

TAKE TWO INTERACTIVE SOFTWARE INC  
Form 10-K  
May 23, 2012

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended March 31, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 0-29230

**TAKE-TWO INTERACTIVE SOFTWARE, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

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

**10012**  
(Zip Code)

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

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

| <b>Title of each class</b>  | <b>Name of each exchange on which registered</b> |
|---|--|
| Common Stock, \$.01 par value   | NASDAQ Global Select Market                      |
| <b>Securities registered pursuant to Section 12(g) of the Act: None</b> |  |

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately \$1,080,996,000.

As of May 21, 2012, there were 89,877,335 shares of the Registrant's Common Stock outstanding.

### **Documents Incorporated by Reference:**

Portions of the registrant's definitive proxy statement for the 2012 Annual Meeting of Stockholders are incorporated by reference into Part III herein.

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**EXPLANATORY NOTE**

On October 25, 2010, the Board of Directors of Take-Two Interactive Software, Inc. (the "Company," "we," "us," or similar pronouns) approved a change in the Company's fiscal year end from October 31 to March 31, as reported in the Company's Current Report on Form 8-K filed on October 25, 2010. As required by the Securities Exchange Act of 1934, the Company filed a Transition Report on Form 10-KT on December 20, 2010 covering the period from, and including the financial information for, the five-month period from November 1, 2009 to March 31, 2010 (the "Transition Period").

**CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS**

*The statements contained herein which are not historical facts are considered forward-looking statements under federal securities laws and may be identified by words such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "potential," "predicts," "projects," "seeks," "will," or words of similar meaning and include, but are not limited to, statements regarding the outlook for the Company's future business and financial performance. Such forward-looking statements are based on the current beliefs of our management as well as assumptions made by and information currently available to them, which are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Actual outcomes and results may vary materially from these forward-looking statements based on a variety of risks and uncertainties including, but not limited to, those discussed under the heading "Risk Factors" included in Part I, Item 1A herein. 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.*

**PART I**

**Item 1. Business**

**General**

We are a leading developer, marketer and publisher of interactive entertainment for consumers around the globe. The Company develops and publishes products through its two wholly-owned labels Rockstar Games and 2K, which publishes its titles under the 2K Games, 2K Sports and 2K Play brands. Our products are designed for console gaming systems such as Sony's PlayStation®3 ("PS3") and PlayStation®2 ("PS2"), Microsoft's Xbox 360® ("Xbox 360") and Nintendo's Wii ("Wii"); handheld gaming systems such as Nintendo's DS ("DS"), Nintendo's 3DS ("3DS") and Sony's PlayStation Portable ("PSP"); and personal computers including smartphones and tablets. We deliver our products through physical retail, digital download, online platforms and cloud streaming services.

Video games are a widespread and growing form of mainstream entertainment. As a result of the widening popularity of interactive entertainment, the video game market is expected to continue to grow in coming years. Growth is expected to be driven by games played on traditional consoles, mobile gaming platforms such as tablets and smartphones, and online including through social networks. Overall, the installed base of console systems and handheld devices has continued to expand. According to the "Global Video Game Market Update" published by *International Development Group* ("IDG") in April 2012, the installed base of console systems and handhelds devices grew to 497.8 million units as of December 2011, an increase of 55.4 million units or 13% from December 2010, and forecasts that the number will increase to an estimated 753.0 million units in calendar 2016. Further, according to IDG, global sales of console, handheld, PC software and digital gaming segments, inclusive of mobile gaming platforms and online, surpassed \$57.2 billion in calendar 2011 and forecasts that their annual sales will increase to an estimated \$89.3 billion in calendar 2016.

The demographics of the interactive entertainment industry audience have broadened significantly over the past few years, with video games becoming an increasingly popular form of mainstream entertainment.

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According to the "2011 *Essential Facts About The Computer And Video Game Industry*" published by Entertainment Software Association ("ESA"), an estimated 72% of all American households play PC or video games. The average game player is 37 years old and has been actively playing for 12 years.

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 add-on content. We 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.

We were incorporated under the laws of the State of Delaware in 1993 and are headquartered in New York, New York with 2,235 employees globally. Our telephone number is (646) 536-2842 and our website address is [www.take2games.com](http://www.take2games.com). We make all of our filings with the Securities and Exchange Commission ("SEC") available free of charge on our website under the caption "Corporate SEC Filings." Included in these filings are our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, which are available as soon as reasonably practicable after we electronically file or furnish such materials with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

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

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

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

## **Strategy**

**Overview.** 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 add-on content. 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, racing, role-playing, 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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**Support Label Structure to Target Distinct Market Segments.** Our business consists of our wholly-owned labels Rockstar Games and 2K, which publishes its titles under 2K Games, 2K Sports and 2K Play. Each group focuses on distinct product genres and target demographics. Rockstar Games is the developer and publisher of the interactive entertainment industry's most iconic and critically acclaimed brand, *Grand Theft Auto*, as well as other successful franchises including *L.A. Noire*, *Max Payne*, *Midnight Club*, and *Red Dead*. We expect Rockstar Games to continue to be a leader in the action / adventure product category and create groundbreaking entertainment by leveraging our existing franchises as well as developing new brands. 2K Games is the publisher of the critically acclaimed, multi-million unit selling *BioShock*, *Borderlands*, *Mafia*, and *Sid Meier's Civilization* franchises. We expect 2K Games to continue to be a leader in the shooter, action, role-playing and strategy categories by building on its existing brands, as well as developing new franchises in the future. 2K Sports publishes *NBA 2K*, the top-ranked NBA basketball video game for 11 years running, as well as other sports titles including *Major League Baseball 2K* and *Top Spin*. 2K Play focuses on casual and family-friendly games such as *Carnival Games*, an internally developed and owned franchise, and licensed titles based on popular Nickelodeon television programs. We also have expansion initiatives in the rapidly growing Asia-Pacific markets, where our strategy is to broaden the distribution of our existing products, expand our business in Japan, and establish an online gaming presence, especially in China and Korea.

**Focus on Core Strength of Producing Select, High Quality Titles.** We focus on publishing a select number of high-quality titles based on internally-owned and developed intellectual property, which typically provide higher margins than licensed products. We currently own the intellectual property rights of 19 proprietary brands. In addition, we will selectively develop titles based on licensed properties, including sports, and also publish externally developed titles.

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

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

**Leverage Emerging Technologies, Platforms and Distribution Channels, Including Digitally Delivered Content.** Interactive entertainment played on mobile platforms, including tablets and smartphones, and online platforms, including social networks, represent exciting opportunities to enhance our growth and profitability. In addition, the interactive entertainment industry is increasingly delivering content through digital download. We are actively investing to capitalize on these trends in order to diversify our product mix, reduce our operating risks, and increase our revenue. Each of our labels has released offerings for tablets and smartphones across a variety of genres. In December 2011, we released *Grand Theft Auto III: 10<sup>th</sup> Anniversary Edition*, which was our first title for Android and our highest-selling title for Apple's iOS platform to date. In July 2011, we launched our first social gaming experience, *Sid Meier's Civilization World*, for Facebook, and we have several initiatives underway to develop online games primarily for Asian markets. We will continue to invest in emerging opportunities in mobile and online gameplay, particularly for our wholly-owned franchises, as well as downloadable content and micro-

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transactions, where gamers can pay to download additional content to enhance their game playing experience.

**Expand International Business.** The global market for interactive entertainment continues to grow and we seek to increase our presence internationally, particularly in Asia, Eastern Europe and Latin America. We have expansion initiatives in the Asian markets, where our strategy is to broaden the distribution of our existing products, expand our business in Japan, and establish an online gaming presence, especially in China and Korea. We are a direct publisher in Japan and Korea. Historically, we distributed our products in Asia through license agreements with local publishers in Japan and Korea, and distribution agreements with local distributors of finished goods elsewhere in Asia. While we retain title to all intellectual property, under license agreements local publishers are responsible for localization of software content, distribution and marketing of the products in their respective local markets. We intend to continue to build upon our licensing relationships and also expand finished goods distribution strategies to grow our international business.

**Our Publishing and Software Development Businesses**

Revenue in our publishing business is primarily derived from the sale of internally developed software titles and software titles developed by third-parties for our benefit. Operating margins in our publishing business are dependent in part upon our ability to continually release new, commercially successful products and to manage software product development costs. We have internal development studios located in Australia, Canada, China, Czech Republic, the United Kingdom and the United States. As of March 31, 2012, we had a research and development staff of 1,653 employees with the technical capabilities to develop software titles for all major current and prior generation consoles, handheld hardware platforms and PCs in multiple languages and territories.

Operating margins associated with our externally developed titles, or titles for which we do not own the intellectual property, are generally lower because they require us to acquire licenses, provide minimum development guarantees, and pay third-party royalties. Agreements with third-party developers generally give us exclusive publishing and marketing rights and require us to make development payments, pay royalties based on product sales and satisfy other conditions. Development payments for software titles are typically recoupable against royalties otherwise due to developers based on software sales. Our agreements with third-party developers generally provide us with the right to monitor development efforts and to cease making development payments if specified development milestones are not satisfied. We also regularly monitor the level of development payments in light of expected sales for the related titles.

The development cycle for our titles generally ranges from 12 to more than 24 months and our top-selling titles could take up to 3 years or longer to develop. Although we often simultaneously develop our software for multiple platforms, in certain cases it can take 9 to 12 months to adapt a product for additional hardware platforms after initial development for one platform is completed. The cost to develop a frontline software title generally ranges from \$10 million to \$60 million, with our top titles exceeding these amounts. We expect that development costs and time will continue to increase for current generation platforms.

We continue to explore evolving business models such as downloadable content, online gaming and micro-transactions. We expect downloadable content to become more prevalent as broadband connectivity continues to gain popularity and digital delivery platforms such as Microsoft's Xbox LIVE® Marketplace ("Xbox LIVE") and the Sony Entertainment Network ("SEN") gain additional customers. We also have expansion initiatives in the Asia-Pacific markets, where our strategy is to broaden the distribution of our existing products, expand our business in Japan, and establish an online gaming presence, especially in China and Korea.

**Rockstar Games.** 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*

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*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 has established a uniquely original, popular cultural phenomenon with its *Grand Theft Auto* series, which we believe is the interactive entertainment industry's most iconic and critically acclaimed brand and has sold-in approximately 120 million units. Rockstar continues to expand on our established franchises by releasing sequels, as well as offering downloadable episodes and content. In May 2011, Rockstar released the commercially successful and critically acclaimed *L.A. Noire*, which became the first video game ever chosen as an official selection of the Tribeca Film Festival. Rockstar has released several downloadable content packs to support that title. Rockstar is also well known for developing brands in other genres, including the *Bully* and *Manhunt* franchises.

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

**2K Games.** 2K Games has published a variety of popular entertainment properties across multiple genres and platforms and we expect 2K Games to continue to develop new and successful franchises in the future. 2K Games' internally owned and developed franchises include the critically acclaimed, multi-million unit selling *BioShock*, *Mafia*, and *Sid Meier's Civilization* series. 2K Games has also published titles that were externally developed, such as *Borderlands*, which has become a key franchise for 2K Games since its launch in October 2009 and has been supported by several successful downloadable content packs.

**2K Sports.** 2K Sports publishes realistic sports simulation titles, including our flagship *NBA 2K* series, which has been the top-ranked NBA basketball video game for 11 years running, the *Major League Baseball 2K* series, and our *Top Spin* tennis series. We develop most of our 2K Sports software titles through our internal development studios. 2K Sports has secured long-term licensing agreements with the National Basketball Association ("NBA"). Our current licenses with Major League Baseball Properties, the Major League Baseball Players Association and Major League Baseball Advanced Media expire in fiscal 2013.

We also have expansion initiatives in the rapidly growing Asia markets, where our strategy is to broaden the distribution of our existing products, expand our business in Japan, and establish an online gaming presence, especially in China and Korea. 2K Sports 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.

**2K Play.** 2K Play focuses on developing and publishing titles for the casual and family-friendly games market. 2K Play titles are developed by both internal development studios and third-party developers. Internally developed titles include *Carnival Games* and *Let's Cheer!*. 2K Play also has a partnership with Nickelodeon to publish video games based on its top rated Nick Jr. titles such as *Dora the Explorer*; *Go, Diego, Go!*; *Ni Hao, Kai-lan* and *The Backyardigans*. We expect family-oriented gaming to continue to be a component of our business in the future.

**Discontinued operations**

In February 2010, we completed the sale to SYNEX Corporation ("Synnex") of our Jack of All Games third-party distribution business, which primarily distributed third-party interactive entertainment software, hardware and accessories in North America for approximately \$44.0 million, including \$37.3 million in cash, subject to purchase price adjustments, and up to an additional \$6.7 million, subject to the achievement of certain items, which were not met. In April 2011, we settled on the purchase price adjustments and as a result the purchase price was lowered by \$1.5 million. Consequently, the net purchase price after the settlement was \$35.8 million. The financial results of this business, which were previously reported as our distribution business, have been classified as discontinued operations in our Consolidated Statements of Operations for all periods presented. The assets and liabilities of this business are reflected as assets and liabilities of discontinued operations in the Consolidated Balance Sheets for all periods presented. See Note 2 to our Consolidated Financial Statements for additional information regarding discontinued operations.

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**Intellectual Property**

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

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

**Manufacturing**

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

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

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

**Sales**

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

We are dependent on a limited number of customers that account for a significant portion of our sales. Sales to our five largest customers during the fiscal year ended March 31, 2012 accounted for approximately 43.9% of our net revenue, with GameStop and Wal-Mart accounting for 19.0% and 10.7%, respectively. No other customer accounted for more than 10.0% of our net revenue during the fiscal year ended March 31, 2012.

We also digitally distribute our titles, downloadable content and micro-transactions direct to consoles and PCs, including smartphones and tablets. We view digital distribution as an important growth opportunity

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for our industry and Company; however, we continue to expect that packaged goods and traditional retailers will be the primary channel for the sale of our products for the foreseeable future.

**Marketing**

Our marketing and promotional efforts are intended to maximize consumer interest in our titles, promote brand name recognition of our franchises, assist retailers and properly position, package and merchandise our titles.

We market titles by:

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

Satisfying certain shelf life and sales requirements under our agreements with hardware manufacturers in order to qualify for Sony's Greatest Hits Programs and Microsoft's Platinum Hits Program. In connection with these programs, we receive manufacturing discounts from Sony and Microsoft.

Stimulating continued sales by reducing the wholesale prices of our products to retailers at various times during the life of a product. Price concessions may occur at any time in a product's life cycle, but typically occur three to nine months after a product's initial launch. During the fiscal years ended March 31, 2012, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009, price concessions to retailers amounted to \$86.0 million, \$59.9 million, \$61.1 million, \$53.2 million and \$49.4 million, respectively. In certain international markets, we also provide volume rebates to stimulate continued product sales.

Employing various other marketing methods designed to promote consumer awareness, including social media, in-store promotions and point-of-purchase displays, direct mail, co-operative advertising, as well as attendance at trade shows.

In addition to our media, retail and public relations campaigns, an important part of our marketing strategy leverages evolving business models, such as downloadable add-on content for our front line titles. Add-on content generates incremental revenues and also helps to prolong consumer engagement with our titles, which extends the life of each new release and enhances the value of our franchises. As of March 31, 2012, we had a sales and marketing staff of 283 people.

**Product Procurement**

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

**Competition**

In our publishing business, we compete with:

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

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

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

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

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

***Trends and Factors 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 13.8% of the Company's net revenue for the fiscal year ended March 31, 2012. 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 43.9%, 43.8%, 59.8%, 55.7%, and 56.4% of net revenue during the fiscal years ended March 31, 2012, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009, respectively. As of March 31, 2012 and 2011, our five largest customers accounted for 61.3% and 54.2% of our gross accounts receivable, respectively. Customers that individually accounted for more than 10% of our gross accounts receivable balance comprised 40.6% and 38.2% of such balances at March 31, 2012 and 2011, respectively. 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 episodes that we now offer for certain of our titles may serve to reduce used game sales, we expect used game sales to continue to affect our business.

***Hardware Platforms.*** The majority of our products are made for the hardware platforms developed by three companies—Sony, Microsoft and Nintendo. Note 16 to our Consolidated Financial Statements, "Segment and Geographic Information," discloses that Sony, Microsoft and Nintendo hardware platforms comprised approximately 89.4% of the Company's net revenue by product platform for the fiscal year ended March 31, 2012. The success of our business is dependent upon the consumer acceptance of these platforms and the continued growth in the installed base of these platforms. When new hardware platforms are introduced, demand for software based on older platforms declines, which may negatively

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affect our business. Additionally, our development costs are generally higher for titles based on new platforms, and we have limited ability to predict the consumer acceptance of the new platforms, which may affect our sales and profitability. As a result, we believe it is important to focus our development efforts on a select number of titles, which is consistent with our strategy.

