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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 ☒

As of February 2, 2015, there were 84,368,648 shares of the Registrant's Common Stock outstanding, net of treasury stock.

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TAKE-TWO INTERACTIVE SOFTWARE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

	December 31, 2014 (Unaudited)	March 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 897,452	\$ 935,400
Short-term investments	79,140	
Restricted cash	31,301	193,839
Accounts receivable, net of allowances of \$86,630 and \$75,518 at December 31, 2014 and March 31, 2014, respectively	435,709	53,143
Inventory	24,617	29,780
Software development costs and licenses	178,968	116,203
Deferred cost of goods sold	42,441	5,002
Prepaid expenses and other	116,385	66,073
Total current assets	1,806,013	1,399,440
Fixed assets, net	63,436	42,572
Software development costs and licenses, net of current portion	115,814	109,506
Deferred cost of goods sold, net of current portion	26,622	858
Goodwill	221,071	226,705
Other intangibles, net	4,793	5,113
Other assets	16,069	15,436
Total assets	\$ 2,253,818	\$ 1,799,630
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 113,240	\$ 16,452
Accrued expenses and other current liabilities	255,862	397,173
Deferred revenue	338,003	61,195
Total current liabilities	707,105	474,820
Long-term debt	470,420	454,031
Non-current deferred revenue	197,943	18,128
Other long-term liabilities	62,961	50,845
Total liabilities	1,438,429	997,824
Commitments and contingencies		
Stockholders' equity:		

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Preferred stock, \$.01 par value, 5,000 shares authorized		
Common stock, \$.01 par value, 200,000 shares authorized; 104,602 and 105,156 shares issued and 88,364 and 88,918 outstanding at December 31, 2014 and March 31, 2014, respectively		
	1,046	1,052
Additional paid-in capital	1,024,626	954,699
Treasury stock, at cost (16,238 common shares at December 31, 2014 and March 31, 2014)	(276,836)	(276,836)
Retained earnings	84,096	120,775
Accumulated other comprehensive (loss) income	(17,543)	2,116
Total stockholders' equity	815,389	801,806
Total liabilities and stockholders' equity	\$ 2,253,818	\$ 1,799,630

See accompanying Notes.

Table of Contents**TAKE-TWO INTERACTIVE SOFTWARE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

(in thousands, except per share amounts)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Net revenue	\$ 531,147	\$ 1,863,869	\$ 782,849	\$ 2,155,360
Cost of goods sold	278,013	1,119,734	384,185	1,306,039
Gross profit	253,134	744,135	398,664	849,321
Selling and marketing	96,892	70,476	182,874	213,419
General and administrative	53,564	34,718	136,891	110,601
Research and development	31,221	29,233	79,886	76,624
Depreciation and amortization	5,845	3,413	15,123	9,837
Total operating expenses	187,522	137,840	414,774	410,481
Income (loss) from operations	65,612	606,295	(16,110)	438,840
Interest and other, net	(9,458)	(5,949)	(24,689)	(26,018)
Gain (loss) on long-term investments	(1,500)		17,476	
Loss on extinguishment of debt				(9,014)
Gain on convertible note hedge and warrants, net				3,461
Income (loss) from continuing operations before income taxes	54,654	600,346	(23,323)	407,269
Provision for income taxes	14,561	21,902	13,356	14,804
Income (loss) from continuing operations	40,093	578,444	(36,679)	392,465
Loss from discontinued operations, net of taxes		(18)		(73)
Net income (loss)	\$ 40,093	\$ 578,426	\$ (36,679)	\$ 392,392
Earnings (loss) per share:				
Continuing operations	\$ 0.46	\$ 5.88	\$ (0.46)	\$ 4.02
Discontinued operations				
Basic earnings (loss) per share	\$ 0.46	\$ 5.88	\$ (0.46)	\$ 4.02
Continuing operations	\$ 0.42	\$ 4.69	\$ (0.46)	\$ 3.29
Discontinued operations				
Diluted earnings (loss) per share	\$ 0.42	\$ 4.69	\$ (0.46)	\$ 3.29

See accompanying Notes.

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TAKE-TWO INTERACTIVE SOFTWARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

(in thousands)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Net income (loss)	\$ 40,093	\$ 578,426	\$ (36,679)	\$ 392,392
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(12,032)	(474)	(19,512)	6,518
Change in unrealized gains on cash flow hedges, net of taxes		67	32	269
Unrealized gains and (losses) on available-for-sale securities, net of taxes	(94)		(179)	
Other comprehensive (loss) income	(12,126)	(407)	(19,659)	6,787
Comprehensive income (loss)	\$ 27,967	\$ 578,019	\$ (56,338)	\$ 399,179

See accompanying Notes.

Table of Contents**TAKE-TWO INTERACTIVE SOFTWARE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

(in thousands)

	Nine Months Ended December 31,	
	2014	2013
Operating activities:		
Net income (loss)	\$ (36,679)	\$ 392,392
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization and impairment of software development costs and licenses	89,768	252,229
Depreciation and amortization	15,123	9,837
Loss from discontinued operations		73
Amortization and impairment of intellectual property	320	3,375
Stock-based compensation	52,474	57,594
Deferred income taxes	641	(5,487)
Amortization of discount on Convertible Notes	16,389	17,507
Amortization of debt issuance costs	1,260	1,510
(Gain) loss on long-term investment	(17,476)	
Loss on extinguishment of debt		9,014
Gain on convertible note hedge and warrants, net		(3,461)
Other, net	2,262	(414)
Changes in assets and liabilities, net of effect from purchases of businesses:		
Restricted cash	162,538	171,892
Accounts receivable	(382,566)	77
Inventory	5,163	(14,817)
Software development costs and licenses	(155,454)	(151,275)
Prepaid expenses, other current and other non-current assets	(52,092)	(377,608)
Deferred revenue	456,623	24,447
Deferred cost of goods sold	(63,203)	(232)
Accounts payable, accrued expenses and other liabilities	(34,565)	345,174
Net cash used in discontinued operations		(1,034)
Net cash provided by operating activities	60,526	730,793
Investing activities:		
Purchase of fixed assets	(36,579)	(23,455)
Purchases of short-term investments	(79,677)	
Purchase of long-term investments	(5,000)	
Cash received from sale of long-term investment	21,976	
Payments in connection with business combinations, net of cash acquired		(1,000)
Net cash used in investing activities	(99,280)	(24,455)
Financing activities:		
Excess tax benefit from stock-based compensation	10,352	
Repurchase of common stock		(276,836)
Proceeds from issuance of 1.00% Convertible Notes		283,188
Payment for extinguishment of 4.375% Convertible Notes		(165,999)
Proceeds from termination of convertible note hedge transactions		84,429
Payment for termination of convertible note warrant transactions		(55,651)
Payment of debt issuance costs for the issuance of 1.00% Convertible Notes		(2,815)

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Net cash provided by (used in) financing activities	10,352	(133,684)
Effects of foreign currency exchange rates on cash and cash equivalents	(9,546)	(2,986)
Net (decrease) increase in cash and cash equivalents	(37,948)	569,668
Cash and cash equivalents, beginning of year	935,400	402,502
Cash and cash equivalents, end of period	\$ 897,452	\$ 972,170

See accompanying Notes.

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TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Take-Two Interactive Software, Inc. (the "Company," "we," "us," or similar pronouns) was incorporated in the state of Delaware in 1993. We are a leading developer, publisher and marketer of interactive entertainment for consumers around the globe. The Company develops and publishes products through its two wholly-owned labels Rockstar Games and 2K. Our products are designed for console systems and personal computers, including smart phones and tablets, and are delivered through physical retail, digital download, online platforms and cloud streaming services.

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements are unaudited and include the accounts of the Company and its wholly-owned subsidiaries and reflect all normal and recurring adjustments necessary for the fair presentation of our financial position, results of operations and cash flows. All material inter-company accounts and transactions have been eliminated in consolidation. The preparation of these Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in these Condensed Consolidated Financial Statements and accompanying notes. As permitted under U.S. generally accepted accounting principles, interim accounting for certain expenses, including income taxes, are based on full year assumptions when appropriate. Actual results could differ materially from those estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), although we believe that the disclosures are adequate to make the information presented not misleading. These Condensed Consolidated Financial Statements and accompanying notes should be read in conjunction with our annual consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K for the year ended March 31, 2014.

Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

Financial Instruments

The carrying amounts of our financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, approximate fair value because of their short maturities. We consider all highly liquid instruments purchased with original maturities of three months or less to be cash equivalents. Our restricted cash balance is primarily related to a dedicated account limited to the payment of certain royalty obligations.

Short-term Investments

Short-term investments designated as available-for-sale securities are carried at fair value, which is based on quoted market prices for such securities, if available, or is estimated on the basis of quoted market prices of financial instruments with similar characteristics. Investments with original maturities greater than 90 days and remaining maturities of less than one year are normally classified within short-term investments. In addition, investments with maturities beyond one year at the time of purchase that are highly liquid in nature and represent the investment of cash that is available for current operations are classified as short-term investments.

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TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

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

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unrealized gains and losses of the Company's available-for-sale securities are excluded from earnings and are reported as a component of other comprehensive income (loss), net of tax, until the security is sold, the security has matured, or the Company determines that the fair value of the security has declined below its adjusted cost basis and the decline is other-than-temporary. Realized gains and losses on short-term investments are calculated based on the specific identification method and would be reclassified from accumulated other comprehensive income (loss) to interest and other, net.

Short-term investments are evaluated for impairment quarterly. The Company considers various factors in determining whether it should recognize an impairment charge, including the credit quality of the issuer, the duration that the fair value has been less than the adjusted cost basis, the severity of the impairment, the reason for the decline in value, and our intent to sell and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. If the Company concludes that an investment is other-than-temporarily impaired, it recognizes an impairment charge at that time in the Condensed Consolidated Statements of Operations. In determining whether the decline in fair value is other-than-temporary requires management judgment based on the specific facts and circumstances of each security. The ultimate value realized on these securities is subject to market price volatility until they are sold.

Sale of Long-Term Investment

The Company held an investment in Twitch Interactive, Inc.'s ("Twitch") Class C Preferred stock, which was accounted for under the cost method of accounting. In September 2014, the Company recognized a pretax gain of approximately \$18,976 in connection with the sale of Twitch. The pretax gain is presented within "Gain (loss) on long-term investments" in our Condensed Consolidated Statements of Operations for the nine months ended December 31, 2014.

Hedging Activities

We transact business in various foreign currencies and have significant sales and purchase transactions denominated in foreign currencies, subjecting us to foreign currency exchange rate risk. From time to time, we use hedging programs in an effort to mitigate the effect of foreign currency exchange rate movements.

Cash Flow Hedging Activities

We use foreign currency forward contracts to mitigate foreign currency exchange rate risk associated with forecasted transactions involving non-functional currency denominated expenditures. These contracts, which are designated and qualify as cash flow hedges, are accounted for as derivatives whereby the fair value of the contracts is reported as either assets or liabilities on our Condensed Consolidated Balance Sheets. The effective portion of gains or losses resulting from changes in the fair value of these hedges is initially reported, net of tax, as a component of accumulated other comprehensive income (loss) in stockholders' equity. The gross amount of the effective portion of gains or losses resulting from changes in the fair value of these hedges is subsequently reclassified into cost of goods sold or research and development expenses, as appropriate, in the period when the forecasted transaction is recognized in our Condensed Consolidated Statements of Operations. In the event that the gains or losses in accumulated other comprehensive income (loss) are deemed to be ineffective, the ineffective portion of gains or losses resulting from changes in fair value, if any, is reclassified to

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TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

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

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

interest and other, net, in our Condensed Consolidated Statements of Operations. In the event that the underlying forecasted transactions do not occur, or it becomes probable that they will not occur, within the defined hedge period, the gains or losses on the related cash flow hedges are reclassified from accumulated other comprehensive income (loss) to interest and other, net, in our Condensed Consolidated Statements of Operations. During the reporting periods presented, all forecasted transactions occurred, and therefore, there were no such gains or losses reclassified into interest and other, net. We do not enter into derivative financial contracts for speculative or trading purposes. At December 31, 2014, we had no forward contracts outstanding to buy or sell foreign currencies in exchange for U.S. dollars designated as cash flow hedges. At March 31, 2014, we had \$890 of forward contracts outstanding to buy foreign currencies in exchange for U.S. dollars all of which have maturities of less than one year. As of March 31, 2014, the fair value of these outstanding forward contracts was immaterial and was included in prepaid expenses and other. The fair value of these outstanding forward contracts is estimated based on the prevailing exchange rates of the various hedged currencies as of the end of the period.

