearly basis. We develop most of our 2K Sports software titles through our internal development studios including the *Major League Baseball 2K* series, *NBA 2K* series, *NHL 2K* series and our *Top Spin* tennis series. 2K Sports has secured long-term, third party exclusive licensing relationships with Major League Baseball Properties, the Major League Baseball Players Association and Major League Baseball Advanced Media. In addition, 2K Sports has secured licensing agreements with the National Basketball Association ("NBA") and the National Hockey League ("NHL"). *NBA 2K10* is the top rated and top selling basketball simulation franchise for the Xbox 360 and PS3 through March 2010, according to The NPD Group estimates of U.S. retail video game sales and Metacritic.

2K Play focuses on developing and publishing titles for the casual and family-friendly games market. 2K Play titles are developed by both internal development studios and third party developers. Internally developed titles include *Carnival Games* and *Birthday Party Bash*. In November 2009, 2K Play released *Ringling Bros. and Barnum & Bailey® Circus*, a new licensed casual and family-friendly, internally developed game. 2K Play also has a partnership with Nickelodeon to publish video games based on its top rated Nick Jr. titles such as *Dora the Explorer*; *Go, Diego, Go!*; *Ni Hao, Kai-lan* and *The Backyardigans*. In February 2010, 2K Play released *The Misadventures of P.B. Winterbottom* on XBLA and is working with several small independent developers to publish additional casual gaming titles for XBLA, such as *Axel & Pixel*. We expect family-oriented gaming to continue to be a component of our industry in the future.

We also have expansion initiatives in the Asia-Pacific markets, where our strategy is to broaden the distribution of our existing products, expand our business in Japan, and establish an online gaming presence, especially in China and Korea. During the fiscal year ended October 31, 2009, 2K Sports secured a multi-year license from the NBA to develop an online version of the NBA simulation game in China, Taiwan, South Korea and Southeast Asia. At the same time, 2K Sports announced a partnership with Tencent Holdings Limited, one of China's leading online game operators, to co-develop and distribute *NBA 2K Online* in China.

In September 2008, we agreed to outsource the pick, pack, ship and warehousing functions of our business to a third party logistics management solutions provider. Additionally, we adopted a plan to reduce the number of units held in inventory in order to focus on higher margin titles and improve the operating efficiency of the business.

Discontinued operations

In February 2010, we completed the sale to SYNEX Corporation ("Synnex") of our Jack of all Games third party distribution business, which primarily distributed third party interactive entertainment software, hardware and accessories in North America for approximately \$44.0 million, including \$37.3 million in

Table of Contents

cash, subject to purchase price adjustments, and up to an additional \$6.7 million, subject to the achievement of certain items. The financial results of this business, which were previously reported as our distribution business, have been classified as discontinued operations in our Consolidated Statements of Operations for all periods presented. The assets and liabilities of this business are reflected as assets and liabilities of discontinued operations in the Consolidated Balance Sheets for all periods presented. See Note 3 to our Consolidated Financial Statements for additional information regarding discontinued operations.

Trends and Factors Impacting our Business

Product Release Schedule. Our financial results are impacted by the timing of our product releases and the commercial success of those titles. Our *Grand Theft Auto* products in particular have historically accounted for a substantial portion of our revenue. The timing of our *Grand Theft Auto* releases varies significantly, which in turn impacts our financial performance on a quarterly and annual basis.

Economic Environment and Retailer Performance. We continue to monitor the adverse changes in economic conditions which have had unfavorable impacts on our businesses, such as deteriorating consumer demand, pricing pressure on our products, credit quality of our receivables, and foreign currency exchange rates. Our business is dependent upon a limited number of customers who account for a significant portion of our revenue. The unfavorable economic environment has impacted several of our customers, and is expected to continue to do so in the future. Bankruptcies or consolidations of our large retail customers could seriously hurt our business, due to uncollectible accounts receivables and the concentration of purchasing power among the remaining large retailers. Our business is also negatively impacted by the actions of certain of our large customers, who sell used copies of our games, which we believe reduces demand for new copies of our games. We have begun to offer downloadable episodes for certain of our titles, which require the user to have a copy of the original game. While this may serve to reduce some used game sales, we expect sales of used games to continue to impact our business.

Hardware Platforms. The majority of our products are made for the hardware platforms developed by three companies—Sony, Microsoft and Nintendo. The success of our business is dependent upon the consumer acceptance of these platforms and the continued growth in the installed base of these platforms. When new hardware platforms are introduced, demand for software based on older platforms declines, which may negatively impact our business. Additionally, our development costs are generally higher for titles based on new platforms, and we have limited ability to predict the consumer acceptance of the new platforms, which may impact our sales and profitability. As a result, we believe it is important to focus our development efforts on a select number of titles, which is consistent with our strategy.

International Operations. Sales in international markets, primarily in Europe, have accounted for a significant portion of our revenue. We have also recently expanded our Asian operations in an effort to increase our geographical scope and diversify our revenue base. We are subject to risks associated with foreign trade, including credit risks and consumer acceptance of our products and our financial results may be impacted by fluctuations in foreign currency exchange rates.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America ("GAAP") requires management to make estimates and assumptions about future events and apply judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of net revenues and expenses during the reporting periods. We base our estimates, assumptions and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our Consolidated Financial Statements are prepared. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that our financial

Table of Contents

statements are fairly presented in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual amounts could differ significantly from these estimates.

We have identified the policies below as critical to our business operations and the understanding of our financial results and they require management's most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 1 to the Consolidated Financial Statements included in Item 8. Management has reviewed these critical accounting estimates and related disclosures with the Audit Committee of our Board of Directors.

Revenue Recognition

We recognize revenue upon the transfer of title and risk of loss to our customers. Accordingly, we recognize revenue for software titles when there is (1) persuasive evidence that an arrangement with the customer exists, which is generally based on a customer purchase order, (2) the product is delivered, (3) the selling price is fixed or determinable and (4) collection of the customer receivable is deemed probable. Our payment arrangements with customers typically provide net 30 and 60 day terms. Advances received for licensing and exclusivity arrangements are reported on our Consolidated Balance Sheets as deferred revenue until we meet our performance obligations, at which point we recognize the revenue.

Some of our software products provide limited online functionality at no additional cost to the consumer. Generally, we consider such features to be incidental to the overall product offering and an inconsequential deliverable. Accordingly, we do not defer revenue related to products containing such online features. We determine whether our products contain substantial online functionality by evaluating the significance of the development effort and the nature of the online features, the extent of anticipated marketing focus on the online features, the significance of the online features to the customers' anticipated overall gameplay experience, and the significance of our post sale obligations to customers. Overall, online play functionality is still an emerging area for us, and we continue to monitor this developing functionality and its significance to our products.

In addition, some of our software products are sold exclusively as downloads of digital content for which the consumer takes possession of the digital content for a fee. Revenue from product downloads is generally recognized when the download is made available (assuming all other recognition criteria are met).

Certain of our software products include in-game advertising for third party products. Advance payments received for in-game advertising are reported on the balance sheet as deferred revenue until we meet our performance obligations, at which point we recognize the revenue, which is generally at the time of the initial release of the product.

Revenue is recognized after deducting estimated reserves for returns, price concessions and other allowances. In circumstances when we do not have a reliable basis to estimate returns and price concessions or are unable to determine that collection of a receivable is probable, we defer the revenue until such time as we can reliably estimate any related returns and allowances and determine that collection of the receivable is probable.

Allowances for Returns, Price Concessions and Other Allowances

We accept returns and grant price concessions in connection with our publishing arrangements. Following reductions in the price of our products, we grant price concessions to permit customers to take credits against amounts they owe us with respect to merchandise unsold by them. Our customers must satisfy

Table of Contents

certain conditions to entitle them to return products or receive price concessions, including compliance with applicable payment terms and confirmation of field inventory levels.

Our distribution arrangements with customers do not give them the right to return titles or to cancel firm orders. However, we occasionally accept returns from our customers for stock balancing and make accommodations to customers, which include credits and returns, when demand for specific titles falls below expectations.

We make estimates of future product returns and price concessions related to current period product revenue. We estimate the amount of future returns and price concessions for published titles based upon, among other factors, historical experience and performance of the titles in similar genres, historical performance of the hardware platform, customer inventory levels, analysis of sell-through rates, sales force and retail customer feedback, industry pricing, market conditions and changes in demand and acceptance of our products by consumers.

Significant management judgments and estimates must be made and used in connection with establishing the allowance for returns and price concessions in any accounting period. We believe we can make reliable estimates of returns and price concessions. However, actual results may differ from initial estimates as a result of changes in circumstances, market conditions and assumptions. Adjustments to estimates are recorded in the period in which they become known.

Software Development Costs and Licenses

Capitalized software development costs include direct costs incurred for internally developed titles and payments made to third party software developers under development agreements.