*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 services. 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 also offer downloadable add-on content to our packaged goods titles. In addition, in July 2011, we launched our first social gaming experience, *Sid Meier's Civilization World*, for Facebook, and we have several initiatives underway to develop online games primarily for Asian markets. We expect online delivery of games and game services to become an increasing part of our business over the long-term.

**International Operations**

International sales are a significant part of our business. For the fiscal years ended March 31, 2012, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009, approximately 45.6%, 45.5%, 40.4%, 35.6% and 42.8%, respectively, of our net revenue was earned outside the United States. We have also expanded our Asian operations in an effort to increase our geographical scope and diversify our revenue base. We are subject to risks inherent in foreign trade, including increased credit risks, tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays and international political, regulatory and economic developments, all of which can have a significant effect on our operating results. See Notes 1 and 16 to the Consolidated Financial Statements.

**Segment and Geographic Information**

See Note 16 to the Consolidated Financial Statements.

**Employees**

As of March 31, 2012, we had 2,235 full-time employees, of which 1,140 were employed outside of the United States. None of our employees are subject to collective bargaining agreements. We consider our relations with employees to be satisfactory.

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**Item 1A. Risk Factors**

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

**Risks relating to our business**

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

*Grand Theft Auto* and certain of our other titles are "hit" products and have historically accounted for a substantial portion of our revenue. Sales of *Grand Theft Auto* products generated approximately 13.8% of the Company's net revenue for the fiscal year ended March 31, 2012 and the ten best-selling titles (including *Grand Theft Auto*) that significantly contributed to the Company's net revenue for the fiscal year ended March 31, 2012 in the aggregate accounted for approximately 89.7% of the Company's net revenue. If we fail to continue to develop and sell new commercially successful "hit" titles or sequels to such "hit" titles or experience any delays in product releases or disruptions following the commercial release of our "hit" titles or their sequels, our revenue and profits may decrease substantially and we may incur losses. In addition, competition in our industry is intense and a relatively small number of hit titles account for a large portion of total revenue in our industry. Hit products offered by our competitors may take a larger share of consumer spending than we anticipate, which could cause revenue generated from our products to fall below our expectations. If our competitors develop more successful products or services at lower price points or based on payment models perceived as offering better value, or if we do not continue to develop consistently high quality and well-received products and services, our revenue and profitability may decline. In addition, both the online and mobile games marketplaces are characterized by frequent product introductions, relatively low barriers to entry, and new and evolving business methods, technologies and platforms for development. Widespread consumer adoption of these new platforms for games and other technological advances in online or mobile game offerings could negatively affect our sales of console and traditional PC products before we have an opportunity to develop profitable businesses in such markets.

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

We depend on our internal development studios and third-party software developers to develop new interactive entertainment software within anticipated release schedules and cost projections. The development cycle for new titles generally ranges from 12 to more than 24 months, and our top-selling titles could take up to 3 years or longer to develop. Development times and costs of current generation software have increased substantially as a result of the additional and enhanced features available in the newest games. Further, after development of a product it may take between 9 and 12 additional months to develop the product for other hardware platforms. If our third-party software developers experience unanticipated development delays, financial difficulties or additional costs we will not be able to release titles according to our schedule and at budgeted costs. Certain of our licensing and marketing agreements also contain provisions that would impose penalties if we fail to meet agreed upon game release dates. There can be no assurance that our products will be sufficiently successful so that we can recoup these costs or make a profit on these products.

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

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***The inability of our products to achieve significant market acceptance, delays in product releases or disruptions following the commercial release of our products may have a material adverse effect on our operating results.***

New products may not achieve significant market acceptance, generate sufficient sales or be introduced in a timely manner to permit us to recover development, manufacturing and marketing costs associated with these products. The life cycle of a title generally involves a relatively high level of sales during the first few months after introduction followed by a rapid decline in sales. Because revenue associated with an initial product launch generally constitutes a high percentage of the total revenue associated with the life of a product, delays in product releases or disruptions following the commercial release of one or more new products could have a material adverse effect on our operating results and cause our operating results to be materially different from our expectations.

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

We derive most of our revenue from the sale of products made for video game platforms manufactured by third-parties, such as Sony's PS3, Microsoft's Xbox 360 and Nintendo's Wii. Note 16 to our Consolidated Financial Statements, "Segment and Geographic Information," discloses that Sony, Microsoft and Nintendo hardware platforms comprised approximately 89.4% of the Company's net revenue by product platform for the fiscal year ended March 31, 2012. The success of our business is subject to the continued popularity of these platforms and our ability to develop commercially successful products for these platforms.

***Connectivity issues related to digital delivery platforms could affect our ability to sell and provide online services for our products and could affect our profitability.***

We rely upon third-party digital delivery platforms, such as Xbox Live and SEN, to provide connectivity from the consumer to our digital products and our online services. Connectivity issues could prevent customers from accessing this content and our ability to successfully market and sell our products could be adversely affected. In addition, we could experience similar issues related to services we host on our internal servers. Such issues also could affect our ability to provide online services and could affect our business.

***Our business could be adversely affected if our consumer data protection measures are not seen as adequate or there are breaches of our security measures or unintended disclosures of our consumer data.***

We are collecting and storing consumer information, including personal information and credit card information. We take measures to protect our consumer data from unauthorized access or disclosure. It is possible that our security controls over consumer data may not prevent the improper access or disclosure of personally identifiable information. In addition, due to the high profile nature of our products, we may draw a disproportionately higher amount of attention and attempts to breach our security controls than companies with lower profile products. A security breach that leads to disclosure of consumer account information (including personally identifiable information) could harm our reputation, compel us to comply with disparate breach notification laws in various jurisdictions and otherwise subject us to liability under laws that protect personal data, resulting in increased costs or loss of revenue. A resulting perception that our products or services do not adequately protect the privacy of personal information could result in a loss of current or potential consumers and business partners. In addition, if any of our business partners experience a security breach that leads to disclosure of consumer account information, our reputation could be harmed, resulting in loss of revenue.

The interpretation and application of consumer and data protection laws in the U.S., Europe and elsewhere are often uncertain, contradictory and in flux. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data practices. If so, this could result in government imposed fines or orders requiring that we change our data practices, which could have an adverse effect on

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our business. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

In addition, certain of our products are online-enabled. The ability of our products to offer online functionality, and our ability to offer content through a video game platform's digital distribution channel, is dependent upon the continued operation and security of such platform's online network. These third-party networks, as well as our own internal systems and websites, and the security measures related thereto may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or otherwise, and result in someone obtaining unauthorized access to our customers' data or our data, including our intellectual property and other confidential business information, or our information technology systems. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, we may lose business, suffer irreparable damage to our reputation, and/or incur significant costs and expenses relating to the investigation and possible litigation of claims relating to such event.

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

We securely store the source code for our interactive entertainment software products as it is created. A breach, whether physical, electronic or otherwise, of the systems on which such source code and other sensitive data are stored could lead to damage or piracy of our software. If we are subject to data security breaches, we may have a loss in sales or increased costs arising from the restoration or implementation of additional security measures which could materially and adversely affect our profitability. Any theft and/or unauthorized use or publication of our trade secrets and other confidential business information as a result of such an event could adversely affect our competitive position, reputation, brand and future sales of our products. Our business could be subject to significant disruption, and we could suffer monetary and other losses and reputational harm, in the event of such incidents and claims.

***If we are unable to sustain launch pricing on current generation titles, our operating results may suffer.***

The interactive entertainment software and hardware industry is characterized by the introduction of new and enhanced generations of products and evolving industry standards. Current generation titles for the PS3, Xbox 360 and Wii have been offered at premium retail prices since the launch of such consoles. We expect to continue to price current generation titles at a premium level. However, circumstances may arise in which we may need to reduce prices for such titles. If we are unable to sustain launch pricing on these current generation titles, it will have a material adverse effect on our margins, profitability and operating results.

***We depend on our key management and product development personnel.***

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

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

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to continue to attract and retain other qualified management and creative personnel could adversely affect our business and prospects.

***Declines in consumer spending and other adverse changes in the economy could have a material adverse effect on our business and operating results.***

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

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

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

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

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

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

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

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

A substantial portion of our product sales are made to a limited number of customers. Sales to our five largest customers during the fiscal year ended March 31, 2012 accounted for approximately 43.9% of our net revenue, with GameStop and Wal-Mart accounting for 19.0% and 10.7%, respectively. Our sales are made primarily pursuant to purchase orders without long-term agreements or other commitments, and our customers may terminate their relationship with us at any time. Certain of our customers may decline to carry products containing mature content. The loss of our relationships with principal customers or a decline in sales to principal customers, including as a result of a product being rated "AO" (age 18 and over), could materially adversely affect our business and operating results. Furthermore, our customers may also be placed into bankruptcy, become insolvent or be liquidated due to economic downturns, global contractions of credit or for other factors. Bankruptcies or consolidations of certain large retail customers could seriously hurt our business, including as a result of uncollectible accounts receivable from such customers and the concentration of purchasing power among remaining large retailers. In addition, our results of operations may be adversely affected if certain of our customers who purchase on credit terms are no longer eligible to purchase on such terms due to their financial distress, which may reduce the quantity of products they demand from us.

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

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

***The interactive entertainment software industry is highly competitive.***

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

A number of software publishers who compete with us have developed and commercialized or are currently developing online games for use by consumers over the Internet. If technological advances

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significantly increase the availability of online games and if consumer acceptance of online gaming grows substantially, it could result in a decline in our platform-based software sales and negatively affect sales of such products.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sales in international markets, primarily in Europe, have accounted for a significant portion of our net revenue. Note 16 to our Consolidated Financial Statements, "Segment and Geographic Information," discloses that sales in Europe comprised approximately 29.8% of the Company's net revenue for the fiscal year ended March 31, 2012. We have also expanded our Asian operations in an effort to increase our geographical scope and diversify our revenue base. We are subject to risks inherent in foreign trade, including increased credit risks, tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays, and international political, regulatory and economic developments, all of which can have a significant influence on our operating results. Many of our international sales are made in local currencies, which could fluctuate against the dollar. While we may use forward exchange contracts to a limited extent to seek to mitigate foreign currency risk, our operating results could be adversely affected by unfavorable foreign currency fluctuations.

***We face risks from our international operations.***

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

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

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

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

As our industry grows, we may be subject to an increasing amount of litigation that is common in the software industry based on allegations of infringement or other alleged violations of patent, copyright and/or trademarks. In addition, we believe that interactive entertainment software will increasingly become the subject of claims that such software infringes on the intellectual property rights of others with both the growth of online functionality and advances in technology, game content and software graphics as games become more realistic. From time to time, we receive notices from third-parties or are named in lawsuits by third-parties alleging infringement of their proprietary rights. Although we believe that our software and technologies and the software and technologies of third-party developers and publishers with whom we have contractual relations do not and will not infringe or violate proprietary rights of others, it is possible that infringement of proprietary rights of others may occur. Any claims of infringement, with or without merit, could be time consuming, costly and difficult to defend. Moreover, intellectual property litigation or claims could require us to discontinue the distribution of products, obtain a license or redesign our products, which could result in additional substantial costs and material delays.

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

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

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

If appropriate opportunities present themselves, we may acquire or make investments in businesses, intellectual properties and other assets that we believe are strategic. We may not be able to identify, negotiate or finance any future acquisition or investment successfully. Even if we do succeed in acquiring or investing in a business, intellectual property or other asset, such acquisitions and investments involve a number of risks, including:

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

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

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

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

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

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

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

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

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

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

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

Certain of our products are based on or incorporate intellectual property owned by others. For example, our 2K Sports products include rights licensed from major sports leagues and players' associations. Similarly, some of our other titles are based on licenses of popular entertainment products. Competition for these licenses is intense. If we are unable to maintain these licenses or obtain additional licenses on reasonable economic terms or with significant commercial value, our revenue and profitability could decline significantly. Competition for these licenses may also increase the advances, guarantees and royalties that we must pay to the licensor, which could significantly increase our costs and adversely affect our profitability. In addition, on certain intellectual property licenses, we are subject to guaranteed minimum payments, royalties or standards of performance and may not be able to terminate these agreements prior to their stated expiration. If such licensed products do not generate revenues in excess of such minimum guarantees, our profitability will be adversely affected.

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

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

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

We and some of our former officers, directors and employees have been the subject of three separate governmental investigations and a substantial amount of litigation and other proceedings relating to the subject matter of those investigations. While these matters have been resolved we may be subject to heightened scrutiny in the future as a result of our historical legal proceedings, including an increased likelihood of a government investigation occurring and an increased likelihood that any such investigation is more extensive than in the past. Furthermore, any future fines, restrictions or other penalties imposed as a result of any such investigation may be more severe than those which may be imposed on a company without our history.

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

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

***We may need additional capital if we incur losses.***

If we incur losses in the future, we may be required to raise additional capital in order to fund our operations. We could seek to raise capital in a number of ways, including through the issuance of debt or equity, or through other financing arrangements. In October 2011, we entered into a Second Amended and Restated Credit Agreement (the "Credit Agreement") which amended and restated our July 2007 Credit Agreement (as defined herein), which requires us to make periodic interest or other debt service payments. In addition, we issued 4.375% Convertible Notes due 2014 in June 2009 (the "4.375% Convertible Notes") and 1.75% Convertible Notes due 2016 in November 2011 (the "1.75% Convertible Notes" and together with the 4.375% Convertible Notes, the "Convertible Notes"), which require us to make periodic interest payments to the holders of the Convertible Notes. If we borrow additional funds, further debt service payments would probably be necessary. In addition, the terms of additional debt may

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

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

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

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

Our reported financial results are affected by the accounting policies promulgated by the SEC and national accounting standards bodies and the methods, estimates, and judgments that we use in applying our accounting policies. For example, standards regarding software revenue recognition have and could further significantly affect the way we account for revenue related to our products and services. We expect that a significant portion of our games will be online-enabled in the future, and we could be required to recognize the related revenue over an extended period of time rather than at the time of sale. As we enhance, expand and diversify our business and product offerings, the application of existing or future financial accounting standards, particularly those relating to the way we account for revenue, could have a significant adverse effect on our reported results although not necessarily on our cash flows.

***Risks relating to our common stock***

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

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

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

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

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

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

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

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

***The convertible senior note hedge and warrant transactions entered into in connection with the offering of our 4.375% Convertible Notes may affect the value of those notes and our common stock.***

In connection with the offering of our 4.375% Convertible Notes, we entered into convertible senior note hedge transactions which are expected to reduce the potential dilution upon conversion of the notes. However, we also entered into warrant transactions which could separately have a dilutive effect on our earnings per share to the extent that the market price per share of our common stock exceeds the applicable strike price of the warrants. In addition, the counterparties to the hedge and warrant transactions, and/or their respective affiliates, may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock in secondary market transactions at any time prior to the maturity of the 4.375% Convertible Notes (and are likely to do so during any observation period related to a conversion of the 4.375% Convertible Notes). This activity could also cause or avoid an increase or a decrease in the market price of our common stock or the 4.375% Convertible Notes.

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

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

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

Section 382 of the Internal Revenue Code contains rules that limit the ability of a company to use its net operating loss carryforwards in years after an ownership change, which is generally defined as any change in ownership of more than 50% of its stock over a three-year testing period. These rules generally operate

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by focusing on ownership changes among stockholders owning directly or indirectly 5% or more of the stock of a company and/or any change in ownership arising from a new issuance of stock by the company. If, as a result of future transactions involving our common stock, including purchases or sales of stock by 5% stockholders, we undergo cumulative ownership changes which exceed 50% over the testing period, our ability to use our net operating loss carryforwards would be subject to additional limitations under Section 382.

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

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

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Our principal executive offices are located at 622 Broadway, New York, New York in approximately 64,000 square feet of space under a lease expiring in March 2023 for an annual rent of approximately \$2.7 million.

Take-Two Interactive Software Europe Ltd, our wholly-owned subsidiary, leases 12,500 square feet of office space in Windsor, United Kingdom for an annual rent of approximately \$0.6 million plus taxes and utilities, which expires in December 2021. Rockstar North, our wholly-owned subsidiary, leases 42,000 square feet of office space in Edinburgh, Scotland, for an annual rent of approximately \$2.9 million. That lease expires in 2014.

2K corporate offices and two development studios occupy approximately 64,000 square feet of leased office space in Novato, California. The lease provides for an annual rent of approximately \$1.9 million and expires in 2019.

In addition, our other subsidiaries lease office space in Sydney and Canberra, Australia; Toronto and Vancouver, Canada; Chengdu, Hangzhou and Shanghai, China; Brno and Prague, Czech Republic; Paris, France; Munich, Germany; Tokyo, Japan; Seoul, Korea; Breda, Netherlands; Auckland, New Zealand; Newton, Singapore; Madrid, Spain; London, Lincoln, and Leeds, United Kingdom and, in the United States, San Diego, and Northridge, California; Sparks, Maryland; Andover and Quincy, Massachusetts; Glen Cove, New York; Cincinnati, Ohio; Kirkland, Washington; for an aggregate annual rent of approximately \$7.9 million.