Balance Sheet Hedging Activities

We use foreign currency forward contracts to mitigate foreign currency exchange rate risk associated with non-functional currency denominated cash balances and inter-company funding loans, non-functional currency denominated accounts receivable and non-functional currency denominated accounts payable. These transactions are not designated as hedging instruments and are accounted for as derivatives whereby the fair value of the contracts is reported as either assets or liabilities on our Condensed Consolidated Balance Sheets, and gains and losses resulting from changes in the fair value are reported in interest and other, net, in our Condensed Consolidated Statements of Operations. We do not enter into derivative financial contracts for speculative or trading purposes. At December 31, 2014, we had \$4,609 of forward contracts outstanding to buy foreign currencies in exchange for U.S. dollars and \$231,346 of forward contracts outstanding to sell foreign currencies in exchange for U.S. dollars all of which have maturities of less than one year. At March 31, 2014, we had \$68,520 of forward contracts outstanding to sell foreign currencies in exchange for U.S. dollars all of which have maturities of less than one year. For the three months ended December 31, 2014 and 2013, we recorded a gain of \$7,702 and a loss of \$7,196, respectively, related to foreign currency forward contracts in interest and other, net on the Condensed Consolidated Statements of Operations. For the nine months ended December 31, 2014 and 2013, we recorded a gain of \$7,270 and a loss of \$17,463, respectively, related to foreign currency forward contracts in interest and other, net on the Condensed Consolidated Statements of Operations. As of December 31, 2014 and March 31, 2014, the fair value of these outstanding forward contracts was immaterial and is included in prepaid expenses and other. The fair value of these outstanding forward contracts is estimated based on the prevailing exchange rates of the various hedged currencies as of the end of the period.

Revenue Recognition

For some of our software products, we enter into multiple element revenue arrangements in which we may provide a combination of full game software, add-on content, maintenance or support. When all other revenue recognition criteria are met for these arrangements, we determine the fair value of each delivered and undelivered element using vendor-specific objective evidence ("VSOE") of fair value and allocate the total price among the various elements. When we have not established VSOE

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TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

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

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

for each element, revenue is deferred until the earlier of the point at which VSOE of fair value exists for any undelivered element or until all elements of the arrangement have been delivered. For arrangements that require the deferral of revenue, the cost of goods sold is deferred and recognized as the related net revenue is recognized. Deferred cost of goods sold includes product costs, royalties and licenses. We determine VSOE for each element based on historical stand-alone sales to third parties. In determining VSOE, we require that a substantial majority of the selling prices for a product or service fall within a reasonably narrow pricing range. Changes in assumptions or judgments or changes to the elements in a software arrangement could cause a material increase or decrease in the amount of revenue that we report in a particular period.

In identifying the deliverables within an arrangement we consider whether our software products contain more-than-inconsequential online functionality by evaluating the significance of the development effort, the nature of the online features, the extent of anticipated marketing focus on the online features, the significance of the online features to the consumers' anticipated overall gameplay experience, and the significance and length of time of our post sale obligations to consumers. Determining whether the online functionality for a particular game constitutes a more than an inconsequential deliverable is subjective and requires management's judgment.

When our software products provide limited online functionality at no additional cost to the consumer, we generally 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. When software products provide online functionality that represents a more-than-inconsequential deliverable, we recognize the software-related revenues and the related cost of goods sold ratably over the estimated service period of the title (assuming all other recognition criteria are met) as we have not established VSOE for that deliverable.

During the fiscal quarter ending December 31, 2014, the Company concluded that the updates being provided with *Grand Theft Auto V* were no longer considered an inconsequential deliverable because of the add-on content updates provided to date and expected to be provided in the future. As a result, the net revenue and cost of goods sold that have been deferred will be recognized ratably over the expected service period, which is equal to the estimated remaining life of the game which we have concluded for *Grand Theft Auto V* to be 24 months from the time of release.

Debt

As of December 31, 2014, the estimated fair value of the Company's 1.75% Convertible Notes due 2016 and the Company's 1.00% Convertible Notes due 2018 was \$379,575 and \$403,593, respectively. See Note 8 for additional information regarding our Convertible Notes. The fair value was determined using observable market data for the Convertible Notes and its embedded option feature.

Recently Issued Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, as a new Topic, Accounting Standards Codification ("ASC") Topic 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a

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TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

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

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is effective for the annual and interim periods beginning after December 15, 2016 (April 1, 2017 for the Company) and shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is currently determining its implementation approach and evaluating the impact of adopting this update on our Condensed Consolidated Financial Statements.

Requirements for Reporting Discontinued Operations

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This new guidance raises the threshold for a disposal to qualify as discontinued operations and requires new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. Under the new standard, companies report discontinued operations when they have a disposal that represents a strategic shift that has or will have a major impact on operations or financial results. This update will be applied prospectively and is effective for annual periods, and interim periods within those years, beginning after December 15, 2014 (April 1, 2015 for the Company). Early adoption is permitted provided the disposal was not previously disclosed. The adoption of this new guidance is not expected to have a material effect on our Condensed Consolidated Financial Statements.

Presentation of Unrecognized Tax Benefits

In July 2013, new guidance was issued requiring that entities that have an unrecognized tax benefit and a net operating loss carryforward or similar tax loss or tax credit carryforward in the same jurisdiction as the uncertain tax position present the unrecognized tax benefit as a reduction of the deferred tax asset for the loss or tax credit carryforward rather than as a liability when the uncertain tax position would reduce the loss or tax credit carryforward under the tax law. The disclosure requirements became effective for annual periods (and interim periods within those annual periods) beginning after December 15, 2013 (April 1, 2014 for the Company), and is applied prospectively. The adoption of this guidance has not had a material effect on our Condensed Consolidated Financial Statements.

2. MANAGEMENT AGREEMENT

In March 2007, we entered into a management services agreement, which was renewed in May 2011 (as amended, the "2011 Management Agreement") with ZelnickMedia Corporation ("ZelnickMedia"), pursuant to which ZelnickMedia provided us with certain management, consulting and executive level services. In March 2014, we entered into a new management agreement, (the "2014 Management Agreement"), with ZelnickMedia pursuant to which ZelnickMedia continues to provide financial and management consulting services to the Company through March 31, 2019. The 2014 Management Agreement became effective April 1, 2014 and supersedes and replaces the 2011 Management Agreement, except as otherwise contemplated by the 2014 Management Agreement. As part of the 2014 Management Agreement, Strauss Zelnick, the President of ZelnickMedia, continues to serve as Executive Chairman and Chief Executive Officer and Karl Slatoff, a partner of ZelnickMedia, continues to serve as President of the Company. The 2014 Management Agreement provides for an

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TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

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

2. MANAGEMENT AGREEMENT (Continued)

annual management fee of \$2,970 over the term of the agreement and a maximum annual bonus opportunity of \$4,752 over the term of the agreement, based on the Company achieving certain performance thresholds. In consideration for ZelnickMedia's services, we recorded consulting expense (a component of general and administrative expenses) of \$3,119 and \$1,591 for the three months ended December 31, 2014 and 2013, respectively, and \$5,792 and \$4,774 for the nine months ended December 31, 2014 and 2013, respectively.

Pursuant to the 2011 Management Agreement, we granted 1,100,000 shares of restricted stock to ZelnickMedia that vest annually through May 15, 2015 and 1,650,000 shares of market-based restricted stock that are eligible to vest through May 15, 2015, based on the Company's Total Shareholder Return (as defined in the relevant grant agreements) relative to the Total Shareholder Return of the companies that constitute the NASDAQ Composite Index measured annually on a cumulative basis. To earn all of the shares of market-based restricted stock, the Company must perform at the 75th percentile, or top quartile, of the NASDAQ Composite Index. Each reporting period, we remeasure the fair value of the unvested portion of the shares of market-based restricted stock granted to ZelnickMedia. The unvested portion of the shares of restricted stock granted pursuant to the 2011 Management Agreement as of December 31, 2014 and March 31, 2014 was 1,133,000 and 1,894,750 shares, respectively. For the three months ended December 31, 2014 and 2013, we recorded an expense of \$11,239 and a gain of \$1,528, respectively, of stock-based compensation (a component of general and administrative expenses) related to the shares of restricted stock granted pursuant to the 2011 Management Agreement. For the nine months ended December 31, 2014 and 2013, we recorded an expense of \$19,045 and \$4,592, respectively, of stock-based compensation (a component of general and administrative expenses) related to the shares of restricted stock granted pursuant to the 2011 Management Agreement.

In connection with the 2014 Management Agreement, on April 1, 2014, we granted 178,654 time-based restricted units to ZelnickMedia that will vest on April 1, 2016, provided that the 2014 Management Agreement has not been terminated prior to such vesting date. In addition, we granted 330,628 market-based restricted units that are eligible to vest based on the Company's Total Shareholder Return (as defined in the relevant grant agreement) relative to the Total Shareholder Return (as defined in the relevant grant agreement) of the companies that constitute the NASDAQ Composite Index as of the grant date measured over the two-year period ending on April 1, 2016. To earn the target number of 165,314 market-based restricted units, the Company must perform at the 50th percentile, with the maximum number of 330,628 market-based restricted units if the Company performs at the 75th percentile. Each reporting period, we remeasure the fair value of the unvested portion of the shares of market-based restricted units granted to ZelnickMedia. We also granted 110,208 performance-based restricted units of which 50% are tied to "New IP" and 50% to "Major IP" (as defined in the relevant grant agreement) that are eligible to vest based on the Company's achievement of certain performance metrics (as defined in the relevant grant agreement) of individual product releases of "New IP" or "Major IP" measured over the two-year period ending on April 1, 2016. The target number of performance-based restricted units that may be earned pursuant to these grants is 55,104, with a maximum number of 110,208 performance-based restricted units. Each reporting period, we assess the performance metric and upon achievement of certain thresholds record an expense for the unvested portion of the shares of performance-based restricted units. During the three months ended December 31, 2014, the maximum target performance vesting condition for "Major IP" unit sales was achieved. As a result, the Company recorded an expense of approximately \$97 in

Table of Contents**TAKE-TWO INTERACTIVE SOFTWARE, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****(Dollars in thousands, except share and per share amounts)****2. MANAGEMENT AGREEMENT (Continued)**

stock compensation included below for the three and nine months ended December 31, 2014. The unvested portion of time-based, market-based and performance-based restricted units granted pursuant to the 2014 Management Agreement as of December 31, 2014 was 619,490. For the three and nine months ended December 31, 2014 we recorded an expense of \$2,495 and \$5,074, respectively, of stock-based compensation (a component of general and administrative expenses) related to the restricted stock units granted pursuant to the 2014 Management Agreement.

3. FAIR VALUE MEASUREMENTS

We follow a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of "observable inputs" and minimize the use of "unobservable inputs." The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for markets that are not active or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The table below segregates all assets that are measured at fair value on a recurring basis (which is measured at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

	December 31, 2014	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Balance Sheet Classification
Money market funds	\$ 610,419	\$ 610,419	\$	\$	Cash and cash equivalents
Bank-time deposits	44,399	44,399			Cash and cash equivalents
Corporate bonds	79,140		79,140		Short-term investments

4. SHORT-TERM INVESTMENTS

Our short-term investments consisted of the following available-for-sale securities as of December 31, 2014:

As of December 31, 2014

	Cost or Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
Short-term investments				
Available-for-sale securities:				

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Corporate bonds	\$	79,319	\$	9	\$	(188)	\$	79,140
Total short-term investments	\$	79,319	\$	9	\$	(188)	\$	79,140

Table of Contents**TAKE-TWO INTERACTIVE SOFTWARE, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****(Dollars in thousands, except share and per share amounts)****4. SHORT-TERM INVESTMENTS (Continued)**

Unrealized gains and losses of the Company's available-for-sale securities are reported as a component of other comprehensive income (loss), net of tax, until the security is sold, the security has matured, or the Company determines that the fair value of the security has declined below its adjusted cost basis and the decline is other-than-temporary. We evaluate our investments for impairment quarterly. The Company considers various factors in the review of investments with an unrealized loss, including the credit quality of the issuer, the duration that the fair value has been less than the adjusted cost basis, the severity of the impairment, the reason for the decline in value and our intent to sell and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. Based on our review, we did not consider these investments to be other-than-temporarily impaired as of December 31, 2014.

The following table summarizes the contracted maturities of our short-term investments classified as available-for-sale at December 31, 2014:

	As of December 31, 2014	
	Amortized Cost	Fair Value
Short-term investments		
Due in 1 - 2 years	\$ 79,319	\$ 79,140
Total short-term investments	\$ 79,319	\$ 79,140

5. INVENTORY

Inventory balances by category are as follows:

	December 31, 2014	March 31, 2014
Finished products	\$ 21,849	\$ 28,418
Parts and supplies	2,768	1,362
Inventory	\$ 24,617	\$ 29,780

Estimated product returns included in inventory at December 31, 2014 and March 31, 2014 were \$1,826 and \$578, respectively.