We capitalize internal software development costs (including stock-based compensation, specifically identifiable employee payroll expense and incentive compensation costs related to the completion and release of titles), third party production and other content costs, subsequent to establishing technological feasibility of a software title. Technological feasibility of a product includes the completion of both technical design documentation and game design documentation. Significant management judgment and estimates are utilized in establishing technological feasibility.

We enter into agreements with third party developers that require us to make payments for game development and production services. In exchange for these payments, we receive the exclusive publishing and distribution rights to the finished game title as well as, in some cases, the underlying intellectual property rights. Such agreements allow us to fully recover these payments to the developers at an agreed upon royalty rate earned on the subsequent retail sales of such software, net of any agreed upon costs. We capitalize all development and production service payments to third party developers as software development costs. On a product-by-product basis, we reduce software development costs and record a corresponding amount of research and development expense for any costs incurred by third party developers prior to establishing technological feasibility of a product. We typically enter into agreements with third party developers after completing the technical design documentation for our products and therefore record the design costs leading up to a signed development contract as research and development expense. When we contract with third party developers, we generally select third party developers that have proven technology and experience in the genre of the software being developed, which often allows for the establishment of technological feasibility early in the development cycle. In instances where the documentation of the design and technology are not in place prior to an executed contract, we monitor the software development process and require our third party developers to adhere to the same technological feasibility standards that apply to our internally developed products.

Licenses consist of payments and guarantees made to holders of intellectual property rights for use of their trademarks, copyrights or other intellectual property rights in the development of our products. Agreements with license holders generally provide for guaranteed minimum royalty payments for use of

Table of Contents

their intellectual property. Guaranteed minimum payments are initially recorded as an asset (licenses) and as a liability (accrued licenses) upon execution of a licensing agreement, provided that no significant performance remains to be completed by the licensor. When significant performance remains to be completed by the licensor, we record payments when actually paid.

Certain licenses, especially those related to our sports products, extend over multi-year periods and encompass multiple game titles. In addition to guaranteed minimum payments, these licenses frequently contain provisions that could require us to pay royalties to the license holder based on pre-agreed unit sales thresholds.

Amortization of capitalized software development costs and licenses commences when a product is released and is recorded on a title-by-title basis in cost of goods sold. For capitalized software development costs, amortization is calculated using (1) the proportion of current year revenues to the total revenues expected to be recorded over the life of the title or (2) the straight-line method over the remaining estimated useful life of the title, whichever is greater. For capitalized licenses, amortization is calculated as a ratio of (1) current period revenues to the total revenues expected to be recorded over the remaining life of the title or (2) the contractual royalty rate based on actual net product sales as defined in the licensing agreement, whichever is greater.

Significant management judgments and estimates are utilized in the assessment of the recoverability of capitalized software costs. At each balance sheet date, or earlier if an indicator of impairment exists, we evaluate the recoverability of capitalized software costs, licenses and any other unrecognized minimum commitments that have not been paid, using an undiscounted future cash flow analysis. We use various measures to evaluate expected product performance and estimate future revenues for our software titles including historical performance of comparable titles; orders for titles prior to release; and the estimated performance of a sequel title based on the performance of the title on which the sequel is based. When management determines that the value of a title is unlikely to be recovered by product sales, capitalized costs are charged to cost of goods sold in the period in which such determination is made.

We have established profit and unit sales based internal royalty programs that provide for certain of our employees to participate in the success of software titles that they assist in developing. Royalties earned by employees under this program are recorded as cost of goods sold as they are incurred.

Fair Value Estimates

The preparation of financial statements in conformity with GAAP often requires us to determine the fair value of a particular item to fairly present our Consolidated Financial Statements. Without an independent market or another representative transaction, determining the fair value of a particular item requires us to make several assumptions that are inherently difficult to predict and can have a material impact on the conclusion of the appropriate accounting.

There are various valuation techniques used to estimate fair value. These include (1) the market approach where market transactions for identical or comparable assets or liabilities are used to determine the fair value, (2) the income approach, which uses valuation techniques to convert future amounts (for example, future cash flows or future earnings) to a single present amount, and (3) the cost approach, which is based on the amount that would be required to replace an asset. For many of our fair value estimates, including our estimates of the fair value of acquired intangible assets, we use the income approach. Using the income approach requires the use of financial models, which require us to make various estimates including, but not limited to (1) the potential future cash flows for the asset, liability or equity instrument being measured, (2) the timing of receipt or payment of those future cash flows, (3) the time value of money associated with the delayed receipt or payment of such cash flows, and (4) the inherent risk associated with the cash flows (risk premium). Making these cash flow estimates are inherently difficult and subjective, and, if any of the estimates used to determine the fair value using the income approach turns out to be inaccurate, our financial results may be negatively impacted. Furthermore, relatively small changes in many

Table of Contents

of these estimates can have a significant impact on the estimated fair value resulting from the financial models or the related accounting conclusion reached. For example, a relatively small change in the estimated fair value of an asset may change a conclusion as to whether an asset is impaired. While we are required to make certain fair value assessments associated with the accounting for several types of transactions, the following areas are the most sensitive to the assessments:

Inventory Obsolescence. We regularly review inventory quantities on-hand and in the retail channels and record an inventory provision for excess or obsolete inventory based on the future expected demand for our products. Significant changes in demand for our products would impact management's estimates in establishing our inventory provision. We write down inventory based on excess or obsolete inventories determined primarily by future anticipated demand for our products. Inventory write-downs are measured as the difference between the cost of the inventory and market value, based upon assumptions about future demand that are inherently difficult to assess.

Business Combinations Goodwill and Intangible Assets. The purchase method of accounting requires that assets acquired and liabilities assumed be recorded at their fair values on the date of a business acquisition. Our Consolidated Financial Statements and results of operations reflect an acquired business from the completion date of an acquisition. The costs to acquire a business, including transaction, integration and restructuring costs, are allocated to the fair value of net assets acquired upon acquisition. Any excess of the purchase price over the estimated fair values of the net tangible and intangible assets acquired is recorded as goodwill. Our assessment of the estimated fair value of each of these can have a material effect on our reported results as intangible assets are amortized over various lives. Furthermore, a change in the estimated fair value of an asset or liability often has a direct impact on the amount to recognize as goodwill, which is an asset that is not amortized. Often determining the fair value of these assets and liabilities assumed requires an assessment of expected use of the asset, the expected cost to extinguish the liability or our expectations related to the timing and the successful completion of development of an acquired in-process technology. Such estimates are inherently difficult and subjective and can have a material impact on our financial statements.

We use either the income, cost or market approach to aid in our conclusions of such fair values and asset lives. The income approach presumes that the value of an asset can be estimated by the net economic benefit to be received over the life of the asset, discounted to present value. The cost approach presumes that an investor would pay no more for an asset than its replacement or reproduction cost. The market approach estimates value based on what other participants in the market have paid for reasonably similar assets. Although each valuation approach is considered in valuing the assets acquired, the approach ultimately selected is based on the characteristics of the asset and the availability of information.

We evaluate our goodwill annually for impairment or more frequently if indicators of potential impairment exist. The determination of whether or not goodwill has become impaired involves a significant level of judgment in the assumptions underlying the approach used to determine the value of our reporting units. Changes in our strategy and/or market conditions could significantly impact these judgments and require reductions to recorded intangible asset balances.

Long-lived assets. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether impairment has occurred typically requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. We use internal discounted cash flow estimates, quoted market prices when available and independent appraisals, as appropriate, to determine fair value. We derive the required cash flow estimates from our historical experience and our internal business plans and apply an appropriate discount rate.

Table of Contents

Stock-based Compensation

Stock-based compensation expense is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period. Determining the fair value of stock-based awards at the grant date requires judgment, including, in the case of stock option awards, estimating expected stock volatility. In addition, judgment is also required in estimating the amount of stock-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted.

We have granted stock options to non-employees, which are subject to variable accounting. When variable accounting is applied to stock option grants, we re-measure the fair value of the unvested options at the end of each reporting period or until the options are cancelled or expire unexercised. Compensation expense in any given period is calculated as the difference between total earned compensation at the end of the period, less total earned compensation at the beginning of the period, both of which are based on the price of our common stock at such dates. As a result, fluctuations in the price of our common stock will change compensation expense recognized by us each reporting period.

We have also granted time and market-based restricted stock awards to employees and non-employees. Time-based and market-based awards to non-employees are subject to variable accounting. For the time-based restricted stock grants to non-employees, we cumulatively remeasure the fair value at the end of every period based on the month end closing price of our common stock. Market-based restricted stock awards vest based on the relative performance of our common stock to a composite index. We calculate the fair value of market-based restricted stock using a Monte Carlo Simulation method, which requires a substantial number of inputs and estimates of future market conditions and considers the range of various vesting probabilities. As a result, expense recorded for our non-employee awards can fluctuate substantially from period to period.