**Item 3. 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 4. Mine Safety Disclosures**

Not applicable.

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

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

|   | High     | Low      |
|---|----------|----------|
| <b>Fiscal Year Ended March 31, 2012</b> |          |          |
| First Quarter ended June 30, 2011       | \$ 17.58 | \$ 14.26 |
| Second Quarter ended September 30, 2011 | 15.77    | 10.63    |
| Third Quarter ended December 31, 2011   | 16.27    | 11.78    |
| Fourth Quarter ended March 31, 2012     | 16.99    | 13.78    |
| <b>Fiscal Year Ended March 31, 2011</b> |          |          |
| First Quarter ended June 30, 2010       | \$ 11.84 | \$ 8.98  |
| Second Quarter ended September 30, 2010 | 10.83    | 7.98     |
| Third Quarter ended December 31, 2010   | 13.62    | 9.77     |
| Fourth Quarter ended March 31, 2011     | 16.75    | 12.04    |

The number of record holders of our common stock was 78 as of May 21, 2012.

*Dividend Policy*

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

*Securities Authorized for Issuance under Equity Compensation Plans*

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

*Stock Performance Graph*

The following line graph compares, from October 31, 2006 through March 31, 2012, the cumulative total stockholder return on our common stock with the cumulative total return on the stocks comprising the NASDAQ Composite Index and the stocks comprising a peer group index consisting of Activision Blizzard, Electronic Arts and THQ. The comparison assumes \$100 was invested on October 31, 2006 in our common stock and in each of the following indices and assumes reinvestment of all cash dividends, if any, paid on such securities. We have not paid any cash dividends and, therefore, our cumulative total return calculation

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is based solely upon stock price appreciation and not upon reinvestment of cash dividends. Historical stock price is not necessarily indicative of future stock price performance.

**Comparison of 65 Month Cumulative Total Return\***  
**Among Take-Two Interactive Software, Inc., The NASDAQ Composite Index and a Peer Group**  
**March 2012**

\*  
 \$100 invested on October 31, 2006 in stock or index- including reinvestment of dividends.

|                                     | October 31,<br>2006 | October 31,<br>2007 | October 31,<br>2008 | October 31,<br>2009 | March 31,<br>2010 | March 31,<br>2011 | March 31,<br>2012 |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|-------------------|-------------------|-------------------|
| Take-Two Interactive Software, Inc. | \$ 100.00           | \$ 134.23           | \$ 84.78            | \$ 78.42            | \$ 70.56          | \$ 109.88         | \$ 110.02         |
| NASDAQ Composite-Total Returns      | 100.00              | 121.74              | 73.89               | 88.74               | 103.80            | 121.65            | 136.69            |
| Peer Group                          | 100.00              | 120.64              | 64.26               | 53.52               | 58.86             | 56.09             | 59.24             |

*Unregistered Sales of Equity Securities and Use of Proceeds*

In March 2012, we issued 128,439 shares of our common stock as additional consideration in connection with our December 2007 acquisition of substantially all of the assets of Illusion Softworks, a.s., the developer of the *Mafia* video game franchise, to one of the sellers of the business. The issuance of these shares was exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, as transactions by an issuer not involving a public offering.

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**Item 6. Selected Financial Data**

The following tables present selected financial data for the two fiscal years ended March 31, 2012, five months ended March 31, 2010 and the three fiscal years ended October 31, 2009 (in thousands, except per share data).

| STATEMENT OF OPERATIONS DATA:                                   | Fiscal Year Ended<br>March 31, |              | Five Months<br>Ended<br>March 31,<br>2010 | Fiscal Year Ended October 31, |              |              |
|---|--------------------------------|--------------|---|-------------------------------|--------------|--------------|
|   | 2012                           | 2011         |   | 2009                          | 2008         | 2007         |
| Net revenue   | \$ 825,823                     | \$ 1,136,876 | \$ 359,231                                | \$ 701,057                    | \$ 1,231,106 | \$ 695,828   |
| Cost of goods sold  | 528,855                        | 689,381      | 222,396                                   | 467,576                       | 709,719      | 475,737      |
| Gross profit  | 296,968                        | 447,495      | 136,835                                   | 233,481                       | 521,387      | 220,091      |
| Selling and marketing   | 183,749                        | 176,294      | 72,402                                    | 141,962                       | 154,396      | 115,203      |
| General and administrative                                      | 121,200                        | 109,484      | 43,466                                    | 130,376                       | 166,228      | 145,657      |
| Research and development  | 64,162                         | 69,576       | 25,279                                    | 63,748                        | 63,929       | 48,455       |
| Business reorganization and related                             |                                |              |   |                               | 4,478        | 17,467       |
| Depreciation and amortization                                   | 12,123                         | 14,999       | 6,622                                     | 17,574                        | 21,322       | 21,206       |
| Total operating expenses  | 381,234                        | 370,353      | 147,769                                   | 353,660                       | 410,353      | 347,988      |
| Income (loss) from operations                                   | (84,266)                       | 77,142       | (10,934)                                  | (120,179)                     | 111,034      | (127,897)    |
| Interest and other, net   | (19,571)                       | (13,519)     | (11,352)                                  | (5,771)                       | (3,279)      | (629)        |
| Income (loss) from continuing operations<br>before income taxes | (103,837)                      | 63,623       | (22,286)                                  | (125,950)                     | 107,755      | (128,526)    |
| Provision for income taxes                                      | 3,863                          | 9,819        | 4,266                                     | 4,487                         | 13,271       | 9,943        |
| Income (loss) from continuing operations                        | (107,700)                      | 53,804       | (26,552)                                  | (130,437)                     | 94,484       | (138,469)    |
| Income (loss) from discontinued operations,<br>net of taxes     | (1,116)                        | (5,346)      | (2,250)                                   | (10,017)                      | 2,613        | 63           |
| Net income (loss)   | \$ (108,816)                   | \$ 48,458    | \$ (28,802)                               | \$ (140,454)                  | \$ 97,097    | \$ (138,406) |
| Earnings (loss) per share:                                      |                                |              |   |                               |              |              |
| Continuing operations   | \$ (1.30)                      | \$ 0.62      | \$ (0.34)                                 | \$ (1.70)                     | \$ 1.23      | \$ (1.93)    |
| Discontinued operations   | (0.01)                         | (0.06)       | (0.03)                                    | (0.13)                        | 0.03         |              |
| Basic earnings (loss) per share                                 | \$ (1.31)                      | \$ 0.56      | \$ (0.37)                                 | \$ (1.83)                     | \$ 1.26      | \$ (1.93)    |
| Continuing operations   | \$ (1.30)                      | \$ 0.62      | \$ (0.34)                                 | \$ (1.70)                     | \$ 1.22      | \$ (1.93)    |
| Discontinued operations   | (0.01)                         | (0.06)       | (0.03)                                    | (0.13)                        | 0.03         |              |
| Diluted earnings (loss) per share                               | \$ (1.31)                      | \$ 0.56      | \$ (0.37)                                 | \$ (1.83)                     | \$ 1.25      | \$ (1.93)    |
| Weighted average shares outstanding:                            |                                |              |   |                               |              |              |
| Basic   | 83,356                         | 86,127       | 78,453                                    | 76,815                        | 77,254       | 71,860       |
| Diluted   | 83,356                         | 86,139       | 78,453                                    | 76,815                        | 77,666       | 71,860       |

| BALANCE SHEET<br>DATA: | As of March 31, |      |      | As of October 31, |      |      |
|------------------------|-----------------|------|------|-------------------|------|------|
|                        | 2012            | 2011 | 2010 | 2009              | 2008 | 2007 |

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|                           |    |                  |    |         |    |         |    |           |    |           |    |         |
|---------------------------|----|------------------|----|---------|----|---------|----|-----------|----|-----------|----|---------|
| Cash and cash equivalents | \$ | <b>420,279</b>   | \$ | 280,359 | \$ | 145,838 | \$ | 102,083   | \$ | 280,277   | \$ | 77,757  |
| Working capital           |    | <b>524,892</b>   |    | 335,715 |    | 216,733 |    | 274,274   |    | 358,355   |    | 186,362 |
| Total assets              |    | <b>1,149,427</b> |    | 971,659 |    | 839,276 |    | 1,007,128 |    | 1,083,352 |    | 831,143 |
| Long-term debt            |    | <b>316,340</b>   |    | 107,239 |    | 99,865  |    | 97,063    |    | 70,000    |    | 18,000  |
| Total liabilities         |    | <b>553,700</b>   |    | 356,380 |    | 318,653 |    | 461,502   |    | 468,234   |    | 359,989 |
| Stockholders' equity      |    | <b>595,727</b>   |    | 615,279 |    | 520,623 |    | 545,626   |    | 615,118   |    | 471,154 |

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Overview**

***Our Business***

We are a leading developer, marketer and publisher of interactive entertainment for consumers around the globe. The Company develops and publishes products through its two wholly-owned labels Rockstar Games and 2K, which publishes its titles under the 2K Games, 2K Sports and 2K Play brands. Our products are designed for console gaming systems such as Sony's PlayStation®3 ("PS3") and PlayStation®2 ("PS2"), Microsoft's Xbox 360® ("Xbox 360") and Nintendo's Wii ("Wii"); handheld gaming systems such as Nintendo's DS ("DS"), Nintendo's 3DS ("3DS") and Sony's PlayStation Portable ("PSP"); 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 add-on content. 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, racing, role-playing, 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.

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 continually release new, commercially successful software products and to effectively manage 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 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 approximately 120 million units. Rockstar continues to expand on our established franchises by releasing sequels, as well as offering downloadable episodes and content. In May 2011, Rockstar released the commercially successful and critically acclaimed *L.A. Noire*, which became the first video game ever chosen as an official selection of the Tribeca Film Festival. Rockstar has released several downloadable content packs to support that title. Rockstar is also well known for developing brands in other genres, including the *Bully* and *Manhunt* franchises.

2K Games has published a variety of popular entertainment properties across multiple genres and platforms and we expect 2K Games to continue to develop new and successful franchises in the future. 2K Games' internally owned and developed franchises include the critically acclaimed, multi-million unit selling *BioShock*, *Mafia*, and *Sid Meier's Civilization* series. 2K Games has also published titles that were

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externally developed, such as *Borderlands*, which has become a key franchise for 2K Games since its launch in October 2009 and has been supported by several successful downloadable content packs.

2K Sports publishes realistic sports simulation titles, including our flagship *NBA 2K* series, which has been the top-ranked NBA basketball video game for 11 years running, the *Major League Baseball 2K* series, and our *Top Spin* tennis series. We develop most of our 2K Sports software titles through our internal development studios. 2K Sports has secured long-term licensing agreements with the National Basketball Association ("NBA"). Our current licenses with Major League Baseball Properties, the Major League Baseball Players Association and Major League Baseball Advanced Media expire in fiscal 2013.

2K Play focuses on developing and publishing titles for the casual and family-friendly games market. 2K Play titles are developed by both internal development studios and third-party developers. Internally developed titles include *Carnival Games* and *Let's Cheer!*. 2K Play also has a partnership with Nickelodeon to publish video games based on its top rated Nick Jr. titles such as *Dora the Explorer*; *Go, Diego, Go!*; *Ni Hao, Kai-lan* and *The Backyardigans*. We expect family-oriented gaming to continue to be a component of our business in the future.

We also have expansion initiatives in the rapidly growing Asia markets, where our strategy is to broaden the distribution of our existing products, expand our business in Japan, and establish an online gaming presence, especially in China and Korea. 2K Sports 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.

**Discontinued operations**

In February 2010, we completed the sale to SYNEX Corporation ("Synnex") of our Jack of All Games third-party distribution business, which primarily distributed third-party interactive entertainment software, hardware and accessories in North America for approximately \$44.0 million, including \$37.3 million in cash, subject to purchase price adjustments, and up to an additional \$6.7 million, subject to the achievement of certain items, which were not met. In April 2011, we settled on the purchase price adjustments and as a result the purchase price was lowered by \$1.5 million. Consequently, the net purchase price after the settlement was \$35.8 million. The financial results of this business, which were previously reported as our distribution business, have been classified as discontinued operations in our Consolidated Statements of Operations for all periods presented. The assets and liabilities of this business are reflected as assets and liabilities of discontinued operations in the Consolidated Balance Sheets for all periods presented. See Note 2 to our Consolidated Financial Statements for additional information regarding discontinued operations.

**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 13.8% of the Company's net revenue for the fiscal year ended March 31, 2012. 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 43.9%, 43.8%, 59.8%, 55.7%, and 56.4% of net revenue during the fiscal years ended March 31, 2012, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009, respectively. As of March 31, 2012 and 2011, the five largest customers accounted for 61.3% and 54.2% of our gross accounts receivable, respectively. Customers that individually accounted for

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more than 10% of our gross accounts receivable balance comprised 40.6% and 38.2% of such balances at March 31, 2012 and 2011, respectively. 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 episodes that we now offer for certain of our titles may serve to reduce used game sales, we expect used game sales to continue to affect our business.

**Hardware Platforms.** The majority of our products are made for the hardware platforms developed by three companies—Sony, Microsoft and Nintendo. Note 16 to our Consolidated Financial Statements, "Segment and Geographic Information," discloses that Sony, Microsoft and Nintendo hardware platforms comprised approximately 89.4% of the Company's net revenue by product platform for the fiscal year ended March 31, 2012. The success of our business is dependent upon the consumer acceptance of these platforms and the continued growth in the installed base of these platforms. When new hardware platforms are introduced, demand for software based on older platforms declines, which may negatively affect our business. Additionally, our development costs are generally higher for titles based on new platforms, and we have limited ability to predict the consumer acceptance of the new platforms, which may affect our sales and profitability. As a result, we believe it is important to focus our development efforts on a select number of titles, which is consistent with our strategy.

**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 services. 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 also offer downloadable add-on content to our packaged goods titles. In addition, in July 2011, we launched our first social gaming experience, *Sid Meier's Civilization World*, for Facebook, and we have several initiatives underway to develop online games primarily for Asian markets. We expect online delivery of games and game services to become an increasing part of our business over the long-term.

**Product Releases**

We released the following key titles in fiscal year 2012:

| Title                             | Publishing Label | Internal or External Development | Platform(s)                          | Date Released    |
|-----------------------------------|------------------|----------------------------------|--------------------------------------|------------------|
| <i>L.A. Noire</i>                 | Rockstar Games   | External                         | PS3, Xbox 360                        | May 17, 2011     |
| <i>Duke Nukem Forever</i>         | 2K Games         | External                         | PS3, Xbox 360, PC                    | June 10, 2011    |
| <i>NBA® 2K12</i>                  | 2K Sports        | Internal                         | PS3, PS2, PSP, Xbox 360, Wii, PC     | October 4, 2011  |
| <i>The Darkness II</i>            | 2K Games         | External                         | PS3, Xbox 360, PC                    | February 7, 2012 |
| <i>Major League Baseball 2K12</i> | 2K Sports        | Internal                         | PS3, PS2, PSP, Xbox 360, Wii, DS, PC | March 6, 2012    |

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We have announced expected release dates for the following key titles (this list does not represent all titles currently in development):

| <b>Title</b>               | <b>Publishing Label</b> | <b>Internal or External Development</b> | <b>Platform(s)</b>          | <b>Actual / Expected Release Date</b> |
|----------------------------|-------------------------|---|-----------------------------|---------------------------------------|
| <i>Max Payne 3</i>         | Rockstar Games          | Internal                                | PS3, Xbox 360               | May 15, 2012<br>(released)            |
| <i>Max Payne 3</i>         | Rockstar Games          | Internal                                | PC                          | June 1, 2012                          |
| <i>Spec Ops: The Line</i>  | 2K Games                | External                                | PS3, Xbox 360, PC           | June 26, 2012                         |
| <i>Borderlands 2</i>       | 2K Games                | External                                | PS3, Xbox 360, PC           | September 18,<br>2012                 |
| <i>NBA® 2K13</i>           | 2K Sports               | Internal                                | PS3, PSP, Xbox 360, Wii, PC | October 2, 2012                       |
| <i>XCOM: Enemy Unknown</i> | 2K Games                | Internal                                | PS3, Xbox 360, PC           | October 9 2012                        |
| <i>BioShock® Infinite</i>  | 2K Games                | Internal                                | PS3, Xbox 360, PC           | February 26, 2013                     |
| <i>XCOM®</i>               | 2K Games                | Internal                                | PS3, Xbox 360, PC           | Fiscal year 2014                      |
| <i>Grand Theft Auto V</i>  | Rockstar Games          | Internal                                | To be announced             | To be announced                       |

**Fiscal 2012 Financial Summary**

Our fiscal year ended March 31, 2012 net revenue was led by titles from a variety of our top franchises, including *L.A. Noire*, *NBA 2K12*, *Grand Theft Auto* products, *Duke Nukem Forever* and *Red Dead Redemption*. Our net revenue decreased to \$825.8 million, a decrease of \$311.1 million or 27.4% from the fiscal year ended March 31, 2011.