Table of Contents**TAKE-TWO INTERACTIVE SOFTWARE, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****(Dollars in thousands, except share and per share amounts)****6. SOFTWARE DEVELOPMENT COSTS AND LICENSES**

Details of our capitalized software development costs and licenses are as follows:

	December 31, 2014		March 31, 2014	
	Current	Non-current	Current	Non-current
Software development costs, internally developed	\$ 50,458	\$ 106,514	\$ 53,041	\$ 60,196
Software development costs, externally developed	127,378	9,300	51,643	49,310
Licenses	1,132		11,519	
Software development costs and licenses	\$ 178,968	\$ 115,814	\$ 116,203	\$ 109,506

Software development costs and licenses as of December 31, 2014 and March 31, 2014 included \$235,061 and \$211,302, respectively, related to titles that have not been released. During the nine months ended December 31, 2014 and 2013, we recorded \$14,297 and \$41,777, respectively, of software development impairment charges (a component of cost of goods sold).

7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	December 31, 2014	March 31, 2014
Software development royalties	\$ 54,860	\$ 258,129
Compensation and benefits	54,847	44,255
Licenses	46,091	16,917
Marketing and promotions	33,573	16,552
Sales tax liability	29,976	6,592
Income tax payable and deferred tax liability	6,705	15,362
Other	29,810	39,366
Accrued expenses and other current liabilities	\$ 255,862	\$ 397,173

8. DEBT***Credit Agreement***

In August 2014, we entered into a Third Amendment to the Second Amended and Restated October 2011 Credit Agreement (the "Credit Agreement"). The Credit Agreement provides for borrowings of up to \$100,000 which may be increased by up to \$40,000 pursuant to the terms of the Credit Agreement, and is secured by substantially all of our assets and the equity of our subsidiaries. The Credit Agreement expires on August 18, 2019. Revolving loans under the Credit Agreement bear interest at our election of (a) 0.50% to 1.00% above a certain base rate (3.75% at December 31, 2014), or (b) 1.50% to 2.00% above the LIBOR Rate (approximately 1.67% at December 31, 2014), with the margin rate subject to the achievement of certain average liquidity levels. We are also required to pay a

Table of Contents**TAKE-TWO INTERACTIVE SOFTWARE, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****(Dollars in thousands, except share and per share amounts)****8. DEBT (Continued)**

monthly fee on the unused available balance, ranging from 0.25% to 0.375% based on availability. We had no outstanding borrowings at December 31, 2014 and March 31, 2014.

Availability under the Credit Agreement is restricted by our United States 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 \$5,000.

Information related to availability on our Credit Agreement is as follows:

	December 31, 2014	March 31, 2014
Available borrowings	\$ 98,317	\$ 63,630
Outstanding letters of credit	1,664	1,664

We recorded interest expense and fees related to the Credit Agreement of \$111 and \$160 for the three months ended December 31, 2014 and 2013, respectively and \$408 and \$479 for nine months ended December 31, 2014 and 2013, respectively.

The Credit Agreement contains covenants that substantially limit 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); or optionally prepay any indebtedness (subject to certain exceptions, including an exception permitting the redemption of the Company's unsecured convertible senior notes upon the meeting of certain minimum liquidity requirements). 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 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 certain average liquidity levels fall below \$30,000. As of December 31, 2014, we were in compliance with all covenants and requirements outlined in the Credit Agreement.

4.375% Convertible Notes Due 2014

In June 2009, we issued \$138,000 aggregate principal amount of 4.375% Convertible Notes due 2014 (the "4.375% Convertible Notes"). The issuance of the 4.375% Convertible Notes included \$18,000 related to the exercise of an over-allotment option by the underwriters. Interest on the 4.375% Convertible Notes was paid semi-annually in arrears on June 1st and December 1st of each year, and commenced on December 1, 2009. The 4.375% Convertible Notes were scheduled to mature on June 1, 2014, unless earlier redeemed or repurchased by the Company or converted.

On June 12, 2013, we issued a notice of redemption calling all of our outstanding 4.375% Convertible Notes, in the aggregate principal amount of \$138,000, for redemption on August 29, 2013 at a redemption price of \$1 per \$1 principal amount, plus accrued and unpaid interest up to, but not including, the redemption date (the period from June 12, 2013 to August 29, 2013 is the "Notice Period"). Holders who elected to convert during the Notice Period were entitled to make-whole shares

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TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

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

8. DEBT (Continued)

in addition to such shares they would otherwise be entitled to receive upon conversion. The notice of redemption specified that we would settle any 4.375% Convertible Notes surrendered for conversion in connection with the redemption on a combination settlement basis by paying cash up to a cash amount equal to \$166,000 in the aggregate of converted notes and delivering shares of our common stock in respect of the amount, if any, by which our conversion obligation exceeded such cash amount. During the Notice Period, \$137,993 of 4.375% Convertible Notes were converted for \$165,992 in cash and 3,217,000 shares of our common stock. On August 29, 2013, we paid \$7 in cash and we redeemed \$7 of 4.375% Convertible Notes.

In connection with the June 2009 offering of the 4.375% Convertible Notes, we entered into convertible note hedge transactions which were expected to reduce the potential dilution to our common stock upon conversion of the 4.375% Convertible Notes. The transactions included options to purchase approximately 12,927,000 shares of common stock at \$10.675 per share, expiring on June 1, 2014, for a total cost of approximately \$43,600, which was charged to additional paid-in capital.

Separately, in June 2009, the Company entered into warrant transactions with a strike price of \$14.945 per share. The warrants covered approximately 12,927,000 shares of the Company's common stock and were scheduled to expire on August 30, 2014, for total proceeds of approximately \$26,300, which was credited to additional paid-in capital.

On June 12, 2013, the Company entered into Unwind Agreements with respect to the convertible note hedge transactions and Unwind Agreements with respect to the warrant transactions with each of the hedge counterparties (collectively, the "Unwind Agreements"). Pursuant to the terms of the Unwind Agreements, and in connection with the Company's issuance of a notice of redemption for all the 4.375% Convertible Notes, the Company had the right to deliver a notice to the hedge counterparties, prior to the redemption date set forth in such redemption notice, designating an early termination date for the convertible note hedge transactions and warrant transactions. The hedge counterparties owed a cash payment to the Company as a result of the early termination of the convertible note hedge transactions that was calculated based on its current fair market value. The Company owed a cash payment to the warrant holders, as applicable, as a result of the early termination of the warrant transactions that was calculated based on its current fair market value. As a result of the Unwind Agreements, the convertible note hedge transactions and warrant transactions were accounted for as derivatives whereby the fair values of these transactions were reported as a convertible note hedge receivable and as a convertible note warrant liability with an offsetting impact to additional paid-in capital. Gains and losses resulting from changes in the fair value were reported in gain on convertible note hedge and warrants, net, in our Condensed Consolidated Statements of Operations. In August 2013, the payment received from unwinding the associated convertible note hedge transactions resulted in proceeds to us of \$84,429, offset by \$55,651 we paid the warrant holders.

Table of Contents**TAKE-TWO INTERACTIVE SOFTWARE, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****(Dollars in thousands, except share and per share amounts)****8. DEBT (Continued)**

The following table provides the components of interest expense related to our 4.375% Convertible Notes, which was extinguished in August 2013:

	Three Months Ended December 31, 2013	Nine Months Ended December 31, 2013
Cash interest expense (coupon interest expense)	\$	\$ 2,516
Non-cash amortization of discount on 4.375% Convertible Notes		4,358
Amortization of debt issuance costs		284
 Total interest expense related to 4.375% Convertible Notes	 \$	 \$ 7,158

1.75% Convertible Notes Due 2016

On November 16, 2011, we issued \$250,000 aggregate principal amount of 1.75% Convertible Notes due 2016 (the "1.75% Convertible Notes"). Interest on the 1.75% Convertible Notes is payable semi-annually in arrears on June 1st and December 1st of each year, commencing on June 1, 2012. The 1.75% Convertible Notes mature on December 1, 2016, unless earlier repurchased by the Company or converted. The Company does not have the right to redeem the 1.75% Convertible Notes prior to maturity.

The 1.75% Convertible Notes are convertible at an initial conversion rate of 52.3745 shares of our common stock per \$1 principal amount of 1.75% Convertible Notes (representing an initial conversion price of approximately \$19.093 per share of common stock for a total of approximately 13,094,000 underlying conversion shares) subject to adjustment in certain circumstances. Holders may convert the 1.75% Convertible Notes at their option prior to the close of business on the business day immediately preceding June 1, 2016 only under the following circumstances: (1) during any fiscal quarter commencing after March 31, 2012, 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 principal amount of 1.75% 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; or (3) upon the occurrence of specified corporate events. On and after June 1, 2016 until the close of business on the business day immediately preceding the maturity date, holders may convert their 1.75% Convertible Notes at any time, regardless of the foregoing circumstances. Upon conversion, the 1.75% 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. Our common stock price exceeded 130% of the applicable conversion price per share for at least 20 trading days during the 30 consecutive trading days ended December 31, 2014. Accordingly, as of January 1, 2015 the 1.75% Convertible Notes may be converted at the holder's option through March 31, 2015. If the 1.75% Convertible Notes were to be converted during this period, our current intent and ability, given

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TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

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

8. DEBT (Continued)

our option, would be to settle the conversion in shares of our common stock. As such, we have continued to classify these 1.75% Convertible Notes as long-term debt.

Upon the occurrence of certain fundamental changes involving the Company, holders of the 1.75% Convertible Notes may require us to purchase all or a portion of their 1.75% Convertible Notes for cash at a price equal to 100% of the principal amount of the notes to be purchased, plus accrued and unpaid interest (including additional interest, if any) to, but excluding, the fundamental change purchase date.

The indenture governing the 1.75% Convertible Notes contains customary terms and covenants and events of default. If an event of default (as defined therein) occurs and is continuing, the Trustee by notice to the Company, or the holders of at least 25% in aggregate principal amount of the 1.75% Convertible Notes then outstanding by notice to the Company and the Trustee, may, and the Trustee at the request of such holders shall, declare 100% of the principal of and accrued and unpaid interest (including additional interest, if any) on all the 1.75% Convertible Notes to be due and payable. In the case of an event of default arising out of certain bankruptcy events, 100% of the principal of and accrued and unpaid interest (including additional interest, if any), on the 1.75% Convertible Notes will automatically become due and payable immediately. As of December 31, 2014, we were in compliance with all covenants and requirements outlined in the indenture governing the 1.75% Convertible Notes.

The 1.75% Convertible Notes are senior unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the 1.75% Convertible Notes; equal in right of payment to our existing and future indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness incurred by our subsidiaries.

We separately account for the liability and equity components of the 1.75% Convertible Notes in a manner that reflects the Company's nonconvertible debt borrowing rate when interest expense is recognized in subsequent periods. We estimated the fair value of the 1.75% Convertible Notes to be \$197,373, as of the date of issuance of our 1.75% Convertible Notes, assuming a 6.9% non-convertible borrowing rate. The carrying amount of the equity component was determined to be \$52,627 by deducting the fair value of the liability component from the par value of the 1.75% Convertible Notes. The excess of the principal amount of the liability component over its carrying amount is amortized to interest and other, net over the term of the 1.75% Convertible Notes using the effective interest method. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. In accounting for the \$6,875 of banking, legal and accounting fees related to the issuance of the 1.75% Convertible Notes, we allocated \$5,428 to the liability component and \$1,447 to the equity component. Debt issuance costs attributable to the liability component are being amortized to interest and other, net over the term of the 1.75% Convertible Notes, and issuance costs attributable to the equity component were netted with the equity component in additional paid-in capital.

As of December, 31, 2014 and March 31, 2014, the if-converted value of our 1.75% Convertible Notes exceeded the principal amount of \$250,000 by \$117,025 and \$37,151, respectively.

Table of Contents**TAKE-TWO INTERACTIVE SOFTWARE, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****(Dollars in thousands, except share and per share amounts)****8. DEBT (Continued)**

The following table provides additional information related to our 1.75% Convertible Notes:

	December 31, 2014	March 31, 2014
Additional paid-in capital	\$ 51,180	\$ 51,180
Principal amount of 1.75% Convertible Notes	\$ 250,000	\$ 250,000
Unamortized discount of the liability component	22,112	30,025
Net carrying amount of 1.75% Convertible Notes	\$ 227,888	\$ 219,975
Carrying amount of debt issuance costs	\$ 1,921	\$ 2,716

The following table provides the components of interest expense related to our 1.75% Convertible Notes:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Cash interest expense (coupon interest expense)	\$ 1,094	\$ 1,094	\$ 3,282	\$ 3,282
Non-cash amortization of discount on 1.75% Convertible Notes	2,682	2,509	7,913	7,403
Amortization of debt issuance costs	262	274	795	833
Total interest expense related to 1.75% Convertible Notes	\$ 4,038	\$ 3,877	\$ 11,990	\$ 11,518

1.00% Convertible Notes Due 2018

On June 18, 2013, we issued \$250,000 aggregate principal amount of 1.00% Convertible Notes due 2018 (the "1.00% Convertible Notes" and together with the 1.75% Convertible Notes, the "Convertible Notes"). The 1.00% Convertible Notes were issued at 98.5% of par value for proceeds of \$246,250. Interest on the 1.00% Convertible Notes is payable semi-annually in arrears on July 1st and January 1st of each year, commencing on January 1, 2014. The 1.00% Convertible Notes mature on July 1, 2018, unless earlier repurchased by the Company or converted. The Company does not have the right to redeem the 1.00% Convertible Notes prior to maturity. The Company also granted the underwriters a 30-day option to purchase up to an additional \$37,500 principal amount of 1.00% Convertible Notes to cover overallocments, if any. On July 17, 2013, the Company closed its public offering of \$37,500 principal amount of the Company's 1.00% Convertible Notes as a result of the underwriters exercising their overallocment option in full on July 12, 2013, bringing the total proceeds to \$283,188.