Income Taxes

We record a tax provision for the anticipated tax consequences of the reported results of operations. The provision for income taxes is computed using the asset and liability method, under which deferred income taxes are recognized for differences between the financial statement and tax bases of assets and liabilities at currently enacted statutory tax rates for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Our cumulative pre-tax loss in recent fiscal years represents sufficient evidence for us to determine that the establishment of a valuation allowance against the deferred tax asset is appropriate. This valuation allowance offsets deferred tax assets associated with future tax deductions as well as carryforward items.

Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates, changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws or interpretations thereof. In addition, our filed tax returns are subject to examination by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

We recognize and measure uncertain tax positions and record tax benefits when it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then

Table of Contents

measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

At each period end, it is necessary for us to make certain estimates and assumptions to compute the provision for income taxes including allocations of certain transactions to different tax jurisdictions, amounts of permanent and temporary differences, the likelihood of deferred tax assets being recovered and the outcome of contingent tax risks. These estimates and assumptions are revised as new events occur, more experience is acquired and additional information is obtained. The impact of these revisions is recorded in income tax expense or benefit in the period in which they become known.

Recently Issued Accounting Pronouncements

Business Combinations

On November 1, 2009 the Company adopted the guidance that requires acquiring entities in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose the nature and financial effect of the business combination. The guidance also requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value, if fair value can be determined during the measurement period. This new rule specifies that an asset or liability should be recognized at time of acquisition if the amount of the asset or liability can be reasonably estimated and that it is probable that an asset existed or that a liability had been incurred at the acquisition date. The adoption of this guidance did not have any impact on our consolidated financial position, cash flows or results of operations.

Intangibles Goodwill and Other

On November 1, 2009 the Company adopted the guidance issued for determining the useful life of a recognized intangible asset which applies prospectively to intangible assets acquired individually or with a group of other assets in either an asset acquisition or business combination. The adoption of this guidance did not have any impact on our consolidated financial position, cash flows or results of operations.

Debt

On November 1, 2009 the Company adopted the guidance specifying that issuers of convertible debt instruments that may be settled in cash upon conversion should separately account for the liability and equity components in a manner reflecting the Company's non-convertible debt borrowing rate.

In June 2009, we issued \$138.0 million aggregate principal amount of 4.375% convertible senior notes due 2014 ("Convertible Notes") which was classified as long-term debt at October 31, 2009. On November 1, 2009 we calculated the difference between the principal amount of the Convertible Notes and the remaining liability component after the bifurcation to be \$43.6 million, which was reclassified to debt discount with a corresponding adjustment made to additional paid-in capital. Also upon adoption of this new guidance, on November 1, 2009 we retrospectively adjusted the debt discount which is being amortized as non-cash interest expense in our Consolidated Statements of Operations in addition to the Convertible Notes' coupon interest payments over the five year period of the Convertible Notes. For additional details on our Convertible Notes see Note 12 to our Consolidated Financial Statements.

Earnings Per Share

On November 1, 2009 the Company adopted new guidance which clarified that stock-based payment awards that entitle holders to receive non-forfeitable dividends before they vest should be considered participating securities and included in the basic Earnings Per Share ("EPS") calculation. The adoption of

Table of Contents

this guidance has been applied for all periods presented. For additional details on our EPS calculation see Note 1 to our Consolidated Financial Statements.

Measuring Liabilities at Fair Value

On November 1, 2009 the Company adopted new guidance which relates to the fair value measurement of liabilities. This guidance provides clarification that in circumstances in which quoted prices in an active market for the identical liability are not available, a reporting entity is required to measure fair value using a valuation technique that uses quoted prices for the identical liability when traded as an asset, quoted prices for similar liabilities when traded as an asset or another technique that is consistent with the Fair Value principles. The adoption of this guidance did not have a significant impact on our consolidated financial position, cash flows or results of operations.

Amendments to Variable Interest Entity Guidance

In June 2009, new guidance was issued which requires an enterprise to determine whether its variable interest or interests give it a controlling financial interest in a variable interest entity. The primary beneficiary of a variable interest entity is the enterprise that has both (1) the power to direct the activities of a variable interest entity that most significantly impacts the entity's economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The guidance also now requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. The guidance is effective at the start of a company's first fiscal year beginning after November 15, 2009 (April 1, 2010 for the Company). We do not expect the adoption of this new guidance to have a material impact on our consolidated financial position, cash flows or results of operations.

Multiple-Deliverable Revenue Arrangements

In October 2009, new guidance was issued related to the accounting for multiple- deliverable revenue arrangements. These new rules amend the existing guidance for separating consideration in multiple-deliverable arrangements and establish a selling price hierarchy for determining the selling price of a deliverable. These new rules will become effective, on a prospective basis, at the start of a company's first fiscal year beginning after June 15, 2010 (April 1, 2011 for the Company). We do not expect the adoption of this new guidance to have a material impact on our consolidated financial position, cash flows or results of operations.

Certain Revenue Arrangements That Include Software Elements

In October 2009, new guidance was issued that changes the accounting model for revenue arrangements by excluding tangible products containing both software and non-software components that function together to deliver the product's essential functionality. This new rule will become effective, on a prospective basis, at the start of a company's first fiscal year beginning after June 15, 2010 (April 1, 2011 for the Company). We do not expect the adoption of this new guidance to have a material impact on our consolidated financial position, cash flows or results of operations.

Fluctuations in Operating Results and Seasonality

We have experienced fluctuations in quarterly and annual operating results as a result of: the timing of the introduction of new titles; variations in sales of titles developed for particular platforms; market acceptance of our titles; development and promotional expenses relating to the introduction of new titles, sequels or enhancements of existing titles; projected and actual changes in platforms; the timing and

Table of Contents

success of title introductions by our competitors; product returns; changes in pricing policies by us and our competitors; the size and timing of acquisitions; the timing of orders from major customers; order cancellations; and delays in product shipment. Sales of our products are also seasonal, with peak shipments typically occurring in the fourth calendar quarter as a result of increased demand for titles during the holiday season. Quarterly and annual comparisons of operating results are not necessarily indicative of future operating results.

Note on Climate Change

In February 2010, the SEC released its Commission Guidance Regarding Disclosure Related to Climate Change, calling on public companies to consider the potential impacts of global climate change-related regulation, international accords, and physical effects, including any indirect consequences of such. There are presently a number of current and proposed regulatory initiatives, both domestically and globally, that are geared towards limiting and scaling back the emission of greenhouse gases ("GHG"s), which certain scientists have linked to global climate change. While we do not anticipate any material adverse effects in the future based on the nature of our operations and the current or draft forms of such laws, there is no assurance that such existing or future laws will not indirectly impact our operations through, for example, increased energy, manufacturing, or distribution costs. Further, the U.S. Environmental Protection Agency has found that global climate change could increase the severity and perhaps the frequency of extreme weather events. Although we do not anticipate that such would have a material adverse effect on our financial condition or operating results, increased severe weather patterns could result in indirect consequences such as the disruption or impairment of certain of our product distribution channels.

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Table of Contents

Results of Operations

The following table sets forth, for the periods indicated, the percentage of net revenue represented by certain line items in our statements of operations, net revenue by geographic region and net revenue by platform:

	Five Months Ended March 31,		Fiscal Year Ended October 31,		
	2010	2009	2009	2008	2007
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	61.9%	65.7%	66.7%	57.6%	68.4%
Gross profit	38.1%	34.3%	33.3%	42.4%	31.6%
Selling and marketing	20.2%	20.1%	20.2%	12.5%	16.6%
General and administrative	12.1%	19.6%	18.6%	13.5%	20.9%
Research and development	7.0%	10.5%	9.1%	5.2%	7.0%
Business reorganization and related	0.0%	0.0%	0.0%	0.4%	2.5%
Depreciation and amortization	1.8%	2.6%	2.5%	1.7%	3.0%
Total operating expenses	41.1%	52.8%	50.4%	33.3%	50.0%
Income (loss) from operations	(3.0)%	(18.5)%	(17.1)%	9.1%	(18.4)%
Interest and other, net	(3.2)%	0.6%	(0.9)%	(0.3)%	(0.1)%
Income (loss) from continuing operations before income taxes	(6.2)%	(17.9)%	(18.0)%	8.8%	(18.5)%
Provision (benefit) for income taxes	1.2%	(1.5)%	0.6%	1.1%	1.4%
Income (loss) from continuing operations	(7.4)%	(16.4)%	(18.6)%	7.7%	(19.9)%
Income (loss) from discontinued operations, net of taxes	(0.6)%	0.9%	(1.4)%	0.2%	0.0%
Net income (loss)	(8.0)%	(15.5)%	(20.0)%	7.9%	(19.9)%
Net revenue by geographic region:					
United States and Canada	73.3%	64.6%	62.7%	56.5%	65.1%
Europe, Asia Pacific and Other	26.7%	35.4%	37.3%	43.5%	34.9%
Net revenue by platform:					
Console	82.8%	69.2%	74.4%	89.9%	69.9%
Handheld	8.0%	16.0%	13.9%	6.3%	10.8%
PC	8.6%	14.5%	11.3%	3.3%	13.4%
Other	0.6%	0.3%	0.4%	0.5%	5.9%

Table of Contents**Five Months Ended March 31, 2010 and 2009**

(thousands of dollars)	2010	%	2009	%	Increase/ (decrease)	% Increase/ (decrease)
Net revenue	\$ 359,231	100.0%	\$ 297,347	100.0%	\$ 61,884	20.8%
Product costs	114,878	32.0%	98,021	33.0%	16,857	17.2%
Software development costs and royalties ⁽¹⁾	72,852	20.3%	48,415	16.3%	24,437	50.5%
Internal royalties	6,074	1.7%	29,103	9.8%	(23,029)	(79.1)%
Licenses	28,592	8.0%	19,854	6.7%	8,738	44.0%
Cost of goods sold	222,396	61.9%	195,393	65.7%	27,003	13.8%
Gross profit	\$ 136,835	38.1%	\$ 101,954	34.3%	\$ 34,881	34.2%

(1) Includes \$2,152 and \$3,033 of stock-based compensation expense during the five months ended March 31, 2010 and 2009, respectively.