For the fiscal year ended March 31, 2012, our net loss was \$108.8 million, as compared to net income of \$48.5 million in the prior year. Net loss per share for the fiscal year ended March 31, 2012 was \$1.31, as compared to earnings per share for the fiscal year ended March 31, 2011 of \$0.56. Our net loss for the fiscal year ended March 31, 2012 as compared to our net income for the fiscal year ended March 31, 2011 was primarily as a result of (1) a decrease of \$311.1 million in net revenue, (2) a decrease of 3 points in our gross profit as a percent of net revenue, (3) an increase of 14 points in our operating expenses as a percent of net revenue, (4) an increase of \$6.1 million in interest and other, net, expense and (5) a decrease of \$4.2 million in our loss from discontinued operations, for the fiscal year ended March 31, 2012.

At March 31, 2012 we had \$420.3 million of cash and cash equivalents, compared to \$280.4 million at March 31, 2011. Our increase in cash and cash equivalents from March 31, 2011 was primarily a result of cash provided by financing activities partially offset by cash used in operating activities, cash used in investing activities and the effect of exchange rates.

Cash provided by financing activities was generated from the net proceeds from the issuance of \$250.0 million of 1.75% Convertible Notes in November 2011. Cash used in operating activities was primarily due to our net loss of \$108.8 million. Cash used in investing activities was primarily due to purchases of fixed assets of \$10.8 million and we paid contingent consideration of \$4.1 million for our prior year acquisitions. Cash and cash equivalents were negatively affected by \$4.3 million as a result of foreign currency exchange rate movements.

**Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions about future events and apply judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of net revenues and expenses during the reporting periods. We base our estimates, assumptions and judgments on historical

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experience, current trends and other factors that management believes to be relevant at the time our Consolidated Financial Statements are prepared. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are fairly presented in accordance with U.S. GAAP. However, because future events and their effects cannot be determined with certainty, actual amounts could differ significantly from these estimates.

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

***Revenue Recognition***

We recognize revenue upon the transfer of title and risk of loss to our customers. Accordingly, we recognize revenue for software titles when there is (1) persuasive evidence that an arrangement with the customer exists, which is generally based on a customer purchase order, (2) the product is delivered, (3) the selling price is fixed or determinable and (4) collection of the customer receivable is deemed probable. Certain products are sold to customers with a street date (*i.e.*, the earliest date these products may be sold by retailers). For these products we recognize revenue on the later of the street date or the sale date.

Our payment arrangements with customers typically provide net 30 and 60 day terms. Advances received for licensing and exclusivity arrangements are reported on our Consolidated Balance Sheets as deferred revenue until we meet our performance obligations, at which point we recognize the revenue.

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

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

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

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

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until such time as we can reliably estimate any related returns and allowances and determine that collection of the receivable is probable.

**Allowances for Returns, Price Concessions and Other Allowances**

We accept returns and grant price concessions in connection with our publishing arrangements. Following reductions in the price of our products, we grant price concessions to permit customers to take credits against amounts they owe us with respect to merchandise unsold by them. Our customers must satisfy certain conditions to entitle them to return products or receive price concessions, including compliance with applicable payment terms and confirmation of field inventory levels.

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

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

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

**Software Development Costs and Licenses**

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

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

We enter into agreements with third-party developers that require us to make payments for game development and production services. In exchange for these payments, we receive the exclusive publishing and distribution rights to the finished game title as well as, in some cases, the underlying intellectual property rights. Such agreements allow us to fully recover these payments to the developers at an agreed upon royalty rate earned on the subsequent retail sales of such software, net of any agreed upon costs. Prior to establishing technological feasibility of a product we record any costs incurred by third-party developers as research and development expenses. Subsequent to establishing technological feasibility of a product we capitalize all development and production service payments to third-party developers as software development costs and licenses. We typically enter into agreements with third-party developers after completing the technical design documentation for our products and therefore record the design costs leading up to a signed development contract as research and development expense. When we contract with third-party developers, we generally select third-party developers that have proven technology and experience in the genre of the software being developed, which often allows for the

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establishment of technological feasibility early in the development cycle. In instances where the documentation of the design and technology are not in place prior to an executed contract, we monitor the software development process and require our third-party developers to adhere to the same technological feasibility standards that apply to our internally developed products.

Licenses consist of payments and guarantees made to holders of intellectual property rights for use of their trademarks, copyrights or other intellectual property rights in the development of our products. Agreements with license holders generally provide for guaranteed minimum royalty payments for use of their intellectual property. Guaranteed minimum payments are initially recorded as an asset (licenses) and as a liability (accrued licenses) upon execution of a licensing agreement, provided that no significant performance remains to be completed by the licensor. When significant performance remains to be completed by the licensor, we record payments when actually paid.

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

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

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

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

***Fair Value Estimates***

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

There are various valuation techniques used to estimate fair value. These include (1) the market approach where market transactions for identical or comparable assets or liabilities are used to determine the fair value, (2) the income approach, which uses valuation techniques to convert future amounts (for example, future cash flows or future earnings) to a single present amount, and (3) the cost approach, which is based on the amount that would be required to replace an asset. For many of our fair value estimates, including

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our estimates of the fair value of acquired intangible assets, we use the income approach. Using the income approach requires the use of financial models, which require us to make various estimates including, but not limited to (1) the potential future cash flows for the asset, liability or equity instrument being measured, (2) the timing of receipt or payment of those future cash flows, (3) the time value of money associated with the delayed receipt or payment of such cash flows, and (4) the inherent risk associated with the cash flows (risk premium). Making these cash flow estimates are inherently difficult and subjective, and, if any of the estimates used to determine the fair value using the income approach turns out to be inaccurate, our financial results may be negatively affected. Furthermore, relatively small changes in many of these estimates can have a significant influence on the estimated fair value resulting from the financial models or the related accounting conclusion reached. For example, a relatively small change in the estimated fair value of an asset may change a conclusion as to whether an asset is impaired. While we are required to make certain fair value assessments associated with the accounting for several types of transactions, the following areas are the most sensitive to the assessments:

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

*Business Combinations Goodwill and Intangible Assets.* We must estimate the fair value of assets acquired and liabilities assumed in a business combination. Our assessment of the estimated fair value of each of these can have a material effect on our reported results as intangible assets are amortized over various lives. Furthermore, a change in the estimated fair value of an asset or liability often has a direct influence on the amount to recognize as goodwill, which is an asset that is not amortized. Often determining the fair value of these assets and liabilities assumed requires an assessment of expected use of the asset, the expected cost to extinguish the liability or our expectations related to the timing and the successful completion of development of an acquired in-process technology. Such estimates are inherently difficult and subjective and can have a material influence on our financial statements.

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

We evaluate our goodwill annually for impairment or whenever events or changes in circumstances indicate the fair value of a reporting unit is below its carrying amount. The determination of whether or not goodwill has become impaired involves a significant level of judgment in the assumptions underlying the approach used to determine the value of our reporting units. Changes in our strategy and/or market conditions could significantly affect these judgments and require reductions to recorded intangible asset balances.

*Long-lived assets.* We review long-lived assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether impairment has occurred typically requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. We use internal

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discounted cash flow estimates, quoted market prices when available and independent appraisals, as appropriate, to determine fair value. We derive the required cash flow estimates from our historical experience and our internal business plans and apply an appropriate discount rate.

***Stock-based Compensation***

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

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

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

***Income Taxes***

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

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

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

We recognize and measure uncertain tax positions and record tax benefits when it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical

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merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

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

**Recently Issued Accounting Pronouncements**

***Multiple-Deliverable Revenue Arrangements***

On April 1, 2011, the Company adopted new guidance related to the accounting for multiple-deliverable revenue arrangements. These new rules amend the existing guidance for separating consideration in multiple-deliverable arrangements and establish a selling price hierarchy for determining the selling price of a deliverable. The adoption of this new guidance did not have any effect on our consolidated financial position, cash flows or results of operations.

***Certain Revenue Arrangements That Include Software Elements***

On April 1, 2011, the Company adopted new guidance that changes the accounting model for revenue arrangements by excluding tangible products containing both software and non-software components that function together to deliver the product's essential functionality. The adoption of this new guidance did not have any effect on our consolidated financial position, cash flows or results of operations.

***Testing Goodwill for Impairment***

On September 30, 2011, the Company adopted new guidance related to testing goodwill for impairment effective for the Company's annual impairment test as of August 1, 2011. This new guidance permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying value as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing entities to go directly to the quantitative assessment. This new guidance is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011. However, early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. The early adoption of this new guidance did not have any effect on our consolidated financial position, cash flows or results of operations.

***Comprehensive Income***

In June 2011, new guidance was issued related to the presentation of comprehensive income. The main provisions of the new guidance provide that an entity that reports items of other comprehensive income has the option to present comprehensive income as (i) a single statement that presents the components of net income and total net income, the components of other comprehensive income and total other comprehensive income and a total for comprehensive income or (ii) in two separate but consecutive statements, whereby an entity must present the components of net income and total net income in the first statement and that statement is immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income and a total for

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comprehensive income. The new rules eliminate the option to present the components of other comprehensive income as part of the statement of stockholders' equity. These new rules are to be applied retrospectively and become effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2011 (April 1, 2012 for the Company), with early adoption permitted. We do not expect the adoption of this new guidance to have a material effect on our consolidated financial position, cash flows or results of operations.

**Fluctuations in Operating Results and Seasonality**

We have experienced fluctuations in quarterly and annual operating results as a result of: the timing of the introduction of new titles; variations in sales of titles developed for particular platforms; market acceptance of our titles; development and promotional expenses relating to the introduction of new titles, sequels or enhancements of existing titles; projected and actual changes in platforms; the timing and success of title introductions by our competitors; product returns; changes in pricing policies by us and our competitors; the size and timing of acquisitions; the timing of orders from major customers; order cancellations; and delays in product shipment. Sales of our products are also seasonal, with peak shipments typically occurring in the fourth calendar quarter as a result of increased demand for titles during the holiday season. Quarterly and annual comparisons of operating results are not necessarily indicative of future operating results.

**Results of Operations**

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

|  | Fiscal Year Ended March 31, |        |         |
|--|-----------------------------|--------|---------|
|  | 2012                        | 2011   | 2010    |
| Net revenue  | 100.0%                      | 100.0% | 100.0%  |
| Cost of goods sold   | 64.0%                       | 60.6%  | 64.8%   |
| Gross profit   | 36.0%                       | 39.4%  | 35.2%   |
| Selling and marketing  | 22.3%                       | 15.5%  | 20.3%   |
| General and administrative                                   | 14.7%                       | 9.6%   | 15.2%   |
| Research and development                                     | 7.8%                        | 6.1%   | 7.6%    |
| Depreciation and amortization                                | 1.4%                        | 1.3%   | 2.1%    |
| Total operating expenses                                     | 46.2%                       | 32.5%  | 45.2%   |
| Income (loss) from operations                                | (10.2)%                     | 6.9%   | (10.0)% |
| Interest and other, net                                      | (2.4)%                      | (1.2)% | (2.5)%  |
| Income (loss) from continuing operations before income taxes | (12.6)%                     | 5.7%   | (12.5)% |
| Provision for income taxes                                   | 0.4%                        | 1.0%   | 1.7%    |
| Income (loss) from continuing operations                     | (13.0)%                     | 4.7%   | (14.2)% |
| Loss from discontinued operations, net of taxes              | (0.2)%                      | (0.5)% | (1.9)%  |
| Net income (loss)  | (13.2)%                     | 4.2%   | (16.1)% |
| <b>Net revenue by geographic region:</b>                     |                             |        |         |
| United States  | 54.4%                       | 54.5%  | 59.6%   |
| International  | 45.6%                       | 45.5%  | 40.4%   |
| <b>Net revenue by platform:</b>                              |                             |        |         |
| Console  | 85.1%                       | 85.7%  | 80.4%   |
| PC and other   | 10.6%                       | 9.7%   | 9.3%    |
| Handheld   | 4.3%                        | 4.6%   | 10.3%   |

Table of Contents**Fiscal Years Ended March 31, 2012 and 2011**

| (thousands of dollars)                                  | 2012              | %            | 2011              | %            | Increase/<br>(decrease) | % Increase/<br>(decrease) |
|---|-------------------|--------------|-------------------|--------------|-------------------------|---------------------------|
| Net revenue   | \$ 825,823        | 100.0%       | \$ 1,136,876      | 100.0%       | \$ (311,053)            | (27.4)%                   |
| Product costs   | 255,236           | 30.9%        | 326,936           | 28.7%        | (71,700)                | (21.9)%                   |
| Software development costs and royalties <sup>(1)</sup> | 164,487           | 19.9%        | 172,397           | 15.2%        | (7,910)                 | (4.6)%                    |
| Internal royalties                                      | 34,156            | 4.1%         | 115,032           | 10.1%        | (80,876)                | (70.3)%                   |
| Licenses  | 74,976            | 9.1%         | 75,016            | 6.6%         | (40)                    | (0.1)%                    |
| Cost of goods sold                                      | 528,855           | 64.0%        | 689,381           | 60.6%        | (160,526)               | (23.3)%                   |
| <b>Gross profit</b>                                     | <b>\$ 296,968</b> | <b>36.0%</b> | <b>\$ 447,495</b> | <b>39.4%</b> | <b>\$ (150,527)</b>     | <b>(33.6)%</b>            |

(1)

Includes \$5,144 and \$10,695 of stock-based compensation expense in 2012 and 2011, respectively.

Net revenue decreased \$311.1 million for the fiscal year ended March 31, 2012 as compared to the prior year. This decrease is primarily due to \$486.9 million in lower sales of the previous fiscal year's releases mainly *Red Dead Redemption*, which released in May 2010, *Mafia II*, which released in August 2010, *Sid Meier's Civilization® V*, which released in September 2010, and *Top Spin 4*, which released in March 2011, as well as approximately \$46.8 million in lower sales of our *Grand Theft Auto* franchise. These decreases were partially offset by \$283.9 million in increases from the current fiscal year's releases mainly *L.A. Noire* in May 2011, *Duke Nukem Forever* in June 2011 and *The Darkness II* in February 2012.

Net revenue on consoles accounted for 85.1% of our total net revenue for the fiscal year ended March 31, 2012, which was in line with 85.7% for the prior year. PC and other sales increased to 10.6% of our total net revenue for the fiscal year ended March 31, 2012, as compared to 9.7% for the prior year, primarily due to the December 2011 release of *Grand Theft Auto III: 10 Year Anniversary Edition* for the iPad, iPhone and iPod touch, and select Android powered devices. Handheld sales accounted for 4.3% of our total net revenue for the fiscal year ended March 31, 2012, which is in line with 4.6% for the prior year.

Gross profit as a percentage of net revenue decreased for the fiscal year ended March 31, 2012, as compared to the prior year. Product costs increased as a percentage of net revenue as a result of a greater share of net revenue being generated from a product mix with lower selling price points. Software development costs and royalties increased as a percentage of net revenue for the fiscal year ended March 31, 2012 as we incurred higher royalty costs primarily associated with the May 2011 release of *L.A. Noire*, the June 2011 release of *Duke Nukem Forever* and the February 2012 release of *The Darkness II*, all of which were externally developed. Partially offsetting the decrease in gross profit as a percentage of net revenue is lower internal royalty expense, which was primarily due to higher income generated in the prior year from the release of *Red Dead Redemption* in May 2010.

Net revenue earned outside of the United States accounted for 45.6% of our total net revenue for the fiscal year ended March 31, 2012, which was in line with 45.5% for the prior year. Foreign currency exchange rates increased net revenue and gross profit by approximately \$20.3 million and \$3.2 million, respectively, for the fiscal year ended March 31, 2012 as compared to the prior year.

Table of ContentsOperating Expenses

| (thousands of dollars)                            | 2012              | % of net<br>revenue | 2011              | % of net<br>revenue | Increase/<br>(decrease) | % Increase/<br>(decrease) |
|---|-------------------|---------------------|-------------------|---------------------|-------------------------|---------------------------|
| Selling and marketing                             | \$ 183,749        | 22.3%               | \$ 176,294        | 15.5%               | \$ 7,455                | 4.2%                      |
| General and administrative                        | 121,200           | 14.7%               | 109,484           | 9.6%                | 11,716                  | 10.7%                     |
| Research and development                          | 64,162            | 7.8%                | 69,576            | 6.1%                | (5,414)                 | (7.8)%                    |
| Depreciation and<br>amortization                  | 12,123            | 1.4%                | 14,999            | 1.3%                | (2,876)                 | (19.2)%                   |
| <b>Total operating<br/>expenses<sup>(1)</sup></b> | <b>\$ 381,234</b> | <b>46.2%</b>        | <b>\$ 370,353</b> | <b>32.5%</b>        | <b>\$ 10,881</b>        | <b>2.9%</b>               |

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

|                            | 2012     | 2011    |
|----------------------------|----------|---------|
| Selling and marketing      | \$ 5,042 | \$4,659 |
| General and administrative | \$19,963 | \$9,781 |
| Research and development   | \$ 3,345 | \$3,630 |

Foreign currency exchange rates increased total operating expenses by approximately \$7.7 million in the fiscal year ended March 31, 2012 as compared to the prior year.