The 1.00% Convertible Notes are convertible at an initial conversion rate of 46.4727 shares of our common stock per \$1 principal amount of 1.00% Convertible Notes (representing an initial conversion price of approximately \$21.52 per share of common stock for a total of approximately 13,361,000 underlying conversion shares) subject to adjustment in certain circumstances. Holders may convert the 1.00% Convertible Notes at their option prior to the close of business on the business day immediately

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TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

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

8. DEBT (Continued)

preceding January 1, 2018 only under the following circumstances: (1) during any fiscal quarter commencing after September 30, 2013, 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 principal amount of 1.00% 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; or (3) upon the occurrence of specified corporate events. On and after January 1, 2018 until the close of business on the business day immediately preceding the maturity date, holders may convert their 1.00% Convertible Notes at any time, regardless of the foregoing circumstances. Upon conversion, the 1.00% 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.

Upon the occurrence of certain fundamental changes involving the Company, holders of the 1.00% Convertible Notes may require us to purchase all or a portion of their 1.00% Convertible Notes for cash at a price equal to 100% of the principal amount of the notes to be purchased, plus accrued and unpaid interest (including additional interest, if any) to, but excluding, the fundamental change purchase date.

The indenture governing the 1.00% Convertible Notes contains customary terms and covenants and events of default. If an event of default (as defined therein) occurs and is continuing, the Trustee by notice to the Company, or the holders of at least 25% in aggregate principal amount of the 1.00% Convertible Notes then outstanding by notice to the Company and the Trustee, may, and the Trustee at the request of such holders shall, declare 100% of the principal of and accrued and unpaid interest (including additional interest, if any) on all the 1.00% Convertible Notes to be due and payable. In the case of an event of default arising out of certain bankruptcy events, 100% of the principal of and accrued and unpaid interest (including additional interest, if any), on the 1.00% Convertible Notes will automatically become due and payable immediately. As of December 31, 2014, we were in compliance with all covenants and requirements outlined in the indenture governing the 1.00% Convertible Notes.

The 1.00% Convertible Notes are senior unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the 1.00% Convertible Notes; equal in right of payment to our existing and future indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness incurred by our subsidiaries.

We separately account for the liability and equity components of the 1.00% Convertible Notes in a manner that reflects the Company's nonconvertible debt borrowing rate. We estimated the fair value of the 1.00% Convertible Notes to be \$225,567 upon issuance of our 1.00% Convertible Notes, assuming a 6.15% non-convertible borrowing rate. The carrying amount of the equity component was determined to be approximately \$57,621 by deducting the fair value of the liability component from the net proceeds of the 1.00% Convertible Notes. The excess of the principal amount of the liability component over its carrying amount is amortized to interest and other, net over the term of the 1.00% Convertible Notes using the effective interest method. The equity component is not remeasured as long

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as it continues to meet the conditions for equity classification. In accounting for the \$2,815 of banking, legal and accounting fees related to the issuance of the 1.00% Convertible Notes, we allocated \$2,209 to the liability component and \$606 to the equity component. Debt issuance costs attributable to the liability component are being amortized to interest and other, net over the term of the 1.00% Convertible Notes, and issuance costs attributable to the equity component were netted with the equity component in additional paid-in capital.

As of December, 31, 2014 and March 31, 2014, the if-converted value of our 1.00% Convertible Notes exceeded the principal amount of \$287,500 by \$87,009 and \$5,507, respectively. The following table provides additional information related to our 1.00% Convertible Notes:

	December 31, 2014	March 31, 2014
Additional paid-in capital	\$ 35,784	\$ 35,784
Principal amount of 1.00% Convertible Notes	\$ 287,500	\$ 287,500
Unamortized discount of the liability component	44,968	53,444
Net carrying amount of 1.00% Convertible Notes	\$ 242,532	\$ 234,056
Carrying amount of debt issuance costs	\$ 1,480	\$ 1,831

The following table provides the components of interest expense related to our 1.00% Convertible Notes:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Cash interest expense (coupon interest expense)	\$ 719	\$ 718	\$ 2,156	\$ 1,541
Non-cash amortization of discount on 1.00% Convertible Notes	2,868	2,702	8,477	5,746
Amortization of debt issuance costs	116	121	352	258
Total interest expense related to 1.00% Convertible Notes	\$ 3,703	\$ 3,541	\$ 10,985	\$ 7,545

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The following table sets forth the computation of basic and diluted EPS (shares in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Computation of Basic EPS:				
Net income (loss)	\$ 40,093	\$ 578,426	\$ (36,679)	\$ 392,392
Less: net income allocated to participating securities	(3,127)	(77,857)		(42,482)
Net income (loss) for basic EPS calculation	\$ 36,966	\$ 500,569	\$ (36,679)	\$ 349,910
Total weighted average shares outstanding basic	87,483	98,290	80,128	97,529
Less: weighted average participating shares outstanding	(6,824)	(13,230)		(10,559)
Weighted average common shares outstanding basic	80,659	85,060	80,128	86,970
Basic EPS	\$ 0.46	\$ 5.88	\$ (0.46)	\$ 4.02
Computation of Diluted EPS:				
Net income (loss)	\$ 40,093	\$ 578,426	\$ (36,679)	\$ 392,392
Less: net income allocated to participating securities	(2,401)	(61,200)		(32,412)
Add: interest expense, net of tax, on Convertible Notes	7,199	7,418		26,221
Net income (loss) for diluted EPS calculation	\$ 44,891	\$ 524,644	\$ (36,679)	\$ 386,201
Weighted average shares outstanding basic	80,659	85,060	80,128	86,970
Add: dilutive effect of common stock equivalents	26,455	26,752		30,304
Weighted average common shares outstanding diluted	107,114	111,812	80,128	117,274
Diluted EPS	\$ 0.42	\$ 4.69	\$ (0.46)	\$ 3.29

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The Company incurred a net loss for the nine months ended December 31, 2014; therefore, the basic and diluted weighted average shares outstanding exclude the effect of unvested share-based awards that are considered participating securities and all common stock equivalents because their effect would be antidilutive.

Certain of our unvested restricted stock awards (including restricted stock units, time-based and market-based restricted stock awards) are considered participating securities since these securities have non-forfeitable rights to dividends or dividend equivalents during the contractual period of the award, and thus require the two-class method of computing EPS. The calculation of EPS for common stock shown above excludes the income attributable to the participating securities from the numerator and excludes the dilutive effect of those awards from the denominator. For the nine months ended December 31, 2014, we had approximately 6,536,000 participating securities, which are excluded due to the net loss for that period.

The Company defines common stock equivalents as unexercised stock options, common stock equivalents underlying the Convertible Notes (see Note 8) and warrants outstanding during the period. Common stock equivalents are measured using the treasury stock method, except for the Convertible

Table of Contents**TAKE-TWO INTERACTIVE SOFTWARE, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****(Dollars in thousands, except share and per share amounts)****9. EARNINGS (LOSS) PER SHARE ("EPS") (Continued)**

Notes, which are assessed for their effect on diluted EPS using the more dilutive of the treasury stock method or the if-converted method. Under the provisions of the if- converted method, the Convertible Notes are assumed to be converted and included in the denominator of the EPS calculation and the interest expense, net of tax, recorded in connection with the Convertible Notes is added back to the numerator.

In connection with the issuance of our 4.375% Convertible Notes in June 2009, the Company purchased convertible note hedges (see Note 8) which were excluded from the calculation of diluted EPS because their effect is always considered antidilutive since the call option would be exercised by the Company when the exercise price is lower than the market price. Also in connection with the issuance of our 4.375% Convertible Notes, the Company entered into warrant transactions (see Note 8). On June 12, 2013, the Company entered into Unwind Agreements with respect to the convertible note hedge transactions and Unwind Agreements with respect to the warrant transactions with each of the hedge counterparties (see Note 8).

For the three and nine months ended December 31, 2014, we issued approximately 14,000 and 2,064,000, respectively, of restricted stock awards and we canceled approximately 72,000 and 645,000, respectively, of unvested restricted stock awards.

10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table provides the components of accumulated other comprehensive income (loss):

	Nine Months Ended December 31, 2014			
	Foreign currency translation adjustments	Unrealized gain (loss) on derivative instruments	Unrealized gain (loss) on available- for-sales securities	Total
Balance at March 31, 2014	\$ 1,531	\$ 585	\$	\$ 2,116
Other comprehensive (loss) income before reclassifications	(19,512)	32	(179)	(19,659)
Amounts reclassified from accumulated other comprehensive income (loss)				
Balance at December 31, 2014	\$ (17,981)	\$ 617	\$ (179)	\$ (17,543)

	Nine Months Ended December 31, 2013			
	Foreign currency translation adjustments	Unrealized gain (loss) on derivative instruments		Total
Balance at March 31, 2013	\$ (4,916)	\$ 344	\$	\$ (4,572)
Other comprehensive income before reclassifications	6,518	269		6,787
Amounts reclassified from accumulated other comprehensive income (loss)				
Balance at December 31, 2013	\$ 1,602	\$ 613	\$	\$ 2,215

Table of Contents**TAKE-TWO INTERACTIVE SOFTWARE, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****(Dollars in thousands, except share and per share amounts)****11. SEGMENT AND GEOGRAPHIC INFORMATION**

We operate in one reportable segment in which we are a publisher of interactive software games designed for console systems, handheld gaming systems and personal computers, including smart phones and tablets, that are delivered through physical retail, digital download, online platforms and cloud streaming services. Our reporting segment is based upon our internal organizational structure, the manner in which our operations are managed and the criteria used by our Chief Executive Officer, our chief operating decision maker ("CODM") to evaluate performance. The Company's operations involve similar products and customers worldwide. We are centrally managed and the CODM primarily uses consolidated financial information supplemented by sales information by product category, major product title and platform to make operational decisions and assess financial performance. Our business consists of our Rockstar Games and 2K labels which have been aggregated into a single reportable segment (the "publishing segment") based upon their similar economic characteristics, products and distribution methods. Revenue earned from our publishing segment is primarily derived from the sale of internally developed software titles and software titles developed on our behalf by third-parties.

We attribute net revenue to geographic regions based on product destination. Net revenue by geographic region was as follows:

Net revenue by geographic region:	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
United States	\$ 334,257	\$ 819,095	\$ 458,423	\$ 982,353
Europe	127,600	745,658	215,743	838,489
Asia Pacific	46,417	141,218	65,441	161,313
Canada and Latin America	22,873	157,898	43,242	173,205
Total net revenue	\$ 531,147	\$ 1,863,869	\$ 782,849	\$ 2,155,360

Net revenue by product platform was as follows:

Net revenue by product platform:	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Console	\$ 443,093	\$ 1,803,107	\$ 620,547	1,995,178
PC and other	88,054	60,762	162,302	160,182
Total net revenue	\$ 531,147	\$ 1,863,869	\$ 782,849	\$ 2,155,360

Table of Contents**TAKE-TWO INTERACTIVE SOFTWARE, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

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

11. SEGMENT AND GEOGRAPHIC INFORMATION (Continued)

Our products are delivered through physical retail and digital online services (digital download, online platforms and cloud streaming). Net revenue by distribution channel was as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Net revenue by distribution channel:				
Digital online	\$ 149,840	\$ 125,270	\$ 310,687	\$ 287,579
Physical retail and other	381,307	1,738,599	472,162	1,867,781
Total net revenue	\$ 531,147	\$ 1,863,869	\$ 782,849	\$ 2,155,360

12. COMMITMENTS AND CONTINGENCIES

At December 31, 2014, we did not have any significant changes to our commitments since March 31, 2014. See Note 11 of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended March 31, 2014 for more information regarding our commitments.

Legal and Other Proceedings

We are, or may become, subject to demands and claims (including intellectual property claims) and are involved in routine litigation in the ordinary course of business which we do not believe to be material to our business or financial statements. We have appropriately accrued amounts related to certain of these claims and legal and other proceedings. While it is reasonably possible 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.

13. SHARE REPURCHASE*Share Repurchase Program*

In January 2013, our Board of Directors (the "Board") authorized the repurchase of up to 7,500,000 shares of our common stock. The authorization permits the Company to purchase shares from time to time through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. It does not obligate the Company to make any purchases at any specific time or situation. Repurchases are subject to the availability of stock, prevailing market conditions, the trading price of the stock, the Company's financial performance and other conditions. The program may be suspended or discontinued at any time for any reason. During the nine months ended December 31, 2014, the Company did not repurchase any shares as part of the program. As of December 31, 2014, up to approximately 3,283,000 shares of our common stock remain available for repurchase under the Company's share repurchase authorization.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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 those contained herein, in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2014, in the section entitled "Risk Factors," and the Company's other periodic filings with the SEC. All forward-looking statements are qualified by these cautionary statements and speak 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.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is provided in addition to the accompanying Condensed Consolidated Financial Statements and notes to assist readers in understanding our results of operations, financial condition and cash flows. The following discussion should be read in conjunction with the MD&A and our annual consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2014.