Net revenue increased \$61.9 million for the five months ended March 31, 2010 as compared to the same period in 2009, primarily due to the releases of *BioShock 2* in February 2010 and *Borderlands* in October 2009 and a period-over-period increase in our *NBA* franchise. Partially offsetting the increase in net revenue was a decrease in sales of our *Grand Theft Auto* franchise of approximately \$69.0 million as well as decreases to our *Carnival* and *Midnight Club* franchises.

Net revenue on current generation consoles accounted for approximately 78.4% of our total net revenue for the five months ended March 31, 2010 compared to 61.4% for the same period in 2009. The increase is primarily due to releases of *BioShock 2* in February 2010 and *Borderlands* in October 2009 on the PS3 and Xbox 360. PC sales decreased to approximately 8.6% of our total net revenue for the five months ended March 31, 2010 compared to 14.5% for the same period in 2009, reflecting reduced sales of *Grand Theft Auto IV* on the PC, which launched during the five months ended March 31, 2009. Handheld sales decreased to 8.0% of our total net revenue for the five months ended March 31, 2010 compared to 16.0% for the same period in 2009 primarily due to the March 2009 release of *Grand Theft Auto: Chinatown Wars* on the Nintendo DS and the February 2010 release of *BioShock 2* on the PS3, Xbox 360 and PC.

Gross profit as a percentage of net revenue increased in 2010 compared to the same period of the prior year primarily due to lower internal royalty expense, which was primarily due to reduced profitability driven by decreased revenue generated from our *Grand Theft Auto* and *Midnight Club* franchises, and improved pricing mix from the release of *BioShock 2* in February 2010, partially offset by higher development royalties on the externally developed *Borderlands*.

Net revenue earned outside of North America accounted for approximately \$96.0 million (26.7%) for the five months ended March 31, 2010 compared to \$105.3 million (35.4%) in the same period in 2009. The period-over-period decrease as a percentage of net revenue was primarily due to higher sales of *Grand Theft Auto IV* on the PC, which launched during the five months ended March 31, 2009. Foreign exchange rates increased net revenue and gross profit by approximately \$13.7 million and \$1.2 million, respectively, for the five months ended March 31, 2010 as compared to the same period in 2009.

Table of Contents**Operating Expenses**

(thousands of dollars)	2010	% of net revenue	2009	% of net revenue	Increase/ (decrease)	% Increase/ (decrease)
Selling and marketing	\$ 72,402	20.2%	\$ 59,845	20.1%	\$ 12,557	21.0%
General and administrative	43,466	12.1%	58,169	19.6%	(14,703)	(25.3)%
Research and development	25,279	7.0%	31,139	10.5%	(5,860)	(18.8)%
Depreciation and amortization	6,622	1.8%	7,793	2.6%	(1,171)	(15.0)%
Total operating expenses⁽¹⁾	\$ 147,769	41.1%	\$ 156,946	52.8%	\$ (9,177)	(5.8)%

(1) Includes stock-based compensation expense, as follows:

	2010	2009
Selling and marketing	\$ 1,492	\$ 722
General and administrative	\$ 4,908	\$ 4,708
Research and development	\$ 1,927	\$ 1,446

Foreign currency exchange rates negatively impacted total operating expenses by approximately \$4.7 million in the five months ended March 31, 2010 as compared to the same period of 2009.

Selling and marketing

Selling and marketing expenses increased \$12.6 million for the five months ended March 31, 2010, as compared to the same period in 2009 primarily due to higher advertising expenses related to *Borderlands* and *BioShock 2*.

General and administrative

General and administrative expenses decreased \$14.7 million for the five months ended March 31, 2010 compared to the same period in 2009 primarily due to a decrease in professional fees and settlement costs, reflecting a reduced number of legal and regulatory matters. In addition, the five months ended March 31, 2009 reflects incremental, non-recurring expenses related to contract negotiations.

General and administrative expenses for the five months ended March 31, 2010 and 2009 include occupancy expense (primarily rent, utilities and office expenses) of \$6.3 million and \$5.6 million, respectively, related to our development studios.

Research and development

Research and development expenses decreased \$5.9 million for the five months ended March 31, 2010 compared to the same period in 2009 primarily due to higher payroll capitalization rates at our development studios primarily due to a greater number of titles having reached technological feasibility and a decrease in production expenses.

Depreciation and amortization

Depreciation and amortization expenses decreased \$1.2 million for the five months ended March 31, 2010 compared to the same period in 2009 primarily due to lower purchases of fixed assets during the current period.

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Table of Contents

Interest and other, net

(thousands of dollars)	2010	% of net revenue	2009	% of net revenue	Increase/ (decrease)	% Increase/ (decrease)
Interest expense, net	\$ (6,461)	(1.8)%	\$ (2,488)	(0.8)%	\$ (3,973)	159.7%
Loss on sale of subsidiary	(3,831)	(1.1)%			(3,831)	100.0%
Foreign exchange gain (loss)	(704)	(0.2)%	4,194	1.4%	(4,898)	(116.8)%
Other	(356)	(0.1)%	(35)	0.0%	(321)	917.1%
Interest and other, net	\$ (11,352)	(3.2)%	\$ 1,671	0.6%	\$ (13,023)	(779.4)%

Interest and other, net was an expense of \$11.4 million for the five months ended March 31, 2010 compared to income of \$1.7 million for the five months ended March 31, 2009. The five months ended March 31, 2010 included \$6.5 million of interest expense compared to \$3.0 million for the same period in 2009, primarily due to the issuance of our Convertible Notes in June 2009. In addition, during the five months ended March 31, 2010, we sold the shares of our wholly-owned Italian subsidiary for approximately \$6.1 million in cash and notes receivable resulting in a loss on sale of approximately \$3.8 million. The disposition of our Italian subsidiary did not involve a significant amount of assets or materially impact our operating results. Lastly, we incurred a foreign exchange loss of \$0.7 million for the five months ended March 31, 2010 compared to a gain of \$4.2 million for the comparable period in 2009.

Provision for income taxes

Income tax expense was \$4.3 million for the five months ended March 31, 2010, compared to an income tax benefit of \$4.4 million for the same period in 2009. The variance in income tax expense is primarily due to tax benefits realized during the five months ended March 31, 2009 resulting from the conclusion of domestic tax audits. Our effective tax rate differed from the federal statutory rate primarily due to changes in valuation allowances and changes in gross unrecognized tax benefits during both the 2010 and 2009 periods. Our valuation allowances increased by \$11.2 million during the 2010 period primarily due to taxable losses incurred during the period, while our valuation allowance increased by \$11.9 million during the same period in 2009 for the same reason.

As of March 31, 2010, we had gross unrecognized tax benefits, including interest and penalties, of \$10.9 million, all of which would affect our effective tax rate if realized. For the five months ended March 31, 2010, gross unrecognized tax benefits decreased by \$13.7 million, primarily related to adjustments resulting from the conclusion of domestic tax audits during the five months ended March 31, 2010. We are generally no longer subject to audit for U.S. federal income tax returns for periods prior to our fiscal year ended October 31, 2007 and state income tax returns for periods prior to fiscal year ended October 31, 2004. With few exceptions, we are no longer subject to income tax examinations in non-U.S. jurisdictions for years prior to fiscal year ended October 31, 2005. U.S. federal taxing authorities have completed examinations of our income tax returns through the fiscal years ended October 31, 2006. Certain U.S. state taxing authorities are currently examining our income tax returns from fiscal years ended October 31, 2004 through October 31, 2006. In addition, tax authorities in certain non-U.S. jurisdictions are currently examining our income tax returns. The determination as to further adjustments to our gross unrecognized tax benefits during the next 12 months is not practicable.

We are regularly audited by domestic and foreign taxing authorities. Audits may result in tax assessments in excess of amounts claimed and the payment of additional taxes. We believe that our tax positions comply with applicable tax law, and that we have adequately provided for reasonably foreseeable tax assessments.