Selling and marketing

Selling and marketing expenses increased \$7.5 million for the fiscal year ended March 31, 2012, as compared to the prior year, primarily due to higher advertising expenses related to *L.A. Noire*, *Duke Nukem Forever* and *The Darkness II* partially offset by lower advertising expenses incurred for the May 2010 release of *Red Dead Redemption* and the August 2010 release of *Mafia II*.

General and administrative

General and administrative expenses increased \$11.7 million for the fiscal year ended March 31, 2012, as compared to the prior year primarily due to a \$12.9 million increase in stock-based compensation expense for stock-based awards granted to ZelnickMedia, reflecting the grants of restricted stock pursuant to the New Management Agreement (as defined in Note 3 to our Consolidated Financial Statements), \$2.5 million of income resulting from a favorable legal settlement in the prior year and \$2.4 million in additional rent expense primarily due to a net liability incurred for a lease assumption without economic benefit during the fiscal year ended March 31, 2012. Partially offsetting the increase in general and administrative expenses is a decrease of \$4.4 million for personnel costs and a decrease of \$3.0 million for consulting expense, primarily due to lower performance-based incentive compensation as a result of the Company's performance.

General and administrative expenses for the fiscal years ended March 31, 2012 and 2011 include occupancy expense (primarily rent, utilities and office expenses) of \$15.7 million and \$14.3 million, respectively, related to our development studios.

Research and development

Research and development expenses decreased \$5.4 million for the fiscal year ended March 31, 2012, as compared to the prior year primarily due to a decrease of \$6.7 million attributable to a decrease in production expenses and higher payroll capitalization rates at our development studios primarily due to a greater number of titles having reached technological feasibility partially offset by a \$1.0 million increase in additional personnel-related costs.

Depreciation and amortization

Depreciation and amortization expenses decreased \$2.9 million for the fiscal year ended March 31, 2012, as compared to the prior year primarily due to lower purchases of fixed assets during recent years.



Table of Contents***Interest and other, net***

| (thousands of dollars)                   | 2012               | % of net<br>revenue | 2011               | % of net<br>revenue | Increase/<br>(decrease) | % Increase/<br>(decrease) |
|--|--------------------|---------------------|--------------------|---------------------|-------------------------|---------------------------|
| Interest income (expense), net           | \$ (20,616)        | (2.5)%              | \$ (15,248)        | (1.3)%              | \$ (5,368)              | 35.2%                     |
| Gain (loss) on sale                      | 2,200              | 0.3%                | (106)              | 0.0%                | 2,306                   | (2175.5)%                 |
| Foreign currency exchange gain<br>(loss) | (1,311)            | (0.2)%              | 1,414              | 0.1%                | (2,725)                 | (192.7)%                  |
| Other                                    | 156                | 0.0%                | 421                | 0.0%                | (265)                   | (62.9)%                   |
| <b>Interest and other, net</b>           | <b>\$ (19,571)</b> | <b>(2.4)%</b>       | <b>\$ (13,519)</b> | <b>(1.2)%</b>       | <b>\$ (6,052)</b>       | <b>44.8%</b>              |

Interest and other, net was an expense of \$19.6 million for the fiscal year ended March 31, 2012, as compared to an expense of \$13.5 million for the fiscal year ended March 31, 2011, primarily due to \$5.4 million in interest expense associated with the November 2011 issuance of the 1.75% Convertible Notes and we recorded a greater foreign currency exchange loss for the fiscal year ended March 31, 2012 partially offset by a \$2.2 million gain on the sale of certain intellectual property assets.

***Provision for income taxes***

Income tax expense was \$3.9 million for the fiscal year ended March 31, 2012, as compared to \$9.8 million for the fiscal year ended March 31, 2011. The decrease in tax expense was primarily due to lower taxable earnings in certain foreign jurisdictions and adjustments for certain foreign tax filings. Our effective tax rate differed from the federal statutory rate primarily due to changes in valuation allowances and changes in gross unrecognized tax benefits during both the fiscal years ended March 31, 2012 and 2011. Our valuation allowances increased by \$19.5 million during the fiscal year ended March 31, 2012 primarily due to a loss before income taxes without tax benefit in the fiscal year ended March 31, 2012, while our valuation allowance decreased by \$26.6 million during the same period in 2011 primarily due to the use of carried forward net operating losses applied to income earned during that period.

As of March 31, 2012, we had gross unrecognized tax benefits, including interest and penalties, of \$22.4 million, all of which would affect our effective tax rate if realized. For the fiscal year ended March 31, 2012, gross unrecognized tax benefits increased by \$7.3 million, which primarily related to an increase in uncertain tax positions in foreign jurisdictions. We are generally no longer subject to audit for U.S. federal income tax returns for periods prior to our fiscal year ended October 31, 2008 and state income tax returns for periods prior to fiscal year ended October 31, 2004. With few exceptions, we are no longer subject to income tax examinations in non-U.S. jurisdictions for years prior to fiscal year ended October 31, 2005. U.S. federal taxing authorities have commenced their audit of fiscal years ending October 31, 2008 and 2009. Certain U.S. state taxing authorities are currently examining our income tax returns from fiscal years ended October 31, 2004 through October 31, 2006. In addition, tax authorities in certain non-U.S. jurisdictions are currently examining our income tax returns. The determination as to further adjustments to our gross unrecognized tax benefits during the next 12 months is not practicable.

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

***Discontinued operations***

Loss from discontinued operations, net of income tax, reflects the results of our former distribution business for which the net assets were sold in February 2010. For the fiscal year ended March 31, 2012, the net loss was \$1.1 million as compared to a net loss of \$5.3 million for the prior year. The net loss during the fiscal year ended March 31, 2011 was primarily due to costs associated with a liability for a lease assumption without economic benefit less estimates of sublease income. The net loss during the fiscal year

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ended March 31, 2012 was primarily due to changes in estimates of sublease income primarily as a result of deteriorating market conditions.

### *Net income (loss) and earnings (loss) per share*

For the fiscal year ended March 31, 2012, our net loss was \$108.8 million, as compared to net income of \$48.5 million in the prior year. Net loss per share for the fiscal year ended March 31, 2012 was \$1.31, as compared to earnings per share of \$0.56 for the fiscal year ended March 31, 2011. Weighted average shares outstanding decreased compared to the prior year, primarily due to the exclusion of unvested share-based awards that are considered participating restricted stock due to the net loss generated during the fiscal year ended March 31, 2012, offset, in part, by the vesting of restricted stock awards over the last twelve months. See Note 1 to our consolidated financial statements for additional information regarding earnings (loss) per share.

### **Fiscal Years Ended March 31, 2011 and 2010**

| (thousands of dollars)                                  | 2011              | %            | 2010              | %            | Increase/<br>(decrease) | %<br>Increase/<br>(decrease) |
|---|-------------------|--------------|-------------------|--------------|-------------------------|------------------------------|
| Net revenue   | \$ 1,136,876      | 100.0%       | \$ 762,941        | 100.0%       | \$ 373,935              | 49.0%                        |
| Product costs   | 326,936           | 28.7%        | 253,369           | 33.2%        | 73,567                  | 29.0%                        |
| Software development costs and royalties <sup>(1)</sup> | 172,397           | 15.2%        | 140,397           | 18.4%        | 32,000                  | 22.8%                        |
| Internal royalties                                      | 115,032           | 10.1%        | 35,195            | 4.6%         | 79,837                  | 226.8%                       |
| Licenses  | 75,016            | 6.6%         | 65,618            | 8.6%         | 9,398                   | 14.3%                        |
| Cost of goods sold                                      | 689,381           | 60.6%        | 494,579           | 64.8%        | 194,802                 | 39.4%                        |
| <b>Gross profit</b>                                     | <b>\$ 447,495</b> | <b>39.4%</b> | <b>\$ 268,362</b> | <b>35.2%</b> | <b>\$ 179,133</b>       | <b>66.8%</b>                 |

(1)

Includes \$10,695 and \$5,213 of stock-based compensation expense in 2011 and 2010, respectively.

Net revenue increased \$373.9 million for the fiscal year ended March 31, 2011 as compared to the prior year, primarily due to the releases of *Red Dead Redemption* in May 2010 and *Mafia II* in August 2010 and a period-over-period increase in sales of our *NBA 2K* franchise. Partially offsetting the increase in net revenue were decreases in *BioShock 2* and *Borderlands*, which were released in February 2010 and October 2009, respectively, and a decrease in sales of our *Grand Theft Auto* franchise of approximately \$63.5 million. The decrease in our *Grand Theft Auto* franchise was primarily due to decreases in sales from *Grand Theft Auto IV* and *Grand Theft Auto: Chinatown Wars*, as well as from downloadable episodes *Grand Theft Auto IV: The Lost and Damned* and *Grand Theft Auto: The Ballad of Gay Tony*, which released in prior periods, partially offset by the current year release of *Grand Theft Auto IV: Complete*.

Net revenue on consoles accounted for approximately 85.7% of our total net revenue for the fiscal year ended March 31, 2011, as compared to 80.4% for the prior year. The increase is primarily due to releases of *Red Dead Redemption* in May 2010 and *Mafia II* in August 2010 and a period-over-period increase in our *NBA* franchise. PC and other sales increased to approximately 9.7% of our total net revenue for the fiscal year ended March 31, 2011, as compared to 9.3% for the prior year, primarily due to the September 2010 release of *Sid Meier's Civilization® V*. Handheld sales decreased to 4.6% of our total net revenue for the fiscal year ended March 31, 2011, as compared to 10.3% for the prior year primarily due to a decrease in sales of *Grand Theft Auto: Chinatown Wars*, which released on the PSP in October 2009 and the Nintendo DS in March 2009, as well as the effect of the increased net revenue on current generation consoles for the fiscal year ended March 31, 2011 mentioned above.

Gross profit as a percentage of net revenue increased in 2011 compared to the prior year primarily due to improved pricing mix resulting from the release of *Red Dead Redemption* in May 2010 and higher development royalties in the prior year primarily due to the October 2009 release of the externally

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developed *Borderlands*, partially offset by higher internal royalty expense, which was primarily due to increased income generated from *Red Dead Redemption*.

Net revenue earned outside of the United States accounted for 45.5% for the fiscal year ended March 31, 2011, as compared to 40.4% in the prior year. The increase was primarily due to the global release of *Red Dead Redemption* in May 2010 while 2K Sports titles, which are mostly sold in North America, made up a larger proportion of our net revenue during the fiscal year ended March 31, 2010. Foreign currency exchange rates decreased net revenue and gross profit by approximately \$9.1 million and \$1.1 million, respectively, for the fiscal year ended March 31, 2011 as compared to the prior year.

### *Operating Expenses*

| (thousands of dollars)                            | 2011              | % of net<br>revenue | 2010              | % of net<br>revenue | Increase/<br>(decrease) | %<br>Increase/<br>(decrease) |
|---|-------------------|---------------------|-------------------|---------------------|-------------------------|------------------------------|
| Selling and marketing                             | \$ 176,294        | 15.5%               | \$ 154,519        | 20.3%               | \$ 21,775               | 14.1%                        |
| General and administrative                        | 109,484           | 9.6%                | 115,673           | 15.2%               | (6,189)                 | (5.4)%                       |
| Research and development                          | 69,576            | 6.1%                | 57,888            | 7.6%                | 11,688                  | 20.2%                        |
| Depreciation and<br>amortization                  | 14,999            | 1.3%                | 16,403            | 2.1%                | (1,404)                 | (8.6)%                       |
| <b>Total operating<br/>expenses<sup>(1)</sup></b> | <b>\$ 370,353</b> | <b>32.5%</b>        | <b>\$ 344,483</b> | <b>45.2%</b>        | <b>\$ 25,870</b>        | <b>7.5%</b>                  |

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

|                            | 2011    | 2010     |
|----------------------------|---------|----------|
| Selling and marketing      | \$4,659 | \$ 3,321 |
| General and administrative | \$9,781 | \$14,319 |
| Research and development   | \$3,630 | \$ 3,650 |

Foreign currency exchange rates decreased total operating expenses by approximately \$2.0 million in the fiscal year ended March 31, 2011 as compared to the prior year.

### Selling and marketing

Selling and marketing expenses increased \$21.8 million for the fiscal year ended March 31, 2011, as compared to the prior year primarily due to higher advertising expenses related to *Red Dead Redemption* and *Mafia II* partially offset by lower advertising expenses incurred for the February 2010 release of *BioShock 2*, the October 2009 release of *Borderlands* and the *Grand Theft Auto* franchise.

### General and administrative

General and administrative expenses decreased \$6.2 million for the fiscal year ended March 31, 2011, as compared to the prior year primarily due to reduced salary expense as a result of cost cutting initiatives, \$2.5 million of income as a result of a favorable legal settlement and \$2.4 million of reduced stock-based compensation expense related to the stock options issued to ZelnickMedia as they became fully vested in August 2010. The decrease was partially offset by higher performance-based incentive compensation as a result of the Company's improved performance.

General and administrative expenses for the fiscal years ended March 31, 2011 and 2010 include occupancy expense (primarily rent, utilities and office expenses) of \$14.3 million and \$14.8 million, respectively, related to our development studios.

### Research and development

Research and development expenses increased \$11.7 million for the fiscal year ended March 31, 2011, as compared to the prior year primarily due to lower payroll capitalization rates at our development studios due to the transition of efforts being refocused to new projects following the May 2010 release of *Red Dead Redemption* and an increase in production expenses.



Table of ContentsDepreciation and amortization

Depreciation and amortization expenses decreased \$1.4 million for the fiscal year ended March 31, 2011, as compared to the prior year primarily due to lower purchases of fixed assets during the current period.

*Interest and other, net*

| (thousands of dollars)                   | 2011               | % of net<br>revenue | 2010               | % of net<br>revenue | Increase/<br>(decrease) | % Increase/<br>(decrease) |
|--|--------------------|---------------------|--------------------|---------------------|-------------------------|---------------------------|
| Interest expense, net                    | \$ (15,248)        | (1.3)%              | \$ (13,584)        | (1.8)%              | \$ (1,664)              | 12.2%                     |
| Loss on sale of subsidiary               | (106)              | 0.0%                | (3,831)            | (0.5)%              | 3,725                   | (97.2)%                   |
| Foreign currency exchange gain<br>(loss) | 1,414              | 0.1%                | (609)              | (0.1)%              | 2,023                   | (332.2)%                  |
| Other                                    | 421                | 0.0%                | (770)              | (0.1)%              | 1,191                   | (154.7)%                  |
| <b>Interest and other, net</b>           | <b>\$ (13,519)</b> | <b>(1.2)%</b>       | <b>\$ (18,794)</b> | <b>(2.5)%</b>       | <b>\$ 5,275</b>         | <b>(28.1)%</b>            |

Interest and other, net was an expense of \$13.5 million for the fiscal year ended March 31, 2011, as compared to an expense of \$18.8 million for the fiscal year ended March 31, 2010, primarily due to a loss on the sale of our Italian subsidiary during the fiscal year ended March 31, 2010 and we recorded a greater foreign currency exchange gain for the fiscal year ended March 31, 2011, partially offset by higher interest expense. The increase in interest expense, net is primarily due to higher average debt and interest rates for the fiscal year ended March 31, 2011.

*Provision for income taxes*

Income tax expense was \$9.8 million for the fiscal year ended March 31, 2011, compared to \$13.1 million for the fiscal year ended March 31, 2010. The tax in 2011 is due to increased income in the foreign jurisdictions, while the 2010 tax expense related to an increase to our valuation allowance as a result of deferred tax liabilities related to goodwill and a tax expense resulting from the cancellation of stock options. Our effective tax rate differed from the federal statutory rate primarily due to changes in valuation allowances and changes in gross unrecognized tax benefits during both the 2011 and 2010 periods. Our valuation allowances decreased by \$26.6 million during the 2011 period primarily due to the use of net operating losses, while our valuation allowance increased by \$25.1 million during the same period in 2010 primarily due to taxable losses incurred during the period.