Overview

Our Business

We are a leading developer, publisher and marketer of interactive entertainment for consumers around the globe. We develop and publish products through our two wholly-owned labels Rockstar Games and 2K. Our products are currently designed for console gaming systems such as Sony's PlayStation®3 ("PS3") and PlayStation®4 ("PS4") and Microsoft's Xbox 360® ("Xbox 360") and Xbox One® ("Xbox One"); and personal computers, including smartphones and tablets. We deliver our products through physical retail, digital download, online platforms and cloud streaming services.

We endeavor to be the most creative, innovative and efficient company in our industry. Our core strategy is to capitalize on the popularity of video games by developing and publishing high-quality interactive entertainment experiences across a range of genres. We focus on building compelling entertainment franchises by publishing a select number of titles for which we can create sequels and incremental revenue opportunities through add-on content, microtransactions and online play. Most of our intellectual property is internally owned and developed, 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, family/casual, racing, role-playing, shooter, sports and strategy, which we distribute worldwide. We believe that our commitment to creativity and innovation is a distinguishing strength, enabling us to differentiate 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 broad consumer demographics we serve, ranging from adults to children and game enthusiasts to casual gamers. Another cornerstone of our strategy is to support the success of our products in the marketplace through innovative marketing programs and global distribution on all platforms and through all channels that are relevant to our target audience.

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Our 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 release new, commercially successful software products and to manage effectively their development costs. We have internal development studios located in Australia, Canada, China, Czech Republic, the United Kingdom, and the United States.

Software titles published by our Rockstar Games label are primarily internally developed. We expect Rockstar Games, our wholly-owned publisher of the *Grand Theft Auto*, *Max Payne*, *Midnight Club*, *Red Dead* and other popular franchises, to continue to be a leader in the action / adventure product category and create groundbreaking entertainment by leveraging our existing titles as well as developing new brands. We believe that Rockstar Games has established a uniquely original, popular cultural phenomenon with its *Grand Theft Auto* series, which is the interactive entertainment industry's most iconic and critically acclaimed brand and has sold-in over 205 million units. The latest installment, *Grand Theft Auto V*, was released on Sony's PS3 and Microsoft's Xbox 360 in September 2013 and on Sony's PlayStation 4 and Microsoft's Xbox One in November 2014. *Grand Theft Auto V* includes access to *Grand Theft Auto Online*, which launched in October 2013. Rockstar Games is also well known for developing brands in other genres, including the *LA Noire*, *Bully* and *Manhunt* franchises. Rockstar Games continues to expand on our established franchises by developing sequels, offering downloadable add-on episodes, content and virtual currency, and releasing titles for smartphones and tablets.

Our 2K label has published a variety of popular entertainment properties across all key platforms and across a range of genres including shooter, action, role-playing, strategy, sports and family/casual entertainment. We expect 2K to continue to develop new and successful franchises in the future. 2K's internally owned and developed franchises include the critically acclaimed, multi-million unit selling *BioShock*, *Mafia*, *Sid Meier's Civilization* and *XCOM Enemy Unknown* series. 2K also publishes highly successful externally developed franchises, such as *Borderlands*. 2K's realistic sports simulation titles, include our flagship *NBA 2K* series, which has been the top-ranked NBA basketball video game for 14 years running, and the *WWE 2K* series.

We also have expansion initiatives in the 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 South Korea. 2K has 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. In October 2012, *NBA 2K Online*, our free-to-play NBA simulation game co-developed by 2K and Tencent, launched commercially on the Tencent Games portal in China. In addition, South Korean-based studio XLGAMES is presently developing *Civilization Online*, a new online game for the Asian market.

Trends and Factors Affecting our Business

Product Release Schedule. Our financial results are affected 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. Sales of *Grand Theft Auto* products generated approximately 23% of the Company's net revenue for the nine months ended December 31, 2014. The timing of our *Grand Theft Auto* releases varies significantly, which in turn may affect our financial performance on a quarterly and annual basis.

Economic Environment and Retailer Performance. We continue to monitor economic conditions that may unfavorably affect 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. Our five largest customers accounted for 60.8% and 42.6% of net revenue during the nine months ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and March 31, 2014, our

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five largest customers comprised approximately 51.4% and 68.3% of our gross accounts receivable, respectively. We had three customers who accounted for approximately 13.6%, 12.5% and 11.1% of our gross accounts receivable as of December 31, 2014 and three customers who accounted for 22.6%, 22.3% and 14.9% of our gross accounts receivable as of March 31, 2014. We did not have any additional customers that exceeded 10% of our gross accounts receivable as of December 31, 2014 and March 31, 2014. The economic environment has affected our customers in the past, and may 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. Certain of our large customers sell used copies of our games, which may negatively affect our business by reducing demand for new copies of our games. While the downloadable content that we now offer for certain of our titles may serve to reduce used game sales, we expect used game sales to continue to adversely affect our business.

Hardware Platforms. We derive most of our revenue from the sale of products made for video game platforms manufactured by third-parties, such as Sony's PS3 and PS4, and Microsoft's Xbox 360 and Xbox One, which comprised approximately 79.1% of the Company's net revenue by product platform for the nine months ended December 31, 2014. 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 typically declines, which may negatively affect our business during the market transition to the new consoles. We continually monitor console hardware sales. We manage our product delivery on each current and future platform in a manner we believe to be most effective to maximize our revenue opportunities and achieve the desired return on our investments in product development. Additionally, our development costs are generally higher for titles during platform transition periods, and we have a limited ability to predict the consumer acceptance of the future platforms, which may affect our sales and profitability. Accordingly, our strategy is to focus our development efforts on a select number of the highest quality titles for these platforms, while also expanding our offerings for emerging platforms such as mobile and online games.

Online Content and Digital Distribution. The interactive entertainment software industry is delivering a growing amount of content through digital online delivery methods. We provide a variety of online delivered products and offerings. A number of our titles that are available through retailers as packaged goods products are also available through direct digital download through the Internet (from websites we own and others owned by third-parties). We aim to drive recurrent consumer spending by generating incremental revenues from our titles through digital download offerings, including add-on content, microtransactions and online play. In addition, we are publishing an expanding variety of titles for tablets and smartphones, which are delivered to consumers through digital download through the Internet. Note 11 to our Condensed Consolidated Financial Statements, "Segment and Geographic Information," discloses that net revenue from digital online channels comprised approximately 39.7% of the Company's net revenue by distribution channel for the nine months ended December 31, 2014. We expect online delivery of games and game offerings to become an increasing part of our business over the long- term.

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Product Releases

We released the following key titles during the nine months ended December 31, 2014.

Title	Publishing Label	Internal or External Development	Platform(s)	Date Released
<i>NBA 2K15</i>	2K	Internal	PS3, PS4, Xbox 360, Xbox One, PC	October 7, 2014
<i>Borderlands: The Pre-Sequel</i>	2K	Internal/External	Xbox 360, PS3, PC	October 14, 2014
<i>Sid Meier's Civilization: Beyond Earth</i>	2K	Internal	PC	October 24, 2014
<i>WWE 2K15</i>	2K	Internal/External	PS3, Xbox 360	October 28, 2014
<i>WWE 2K15</i>	2K	Internal/External	PS4, Xbox One	November 18, 2014
<i>Grand Theft Auto V</i>	Rockstar Games	Internal	Xbox One, PS4	November 18, 2014
<i>Grand Theft Auto Online</i>	Rockstar Games	Internal	Xbox One, PS4	November 18, 2014

Product Pipeline

We have announced the following future key titles to date (this list does not represent all titles currently in development):

Title	Publishing Label	Internal or External Development	Platform(s)	Expected Release Date
<i>Evolve</i>	2K	External	Xbox One, PS4, PC	February 10, 2015
<i>Grand Theft Auto V</i>	Rockstar Games	Internal	PC	March 24, 2015
<i>Grand Theft Online</i>	Rockstar Games	Internal	PC	March 24, 2015
<i>Sid Meier's Starships</i>	2K	Internal	PC Mac, iOS	Spring 2015
<i>Battleborn</i>	2K	External	Xbox One, PS4, PC	Fiscal Year 2016

Critical Accounting Policies and Estimates

Our most critical accounting policies, which are those that require significant judgment, include: revenue recognition; allowances for returns, price concessions and other allowances; capitalization and recognition of software development costs and licenses; fair value estimates including inventory obsolescence, valuation of goodwill, intangible assets and long-lived assets; valuation and recognition of stock-based compensation; and income taxes. In-depth descriptions of these can be found in our Annual Report on Form 10-K for the fiscal year ended March 31, 2014.

Revenue Recognition

For some of our software products, we enter into multiple element revenue arrangements in which we may provide a combination of full game software, add-on content, maintenance or support. When all other revenue recognition criteria are met for these arrangements, we determine the fair value of each delivered and undelivered element using vendor-specific objective evidence ("VSOE") of fair value and allocate the total price among the various elements. When we have not established VSOE for each element, revenue is deferred until the earlier of the point at which VSOE of fair value exists for any undelivered element or until all elements of the arrangement have been delivered. For arrangements that require the deferral of revenue, the cost of goods sold is deferred and recognized as the related net revenue is recognized. Deferred cost of goods sold includes product costs, royalties and licenses. We determine VSOE for each element based on historical stand-alone sales to third parties. In determining VSOE, we require that a substantial majority of the selling prices for a product or service fall within a reasonably narrow pricing range. Changes in assumptions or judgments or changes to the elements in a software arrangement could cause a material increase or decrease in the amount of revenue that we report in a particular period.

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In identifying the deliverables within an arrangement we consider whether our software products contain more-than-inconsequential online functionality by evaluating the significance of the development effort, the nature of the online features, the extent of anticipated marketing focus on the online features, the significance of the online features to the consumers' anticipated overall gameplay experience, and the significance and length of time of our post sale obligations to consumers. Determining whether the online functionality for a particular game constitutes a more than an inconsequential deliverable is subjective and requires management's judgment.

When our software products provide limited online functionality at no additional cost to the consumer, we generally 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. When software products provide online functionality that represents a more-than-inconsequential deliverable, we recognize the software-related revenues and the related cost of goods sold ratably over the estimated service period of the title (assuming all other recognition criteria are met) as we have not established VSOE for that deliverable.

During the fiscal quarter ending December 31, 2014, the Company concluded that the updates being provided with *Grand Theft Auto V* were no longer considered an inconsequential deliverable because of the add-on content updates provided to date and expected to be provided in the future. As a result, the net revenue and cost of goods sold that have been deferred will be recognized ratably over the expected service period, which is equal to the estimated remaining life of the game which we have concluded for *Grand Theft Auto V* to be 24 months from the time of release.

Recently Issued Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, as a new Topic, Accounting Standards Codification ("ASC") Topic 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is effective for the annual and interim periods beginning after December 15, 2016 (April 1, 2017 for the Company) and shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is currently determining its implementation approach and evaluating the impact of adopting this update on our Condensed Consolidated Financial Statements.

Requirements for Reporting Discontinued Operations

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This new guidance raises the threshold for a disposal to qualify as discontinued operations and requires new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. Under the new standard, companies report discontinued operations when they have a disposal that represents a strategic shift that has or will have a major impact on operations or financial results. This update will be applied prospectively and is effective for annual periods, and interim periods within those years, beginning after December 15, 2014 (April 1, 2015 for the Company). Early adoption is permitted provided the disposal was not previously disclosed. The adoption of this new guidance is not expected to have a material effect on our Condensed Consolidated Financial Statements.

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In July 2013, new guidance was issued requiring that entities that have an unrecognized tax benefit and a net operating loss carryforward or similar tax loss or tax credit carryforward in the same jurisdiction as the uncertain tax position present the unrecognized tax benefit as a reduction of the deferred tax asset for the loss or tax credit carryforward rather than as a liability when the uncertain tax position would reduce the loss or tax credit carryforward under the tax law. The disclosure requirements became effective for annual periods (and interim periods within those annual periods) beginning after December 15, 2013 (April 1, 2014 for the Company), and is applied prospectively. The adoption of this guidance has not had a material effect on our Condensed Consolidated Financial Statements.