Discontinued operations

Income (loss) from discontinued operations, net of income tax, reflects the results of our former distribution business for which net assets were sold in February 2010. For the five months ended March 31, 2010, the loss was \$2.3 million as compared to income of \$2.7 million for the same period last year when we

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Table of Contents

were still actively engaged in the business. The loss during the five months ended March 31, 2010 is primarily due to post divestiture adjustments on residual assets and liabilities and an operating loss prior to divestiture primarily due to mix as well as write downs of inventory to net realizable value. The income generated during the five months ended March 31, 2009 reflected our active involvement in the distribution business at that time.

Net loss and loss per share

For the five months ended March 31, 2010, our net loss was \$28.8 million, compared to a net loss of \$46.3 million in the same period of 2009. Net loss per share for the five months ended March 31, 2010 was \$0.37 compared to a net loss per share of \$0.61 for the five months ended March 31, 2009. Weighted average shares outstanding increased compared to the prior year period primarily due to the vesting of restricted stock over the last twelve months.

Fiscal Years Ended October 31, 2009 and 2008 (as adjusted)

(thousands of dollars)	2009	%	2008	%	Increase/ (decrease)	% Increase/ (decrease)
Net revenue	\$ 701,057	100.0%	\$ 1,231,106	100.0%	\$ (530,049)	(43.1)%
Product costs	236,512	33.7%	355,003	28.8%	(118,491)	(33.4)%
Software development costs and royalties ⁽¹⁾	115,960	16.5%	169,398	13.7%	(53,438)	(31.5)%
Internal royalties	58,224	8.3%	128,772	10.5%	(70,548)	(54.8)%
Licenses	56,880	8.2%	56,546	4.6%	334	0.6%
Cost of goods sold	467,576	66.7%	709,719	57.6%	(242,143)	(34.1)%
Gross profit	\$ 233,481	33.3%	\$ 521,387	42.4%	\$ (287,906)	(55.2)%

(1) Includes \$6,094 and \$13,461 of stock-based compensation expense, respectively, included in software development costs and royalties.

Net revenue decreased \$530.0 million for the fiscal year ended October 31, 2009 as compared to the same period in 2008, primarily due to lower sales of *Grand Theft Auto IV* released in April 2008 for the PS3 and Xbox 360. Sales of our *Grand Theft Auto* franchise were \$416.8 million lower for the fiscal year ended October 31, 2009. The decrease in sales from *Grand Theft Auto IV* was partially mitigated by the 2009 releases of *Grand Theft Auto: Chinatown Wars*, *Grand Theft Auto: Episodes from Liberty City* as well as downloadable episodes *Grand Theft Auto IV: The Lost and Damned* and *Grand Theft Auto: The Ballad of Gay Tony*.

Excluding our *Grand Theft Auto* franchise, net revenue was lower by \$113.2 million, primarily related to titles that were released in 2008, such as those in our *Midnight Club*, *Civilization*, *Carnival Games* and *BioShock* franchises, which collectively decreased \$128.0 million compared to the prior year. Partially offsetting the decrease in net revenues was the release of *Borderlands* in October 2009.

Net revenue generated by our 2K Sports products decreased \$17.1 million compared to the prior year, mainly reflecting lower sales of our 2008 release *Top Spin 3*, partially offset by better performance of *NBA 2K10* compared to its predecessor title.

Net revenue on current generation platforms accounted for approximately 67.4% of our total net revenue for the fiscal year ended October 31, 2009 compared to 82.2% for the same period in 2008. The decrease is primarily due to the release of *Grand Theft Auto IV* in April 2008 for the PS3 and Xbox 360. PC software sales increased \$37.9 million (92.1%) due primarily to the first quarter 2009 PC release of *Grand Theft Auto IV*. Sales on prior generation platforms continued to decline, led by a 48.2% decrease on PS2, reflecting wider acceptance of current generation platforms. We expect volume on prior generation platforms to continue to decline as a result of the continued transition to current generation hardware platforms and have therefore reduced the number of titles in development for these older platforms. We

Table of Contents

have also continued to reduce pricing on software titles for the PS2 as the current generation hardware installed base grows.

Gross profit as a percentage of net revenue decreased for the fiscal year ended October 31, 2009 as compared to the same period in the prior year, which included the initial release period of *Grand Theft Auto IV*, one of our highest margin products. Product costs increased as a percentage of net revenue, primarily due to volume based manufacturing discounts that were recorded in connection with our release of *Grand Theft Auto IV* in the 2008 period. Additionally, software development costs and royalties increased as a percentage of net revenue in 2009 as we incurred higher royalty costs associated with the increased number of externally developed titles released in 2009, primarily related to the October 2009 release of *Borderlands*. Also, software development costs and royalties were negatively impacted by impairments related to our *Major League Baseball* titles partially offset by impairments recorded in 2008. Internal royalties decreased from the prior year period primarily due to decreased sales and profitability in our publishing business and a change in the compensation structure at our *Rockstar Games* label, where internal royalties were previously calculated using a net sales formula and are now calculated based on a profit share formula. License costs increased as a percentage of net revenue as we are not expecting to generate the revenue necessary to exceed the minimum commitments due under our license agreements with *Major League Baseball* entities. As a result we accelerated the amortization of certain license costs related to the contract and impaired development costs related to future titles. Additionally, we offered greater price concessions in the 2009 period, primarily due to the economic slowdown and increased pressure to reduce prices on certain titles.

Revenue earned from licensing our intellectual property to third parties and other ancillary revenues decreased to \$25.2 million for the fiscal year ended October 31, 2009 compared to \$33.2 million in 2008, primarily due to the October 2008 release of *Grand Theft Auto IV* for the PS3 and Xbox 360 in Japan. We recognize substantially higher gross profit margins on revenue earned in connection with licensing our products.

Net revenue earned outside of North America accounted for approximately \$261.4 million (37.3%) for the fiscal year ended October 31, 2009 compared to \$535.6 million (43.5%) in the 2008 period. The year-over-year decrease was primarily attributable to the release of *Grand Theft Auto IV* in the second quarter of 2008. Foreign exchange rates reduced net revenue and gross profit by approximately \$28.8 million and \$2.9 million, respectively, for the fiscal year ended October 31, 2009 compared to the fiscal year ended October 31, 2008.

Operating Expenses

(thousands of dollars)	2009	% of net revenue	2008	% of net revenue	Increase/ (decrease)	% Increase/ (decrease)
Selling and marketing	\$ 141,962	20.2%	\$ 154,396	12.5%	\$ (12,434)	(8.1)%
General and administrative	130,376	18.6%	166,228	13.5%	(35,852)	(21.6)%
Research and development	63,748	9.1%	63,929	5.2%	(181)	(0.3)%
Business reorganization and related		0.0%	4,478	0.4%	(4,478)	(100.0)%
Depreciation and amortization	17,574	2.5%	21,322	1.7%	(3,748)	(17.6)%
Total operating expenses⁽¹⁾	\$ 353,660	50.4%	\$ 410,353	33.3%	\$ (56,693)	(13.8)%

(1) Includes stock-based compensation expense, as follows:

	2009	2008
Selling and marketing	\$ 2,551	\$ 2,370
General and administrative	\$ 14,119	\$ 19,678
Research and development	\$ 3,169	\$ 4,878

Foreign currency exchange rates favorably impacted total operating expenses by approximately \$14.4 million for the fiscal year ended October 31, 2009.

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Table of Contents

Selling and marketing

Selling and marketing expenses decreased \$12.4 million for the fiscal year ended October 31, 2009 as compared to the same period in 2008 primarily due to:

- i. a decrease of \$6.8 million in advertising and marketing expense primarily related to the release of *Grand Theft Auto IV* in April 2008 with no comparable product in the current year; and
- ii. a decrease of \$4.3 million in personnel and severance costs due to lower incentive based compensation as well as savings from the restructuring and termination of employees in our European operations in December 2007, partially offset by a \$0.9 million increase in personnel costs in Asia due to expansion initiatives in the Asia-Pacific region.

General and administrative

General and administrative expenses decreased \$35.9 million for the fiscal year ended October 31, 2009 compared to the same period in 2008 primarily due to:

- i. a decrease of \$20.6 million in professional fees primarily due to a \$7.0 million decrease in consulting expense related to stock-based compensation expense for stock-based awards to ZelnickMedia, reflecting a decrease in the price of our common stock and lower performance-based compensation; consulting and legal fees related to the Electronic Arts tender offer also decreased by approximately \$10.4 million; and
- ii. a decrease of \$7.2 million in personnel costs due to lower incentive based compensation and cost saving initiatives initiated in 2008.

General and administrative expenses for the fiscal year ended October 31, 2009 and 2008 also include occupancy expense (primarily rent, utilities and office expenses) of \$14.1 million and \$11.8 million, respectively, related to our development studios.