As of March 31, 2011, we had gross unrecognized tax benefits, including interest and penalties, of \$15.1 million, all of which would affect our effective tax rate if realized. For the fiscal year ended March 31, 2011, gross unrecognized tax benefits increased by \$4.2 million, primarily related to domestic tax issues. We are generally no longer subject to audit for U.S. federal income tax returns for periods prior to our fiscal year ended October 31, 2007 and state income tax returns for periods prior to fiscal year ended October 31, 2004. With few exceptions, we are no longer subject to income tax examinations in non-U.S. jurisdictions for years prior to fiscal year ended October 31, 2005. U.S. federal taxing authorities have completed examinations of our income tax returns through the fiscal years ended October 31, 2006 and have recently informed us of their intent to audit subsequent years through fiscal year ending October 31, 2009. Certain U.S. state taxing authorities are currently examining our income tax returns from fiscal years ended October 31, 2004 through October 31, 2006. In addition, tax authorities in certain non-U.S. jurisdictions are currently examining our income tax returns. The determination as to further adjustments to our gross unrecognized tax benefits during the next 12 months is not practicable.

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

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***Discontinued operations***

Loss from discontinued operations, net of income tax, reflects the results of our former distribution business for which the net assets were sold in February 2010. For the fiscal year ended March 31, 2011, the loss was \$5.3 million as compared to a loss of \$14.9 million for the prior year. The loss during the fiscal year ended March 31, 2011 is primarily due to costs associated with a net liability for a lease assumption without economic benefit. The loss generated during the fiscal year ended March 31, 2010 is primarily due to the impairment of goodwill and intangible assets, net of income tax, and also reflected our active involvement in the distribution business at that time.

***Net income (loss) and earnings (loss) per share***

For the fiscal year ended March 31, 2011, our net income was \$48.5 million, as compared to a net loss of \$123.0 million in the prior year. Earnings per share for the fiscal year ended March 31, 2011 was \$0.56, as compared to a net loss per share of \$1.58 for the fiscal year ended March 31, 2010. Total weighted average shares outstanding for the fiscal year ended March 31, 2011 increased compared to the prior year period primarily due to the inclusion of the dilutive effect of participating restricted stock for the fiscal year ended March 31, 2011 and the vesting of restricted stock over the last twelve months.

**Liquidity and Capital Resources**

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

***Credit Agreement***

In October 2011, we entered into a Second Amended and Restated Credit Agreement (the "Credit Agreement") which amended and restated our July 2007 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 October 17, 2016. Revolving loans under the Credit Agreement bear interest at our election of (a) 1.50% to 2.00% above a certain base rate (4.75% at March 31, 2012), or (b) 2.50% to 3.00% above the LIBOR Rate (approximately 2.74% at March 31, 2012), 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 0.375% to 0.50% based on availability.

Prior to its amendment and restatement in October 2011, the July 2007 Credit Agreement provided for borrowings of up to \$140.0 million and was secured by substantially all of our assets and the equity of our subsidiaries. We had no outstanding borrowings at March 31, 2011 related to the July 2007 Credit Agreement.

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

As of March 31, 2012, there was \$79.1 million available to borrow under the Credit Agreement. At March 31, 2012, we had no outstanding borrowings related to 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 (each subject to

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certain limitations); or optionally prepay any indebtedness (subject to certain exceptions, including an exception permitting the redemption of the Company's Convertible 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 March 31, 2012, 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 \$138.0 million aggregate principal amount of 4.375% Convertible Notes due 2014 (the "4.375% Convertible Notes"). Interest on the 4.375% Convertible Notes is payable semi-annually in arrears on June 1<sup>st</sup> and December 1<sup>st</sup> of each year, and commenced on December 1, 2009. The 4.375% Convertible Notes mature on June 1, 2014, unless earlier redeemed or repurchased by the Company or converted.

The 4.375% Convertible Notes are convertible at an initial conversion rate of 93.6768 shares of our common stock per \$1,000 principal amount of 4.375% Convertible Notes (representing an initial conversion price of approximately \$10.675 per share of common stock for a total of approximately 12,927,000 underlying conversion shares) subject to adjustment in certain circumstances. Holders may convert the 4.375% Convertible Notes at their option prior to the close of business on the business day immediately preceding December 1, 2013 only under the following circumstances: (1) during any fiscal quarter commencing after July 31, 2009, if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day; (2) during the five business day period after any 10 consecutive trading day period (the "measurement period") in which the trading price per \$1,000 principal amount of 4.375% Convertible Notes for each day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate on each such day; (3) if we call the 4.375% Convertible Notes for redemption, at any time prior to the close of business on the third scheduled trading day prior to the redemption date; or (4) upon the occurrence of specified corporate events. On and after December 1, 2013 until the close of business on the third scheduled trading day immediately preceding the maturity date, holders may convert their 4.375% Convertible Notes at any time, regardless of the foregoing circumstances. Upon conversion, the 4.375% Convertible Notes may be settled, at our election, in cash, shares of our common stock, or a combination of cash and shares of our common stock. Our common stock price exceeded 130% of the applicable conversion price of \$10.675 per share for at least 20 trading days during the 30 consecutive trading days ended March 31, 2012. Accordingly, as of April 1, 2012, the 4.375% Convertible Notes may be converted at the holder's option through June 30, 2012. If the 4.375% 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 4.375% Convertible Notes as long-term debt.

At any time on or after June 5, 2012, the Company may redeem all of the outstanding 4.375% Convertible Notes for cash, but only if the last reported sale of our common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the trading day prior to the date we provide notice of redemption to holders of the 4.375% Convertible Notes exceeds 150% of the conversion price in effect on each such trading day. The redemption price will equal 100% of the principal amount of the 4.375% Convertible Notes to be redeemed, plus all accrued and unpaid interest (including additional interest, if any) to, but excluding, the redemption date.

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The indenture governing the 4.375% Convertible Notes contains customary terms and covenants and events of default. As of March 31, 2012, we were in compliance with all covenants and requirements outlined in the indenture governing the 4.375% Convertible Notes.

***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" and together with the 4.375% Convertible Notes, the "Convertible Notes"). Interest on the 1.75% Convertible Notes is payable semi-annually in arrears on June 1<sup>st</sup> and December 1<sup>st</sup> 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.

The indenture governing the 1.75% Convertible Notes contains customary terms and covenants and events of default. As of March 31, 2012, we were in compliance with all covenants and requirements outlined in the indenture governing the 1.75% 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 43.9%, 43.8%, and 59.8% of net revenue during the fiscal years ended March 31, 2012, 2011 and 2010, respectively. As of March 31, 2012 and 2011, our five largest customers accounted for 61.3% and 54.2% of our gross accounts receivable, respectively. Customers that individually accounted for more than 10% of our gross accounts receivable balance comprised 40.6% and 38.2% of such balances at March 31, 2012 and 2011, respectively. We believe that the receivable balances from these largest customers do not represent a significant credit risk based on past collection experience, although we actively monitor each customer's credit worthiness and economic conditions that may affect our customers'

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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 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 March 31, 2012, the amount of cash and cash equivalents held outside of the U.S. by our foreign subsidiaries was approximately \$124.5 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 effect to the extent possible. However, any repatriation may not result in actual cash payments as the taxable event would likely be offset by the utilization of the then available net operating losses and tax credits.

Our changes in cash flows were as follows:

| (thousands of dollars)  | Fiscal Year Ended March 31, |            |              |
|---|-----------------------------|------------|--------------|
|   | 2012                        | 2011       | 2010         |
| Cash (used in) provided by operating activities                         | \$ (84,964)                 | \$ 134,798 | \$ (135,702) |
| Cash (used in) provided by investing activities                         | (14,162)                    | (7,578)    | 23,025       |
| Cash provided by financing activities                                   | 243,364                     | 734        | 45,784       |
| Effects of foreign currency exchange rates on cash and cash equivalents | (4,318)                     | 6,567      | 8,593        |
| Net increase (decrease) in cash and cash equivalents                    | \$ 139,920                  | \$ 134,521 | \$ (58,300)  |

At March 31, 2012 we had \$420.3 million of cash and cash equivalents, compared to \$280.4 million at March 31, 2011. Our increase in cash and cash equivalents from March 31, 2011 was primarily a result of cash provided by financing activities partially offset by cash used in operating activities, cash used in investing activities and the effect of foreign currency exchange rates.

Cash provided by financing activities was generated from the net proceeds from the issuance of \$250.0 million of 1.75% Convertible Notes in November 2011. Cash used in operating activities was primarily due to our net loss of \$108.8 million. Cash used in investing activities was primarily due to purchases of fixed assets of \$10.8 million and the payment of contingent consideration of \$4.1 million for our prior year acquisitions. Cash and cash equivalents were negatively affected by \$4.3 million as a result of foreign currency exchange rate movements.

***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. Generally, these include:

Agreements to acquire licenses to intellectual property such as trademarks, copyrights and technology for use in the publishing, marketing and distribution of our software titles. In addition, we have certain minimum marketing support commitments where we commit to spend specified amounts related to marketing our products. Our licensing and marketing commitments primarily

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reflect agreements with major sports leagues and players' associations and expire at various times through September 2018;

Contractual payments to third-party software developers that expire at various times through July 2014. Guaranteed minimum payments assume satisfactory performance;

Operating leases, primarily related to occupancy, furniture and equipment, expiring at various times through March 2023. Included in the cash commitments for operating leases below is a liability for a lease assumption without economic benefit, which was approximately \$3.7 million at March 31, 2012, and is recorded in liabilities of discontinued operations on the consolidated balance sheet. See Note 2 to our Consolidated Financial Statements for additional information regarding discontinued operations; and

Purchase obligations primarily related to agreements to purchase services that are enforceable and legally binding on the Company that specifies all significant terms, including fixed, minimum or variable pricing provisions; and the approximate timing of the transactions, expiring at various times through October 2015.

A summary of annual minimum contractual obligations and commitments as of March 31, 2012 is as follows (in thousands of dollars):

| Fiscal Year Ending<br>March 31, | Licensing<br>and<br>Marketing | Software<br>Development | Operating<br>Leases | Purchase<br>Obligations | Convertible<br>Notes<br>Interest | Convertible<br>Notes | Total             |
|---------------------------------|-------------------------------|-------------------------|---------------------|-------------------------|----------------------------------|----------------------|-------------------|
| 2013                            | \$ 61,591                     | \$ 37,759               | \$ 16,506           | \$ 4,057                | \$ 10,595                        | \$                   | \$ 130,508        |
| 2014                            | 16,520                        | 10,728                  | 14,991              | 4,305                   | 10,413                           |                      | 56,957            |
| 2015                            | 10,825                        | 809                     | 11,073              | 2,341                   | 7,394                            | 138,000              | 170,442           |
| 2016                            | 13,893                        |                         | 9,804               | 899                     | 4,375                            |                      | 28,971            |
| 2017                            | 12,400                        |                         | 4,958               |                         | 4,375                            | 250,000              | 271,733           |
| Thereafter                      | 20,250                        |                         | 29,828              |                         |                                  |                      | 50,078            |
| <b>Total</b>                    | <b>\$ 135,479</b>             | <b>\$ 49,296</b>        | <b>\$ 87,160</b>    | <b>\$ 11,602</b>        | <b>\$ 37,152</b>                 | <b>\$ 388,000</b>    | <b>\$ 708,689</b> |

In addition to the cash commitments above, we have also entered into acquisition agreements that contain provisions for us to pay contingent cash consideration, typically contingent on the acquired company achieving certain financial, unit sales, or performance conditions. The amount and timing of these payments are currently not fixed or determinable. See Note 5 to the Consolidated Financial Statements for a full discussion of our potential acquisition commitments.

*Income Taxes.* At March 31, 2012, the Company had recorded a liability for gross unrecognized tax benefits of \$15.6 million for which we are unable to make a reasonable and reliable estimate of the period in which these liabilities will be settled with the respective tax authorities, therefore, these liabilities have not been included in the contractual obligations table.

### ***Off-Balance Sheet Arrangements***

As of March 31, 2012 and 2011, we did not have any 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 do not have any off-balance sheet arrangements and are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

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**International Operations**

Net revenue earned outside of the United States is principally generated by our operations in Europe, Asia, Australia, Canada and Latin America. For the fiscal years ended March 31, 2012, 2011 and 2010, approximately 45.6%, 45.5% and 40.4%, respectively, of our net revenue was earned outside the United States. We are subject to risks inherent in foreign trade, including increased credit risks, tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays and international political, regulatory and economic developments, all of which can have a significant 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 peak 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.

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**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Market risk is the potential loss arising from fluctuations in market rates and prices. Our market risk exposures primarily include fluctuations in interest rates and foreign currency exchange rates.

*Interest Rate Risk*

Historically, fluctuations in interest rates have not had a significant effect on our operating results. Under our Credit Agreement, outstanding balances bear interest at our election of (a) 1.50% to 2.00% above a certain base rate (4.75% at March 31, 2012), or (b) 2.50% to 3.00% above the LIBOR rate (approximately 2.74% at March 31, 2012), with the margin rate subject to the achievement of certain average liquidity levels. Changes in market rates may affect our future interest expense if there is an outstanding balance on our line of credit. The 1.75% Convertible Notes and the 4.375% Convertible Notes pay interest semi-annually at a fixed rate of 1.75% and 4.375%, respectively, per annum and we expect that there will be no fluctuation related to the Convertible Notes affecting our cash component of interest expense. For additional details on our Convertible Notes see Note 12 to our 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 fiscal year ended March 31, 2012, our foreign currency translation loss adjustment was approximately \$3.8 million. We recognized a foreign currency exchange transaction loss for the fiscal years ended March 31, 2012 and 2010 of \$1.3 million and \$0.6 million, respectively, and a foreign currency exchange transaction gain in interest and other, net in our Consolidated Statements of Operations for the fiscal year ended March 31, 2011 of \$1.4 million.

*Cash Flow Hedging Activities*

During the fiscal year ended March 31, 2012, we entered into foreign currency forward contracts to mitigate foreign currency risk associated with forecasted non-functional currency denominated expenses. These transactions, 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 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 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 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 Consolidated Statements of Operations. During the fiscal year ended March 31, 2012, 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. As of March 31, 2012, we had \$10.2 million 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, 2012, the fair value of these outstanding forward contracts was immaterial and is included in prepaid expenses and other.

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*Balance Sheet Hedging Activities*

We use foreign currency forward contracts to mitigate foreign currency 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 Consolidated Balance Sheets, and gains and losses resulting from changes in the fair value are reported in interest and other, net, in our Consolidated Statements of Operations. We do not enter into derivative financial contracts for speculative or trading purposes. At March 31, 2012, we had \$4.0 million of forward contracts outstanding to buy foreign currencies in exchange for U.S. dollars and \$28.3 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, 2011, we had \$2.4 million of forward contracts outstanding to buy foreign currencies in exchange for U.S. dollars and \$35.5 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 fiscal year ended March 31, 2012, we recorded a gain of \$0.7 million and for the fiscal years ended March 31, 2011 and 2010, we recorded losses of \$6.9 million and \$1.0 million, respectively, related to foreign currency forward contracts in interest and other, net on the Consolidated Statements of Operations. As of March 31, 2012 and 2011, the fair value of these outstanding forward contracts was immaterial and is included in accrued expenses and other current liabilities.

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 fiscal year ended March 31, 2012, 45.6% 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 4.6%, while a hypothetical 10% decrease in the value of the U.S. dollar against all currencies would increase revenues by 4.6%. 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 8. Financial Statements and Supplementary Data**

The financial statements and supplementary data appear in a separate section of this report following Part IV. We provide details of our valuation and qualifying accounts in "Note 18 Supplementary Financial Information" to the Consolidated Financial Statements. All schedules have been omitted since the information required to be submitted has been included on the Consolidated Financial Statements or notes thereto or has been omitted as not applicable or not required.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

*Definition and Limitations of Disclosure Controls and Procedures*

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to management, including our principal executive

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officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. These limitations include the possibility of human error, the circumvention or overriding of the controls and procedures and reasonable resource constraints. In addition, because we have designed our system of controls based on certain assumptions, which we believe are reasonable, about the likelihood of future events, our system of controls may not achieve its desired purpose under all possible future conditions. Accordingly, our disclosure controls and procedures provide reasonable assurance, but not absolute assurance, of achieving their objectives.

*Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures at March 31, 2012, the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer concluded that, at March 31, 2012, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized, and reported on a timely basis, and (ii) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

*Management's Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of March 31, 2012.

Our independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on our internal control over financial reporting. The report on the audit of internal control over financial reporting is included in this Form 10-K.

*Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2012, 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.

**Item 9B. Other Information**

None.

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**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item is incorporated herein by reference to the sections entitled "Proposal 1 Election of Directors" and "Executive Compensation Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement (the "Proxy Statement") for the Annual Meeting of Stockholders to be held in 2012. The Company intends to file the Proxy Statement within 120 days after the end of the fiscal year (i.e. on or before July 30, 2012). The Company's Code of Business Conduct and Ethics applicable to its directors and all employees, including senior financial officers, is available on the Company's website at [www.take2games.com](http://www.take2games.com). If the Company makes any amendment to its Code of Business Conduct and Ethics that is required to be disclosed pursuant to the Exchange Act, the Company will make such disclosures on its website.