Results of Operations

The following table sets forth, for the periods indicated, the percentage of net revenue represented by certain line items in our Condensed Consolidated Statements of Operations, net revenue by geographic region, net revenue by platform and net revenue by distribution channel:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Net revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	52.3%	60.1%	49.1%	60.6%
Gross profit	47.7%	39.9%	50.9%	39.4%
Selling and marketing	18.2%	3.8%	23.4%	9.9%
General and administrative	10.1%	1.9%	17.5%	5.1%
Research and development	5.9%	1.6%	10.2%	3.6%
Depreciation and amortization	1.1%	0.1%	1.9%	0.5%
Total operating expenses	35.3%	7.4%	53.0%	19.1%
Income (loss) from operations	12.4%	32.5%	(2.1)%	20.3%
Interest and other, net	(1.8)%	(0.3)%	(3.2)%	(1.2)%
Gain (loss) on long-term investments	(0.3)%	0.0%	2.3%	0.0%
Loss on extinguishment of debt	0.0%	0.0%	0.0%	(0.4)%
Gain on convertible note hedge and warrants, net	0.0%	0.0%	0.0%	0.2%
Income (loss) from continuing operations before income taxes	10.3%	32.2%	(3.0)%	18.9%
Provision for income taxes	2.8%	1.3%	1.7%	0.7%
Income (loss) from continuing operations	7.5%	30.9%	(4.7)%	18.2%
Loss from discontinued operations, net of taxes	0.0%	0.0%	0.0%	0.0%
Net income (loss)	7.5%	30.9%	(4.7)%	18.2%

Net revenue by geographic region:

United States	62.9%	43.9%	58.6%	45.6%
International	37.1%	56.1%	41.4%	54.4%

Net revenue by platform:

Console	83.4%	96.7%	79.3%	92.6%
PC and other	16.6%	3.3%	20.7%	7.4%

Net revenue by distribution channel:

Physical retail and other	71.8%	93.3%	60.3%	86.7%
Digital online	28.2%	6.7%	39.7%	13.3%
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(thousands of dollars)	2014	%	2013	%	Increase/ (decrease)	% Increase/ (decrease)
Net revenue	\$ 531,147	100.0%	\$ 1,863,869	100.0%	\$ (1,332,722)	(71.5)%
Software development costs and royalties(1)	108,214	20.4%	200,333	10.7%	(92,119)	(46.0)%
Product costs	102,068	19.2%	374,710	20.1%	(272,642)	(72.8)%
Internal royalties	14,099	2.7%	502,169	26.9%	(488,070)	(97.2)%
Licenses	53,632	10.1%	42,522	2.3%	11,110	26.1%
Cost of goods sold	278,013	52.3%	1,119,734	60.1%	(841,721)	(75.2)%
Gross profit	\$ 253,134	47.7%	\$ 744,135	39.9%	\$ (491,001)	(66.0)%

(1)

Includes \$8,323 and \$27,220 of stock-based compensation expense in 2014 and 2013, respectively, included in software development costs and royalties.

For the three months ended December 31, 2014, net revenue decreased \$1,332.7 million as compared to the prior year. This decrease was primarily due to a decrease of approximately \$1,413.9 million in sales from our *Grand Theft Auto* franchise, as last year's results benefited from the release of *Grand Theft Auto V* on the PS3 and Xbox 360 console gaming systems, which was partially offset this year by the November 2014 release of *Grand Theft Auto V* on the PS4 and Xbox One console gaming systems and growth in revenue from *Grand Theft Auto Online*. The overall decrease in net revenue was partially offset by a \$130.3 million increase in net sales due to the October 2014 releases of *Borderlands: The Pre-Sequel* and *Sid Meier's Civilization: Beyond Earth* and higher sales of our *WWE 2K* franchise.

Net revenue on consoles decreased to 83.4% of our total net revenue for the three months ended December 31, 2014 as compared to 96.7% for the same period in the prior year, as last year's results benefited from release the of *Grand Theft Auto V* on the PS3 and Xbox 360 console gaming systems. PC and other sales increased to 16.6% of our total net revenue for the three months ended December 31, 2014 as compared to 3.3% for the prior year's period, primarily due to the PC release of *Sid Meier's Civilization: Beyond Earth* in October 2014.

Net revenue from physical retail and other channels decreased to 71.8% of our total net revenue for the three months ended December 31, 2014 as compared to 93.3% for the same period in the prior year, as the prior year's results reflected the release of *Grand Theft Auto V* on the PS3 and Xbox 360 console gaming systems. Net revenue from digital online channels increased to 28.2% of our total net revenue for the three months ended December 31, 2014 as compared to 6.7% for the same period in the prior year. The increase was primarily driven by the decreased proportion of net revenues from physical retail and other and higher sales of digitally-delivered offerings from our *Grand Theft Auto* and *NBA 2K* franchises, as well as the PC release of *Sid Meier's Civilization: Beyond Earth* in October 2014. Recurrent consumer spending (including add-on content, microtransactions and online play) represented 39.5% and 30.3% of net revenue from digital online channels for the three months ended December 31, 2014 and 2013, respectively.

Gross profit as a percentage of net revenue for the three months ended December 31, 2014 was 47.7% as compared to 39.9% for the prior year period. The increase was primarily due to: (i) lower internal royalties, as we generated lower income from our *Grand Theft Auto* franchise in the current year period and (ii) lower product costs in the current year period as a percentage of net revenue primarily due to an increased proportion of net revenue from digital online channels which were partially offset by higher software development costs and royalties as a percentage of net revenue due to the October 2014 release of *Borderlands: The Pre-Sequel* which was externally developed. For the

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fiscal third quarter 2015, gross profit included the deferral of net revenue and cost or goods sold related to sales generated from *Grand Theft Auto V*.

Net revenue earned outside of the United States accounted for 37.1% of our total net revenue for the three months ended December 31, 2014, as compared to 56.1% in the prior year. The year-over-year percentage decrease was primarily due to *Grand Theft Auto V*, which generated higher sales outside of the United States during the three months ended December 31, 2013. Foreign currency exchange rates decreased net revenue and gross profit by \$5.7 million and \$4.0 million, respectively, for the three months ended December 31, 2014 as compared to the prior year.

Operating Expenses

(thousands of dollars)	2014	% of net revenue	2013	% of net revenue	Increase/ (decrease)	% Increase/ (decrease)
Selling and marketing	\$ 96,892	18.2%	\$ 70,476	3.8%	\$ 26,416	37.5%
General and administrative	53,564	10.1%	34,718	1.9%	18,846	54.3%
Research and development	31,221	5.9%	29,233	1.6%	1,988	6.8%
Depreciation and amortization	5,845	1.1%	3,413	0.1%	2,432	71.3%
Total operating expenses(1)	\$ 187,522	35.3%	\$ 137,840	7.4%	\$ 49,682	36.0%

(1)

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

	2014	2013
Selling and marketing	\$ 2,411	\$ 3,414
General and administrative	\$ 16,437	\$ 1,736
Research and development	\$ 1,457	\$ 3,958

Foreign currency exchange rates decreased total operating expenses by \$2.8 million for the three months ended December 31, 2014 as compared to the prior year.

Selling and marketing

Selling and marketing expenses increased \$26.4 million for the three months ended December 31, 2014 as compared to the prior year primarily due to \$21.7 million in higher advertising expenses related to more titles releasing during the current period with no comparable titles releasing in the prior period such as the November 2014 release of *Grand Theft Auto V* on the PS4 and Xbox One console gaming systems and the October 2014 releases of *Borderlands: The Pre-Sequel* and *Sid Meier's Civilization: Beyond Earth*. Also contributing to the increase in selling and marketing expenses was a \$2.9 million increase in personnel costs primarily due to the timing of recording performance-based incentive compensation as a result of the Company's performance.

General and administrative

General and administrative expenses increased \$18.8 million for the three months ended December 31, 2014, as compared to the prior year, primarily from ZelnickMedia stock based compensation expense mainly due to the Company's relative stock price performance related to the 2011 Management Agreement and the restricted units granted in connection with the 2014 Management Agreement.

General and administrative expenses for the three months ended December 31, 2014 and 2013 include occupancy expense (primarily rent, utilities and office expenses) of \$4.8 million and \$4.0 million, respectively, related to our development studios.

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Research and development

Research and development expenses increased \$2.0 million for the three months ended December 31, 2014 as compared to the prior year due to higher IT spend on equipment at our development studios and consulting services.

Interest and other, net

Interest and other, net was an expense of \$9.5 million for the three months ended December 31, 2014, as compared to an expense of \$6.0 million for the three months ended December 31, 2013. The increase of \$3.5 million was primarily due to a greater foreign currency exchange loss recorded during the three months ended December 31, 2014.

Provision (Benefit) for Income Taxes

Income tax expense was \$14.6 million for the three months ended December 31, 2014 as compared to \$21.9 million for the three months ended December 31, 2013. The decrease in income tax expense is primarily attributable to changes in valuation allowance for tax credits carryforwards and deferred tax assets anticipated to be utilized, partially offset by an increase in taxable income. For the three months ended December 31, 2013, the Company fully utilized its U.S. federal tax loss carryforwards.

Our effective tax rate differed from the federal statutory rate primarily due to changes in valuation allowances related to tax losses not anticipated to be utilized and tax credit carryforwards that will be utilized against income.

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.

Net income and net income per share

For the three months ended December 31, 2014, our net income was \$40.1 million, as compared to \$578.4 million in the prior year period. For the three months ended December 31, 2014, basic earnings per share were \$.46 and diluted earnings per share were \$.42 as compared to basic earnings per share of \$5.88 and diluted earnings per share of \$4.69 for the three months ended December 31, 2013. Basic and diluted weighted average shares outstanding were lower compared to the prior year's period primarily due to the repurchase of 16.2 million shares during fiscal year ended March 31, 2014, partially offset by the vesting of restricted stock awards. See Note 9 to our unaudited condensed consolidated financial statements for additional information regarding earnings per share.

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Nine Months Ended December 31, 2014 Compared to December 31, 2013

(thousands of dollars)	2014	%	2013	%	Increase/ (decrease)	% Increase/ (decrease)
Net revenue	\$ 782,849	100.0%	\$ 2,155,360	100.0%	\$ (1,372,511)	(63.7)%
Software development costs and royalties(1)	144,863	18.5%	305,151	14.2%	(160,288)	(52.5)%
Product costs	139,421	17.8%	438,839	20.4%	(299,418)	(68.2)%
Licenses	65,091	8.3%	51,678	2.4%	13,413	26.0%
Internal royalties	34,810	4.4%	510,371	23.7%	(475,561)	(93.2)%
Cost of goods sold	384,185	49.1%	1,306,039	60.6%	(921,854)	(70.6)%
Gross profit	\$ 398,664	50.9%	\$ 849,321	39.4%	\$ (450,657)	(53.1)%

(1)

Includes \$11,062 and \$29,176 of stock-based compensation expense in 2014 and 2013, respectively.

For the nine months ended December 31, 2014, net revenue decreased \$1,372.5 million as compared to the prior year. This decrease was primarily due to a decrease of approximately \$1,378.3 million in sales from our *Grand Theft Auto* franchise, as the prior year's results benefitted from the release of *Grand Theft Auto V* on the PS3 and Xbox 360 console gaming systems, which was partially offset this year by the November 2014 release of *Grand Theft Auto V* on the PS4 and Xbox One console gaming systems and growth in revenue from *Grand Theft Auto Online*. The overall decrease in net revenue was partially offset by a \$134.8 million increase in net sales due to the October 2014 releases of *Borderlands: The Pre-Sequel* and *Sid Meier's Civilization: Beyond Earth* and higher sales of our *WWE 2K* franchise.

Net revenue on consoles decreased to 79.3% of our total net revenue for the nine months ended December 31, 2014 as compared to 92.6% for the same period in the prior year due primarily to last year's results including the release of *Grand Theft Auto V* on the PS3 and Xbox 360 console gaming systems. PC and other sales increased to 20.7% of our total net revenue for the nine months ended December 31, 2014 as compared to 7.4% in the prior year period, primarily due to the PC release of *Sid Meier's Civilization: Beyond Earth* in October 2014.

Net revenue from physical retail and other channels decreased to 60.3% of our total net revenue for the nine months ended December 31, 2014 as compared to 86.7% for the same period in the prior year, due primarily to last year's results benefitting from the release of *Grand Theft Auto V* on the PS3 and Xbox 360 console gaming systems. Net revenue from digital online channels increased to 39.7% of our total net revenue for the nine months ended December 31, 2014 as compared to 13.3% for the prior year period. The increase was primarily driven by the decreased proportion of net revenues from physical retail and other and higher sales of digitally-delivered offerings from our *Grand Theft Auto* and *NBA 2K* franchises as well as the PC release of *Sid Meier's Civilization: Beyond Earth* in October 2014, which were partially offset by lower sales of digitally delivered offerings for *Borderlands 2*, which benefitted from the release of several downloadable content packs during the prior year period. Recurrent consumer spending (including add-on content, microtransactions and online play) represented 44.8% and 39.2% of net revenue from digital online channels for the nine months ended December 31, 2014 and 2013, respectively.

Gross profit as a percentage of net revenue for the nine months ended December 30, 2014 was 50.9% as compared to 39.4% for the prior year period. The increase was primarily due to (i) lower internal royalties during the nine months ended December 31, 2014 mainly due to lower income generated from our *Grand Theft Auto* franchise in the current year period and (ii) lower product costs in the current year as a percentage of net revenue due to an increased proportion of net revenue from digital online channels which were partially offset by higher software development costs and royalties as

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a percentage of net revenue due to the October 2014 release of *Borderlands: The Pre-Sequel*, which was externally developed. For the fiscal third quarter 2015, gross profit included the deferral of net revenue and cost of goods sold related to sales generated from *Grand Theft Auto V*.