Research and development

Research and development expenses decreased slightly for the fiscal year ended October 31, 2009 compared to the same period in 2008. Personnel costs decreased primarily due to lower bonus expense and higher capitalization rates. The capitalization rates for payroll related costs for 2008 were lower than usual as certain development studios refocused their efforts to new projects following the release of *Grand Theft Auto IV*. This decrease was offset by higher production expenses and increased headcount, primarily from the prior year acquisitions of Rockstar New England (formerly known as Mad Doc Software LLC) and 2K Czech (formerly known as Illusion Softworks, a.s.) as well as expansion initiatives in Asia-Pacific markets.

Depreciation and amortization

For the fiscal year ended October 31, 2009, depreciation and amortization expenses decreased by \$3.7 million compared to 2008 primarily due to lower purchases of fixed assets during the current year period.

Table of Contents*Interest and other, net*

(thousands of dollars)	2009	% of net revenue	2008	% of net revenue	Increase/ (decrease)	% Increase/ (decrease)
Interest income (expense), net	\$ (9,611)	(1.4)%	\$ 696	0.1%	\$ (10,307)	(1480.9)%
Gain (loss) on sale and deconsolidation		0.0%	396	0.0%	(396)	(100.0)%
Foreign exchange gain (loss)	4,289	0.6%	(5,047)	(0.4)%	9,336	(185.0)%
Other	(449)	(0.1)%	676	0.1%	(1,125)	(166.4)%
Interest and other, net	\$ (5,771)	(0.8)%	\$ (3,279)	(0.3)%	(2,492)	76.0%

For the fiscal year ended October 31, 2009, interest and other, net was an expense of \$5.8 million compared to an expense of \$3.3 million in the prior year period. Interest expense was significantly higher in the current year period primarily due to the issuance of our Convertible Notes in June 2009 as well as higher interest expense associated with our line of credit. This expense was partially offset by favorable exchange gains in our foreign subsidiaries. In addition, lower interest income during the fiscal year ended October 31, 2009 due to lower average cash balances and lower interest rates, contributed to the increase in the net expense for the fiscal year ended October 31, 2009.

Provision for income taxes. Income tax expense was \$4.5 million for the fiscal year ended October 31, 2009, compared to \$13.3 million for the fiscal year ended October 31, 2008. The change in income taxes is primarily attributable to pre-tax losses without tax benefit in 2009, a reduction in our liability for gross unrecognized tax benefits following the conclusion of certain tax audits, and a cumulative charge to increase our valuation allowance as a result of deferred tax liabilities related to goodwill which cannot be used to offset deferred tax assets, compared to worldwide pre-tax income in 2008 with a related tax charge. We did not record an income tax benefit on our pre-tax losses in 2009 due to uncertainty regarding the realization of our deferred tax assets, and recorded income tax expense on income generated in several foreign jurisdictions. Our effective tax rate differed from the federal statutory rate due to losses without tax benefit in 2009 and changes in gross unrecognized tax benefits during 2009 and 2008. The 2009 taxable loss required an increase to the valuation allowance of \$25.7 million, while the use of net operating losses in 2008 enabled the reversal of the valuation allowance of \$19.3 million.

As of October 31, 2009, we had gross unrecognized tax benefits, including interest and penalties, of \$24.6 million, all of which would affect our effective tax rate if realized. For the fiscal year ended October 31, 2009, gross unrecognized tax benefits decreased by \$1.8 million, primarily related to adjustments resulting from tax audits that concluded during 2009.

U.S. federal taxing authorities have completed examinations of our income tax returns for years through our fiscal year ended October 31, 2002. Certain U.S. state taxing authorities are currently examining our income tax returns from fiscal years ended October 31, 2004 through October 31, 2006. In addition, tax authorities in certain non-U.S. jurisdictions are currently examining our tax returns. It is possible that tax examinations will be settled prior to October 31, 2010. Based on the progress and possible settlement of certain audits, we believe it is reasonably possible that approximately \$11.0 million of our gross unrecognized tax benefits could become payable during the next 12 months. We generally are no longer subject to audit for U.S. federal income tax returns for periods prior to October 31, 2003 and state income tax returns for periods prior to October 31, 2004. With some exceptions, we are generally no longer subject to income tax examinations in non-U.S. jurisdictions for years prior to October 31, 2005.

We are regularly audited by domestic and foreign taxing authorities. Audits may result in tax assessments in excess of amounts claimed and the payment of additional taxes. We believe that our tax positions comply with applicable tax law, and that we have adequately provided for reasonably foreseeable tax assessments.

Table of Contents**Discontinued Operations**

Income (loss) from discontinued operations, net of income tax, reflects the results of our former distribution business for which net assets were sold in February 2010. For the fiscal year ended October 31, 2009, the loss was \$10.0 million as compared to income of \$2.6 million for the same period last year. The loss during the fiscal year ended October 31, 2009 is primarily due to the impairment of goodwill and intangible assets, net of income tax, related to the distribution business.

Net (loss) income and earnings (loss) per share. For the fiscal year ended October 31, 2009, our net loss was \$140.5 million, compared to net income of \$97.1 million in the fiscal year ended October 31, 2008. Net loss per share for the fiscal year ended October 31, 2009 was \$1.83 compared to net income per share of \$1.26 and \$1.25 for basic and diluted earnings per share, respectively, for the fiscal year ended October 31, 2008. Weighted average shares outstanding decreased compared to the prior period, primarily due to the inclusion of unvested share-based awards that are considered participating restricted stock due to net income generated during the fiscal year ended October 31, 2008 offset, in part, by the vesting of restricted stock awards during the fiscal year ended October 31, 2009.

Fiscal Years Ended October 31, 2008 and 2007 (as adjusted)

(thousands of dollars)	2008	%	2007	%	Increase/ (decrease)	% Increase/ (decrease)
Net revenue	\$ 1,231,106	100.0%	\$ 695,828	100.0%	\$ 535,278	76.9%
Product costs	355,003	28.8%	251,791	36.2%	103,212	41.0%
Software development costs and royalties ⁽¹⁾	169,398	13.7%	136,485	19.6%	32,913	24.1%
Internal royalties	128,772	10.5%	28,892	4.2%	99,880	345.7%
Licenses	56,546	4.6%	58,569	8.4%	(2,023)	(3.5)%
Cost of goods sold	709,719	57.6%	475,737	68.4%	233,982	49.2%
Gross profit	\$ 521,387	42.4%	\$ 220,091	31.6%	\$ 301,296	136.9%

(1) Includes \$13,461 and \$3,216 of stock-based compensation expense, respectively, included in software development costs and royalties.

The increase in net revenue primarily reflects higher sales of titles from our *Grand Theft Auto* franchise predominantly due to our release of *Grand Theft Auto IV* in the second quarter of 2008. Total net revenue generated from our *Grand Theft Auto* titles was \$581.4 million higher in the 2008 period. Our *Midnight Club* franchise also contributed \$66.7 million to the increase in net revenue in the 2008 period due to the release of *Midnight Club: Los Angeles* in October 2008. In addition, we have seen continued success of our *Carnival Games* franchise, which debuted in the fourth quarter of 2007 with *Carnival Games* for the Wii and increased net revenue by \$53.3 million in 2008 and growth in our family-oriented game market with the release of *Dora the Explorer* and *Go, Diego, Go!* titles based on top rated Nickelodeon television shows which contributed \$17.3 million in net revenue in 2008. Furthermore, net revenue generated from our sports business increased by \$9.2 million due to our release of *Top Spin 3* in 2008, partially offset by a decrease in revenue due to the performance of our *Major League Baseball* franchise. These increases were partially offset by lower revenue earned from our titles *The Darkness*, *The Elder Scrolls IV*®, *Fantastic Four: Rise of the Silver Surfer* and *Ghost Rider* and which were \$112.0 million higher in the prior period, reflecting sales generated in connection with their release in the third quarter of 2007. Also, *BioShock*, which was released on the PS3 in the fourth quarter of 2008 and on the Xbox 360 and PC in the fourth quarter of 2007, had lower net revenue of \$54.7 million in 2008 compared to 2007.

Consumer demand for the PS3, Xbox 360 and Wii systems increased in 2008, helping to boost our sales on current generation platforms. Sales on current generation platforms accounted for approximately 82.2% of our total net revenue in the 2008 period. PS3 and Xbox 360 software sales for 2008 increased from 2007 by \$347.0 million and \$281.5 million, respectively, primarily due to the success of *Grand Theft Auto IV*. Wii

Table of Contents

software sales accounted for \$112.0 million of our net revenue in 2008, reflecting higher sales of *Carnival Games* and an increase in the number of titles we released on the Wii such as *Major League Baseball® 2K8* and *Top Spin 3*. Sales on the prior generation platforms decreased by \$96.3 million, mainly reflecting decreased sales of *Fantastic Four: Rise of the Silver Surfer* and *Grand Theft Auto: Vice City Stories* in 2008. We expect sales on the prior generation platforms to continue to decline as a result of the hardware transition and have therefore reduced the number of titles in development for these platforms. We have reduced pricing on several of our software titles for the prior generation platforms as the current generation hardware installed base grows. Handheld sales increased by \$13.3 million, primarily due to the release of *Midnight Club: LA Remix* on the PSP and sales of our Nickelodeon titles *Dora the Explorer* and *Go, Diego, Go!* and *Carnival Games* that released on the DS. PC sales decreased by \$52.5 million, primarily due to decreased sales of *BioShock* and *The Elder Scrolls IV: The Shivering Isles*, which were released in 2007.