**Item 11. Executive Compensation**

The information required by this Item is incorporated herein by reference to the section entitled "Executive Compensation and Related Information" in the Company's Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item is incorporated herein by reference to the sections entitled "Voting Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in the Company's Proxy Statement.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item is incorporated herein by reference to the section entitled "Certain Relationships and Related Transactions" in the Company's Proxy Statement.

**Item 14. Principal Accounting Fees and Services**

The information required by this Item is incorporated herein by reference to the section entitled "Principal Accounting Fees and Services" in the Company's Proxy Statement.

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(a)

The following documents are filed as part of this Report:

- (i) Financial Statements. See Index to Financial Statements on page 58 of this Report.
- (ii) Financial Statement Schedule. See Note 18 to the Consolidated Financial Statements.
- (iii) Index to Exhibits:

| Exhibit Number | Exhibit Description  | Incorporated by Reference |             |                        |
|----------------|--|---------------------------|-------------|------------------------|
|                |  | Form                      | Filing Date | Exhibit Filed Herewith |
| 3.1            | Restated Certificate of Incorporation  | 10-K                      | 2/12/2004   | 3.1                    |
| 3.1.1          | Certificate of Amendment of Restated Certificate of Incorporation, dated April 30, 1998  | 10-K                      | 2/12/2004   | 3.1.2                  |
| 3.1.2          | Certificate of Amendment of Restated Certificate of Incorporation, dated November 17, 2003   | 10-K                      | 2/12/2004   | 3.1.3                  |
| 3.1.3          | Certificate of Amendment of the Restated Certificate of Incorporation, dated April 23, 2009.   | 8-K                       | 4/23/2009   | 3.1                    |
| 3.2            | Certificate of Designation of Series A Preferred Stock, dated March 11, 1998   | 10-K                      | 2/12/2004   | 3.1.1                  |
| 3.3            | Certificate of Designation of Series B Preferred Stock, dated March 24, 2008   | 8-K                       | 3/26/2008   | 3.2                    |
| 3.4            | Amended and Restated Bylaws of the Company   | 8-K                       | 2/24/2010   | 3.1                    |
| 4.1            | Indenture, dated as of June 3, 2009, between the Company and The Bank of New York Mellon, as Trustee   | 8-K                       | 6/4/2009    | 4.1                    |
| 4.2            | Supplemental Indenture, dated as of June 3, 2009, between the Company and The Bank of New York Mellon, as Trustee, to Indenture, dated as of June 3, 2009, between the Company and The Bank of New York Mellon, as Trustee, relating to 4.375% Convertible Notes | 8-K                       | 6/4/2009    | 4.2                    |
| 4.3            | Form of 4.375% Convertible Note (included in Exhibit 4.2)  | 8-K                       | 6/4/2009    | 4.2                    |
| 4.4            | Indenture, dated as of November 16, 2011, by and between the Company and The Bank of New York Mellon, as Trustee, relating to 1.75% Convertible Notes  | 8-K                       | 11/18/2011  | 4.1                    |
| 4.5            | Form of 1.75% Convertible Note (included in Exhibit 4.4)   | 8-K                       | 11/18/2011  | 4.1                    |
| 10.1           | 2002 Stock Option Plan*  | 10-Q                      | 9/8/2005    | 10.2                   |

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|      |  |      |            |       |
|------|--|------|------------|-------|
| 10.2 | Amendment to the 2002 Stock Option Plan <sup>+</sup>                                       | 8-K  | 4/23/2009  | 10.2  |
| 10.3 | Incentive Stock Plan <sup>+</sup>  | 10-Q | 9/8/2005   | 10.1  |
| 10.4 | Amendment to the Incentive Stock Plan <sup>+</sup>   | 8-K  | 4/23/2009  | 10.3  |
| 10.5 | Form of Stock Option Grant Letter <sup>+</sup>   | 10-K | 1/31/2006  | 10.15 |
| 10.6 | Form of Restricted Stock Award Letter Director <sup>s</sup>                                | 10-K | 12/20/2007 | 10.23 |
| 10.7 | Form of Restricted Stock Award Letter Employee <sup>s</sup>                                | 10-K | 12/20/2007 | 10.24 |
| 10.8 | Take-Two Interactive Software, Inc. Change in Control Employee Severance Plan <sup>+</sup> | 8-K  | 3/7/2008   | 10.1  |
| 10.9 | 2009 Stock Incentive Plan <sup>+</sup>   | 8-K  | 4/23/2009  | 10.1  |

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| Exhibit Number | Exhibit Description   | Incorporated by Reference |             |         | Filed Herewith |
|----------------|---|---------------------------|-------------|---------|----------------|
|                |   | Form                      | Filing Date | Exhibit |                |
| 10.10          | Amendment No. 2 to the 2009 Stock Incentive Plan <sup>+</sup>   | 8-K                       | 9/27/2011   | 10.1    |                |
| 10.11          | Form of Employee Restricted Stock Agreement <sup>+</sup>  | 10-Q                      | 6/5/2009    | 10.2    |                |
| 10.12          | Form of Non-Employee Director Restricted Stock Agreement <sup>+</sup>   | 10-Q                      | 6/5/2009    | 10.3    |                |
| 10.13          | Employment Agreement dated February 28, 2007 between the Company and Seth Krauss <sup>+</sup>   | 8-K                       | 3/6/2007    | 10.1    |                |
| 10.14          | Amendment to Employment Agreement, dated March 25, 2008, by and between the Company and Seth Krauss <sup>+</sup>  | 8-K                       | 3/26/2008   | 10.2    |                |
| 10.15          | Employment Agreement between the Company and Lainie Goldstein dated July 16, 2007 <sup>+</sup>  | 8-K                       | 7/17/2007   | 10.1    |                |
| 10.16          | Amendment to Employment Agreement, dated March 25, 2008, by and between the Company and Lainie Goldstein <sup>+</sup>   | 8-K                       | 3/26/2008   | 10.1    |                |
| 10.17          | Second Amendment to Employment Agreement, dated December 16, 2009, by and between the Company and Lainie Goldstein <sup>+</sup>   | 10-K                      | 12/18/2009  | 10.41   |                |
| 10.18          | Employment Agreement, dated February 14, 2008, by and between the Company and Benjamin Feder <sup>+</sup>   | 8-K                       | 2/15/2008   | 10.2    |                |
| 10.19          | Employment Agreement, dated February 14, 2008, by and between the Company and Karl Slatoff <sup>+</sup>   | 8-K                       | 2/15/2008   | 10.3    |                |
| 10.20          | Employment Agreement, dated March 16, 2009, between the Company and Manuel Sousa <sup>+</sup>   | 10-Q                      | 6/5/2009    | 10.4    |                |
| 10.21          | Management Agreement between the Company and ZelnickMedia Corporation dated March 30, 2007 <sup>+</sup>   | 8-K                       | 4/4/2007    | 99.1    |                |
| 10.22          | Amendment dated July 26, 2007 to the Management Agreement dated March 30, 2007 between the Company and ZelnickMedia Corporation <sup>+</sup>  | 8-K                       | 7/27/2007   | 99.1    |                |
| 10.23          | Second Amendment, dated February 14, 2008, to the Management Agreement dated March 30, 2007 between the Company and ZelnickMedia Corporation <sup>+</sup>   | 8-K                       | 2/15/2008   | 10.1    |                |
| 10.24          | Management Agreement, dated as of May 20, 2011, by and between Take-Two Interactive Software, Inc. and ZelnickMedia Corporation <sup>+</sup>  | 8-K                       | 5/24/2011   | 10.1    |                |
| 10.25          | Security Agreement dated as of July 3, 2007, made by each of the Grantors listed on the signature pages thereof and Wells Fargo Foothill, Inc. in its capacity as administrative agent for the Lender Group and the Bank Product Providers                    | 8-K                       | 7/9/2007    | 10.2    |                |
| 10.26          | Supplement to Security Agreement dated as of November 16, 2007, made by each of the grantors listed on the signature pages thereof and Wells Fargo Foothill, Inc. in its capacity as administrative agent for the Lender Group and the Bank Product Providers | 8-K                       | 11/20/2007  | 99.2    |                |

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|       |  |     |          |      |
|-------|--|-----|----------|------|
| 10.27 | Warrant Transaction Confirmation, dated May 28, 2009, between the Company and JPMorgan Chase Bank, National Association, as dealer | 8-K | 6/3/2009 | 10.5 |
|-------|--|-----|----------|------|

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## Edgar Filing: TAKE TWO INTERACTIVE SOFTWARE INC - Form 10-K

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| Exhibit Number | Exhibit Description   | Incorporated by Reference |             |                        |
|----------------|---|---------------------------|-------------|------------------------|
|                |   | Form                      | Filing Date | Exhibit Filed Herewith |
| 10.28          | Warrant Transaction Confirmation, dated May 28, 2009, between the Company and Barclays Bank PLC, as dealer  | 8-K                       | 6/3/2009    | 10.6                   |
| 10.29          | Convertible Note Hedge Transaction Confirmation, dated May 29, 2009, between the Company and JPMorgan Chase Bank, National Association, as dealer   | 8-K                       | 6/3/2009    | 10.1                   |
| 10.30          | Convertible Note Hedge Transaction Confirmation, dated May 29, 2009, between the Company and Barclays Bank PLC, as dealer   | 8-K                       | 6/3/2009    | 10.2                   |
| 10.31          | Warrant Transaction Confirmation, dated May 28, 2009, between the Company and JPMorgan Chase Bank, National Association, as dealer  | 8-K                       | 6/3/2009    | 10.7                   |
| 10.32          | Warrant Transaction Confirmation, dated May 28, 2009, between the Company and Barclays Bank PLC, as dealer  | 8-K                       | 6/3/2009    | 10.8                   |
| 10.33          | Convertible Note Hedge Transaction Confirmation, dated May 29, 2009, between the Company and JPMorgan Chase Bank, National Association, as dealer   | 8-K                       | 6/3/2009    | 10.3                   |
| 10.34          | Convertible Note Hedge Transaction Confirmation, dated May 29, 2009, between the Company and Barclays Bank PLC, as dealer   | 8-K                       | 6/3/2009    | 10.4                   |
| 10.35          | Second Amended and Restated Credit Agreement, dated as of October 17, 2011, by and among the Company, each of its Subsidiaries identified on the signature pages thereto as Borrowers, each of its Subsidiaries identified on the signature pages thereto as Guarantors, the lender parties thereto, and Wells Fargo Capital Finance, Inc., as administrative agent | 8-K                       | 10/17/2011  | 10.1                   |
| 10.36          | Xbox 360 Publisher License Agreement dated November 17, 2006, between Microsoft Licensing, GP and the Company*  | 10-Q                      | 11/8/2011   | 10.3                   |
| 10.37          | Amendment to Xbox 360 Publisher License Agreement, dated December 4, 2008, between Microsoft Licensing, GP and the Company*   | 10-Q                      | 6/5/2009    | 10.1                   |
| 10.38          | Amendment to the Xbox 360 Publisher License Agreement, dated November 22, 2011, between the Company and Microsoft Licensing, GP*  | 10-Q                      | 2/3/2012    | 10.1                   |
| 10.39          | Confidential License Agreement for the Wii Console dated August 20, 2007, between Nintendo of America Inc. and the Company*   | 10-Q                      | 9/10/2007   | 10.1                   |
| 10.40          | First Amendment, effective August 21, 2009, to the Confidential License Agreement, effective February 21, 2007, by and among Nintendo of America Inc. and Take-Two Interactive Software, Inc. and certain of its affiliates party thereto   | 10-Q                      | 3/10/2010   | 10.3                   |
| 10.41          | Global Playstation 3 Format Licensed Publisher Agreement, dated May 18, 2010, between Take-Two International S.A. and Sony Computer Entertainment Europe Limited*   | 10-Q                      | 11/8/2011   | 10.2                   |

## Edgar Filing: TAKE TWO INTERACTIVE SOFTWARE INC - Form 10-K

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| Exhibit Number | Exhibit Description   | Incorporated by Reference |             |         | Filed Herewith |
|----------------|---|---------------------------|-------------|---------|----------------|
|                |   | Form                      | Filing Date | Exhibit |                |
| 10.42          | Global Playstation 3 Format Licensed Publisher Agreement, dated May 20, 2010, between the Company and Sony Computer Entertainment America LLC*  | 10-Q                      | 11/8/2011   | 10.1    |                |
| 10.43          | Asset Purchase Agreement, dated December 21, 2009, by and among SYNEX Corporation, Jack of All Games, Inc., Jack of All Games (Canada), Inc., and solely for purposes of Section 9.2 therein, the Company | 8-K                       | 12/21/2009  | 10.1    |                |
| 10.44          | Lease Agreement between the Company and Moklam Enterprises, Inc. dated July 1, 2002   | 10-Q                      | 9/16/2002   | 10.2    |                |
| 10.45          | Amendment to Lease Agreement, dated January 18, 2012, between the Company and Moklam Enterprises, Inc.  |                           |             |         | X              |
| 21.1           | Subsidiaries of the Company   |                           |             |         | X              |
| 23.1           | Consent of Ernst & Young LLP  |                           |             |         | X              |
| 31.1           | Chief Executive Officer Certification Pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002       |                           |             |         | X              |
| 31.2           | Chief Financial Officer Certification Pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002       |                           |             |         | X              |
| 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  |                           |             |         | X              |
| 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  |                           |             |         | X              |
| 101.INS        | XBRL Instance Document.   |                           |             |         | X              |
| 101.SCH        | XBRL Taxonomy Extension Schema Document.  |                           |             |         | X              |
| 101.CAL        | XBRL Taxonomy Calculation Linkbase Document.  |                           |             |         | X              |
| 101.LAB        | XBRL Taxonomy Label Linkbase Document.  |                           |             |         | X              |
| 101.PRE        | XBRL Taxonomy Presentation Linkbase Document.   |                           |             |         | X              |
| 101.DEF        | XBRL Taxonomy Extension Definition Document.  |                           |             |         | X              |

+ Represents a management contract or compensatory plan or arrangement.

\* Portions hereof have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment that was granted in accordance with Exchange Act Rule 24b-2.

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Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at March 31, 2012 and 2011, (ii) Consolidated Statements of Operations for the fiscal years ended March 31, 2012, 2011 and 2010 (unaudited), five months ended March 31, 2010 and fiscal year ended October 31, 2009, (iii) Consolidated Statements of Cash Flows for the fiscal years ended March 31, 2012, 2011 and 2010 (unaudited), five months ended March 31, 2010 and fiscal year ended October 31, 2009, (iv) Consolidated Statements of Stockholders' Equity for the fiscal year ended October 31, 2009, the five months ended March 31, 2010 and the fiscal years ended March 31, 2011 and 2012; and (v) Notes to the Consolidated Financial Statements.