Net revenue earned outside of the United States accounted for 41.4% of our total net revenue for the nine months ended December 31, 2014, as compared to 54.4% in the prior year period. The percentage decrease was primarily due to *Grand Theft Auto V* on the PS3 and Xbox 360 gaming console systems, which generated higher sales outside of the United States during the nine months ended December 31, 2013. Foreign currency exchange rates decreased net revenue and gross profit by \$4.6 million and \$3.9 million, respectively, for the nine months ended December 31, 2014 as compared to the prior year.

Operating Expenses

(thousands of dollars)	2014	% of net revenue	2013	% of net revenue	Increase/ (decrease)	% Increase/ (decrease)
Selling and marketing	\$ 182,874	23.4%	\$ 213,419	9.9%	\$ (30,545)	(14.3)%
General and administrative	136,891	17.5%	110,601	5.1%	26,290	23.8%
Research and development	79,886	10.2%	76,624	3.6%	3,262	4.3%
Depreciation and amortization	15,123	1.9%	9,837	0.5%	5,286	53.7%
Total operating expenses(1)	\$ 414,774	53.0%	\$ 410,481	19.1%	\$ 4,293	1.0%

(1)

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

	2014	2013
Selling and marketing	\$ 6,660	\$ 8,020
General and administrative	\$ 30,492	\$ 13,884
Research and development	\$ 4,260	\$ 6,514

Foreign currency exchange rates had an immaterial impact to operating expenses for the nine months ended December 31, 2014 as compared to the prior year period.

Selling and marketing

Selling and marketing expenses decreased \$30.5 million for the nine months ended December 31, 2014 as compared to the prior year, primarily due to \$40.3 million in higher advertising expenses incurred in the prior year for the releases of *Grand Theft Auto V* on the PS3 and Xbox 360 gaming consoles in September 2013 and *The Bureau: XCOM: Declassified* in August 2013, which were partially offset by advertising expenses incurred in the current year for the releases of *Grand Theft Auto V* on the PS4 and Xbox One gaming consoles in November 2014, *Borderlands: The Pre-Sequel* and *Sid Meier's Civilization: Beyond Earth* in October 2014. Partially offsetting the overall decrease in selling and marketing expenses was \$9.0 million in higher customer service costs and trade show costs due to our participating in the Electronic Entertainment Expo in 2014 but not in 2013.

General and administrative

General and administrative expenses increased \$26.3 million for the nine months ended December 31, 2014, as compared to the prior year period, primarily due to ZelnickMedia stock based compensation expense resulting from the Company's relative stock price performance related to the 2011 Management Agreement and the restricted units granted in connection with the 2014 Management Agreement, as well as higher professional fees incurred for certain legal matters.

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General and administrative expenses for the nine months ended December 31, 2014 and 2013 include occupancy expense (primarily rent, utilities and office expenses) of \$13.6 million and \$12.5 million, respectively, related to our development studios.

Research and development

Research and development expenses increased \$3.3 million for the nine months ended December 31, 2014 as compared to the prior year period primarily due to higher IT spend on equipment at our development studios and consulting services.

Interest and other, net

Interest and other, net was an expense of \$24.7 million for the nine months ended December 31, 2014, as compared to an expense of \$26.0 million for the nine months ended December 31, 2013. The decrease of \$1.3 million was primarily due to a net decrease of \$4.0 million in interest expense primarily due to the redemption of our 4.375% Convertible Notes in August 2013 partially offset by interest on the 1.00% Convertible Notes issued in June 2013. This decrease was partially offset by an increase of \$2.7 million due to a greater foreign currency exchange losses recorded during the nine months ended December 31, 2014.

Gain (loss) on long-term investments

During the nine months ended December 31, 2014 the Company recognized a \$17.5 million net gain on long-term investments, which was primarily comprised of the Company's sale of its investment in Twitch Interactive, Inc.'s ("Twitch") Class C Preferred stock, which was accounted for under the cost method of accounting. In September 2014, the Company recognized a pretax gain of approximately \$19.0 million in connection with the sale of Twitch. The pretax gain is presented within "Gain (loss) on long-term investments" in our Condensed Consolidated Statements of Operations for the nine months ended December 31, 2014.

Loss on extinguishment of debt

Loss on extinguishment of debt was \$9.0 million for the nine months ended December 31, 2013 due to the conversion and redemption of our 4.375% Convertible Notes.

Gain on convertible note hedge and warrants, net

Gain on convertible note hedge and warrants, net was \$3.5 million for the nine months ended December 31, 2013 due to the increase in the Company's share price during the period from June 2013 to the net settlement of the hedge and warrants in August 2013.

Provision (Benefit) for Income Taxes

Income tax expense was \$13.4 million for the nine months ended December 31, 2014 as compared to \$14.8 million for the nine months ended December 31, 2013. The decrease in income tax expense is primarily attributable to changes in valuation allowance for tax credits carryforwards and deferred tax assets anticipated to be utilized, partially offset by an increase in taxable income. For the nine months ended December 31, 2013, the Company fully utilized its U.S. federal tax loss carryforwards.

Our effective tax rate differed from the federal statutory rate primarily due to changes in valuation allowances related to tax losses not anticipated to be utilized and tax credit carryforwards that will be utilized against income.

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

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positions comply with applicable tax law, and that we have adequately provided for reasonably foreseeable tax assessments.

Net income (loss) and net income (loss) per share

For the nine months ended December 31, 2014, our net loss was \$36.7 million, as compared to net income of \$392.4 million in the prior year. Basic and diluted loss per share for the nine months ended December 31, 2014 were \$0.46 and \$0.46 as compared to basic earnings per share of \$4.02 and diluted earnings per share of \$3.29 for the nine months ended December 31, 2013. Basic and diluted weighted average shares outstanding decreased primarily due to the repurchase of 16.2 million shares during fiscal year ended March 31, 2014 and the convertible notes shares being anti-dilutive in the current period, partially offset by the vesting of restricted stock awards. See Note 9 to our Condensed Consolidated Financial Statements for additional information regarding earnings per share.

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. In addition, our cash funding requirements may be impacted by U.S. tax payments resulting from U.S. taxable income. We expect to rely on funds provided by our operating activities, our Credit Agreement and our Convertible Notes to satisfy our working capital needs.

Short-term Investments

During the nine months ended December 31, 2014, the Company has purchased \$79.7 million of short-term investments, which are highly liquid in nature and represent an investment of cash that is available for current operations. From time to time, the Company may purchase additional short-term investments depending on future market conditions and liquidity needs.

Credit Agreement

In August 2014, we entered into a Third Amendment to the Second Amended and Restated October 2011 Credit Agreement (the "Credit Agreement"). The Credit Agreement provides for borrowings of up to \$100.0 million which may be increased by up to \$40.0 million pursuant to the terms of the Credit Agreement, and is secured by substantially all of our assets and the equity of our subsidiaries. The Credit Agreement expires on August 18, 2019. Revolving loans under the Credit Agreement bear interest at our election of (a) 0.50% to 1.00% above a certain base rate (3.75% at December 31, 2014), or (b) 1.50% to 2.00% above the LIBOR Rate (approximately 1.67% at December 31, 2014), with the margin rate subject to the achievement of certain average liquidity levels. We are also required to pay a monthly fee on the unused available balance, ranging from 0.25% to 0.375% based on availability.

Availability under the Credit Agreement is restricted by our United States 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 \$5.0 million.

As of December 31, 2014, there was \$98.3 million available to borrow under the Credit Agreement. At December 31, 2014, we had no outstanding borrowings under the Credit Agreement and \$1.7 million of letters of credit outstanding.

The Credit Agreement contains covenants that substantially limit 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

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(each subject to certain limitations); or optionally prepay any indebtedness (subject to certain exceptions, including an exception permitting the redemption of the Company's unsecured convertible senior notes upon the meeting of certain minimum liquidity requirements). 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 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 certain average liquidity levels fall below \$30.0 million. As of December 31, 2014, we were in compliance with all covenants and requirements outlined in the Credit Agreement.

1.75% Convertible Notes Due 2016

On November 16, 2011, we issued \$250.0 million aggregate principal amount of 1.75% Convertible Notes due 2016 (the "1.75% Convertible Notes"). Interest on the 1.75% Convertible Notes is payable semi-annually in arrears on June 1st and December 1st of each year, commencing on June 1, 2012. The 1.75% Convertible Notes mature on December 1, 2016, unless earlier repurchased by the Company or converted. The Company does not have the right to redeem the 1.75% Convertible Notes prior to maturity.

The 1.75% Convertible Notes are convertible at an initial conversion rate of 52.3745 shares of our common stock per \$1,000 principal amount of 1.75% Convertible Notes (representing an initial conversion price of approximately \$19.093 per share of common stock for a total of approximately 13,094,000 underlying conversion shares) subject to adjustment in certain circumstances. Holders may convert the 1.75% Convertible Notes at their option prior to the close of business on the business day immediately preceding June 1, 2016 only under the following circumstances: (1) during any fiscal quarter commencing after March 31, 2012, 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 1.75% 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; or (3) upon the occurrence of specified corporate events. On and after June 1, 2016 until the close of business on the business day immediately preceding the maturity date, holders may convert their 1.75% Convertible Notes at any time, regardless of the foregoing circumstances. Upon conversion, the 1.75% 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. Our common stock price exceeded 130% of the applicable conversion price per share for at least 20 trading days during the 30 consecutive trading days ended December 31, 2014. Accordingly, as of January 1, 2015 the 1.75% Convertible Notes may be converted at the holder's option through March 31, 2015. If the 1.75% Convertible Notes were to be converted during this period, our current intent and ability, given our option, would be to settle the conversion in shares of our common stock. As such, we have continued to classify these 1.75% Convertible Notes as long-term debt.

The indenture governing the 1.75% Convertible Notes contains customary terms and covenants and events of default. As of December 31, 2014, we were in compliance with all covenants and requirements outlined in the indenture governing the 1.75% Convertible Notes.

1.00% Convertible Notes Due 2018

On June 18, 2013, we issued \$250.0 million aggregate principal amount of 1.00% Convertible Notes due 2018 (the "1.00% Convertible Notes" and together with the 1.75% Convertible Notes, the

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"Convertible Notes"). The 1.00% Convertible Notes were issued at 98.5% of par value for proceeds of \$246.3 million. Interest on the 1.00% Convertible Notes is payable semi-annually in arrears on July 1st and January 1st of each year, commencing on January 1, 2014. The 1.00% Convertible Notes mature on July 1, 2018, unless earlier repurchased by the Company or converted. The Company does not have the right to redeem the 1.00% Convertible Notes prior to maturity. The Company also granted the underwriters a 30-day option to purchase up to an additional \$37.5 million principal amount of 1.00% Convertible Notes to cover overallocments, if any. On July 17, 2013, the Company closed its public offering of \$37.5 million principal amount of the Company's 1.00% Convertible Notes as a result of the underwriters exercising their overallocation option in full on July 12, 2013, bringing the proceeds to \$283.2 million.

The 1.00% Convertible Notes are convertible at an initial conversion rate of 46.4727 shares of our common stock per \$1,000 principal amount of 1.00% Convertible Notes (representing an initial conversion price of approximately \$21.52 per share of common stock for a total of approximately 13,361,000 underwriting conversion shares) subject to adjustment in certain circumstances. Holders may convert the 1.00% Convertible Notes at their option prior to the close of business on the business day immediately preceding January 1, 2018 only under the following circumstances: (1) during any fiscal quarter commencing after September 30, 2013, 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 1.00% 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; or (3) upon the occurrence of specified corporate events. On and after January 1, 2018 until the close of business on the business day immediately preceding the maturity date, holders may convert their 1.00% Convertible Notes at any time, regardless of the foregoing circumstances. Upon conversion, the 1.00% 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.

The indenture governing the 1.00% Convertible Notes contains customary terms and covenants and events of default. As of December 31, 2014, we were in compliance with all covenants and requirements outlined in the indenture governing the 1.00% Convertible Notes.

Financial Condition

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 approximately 60.8% and 42.6% of net revenue for the nine months ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and March 31, 2014, our five largest customers accounted for approximately 51.4% and 68.3% of our gross accounts receivable balance, respectively. We had three customers who accounted for approximately 13.6%, 12.5% and 11.1% of our gross accounts receivable as of December 31, 2014 and three customers who accounted for 22.6%, 22.3% and 14.9% of our gross accounts receivable as of March 31, 2014. We did not have any additional customers that exceeded 10% of our gross accounts receivable as of December 31, 2014 and March 31, 2014. Based upon performing ongoing credit evaluations,

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maintaining trade credit insurance on a majority of our customers and our past collection experience, we believe that the receivable balances from these largest customers do not represent a significant credit risk, although we actively monitor each customer's credit worthiness and economic conditions that may affect 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 believe our current cash and cash equivalents, short-term investments and projected cash flow from operations, along with availability under our Credit Agreement will provide us with sufficient liquidity to satisfy our cash requirements for working capital, capital expenditures and commitments through at least the next 12 months.