Gross profit as a percentage of net revenue increased significantly due to the release of *Grand Theft Auto IV* in 2008, as this title was internally developed and the intellectual property is wholly-owned. Product costs decreased as a percentage of net revenue, primarily due to the volume based manufacturing discounts we received related to the release of *Grand Theft Auto IV*. Internal royalties increased as a percentage of net revenue, again reflecting increased sales of our *Grand Theft Auto* titles.

Excluding the impact of *Grand Theft Auto IV*, product costs as a percentage of net revenue decreased slightly, mainly due to the 2007 period which included a \$5.2 million impairment charge related to intellectual property. Software development costs and royalties decreased in 2008 as a percentage of net revenue, mainly due to a larger share of revenues generated from internally developed titles. Internal royalty costs as a percentage of net revenues remained relatively consistent with the prior year. License costs increased slightly as a percentage of net revenue due to both higher royalty expense and lower revenue generated from our *Major League Baseball* license, partially offset by lower licensing rates in connection with other 2008 titles, including *Don King Presents: Prizefighter* and *Top Spin 3*. Gross profit as a percentage of net revenue, excluding the impact of *Grand Theft Auto IV*, increased by 2.3% in the 2008 period, mainly due to a higher proportion of internally developed titles including *Bully: Scholarship Edition*, *Midnight Club: Los Angeles*, *Sid Meier's Civilization® Revolution*, and *Top Spin 3* and the continued success of *Carnival Games*. In addition, in 2008 our *NBA 2K9* title had higher gross margins than its predecessor game due to higher revenues on a comparable amount of software development costs.

Net revenue earned from licensing our intellectual property to third parties increased to \$33.2 million in 2008 from \$30.8 million in 2007, primarily due to our October 2008 release of *Grand Theft Auto IV* for the PS3 and Xbox 360 in Japan, which was partially offset by the July 2007 release of *Grand Theft Auto: Liberty City Stories* for the PS2 and PSP in Japan. We recognize higher gross profit margins on revenue earned in connection with licensing our products.

Net revenue earned outside of North America accounted for approximately 43.5% of our net revenue in 2008 compared to 34.9% in 2007. This increase was primarily attributable to our simultaneous global release of *Grand Theft Auto IV* and *Midnight Club: Los Angeles* for the PS3 and Xbox 360. Foreign exchange rates increased revenue by approximately \$20.4 million in 2008.

Table of Contents**Operating Expenses**

(thousands of dollars)	2008	% of net revenue	2007	% of net revenue	Increase/ (decrease)	% Increase/ (decrease)
Selling and marketing	\$ 154,396	12.5%	\$ 115,203	16.6%	\$ 39,193	34.0%
General and administrative	166,228	13.5%	145,657	20.9%	20,571	14.1%
Research and development	63,929	5.2%	48,455	7.0%	15,474	31.9%
Business reorganization and related	4,478	0.4%	17,467	2.5%	(12,989)	(74.4)%
Depreciation and amortization	21,322	1.7%	21,206	3.0%	116	0.5%
Total operating expenses⁽¹⁾	\$ 410,353	33.3%	\$ 347,988	50.0%	\$ 62,365	17.9%

(1) Includes stock-based compensation expense, which was allocated as follows:

	2008	2007
Selling and marketing	\$ 2,370	\$ 1,232
General and administrative	\$ 19,678	\$ 7,080
Research and development	\$ 4,878	\$ 3,735
Business reorganization and related	\$	\$ 2,066

Selling and marketing

Selling and marketing expenses decreased as a percentage of net revenue in 2008, reflecting the revenue contribution of *Grand Theft Auto IV*. However costs increased \$39.2 million compared to the prior year primarily due to:

- i. an increase in advertising expense of \$23.6 million, mainly related to the releases of *Grand Theft Auto IV* and *Midnight Club: Los Angeles*;
- ii. a \$12.4 million increase in personnel costs, mainly resulting from higher incentive compensation expense that was based on overall company performance, higher stock-based compensation costs due to timing of awards and severance costs incurred in our European territories; and
- iii. a \$2.9 million increase related to expansion initiatives in Asia-Pacific markets, trade shows and promotional events related to *Grand Theft Auto IV* and *Midnight Club: Los Angeles*.

General and administrative

General and administrative expenses increased \$20.6 million in 2008 as compared to 2007 primarily due to:

- i. an increase of \$15.2 million for management fees and stock-based compensation expense in connection with our service agreement with ZelnickMedia;
- ii. \$11.1 million of legal and consulting expenses related to the EA offer; and
- iii. an increase of approximately \$3.4 million in personnel costs mainly related to an increase in incentive compensation that was based on overall company performance in fiscal 2008; partially offset by
- iv.

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a decrease of approximately \$5.6 million in personnel costs mainly resulting from our business reorganization initiatives.

General and administrative expenses for 2008 and 2007 also includes occupancy expense (primarily rent, utilities and office expenses) of \$11.8 million and \$14.9 million, respectively, related to our development studios.

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Table of Contents

Research and development

Research and development expenses increased \$15.5 million in 2008 compared to 2007 primarily due to:

- i. a \$12.3 million increase in personnel expense, mainly for higher stock-based compensation costs due to the timing of awards and payroll-related expenses in our European studios, coupled with lower software capitalization rates; and
- ii. an increase of \$2.1 million in technology related costs, primarily due to studio acquisitions and the acquisition of 2K Czech, formerly known as Illusion Softworks.

Business reorganization and related costs

In 2007 we announced a business reorganization plan to renew and optimize our management and organizational structure. Accordingly, we incurred business reorganization and related expenses of \$17.5 million in 2007 consisting of employee termination costs of \$10.1 million, \$2.9 million of facility related and relocation costs to move our 2K headquarters to California, and \$4.4 million in professional fees and other costs related to the replacement of prior management and the election of five new directors to our Board of Directors at our annual stockholders' meeting. In 2008 we substantially completed our business reorganization and incurred costs of \$4.5 million consisting mainly of further employee termination, facility related and relocation costs in connection with the closure of two studios. As a result, we do not expect to incur material reorganization charges related to this plan in 2009.

Interest and other, net

(thousands of dollars)	2008	% of net revenue	2007	% of net revenue	Increase/ (decrease)	% Increase/ (decrease)
Interest income, net	\$ 696	0.1%	\$ 1,547	0.2%	\$ (851)	(55.0)%
Gain (loss) on sale and deconsolidation	396	0.0%	(4,469)	(0.6)%	4,865	(108.9)%
Foreign exchange gain (loss)	(5,047)	(0.4)%	2,259	0.3%	(7,306)	(323.4)%
Other	676	0.1%	34	0.0%	642	1888.2%
Interest and other, net	\$ (3,279)	(0.3)%	\$ (629)	(0.1)%	\$ (2,650)	421.3%

In 2007, we sold substantially all of the assets, primarily inventory and accounts receivable, of our wholly-owned Joytech video game accessories subsidiary, to Mad Catz Interactive, Inc. for approximately \$3.6 million in cash and notes receivable, resulting in a recognized loss on the sale of \$3.1 million. The disposition of Joytech did not involve a significant amount of assets or materially impact our operating results.

Also, in 2007, we recognized a loss of \$1.4 million when we deconsolidated the net assets of Blue Castle Games, Inc. ("Blue Castle"), which was previously accounted for, in accordance with the Variable Interest Entity guidance, as a wholly-owned subsidiary and considered to be a variable interest entity. We are no longer considered to be the primary beneficiary of Blue Castle's profits or losses.

In 2008, we incurred a foreign exchange transaction loss of \$5.0 million for the fiscal year ended October 31, 2008, reflecting a strengthening United States dollar in the fourth quarter of 2008, compared to a foreign exchange transaction gain of \$2.3 million for the fiscal year ended October 31, 2007.

Provision for income taxes. Income tax expense was \$13.3 million for the fiscal year ended October 31, 2008, as compared to \$9.9 million for the fiscal year ended October 31, 2007. Our effective tax rate differed from the federal statutory rate due to foreign earnings taxed at lower rates and the application of net operating losses carried forward to 2008 taxable income. The use of the net operating losses enabled the reversal of valuation allowances of \$19.3 million in 2008, while the 2007 taxable loss required an increase to the valuation allowance of \$40.6 million.

Table of Contents

We are regularly audited by domestic and foreign taxing authorities. Audits may result in tax assessments in excess of amounts claimed and the payment of additional taxes. We believe that our tax positions comply with applicable tax law, and that we have adequately provided for reasonably foreseeable tax assessments.