As of December 31, 2014, the amount of cash and cash equivalents held outside of the U.S. by our foreign subsidiaries was approximately \$249.0 million. These balances are dispersed across various locations around the world. We believe that such dispersion meets the business and liquidity needs of our foreign affiliates. In addition, the Company expects in the foreseeable future to have the ability to generate sufficient cash domestically to support ongoing operations. Consequently, it is the Company's intention to indefinitely reinvest undistributed earnings of its foreign subsidiaries. In the event the Company needed to repatriate funds outside of the U.S., such repatriation may be subject to local laws and tax consequences including foreign withholding taxes or U.S. income taxes. It is not practicable to estimate the tax liability and the Company would try to minimize the tax impact to the extent possible.

In January 2013, our board of directors authorized the repurchase of up to 7,500,000 shares of our common stock. The authorization permits the Company to purchase shares from time to time through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. It does not obligate the Company to make any purchases at any specific time or situation. Repurchases are subject to the availability of stock, prevailing market conditions, the trading price of the stock, the Company's financial performance and other conditions. The program may be suspended or discontinued at any time for any reason. During the nine months ended December 31, 2014, the Company did not repurchase any shares as part of the program. As of December 31, 2014, up to approximately 3,283,000 shares of our common stock remain available for repurchase under the Company's share repurchase authorization.

Our changes in cash flows were as follows:

(thousands of dollars)	Nine Months Ended December 31,	
	2014	2013
Net cash provided by operating activities	\$ 60,526	\$ 730,793
Net cash used in investing activities	(99,280)	(24,455)
Net cash provided by (used in) financing activities	10,352	(133,684)
Effects of foreign currency exchange rates on cash and cash equivalents	(9,546)	(2,986)
Net (decrease) increase in cash and cash equivalents	\$ (37,948)	\$ 569,668

At December 31, 2014, we had \$897.5 million of cash and cash equivalents, compared to \$935.4 million at March 31, 2014. The decrease was primarily due to cash used in investing activities partially offset by cash provided by operating activities. Net cash used in investing activities related to purchases of short-term investments and purchases of fixed assets and was partially offset by the proceeds received from the sale of our long-term investment. Net cash provided by operations was primarily due to an increase in deferred revenue generated by the sale of virtual currency partially offset by investments in software development.

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Contractual Obligations and Commitments

We have entered into various agreements in the ordinary course of business that require substantial cash commitments over the next several years. Other than agreements entered into in the ordinary course of business and in addition to the agreements requiring known cash commitments as reported in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended March 31, 2014, the Company expects to pay approximately \$180.3 million in software development licenses and royalties within the next twelve months.

Off-Balance Sheet Arrangements

As of December 31, 2014 and March 31, 2014, we did not have any material relationships with unconsolidated entities or financial parties, such as entities often referred to as structured finance or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

International Operations

Net revenue earned outside of the United States is principally generated by our operations in Europe, Canada, Latin America, Asia and Australia. For the three months ended December 31, 2014 and 2013, approximately 37.1% and 56.1%, respectively, of our net revenue was earned outside of the United States. For the nine months ended December 31, 2014 and 2013, approximately 41.4% and 54.4%, respectively, of our net revenue was earned outside of 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 effect on our operating results.

Fluctuations in Quarterly Operating Results and Seasonality

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our exposure to fluctuations in interest rates relates primarily to our short-term investment portfolio and variable rate debt under the Credit Agreement.

We manage our interest rate risk by maintaining a short-term investment portfolio that consists primarily of corporate bonds with high credit quality and maturities less than two years. Since short-term investments mature relatively quickly and can be reinvested at the then-current market rates, interest income on a portfolio consisting of short-term securities is more subject to market fluctuations than a portfolio of longer term maturities. However, the fair value of a short-term portfolio is less sensitive to market fluctuations than a portfolio of longer term securities. We do not currently use

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derivative financial instruments in our short-term investment portfolio. Our investments are held for purposes other than trading.

As of December 31, 2014, our \$79.1 million of short-term investments were classified as available-for-sale securities and therefore, were recorded at fair market value with unrealized gains or losses resulting from changes in fair value reported as a separate component of accumulated other comprehensive income (loss), net of tax, in stockholders' equity. We also had \$897.5 million of cash and cash equivalents that are comprised primarily of money market funds and bank-time deposits. The Company has determined that, based on the composition of our investment portfolio, there was no material interest rate risk exposure to the Company's Condensed Consolidated Financial Statements or liquidity as of December 31, 2014.

Historically, fluctuations in interest rates have not had a significant impact on our operating results. Under our Credit Agreement, outstanding balances bear interest at our election of (a) 0.50% to 1.00% above a certain base rate (3.75% at December 31, 2014), or (b) 1.50% to 2.00% above the LIBOR rate (approximately 1.67% at December 31, 2014), with the margin rate subject to the achievement of certain average liquidity levels. Changes in market rates may impact our future interest expense if there is an outstanding balance on our line of credit. The 1.00% Convertible Notes and 1.75% Convertible Notes pay interest semi-annually at a fixed rate of 1.00% and 1.75%, respectively, per annum and we expect that there will be no fluctuation in rates related to the Convertible Notes impacting our cash component of interest expense. For additional details on our Convertible Notes see Note 8 to our Condensed Consolidated Financial Statements.

Foreign Currency Exchange Rate Risk

We transact business in foreign currencies and are exposed to risks resulting from fluctuations in foreign currency exchange rates. Accounts relating to foreign operations are translated into United States dollars using prevailing exchange rates at the relevant period end. Translation adjustments are included as a separate component of stockholders' equity. For the nine months ended December 31, 2014, our foreign currency translation loss adjustment was approximately \$19.5 million. We recognized foreign currency exchange transaction losses of \$2.3 million for the nine months ended December 31, 2014 and foreign currency exchange gains of \$0.4 million for the nine months ended December 31, 2013, respectively, in interest and other, net in our Condensed Consolidated Statements of Operations.

Cash Flow Hedging Activities

We use foreign currency forward contracts to mitigate foreign currency exchange rate risk associated with forecasted transactions involving non-functional currency denominated expenditures. These contracts, which are designated and qualify as cash flow hedges, are accounted for as derivatives whereby the fair value of the contracts is reported as either assets or liabilities on our Condensed Consolidated Balance Sheets. The effective portion of gains or losses resulting from changes in the fair value of these hedges is initially reported, net of tax, as a component of accumulated other comprehensive income (loss) in stockholders' equity. The gross amount of the effective portion of gains or losses resulting from changes in the fair value of these hedges is subsequently reclassified into cost of goods sold or research and development expenses, as appropriate, in the period when the forecasted transaction is recognized in our Condensed Consolidated Statements of Operations. In the event that the gains or losses in accumulated other comprehensive income (loss) are deemed to be ineffective, the ineffective portion of gains or losses resulting from changes in fair value, if any, is reclassified to interest and other, net, in our Condensed Consolidated Statements of Operations. In the event that the underlying forecasted transactions do not occur, or it becomes probable that they will not occur, within the defined hedge period, the gains or losses on the related cash flow hedges are reclassified from accumulated other comprehensive income (loss) to interest and other, net, in our Condensed Consolidated Statements of Operations. During the reporting periods presented, all forecasted

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transactions occurred, and therefore, there were no such gains or losses reclassified into interest and other, net. We do not enter into derivative financial contracts for speculative or trading purposes. At December 31, 2014, we had no forward contracts outstanding to buy or sell foreign currencies in exchange for U.S. dollars designated as cash flow hedges. At March 31, 2014, we had \$0.9 of forward contracts outstanding to buy foreign currencies in exchange for U.S. dollars all of which have maturities of less than one year. As of March 31, 2014, the fair value of these outstanding forward contracts was immaterial and was included in prepaid expenses and other. The fair value of these outstanding forward contracts is estimated based on the prevailing exchange rates of the various hedged currencies as of the end of the period.

Balance Sheet Hedging Activities

We use foreign currency forward contracts to mitigate foreign currency exchange rate risk associated with non-functional currency denominated cash balances and inter-company funding loans, non-functional currency denominated accounts receivable and non-functional currency denominated accounts payable. These transactions are not designated as hedging instruments and are accounted for as derivatives whereby the fair value of the contracts is reported as either assets or liabilities on our Condensed Consolidated Balance Sheets, and gains and losses resulting from changes in the fair value are reported in interest and other, net, in our Condensed Consolidated Statements of Operations. We do not enter into derivative financial contracts for speculative or trading purposes. At December 31, 2014, we had \$4.6 million of forward contracts outstanding to buy foreign currencies in exchange for U.S. dollars and \$231.3 million of forward contracts outstanding to sell foreign currencies in exchange for U.S. dollars all of which have maturities of less than one year. At March 31, 2014, we had \$68.5 million of forward contracts outstanding to sell foreign currencies in exchange for U.S. dollars all of which have maturities of less than one year. For the three months December 31, 2014 and 2013, we recorded a gain of \$7.7 million and a loss of \$7.2 million, respectively, related to foreign currency forward contracts in interest and other, net on the Condensed Consolidated Statements of Operations. For the nine months December 31, 2014 and 2013, we recorded a gain of \$7.3 million and a loss of \$17.5 million, respectively, related to foreign currency forward contracts in interest and other, net on the Condensed Consolidated Statements of Operations. As of December 31, 2014 and March 31, 2014, the fair value of these outstanding forward contracts was immaterial and is included in prepaid expenses and other. The fair value of these outstanding forward contracts is estimated based on the prevailing exchange rates of the various hedged currencies as of the end of the period.

Our hedging programs are designed to reduce, but do not entirely eliminate, the effect of currency exchange rate movements. We believe the counterparties to these foreign currency forward contracts are creditworthy multinational commercial banks and that the risk of counterparty nonperformance is not material. Notwithstanding our efforts to mitigate some foreign currency exchange rate risks, there can be no assurance that our hedging activities will adequately protect us against the risks associated with foreign currency fluctuations. For the nine months ended December 31, 2014, 41.4% of the Company's revenue was generated outside the United States. Using sensitivity analysis, a hypothetical 10% increase in the value of the U.S. dollar against all currencies would decrease revenues by 4.1%, while a hypothetical 10% decrease in the value of the U.S. dollar against all currencies would increase revenues by 4.1%. In the opinion of management, a substantial portion of this fluctuation would be offset by cost of goods sold and operating expenses incurred in local currency.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of management, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures as defined in rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934,

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as amended ("Exchange Act") were effective as of the end of the period covered by this report to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2014, which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are, or may become, subject to demands and claims (including intellectual property claims) and are involved in routine litigation in the ordinary course of business which we do not believe to be material to our business or financial statements. We have appropriately accrued amounts related to certain of these claims and legal and other proceedings. While it is reasonably possible 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.

Item 1A. Risk Factors

There have been no material changes to the Risk Factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Share Repurchase Program In January 2013, our board of directors authorized the repurchase of up to 7,500,000 shares of our common stock. The authorization permits the Company to purchase shares from time to time through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. It does not obligate the Company to make any purchases at any specific time or situation. Repurchases are subject to the availability of stock, prevailing market conditions, the trading price of the stock, the Company's financial performance and other conditions. The program may be suspended or discontinued at any time for any reason. During the three months ended December 31, 2014, the Company did not repurchase shares of our common stock in the open market as part of the program. As of December 31, 2014, up to approximately 3,283,000 shares of our common stock remain available for repurchase under the Company's share repurchase authorization.

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Item 6. Exhibits

Exhibits:

- 10.1 Employment Agreement dated January 28, 2015 between the Company and Daniel Emerson.
- 10.2 Amendment to the Restricted Stock Agreement dated as of May 20, 2011 between the Company and ZelnickMedia Corporation, effective as of December 2, 2014.
- 10.3 Amendment to the Performance Based Restricted Stock Agreement dated as of May 20, 2011 between the Company and ZelnickMedia Corporation, effective as of December 2, 2014.
- 31.1 Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema Document.

101.CAL XBRL Taxonomy Calculation Linkbase Document.

101.LAB XBRL Taxonomy Label Linkbase Document.

101.PRE XBRL Taxonomy Presentation Linkbase Document.

101.DEF XBRL Taxonomy Extension Definition Document.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at December 31, 2014 and March 31, 2014, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2014 and 2013, (iii) Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended December 31, 2014 and 2013, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2014 and 2013; and (v) Notes to Condensed Consolidated Financial Statements (Unaudited).

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TAKE-TWO INTERACTIVE SOFTWARE, INC.

(Registrant)

Date: February 6, 2015

By: /s/ STRAUSS ZELNICK

Strauss Zelnick
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: February 6, 2015

By: /s/ LAINIE GOLDSTEIN

Lainie Goldstein
Chief Financial Officer
(Principal Financial Officer)