Discontinued Operations

Income from discontinued operations, net of income tax, reflects the results of our former distribution business for which net assets were sold in February 2010. For the fiscal year ended October 31, 2008, the income was \$2.6 million as compared to \$0.1 million for the same period in 2007. The increase during the fiscal year ended October 31, 2008 is primarily due to lower selling and marketing expenses and lower depreciation and amortization expenses. Selling and marketing expenses decreased during the fiscal year ended October 31, 2008 compared to 2007 primarily due to lower personnel expenses and commissions, partially offset by an increase in management fees related to the distribution services agreement that was entered into in September 2008. Depreciation and amortization expenses decreased during the fiscal year ended October 31, 2008 compared to 2007 primarily due to lower purchases of fixed assets during the current year period and the September 2008 sale of certain assets to a third party as part of entering into the aforementioned distribution services agreement.

Net income (loss) and earnings (loss) per share. For the fiscal year ended October 31, 2008, net income was \$97.1 million, compared to a net loss of \$138.4 million for the fiscal year ended October 31, 2007. Basic and diluted earnings per share for the fiscal year ended October 31, 2008 was \$1.26 and \$1.25, respectively, compared to a loss per share of \$1.93 for the fiscal year ended October 31, 2007. Weighted average shares outstanding increased compared to the prior period, mainly due to the inclusion of unvested share-based awards that are considered participating restricted stock due to net income generated, an increase in the exercise of stock options as a result of a higher average stock price in the 2008 period and the issuance of 1,496,647 shares of restricted stock in connection with our acquisition of 2K Czech, formerly known as Illusion Softworks.

Liquidity and Capital Resources

Our primary cash requirements have been to fund (i) the development, manufacturing and marketing of our published products, (ii) working capital, (iii) acquisitions and (iv) capital expenditures. We expect to rely on funds provided by our operating activities, our credit agreement and our Convertible Notes to satisfy our working capital needs.

In February 2010, we completed the sale to Synnex of our Jack of all Games third party distribution business, which primarily distributed third party interactive entertainment software, hardware and accessories in North America for approximately \$44.0 million, including \$37.3 million in cash, subject to purchase price adjustments, and up to an additional \$6.7 million, subject to the achievement of certain items.

In June 2009, we issued \$138.0 million aggregate principal amount of 4.375% convertible senior notes due 2014 ("Convertible Notes"). Interest on the Convertible Notes is payable semi-annually on June 1 and December 1 of each year, and commenced on December 1, 2009. The Convertible Notes mature on June 1, 2014, unless earlier redeemed or repurchased by the Company or converted.

Table of Contents

The Convertible Notes are convertible at an initial conversion rate of 93.6768 shares of our common stock per \$1,000 principal amount of Convertible Notes (representing an initial conversion price of approximately \$10.675 per share of common stock for a total of approximately 12,927,000 underlying conversion shares) subject to adjustment in certain circumstances. Holders may convert the Convertible Notes at their option prior to the close of business on the business day immediately preceding December 1, 2013 only under the following circumstances: (1) during any fiscal quarter commencing after July 31, 2009, if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day; (2) during the five business day period after any 10 consecutive trading day period (the "measurement period") in which the trading price per \$1,000 principal amount of Convertible Notes for each day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate on each such day; (3) if we call the Convertible Notes for redemption, at any time prior to the close of business on the third scheduled trading day prior to the redemption date; or (4) upon the occurrence of specified corporate events. On and after December 1, 2013 until the close of business on the third scheduled trading day immediately preceding the maturity date, holders may convert their Convertible Notes at any time, regardless of the foregoing circumstances. Upon conversion, the Convertible Notes may be settled, at our election, in cash, shares of our common stock, or a combination of cash and shares of the Company's common stock.

At any time on or after June 5, 2012, the Company may redeem all of the outstanding Convertible Notes for cash, but only if the last reported sale of our common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the trading day prior to the date we provide notice of redemption to holders of the Convertible Notes exceeds 150% of the conversion price in effect on each such trading day. The redemption price will equal 100% of the principal amount of the Convertible Notes to be redeemed, plus all accrued and unpaid interest (including additional interest, if any) to, but excluding, the redemption date. The indenture governing the Convertible Notes contains customary terms and covenants and events of default. As of March 31, 2010, we were in compliance with all covenants and requirements outlined in the indenture governing the Convertible Notes.

In July 2007, we entered into a credit agreement which provides for borrowings of up to \$140.0 million and is secured by substantially all of our assets and the equity of our subsidiaries (the "Credit Agreement"). The Credit Agreement expires on July 3, 2012. Revolving loans under the Credit Agreement bear interest at our election of (a) 2.00% to 2.50% above a certain base rate with a minimum 6.00% base rate (8.00% at March 31, 2010, October 31, 2009 and October 31, 2008), or (b) 3.25% to 3.75% above the LIBOR Rate with a minimum 4.00% LIBOR Rate (7.25% at March 31, 2010, October 31, 2009 and October 31, 2008). We are also required to pay a monthly fee on the unused available balance, ranging from 0.25% to 0.75% based on amounts borrowed.

Availability under the Credit Agreement is restricted by our domestic and United Kingdom based accounts receivable and inventory balances. The Credit Agreement also allows for the issuance of letters of credit in an aggregate amount of up to \$25.0 million.

As of March 31, 2010 there were no outstanding borrowings and \$96.1 million was available to borrow. We had \$8.2 million of letters of credit outstanding at March 31, 2010.

The Credit Agreement substantially limits us and our subsidiaries' ability to: create, incur, assume or be liable for indebtedness; dispose of assets outside the ordinary course of business; acquire, merge or consolidate with or into another person or entity; create, incur or allow any lien on any of their respective properties; make investments; or pay dividends or make distributions (each subject to certain limitations). In addition, the Credit Agreement provides for certain events of default such as nonpayment of principal and interest, breaches of representations and warranties, noncompliance with covenants, acts of insolvency, default on indebtedness held by third parties and default on certain material contracts (subject to certain

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Table of Contents

limitations and cure periods). The Credit Agreement also contains a requirement that we maintain an interest coverage ratio of more than one to one for the trailing twelve month period, if the liquidity of our domestic operations falls below \$30.0 million (including available borrowings under the credit facility), based on a 30-day average. As of March 31, 2010, we were in compliance with all covenants and requirements outlined in the Credit Agreement.

We are subject to credit risks, particularly if any of our receivables represent a limited number of customers or are concentrated in foreign markets. If we are unable to collect our accounts receivable as they become due, it could adversely affect our liquidity and working capital position.

Generally, we have been able to collect our accounts receivable in the ordinary course of business. We do not hold any collateral to secure payment from customers. We have trade credit insurance on the majority of our customers to mitigate accounts receivable risk.

A majority of our trade receivables are derived from sales to major retailers and distributors. Our five largest customers accounted for 55.7%, 56.4% and 40.4% of net revenue for the five months ended March 31, 2010 and fiscal years ended October 31, 2009 and 2008, respectively. As of March 31, 2010, October 31, 2009 and 2008, amounts due from our five largest customers comprised approximately 65.7%, 59.7% and 39.4% of our gross accounts receivable balance, respectively, with our significant customers (those that individually comprised more than 10% of our gross accounts receivable balance) accounting for 56.1%, 50.3% and 12.5% of such balance at March 31, 2010, October 31, 2009 and 2008, respectively. We believe that the receivable balances from these largest customers do not represent a significant credit risk based on past collection experience, although we actively monitor each customer's credit worthiness and economic conditions that may impact our customers' business and access to capital. We are monitoring the current global economic conditions, including credit markets and other factors as it relates to our customers in order to manage the risk of uncollectible accounts receivable.

We have entered into various agreements in the ordinary course of business that require substantial cash commitments over the next several years. Generally, these include:

Agreements to acquire licenses to intellectual property such as trademarks, copyrights and technology for use in the publishing, marketing and distribution of our software titles. Our licensing and marketing commitments primarily reflect agreements with major sports leagues and players' associations and expire at various times through September 2014;

Contractual payments to third party software developers that expire at various times through October 2011. Guaranteed minimum payments assume satisfactory performance; and

Operating leases, primarily related to occupancy, furniture and equipment, expiring at various times through January 2017.

A summary of annual minimum contractual obligations and commitments as of March 31, 2010 is as follows (in thousands of dollars):

Fiscal Year Ending March 31,	Licensing and Marketing	Software Development	Operating Leases	Convertible Notes Interest	Convertible Notes	Total
2011	\$ 58,433	\$ 27,607	\$ 17,140	\$ 6,038	\$	\$ 109,218
2012	60,842	1,386	15,310	6,038		83,576
2013	66,425		13,176	6,038		85,639
2014	2,000		9,888	6,038		17,926
2015			4,633	3,019	138,000	145,652
Thereafter			5,517			5,517
Total	\$ 187,700					