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**TAKE-TWO INTERACTIVE SOFTWARE, INC.  
FISCAL YEAR ENDED MARCH 31, 2012**

**INDEX TO FINANCIAL STATEMENTS**

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| <u>Reports of Independent Registered Public Accounting Firm</u>  | 59          |
| <u>Consolidated Balance Sheets At March 31, 2012 and 2011</u>  | 61          |
| <u>Consolidated Statements of Operations For the fiscal years ended March 31, 2012, 2011 and 2010 (unaudited), five months ended March 31, 2010 and fiscal year ended October 31, 2009</u> | 62          |
| <u>Consolidated Statements of Cash Flows For the fiscal years ended March 31, 2012, 2011 and 2010 (unaudited), five months ended March 31, 2010 and fiscal year ended October 31, 2009</u> | 63          |
| <u>Consolidated Statements of Stockholders' Equity For the fiscal year ended October 31, 2009, the five months ended March 31, 2010 and the fiscal years ended March 31, 2011 and 2012</u> | 64          |
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| (All other items in this report are inapplicable)  |             |

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

*The Board of Directors and Stockholders of Take-Two Interactive Software, Inc.*

We have audited the accompanying consolidated balance sheets of Take-Two Interactive Software, Inc. as of March 31, 2012 and 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years ended March 31, 2012 and 2011, the five months ended March 31, 2010 and for the year ended October 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Take-Two Interactive Software, Inc. at March 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the years ended March 31, 2012 and 2011, the five months ended March 31, 2010 and for the year ended October 31, 2009 in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Take-Two Interactive Software, Inc.'s internal control over financial reporting as of March 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 22, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York

May 22, 2012

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

*The Board of Directors and Stockholders of Take-Two Interactive Software, Inc.*

We have audited Take-Two Interactive Software, Inc.'s internal control over financial reporting as of March 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Take-Two Interactive Software, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Take-Two Interactive Software, Inc. maintained, in all material respects, effective internal control over financial reporting as of March 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Take-Two Interactive Software, Inc. as of March 31, 2012 and 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years ended March 31, 2012 and 2011, the five months ended March 31, 2010, and for the year ended October 31, 2009 of Take-Two Interactive Software, Inc. and our report dated May 22, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York

May 22, 2012

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

|  | March 31,<br>2012   | March 31,<br>2011 |
|--|---------------------|-------------------|
| <b>ASSETS</b>  |                     |                   |
| Current assets:  |                     |                   |
| Cash and cash equivalents  | \$ 420,279          | \$ 280,359        |
| Accounts receivable, net of allowances of \$51,002 and \$42,900 at March 31, 2012 and 2011, respectively   | 45,035              | 84,217            |
| Inventory  | 22,477              | 24,578            |
| Software development costs and licenses  | 211,224             | 131,676           |
| Prepaid taxes and taxes receivable   | 2,669               | 8,280             |
| Prepaid expenses and other   | 41,933              | 37,493            |
| <b>Total current assets</b>  | <b>743,617</b>      | <b>566,603</b>    |
| Fixed assets, net  |                     |                   |
| Software development costs and licenses, net of current portion  | 18,949              | 19,632            |
| Goodwill   | 104,755             | 138,320           |
| Other intangibles, net   | 228,169             | 225,170           |
| Other assets   | 16,266              | 17,833            |
|  | 37,671              | 4,101             |
| <b>Total assets</b>  | <b>\$ 1,149,427</b> | <b>\$ 971,659</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                     |                   |
| Current liabilities:   |                     |                   |
| Accounts payable   | \$ 46,681           | \$ 56,153         |
| Accrued expenses and other current liabilities   | 156,768             | 158,459           |
| Deferred revenue   | 13,864              | 13,434            |
| Liabilities of discontinued operations   | 1,412               | 2,842             |
| <b>Total current liabilities</b>   | <b>218,725</b>      | <b>230,888</b>    |
| Long-term debt   |                     |                   |
| Income taxes payable   | 316,340             | 107,239           |
| Other long-term liabilities  | 15,621              | 12,037            |
| Liabilities of discontinued operations, net of current portion   | 695                 | 2,961             |
|  | 2,319               | 3,255             |
| <b>Total liabilities</b>   | <b>553,700</b>      | <b>356,380</b>    |
| Commitments and contingencies  |                     |                   |
| Stockholders' equity:  |                     |                   |
| Preferred stock, \$.01 par value, 5,000 shares authorized  |                     |                   |
| Common stock, \$.01 par value, 150,000 shares authorized; 90,215 and 86,119 shares issued and outstanding at March 31, 2012 and 2011, respectively | 902                 | 861               |
| Additional paid-in capital   | 799,431             | 706,482           |
| Accumulated deficit  | (211,339)           | (102,523)         |
| Accumulated other comprehensive income   | 6,733               | 10,459            |
| <b>Total stockholders' equity</b>  | <b>595,727</b>      | <b>615,279</b>    |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 1,149,427</b> | <b>\$ 971,659</b> |

*See accompanying Notes.*

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**TAKE-TWO INTERACTIVE SOFTWARE, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share amounts)

|   | Fiscal Year Ended March 31, |              |                     | Five Months<br>Ended March 31, | Fiscal Year<br>Ended October 31, |
|---|-----------------------------|--------------|---------------------|--------------------------------|----------------------------------|
|   | 2012                        | 2011         | 2010<br>(Unaudited) | 2010                           | 2009                             |
| Net revenue   | \$ 825,823                  | \$ 1,136,876 | \$ 762,941          | \$ 359,231                     | \$ 701,057                       |
| Cost of goods sold  | 528,855                     | 689,381      | 494,579             | 222,396                        | 467,576                          |
| Gross profit  | 296,968                     | 447,495      | 268,362             | 136,835                        | 233,481                          |
| Selling and marketing   | 183,749                     | 176,294      | 154,519             | 72,402                         | 141,962                          |
| General and administrative                                      | 121,200                     | 109,484      | 115,673             | 43,466                         | 130,376                          |
| Research and development  | 64,162                      | 69,576       | 57,888              | 25,279                         | 63,748                           |
| Depreciation and amortization                                   | 12,123                      | 14,999       | 16,403              | 6,622                          | 17,574                           |
| Total operating expenses  | 381,234                     | 370,353      | 344,483             | 147,769                        | 353,660                          |
| Income (loss) from operations                                   | (84,266)                    | 77,142       | (76,121)            | (10,934)                       | (120,179)                        |
| Interest and other, net   | (19,571)                    | (13,519)     | (18,794)            | (11,352)                       | (5,771)                          |
| Income (loss) from continuing operations<br>before income taxes | (103,837)                   | 63,623       | (94,915)            | (22,286)                       | (125,950)                        |
| Provision for income taxes                                      | 3,863                       | 9,819        | 13,145              | 4,266                          | 4,487                            |
| Income (loss) from continuing operations                        | (107,700)                   | 53,804       | (108,060)           | (26,552)                       | (130,437)                        |
| Loss from discontinued operations, net of<br>taxes              | (1,116)                     | (5,346)      | (14,935)            | (2,250)                        | (10,017)                         |
| Net income (loss)   | \$ (108,816)                | \$ 48,458    | \$ (122,995)        | \$ (28,802)                    | \$ (140,454)                     |
| Earnings (loss) per share:                                      |                             |              |                     |                                |                                  |
| Continuing operations   | \$ (1.30)                   | \$ 0.62      | \$ (1.39)           | \$ (0.34)                      | \$ (1.70)                        |
| Discontinued operations   | (0.01)                      | (0.06)       | (0.19)              | (0.03)                         | (0.13)                           |
| Basic earnings (loss) per share                                 | \$ (1.31)                   | \$ 0.56      | \$ (1.58)           | \$ (0.37)                      | \$ (1.83)                        |
| Continuing operations   | \$ (1.30)                   | \$ 0.62      | \$ (1.39)           | \$ (0.34)                      | \$ (1.70)                        |
| Discontinued operations   | (0.01)                      | (0.06)       | (0.19)              | (0.03)                         | (0.13)                           |
| Diluted earnings (loss) per share                               | \$ (1.31)                   | \$ 0.56      | \$ (1.58)           | \$ (0.37)                      | \$ (1.83)                        |

See accompanying Notes.

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**TAKE-TWO INTERACTIVE SOFTWARE, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

|  | Fiscal Year Ended March 31, |           |              | Five Months<br>Ended March 31, | Fiscal Year<br>Ended October 31, |
|--|-----------------------------|-----------|--------------|--------------------------------|----------------------------------|
|  | 2012                        | 2011      | 2010         | 2010                           | 2009                             |
|  | (Unaudited)                 |           |              |                                |                                  |
| <b>Operating activities:</b>   |                             |           |              |                                |                                  |
| Net income (loss)  | \$ (108,816)                | \$ 48,458 | \$ (122,995) | \$ (28,802)                    | \$ (140,454)                     |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: |                             |           |              |                                |                                  |
| Amortization and impairment of software development costs and licenses                             | 150,700                     | 143,811   | 112,742      | 50,956                         | 105,521                          |
| Depreciation and amortization  | 12,123                      | 14,999    | 16,403       | 6,622                          | 17,574                           |
| Loss from discontinued operations  | 1,116                       | 5,346     | 14,935       | 2,250                          | 10,017                           |
| Amortization and impairment of intellectual property   | 983                         | 3,927     | 109          | 40                             | 478                              |
| Stock-based compensation   | 33,494                      | 28,765    | 26,503       | 10,479                         | 25,933                           |
| Gain on sale of intellectual property  | (2,200)                     |           |              |                                |                                  |
| Loss on sale of subsidiary   |                             |           | 3,831        | 3,831                          |                                  |
| Deferred income taxes  | 1,878                       | (1,095)   | 4,550        | 761                            | 3,432                            |
| Amortization of discount on Convertible Notes  | 11,728                      | 7,374     | 5,457        | 2,802                          | 2,655                            |
| Amortization of debt issuance costs  | 1,527                       | 1,251     | 1,136        | 521                            | 852                              |
| Other, net   | 1,231                       | (1,097)   | 788          | 1,086                          | (4,456)                          |
| Changes in assets and liabilities, net of effect from purchases of businesses:                     |                             |           |              |                                |                                  |
| Accounts receivable  | 39,182                      | (10,082)  | (3,332)      | 106,930                        | (57,275)                         |
| Inventory  | 2,101                       | (99)      | 5,581        | 1,893                          | 11,792                           |
| Software development costs and licenses  | (191,223)                   | (156,782) | (171,855)    | (61,563)                       | (164,828)                        |
| Prepaid expenses, other current and other non-current assets                                       | 2,537                       | 16,943    | (14,091)     | (6,420)                        | (309)                            |
| Deferred revenue   | 430                         | 1,490     | (12,371)     | 5,610                          | (49,829)                         |
| Accounts payable, accrued expenses, income taxes payable and other liabilities                     | (39,748)                    | 41,217    | (5,314)      | (95,604)                       | 13,728                           |
| Net cash (used in) provided by discontinued operations   | (2,007)                     | (9,628)   | 2,221        | 5,187                          | 14,965                           |
| Net cash (used in) provided by operating activities  | (84,964)                    | 134,798   | (135,702)    | 6,579                          | (210,204)                        |
| <b>Investing activities:</b>   |                             |           |              |                                |                                  |
| Purchase of fixed assets   | (10,786)                    | (9,653)   | (9,933)      | (3,149)                        | (11,176)                         |
| Net cash (used in) provided by discontinued operations   | (1,475)                     |           | 37,250       | 37,250                         |                                  |
| Cash received from sale of intellectual property   | 2,200                       |           |              |                                |                                  |
| Cash received from sale of business  |                             | 3,075     | 2,512        | 2,512                          |                                  |
| Payments in connection with business combinations, net of cash acquired                            | (4,101)                     | (1,000)   | (6,804)      | (991)                          | (5,813)                          |
| Net cash (used in) provided by investing activities  | (14,162)                    | (7,578)   | 23,025       | 35,622                         | (16,989)                         |
| <b>Financing activities:</b>   |                             |           |              |                                |                                  |
| Proceeds from exercise of employee stock options   | 239                         | 734       | 18           |                                | 22                               |
| Net payments on line of credit   |                             |           | (70,000)     |                                | (70,000)                         |
| Proceeds from issuance of Convertible Notes  | 250,000                     |           | 138,000      |                                | 138,000                          |
| Purchase of convertible note hedges  |                             |           | (43,592)     |                                | (43,592)                         |
| Issuance of warrants to purchase common stock  |                             |           | 26,342       |                                | 26,342                           |
| Payment of debt issuance costs   | (6,875)                     |           | (4,984)      |                                | (4,984)                          |
| Net cash provided by financing activities  | 243,364                     | 734       | 45,784       |                                | 45,788                           |
|  | (4,318)                     | 6,567     | 8,593        | 1,554                          | 3,211                            |

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Effects of foreign currency exchange rates on cash and cash equivalents

|  |                   |            |            |            |            |
|--|-------------------|------------|------------|------------|------------|
| Net increase (decrease) in cash and cash equivalents | <b>139,920</b>    | 134,521    | (58,300)   | 43,755     | (178,194)  |
| Cash and cash equivalents, beginning of year         | <b>280,359</b>    | 145,838    | 204,138    | 102,083    | 280,277    |
| Cash and cash equivalents, end of period             | <b>\$ 420,279</b> | \$ 280,359 | \$ 145,838 | \$ 145,838 | \$ 102,083 |

**Supplemental data:**

|                              |                 |          |          |           |            |
|------------------------------|-----------------|----------|----------|-----------|------------|
| Interest paid                | <b>\$ 6,992</b> | \$ 7,361 | \$ 5,196 | \$ 3,680  | \$ 4,371   |
| Income taxes paid (received) | <b>\$ 1,018</b> | \$ 6,336 | \$ 1,673 | \$ 10,519 | \$ (5,423) |

*See accompanying Notes.*

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**TAKE-TWO INTERACTIVE SOFTWARE, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands)

|  | Common Stock |        | Additional<br>Paid-in<br>Capital | Retained<br>Earnings<br>(Accumulated<br>Deficit) | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total<br>Stockholders'<br>Equity |
|--|--------------|--------|----------------------------------|--|---|----------------------------------|
|  | Shares       | Amount |                                  |  |   |                                  |
| Balance, October 31, 2008  | 77,694       | 777    | 603,579                          | 18,275   | (7,513)   | 615,118                          |
| Net loss   |              |        |                                  | (140,454)  |   | (140,454)                        |
| Change in cumulative foreign currency translation adjustment       |              |        |                                  |  | 15,705  | 15,705                           |
| Proceeds from exercise of stock options                            | 2            |        | 22                               |  |   | 22                               |
| Purchase of call options   |              |        | (43,592)                         |  |   | (43,592)                         |
| Sale of warrants   |              |        | 26,342                           |  |   | 26,342                           |
| Stock-based compensation   |              |        | 31,193                           |  |   | 31,193                           |
| Issuance of 4.375% Convertible Notes                               |              |        | 42,018                           |  |   | 42,018                           |
| Issuance of restricted stock, net of forfeitures and cancellations | 4,229        | 42     | (42)                             |  |   |                                  |
| Income tax effect of stock award cancellations and forfeitures     |              |        | (726)                            |  |   | (726)                            |
| Balance, October 31, 2009  | 81,925       | 819    | 658,794                          | (122,179)  | 8,192   | 545,626                          |
| Net loss   |              |        |                                  | (28,802)   |   | (28,802)                         |
| Change in cumulative foreign currency translation adjustment       |              |        |                                  |  | (11,905)  | (11,905)                         |
| Stock-based compensation   |              |        | 12,930                           |  |   | 12,930                           |
| Issuance of restricted stock, net of forfeitures and cancellations | 2,052        | 21     | (21)                             |  |   |                                  |
| Income tax effect of stock award cancellations and forfeitures     |              |        | 2,774                            |  |   | 2,774                            |
| Balance, March 31, 2010  | 83,977       | 840    | 674,477                          | (150,981)  | (3,713)   | 520,623                          |
| Net income   |              |        |                                  | 48,458   |   | 48,458                           |
| Change in cumulative foreign currency translation adjustment       |              |        |                                  |  | 14,172  | 14,172                           |
| Proceeds from exercise of stock options                            | 65           | 1      | 732                              |  |   | 733                              |
| Stock-based compensation   |              |        | 29,293                           |  |   | 29,293                           |
| Issuance of restricted stock, net of forfeitures and cancellations | 1,884        | 18     | (18)                             |  |   |                                  |
| Issuance of common stock in connection with acquisition            | 193          | 2      | 1,998                            |  |   | 2,000                            |
| Balance, March 31, 2011  | 86,119       | 861    | 706,482                          | (102,523)  | 10,459  | 615,279                          |
| Net loss   |              |        |                                  | (108,816)  |   | (108,816)                        |
| Change in cumulative foreign currency translation adjustment       |              |        |                                  |  | (3,785)   | (3,785)                          |
| Proceeds from exercise of stock options                            | 21           | 1      | 238                              |  |   | 239                              |
| Change in unrealized gains on derivative instruments, net          |              |        |                                  |  | 59  | 59                               |

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|  |               |               |                   |                     |                 |                   |  |        |
|--|---------------|---------------|-------------------|---------------------|-----------------|-------------------|--|--------|
| Stock-based compensation   |               |               | 39,571            |                     |                 |                   |  | 39,571 |
| Issuance of 1.75% Convertible Notes                                |               |               | 51,180            |                     |                 |                   |  | 51,180 |
| Issuance of restricted stock, net of forfeitures and cancellations | 3,947         | 39            | (39)              |                     |                 |                   |  |        |
| Issuance of common stock in connection with acquisition            | 128           | 1             | 1,999             |                     |                 |                   |  | 2,000  |
| <b>Balance, March 31, 2012</b>                                     | <b>90,215</b> | <b>\$ 902</b> | <b>\$ 799,431</b> | <b>\$ (211,339)</b> | <b>\$ 6,733</b> | <b>\$ 595,727</b> |  |        |

*See accompanying Notes.*

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**TAKE-TWO INTERACTIVE SOFTWARE, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(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, marketer and publisher of interactive entertainment for consumers around the globe. The Company develops and publishes products through its two wholly-owned labels Rockstar Games and 2K, which publishes its titles under the 2K Games, 2K Sports and 2K Play brands. Our products are designed for console systems, handheld gaming systems and personal computers, including smart phones and tablets, and are delivered through physical retail, digital download, online platforms and cloud streaming services.

**Principles of Consolidation**

The Consolidated Financial Statements include the financial statements of the Company and its wholly-owned subsidiaries. All material inter-company balances and transactions have been eliminated in consolidation.

**Change in Fiscal Year**

On October 25, 2010, the Company's Board of Directors approved a change in the Company's fiscal year end from October 31 to March 31. A Transition Report on Form 10-KT was filed for the period from, and including the financial information for, the five-month period from November 1, 2009 to March 31, 2010. For comparative purposes, an unaudited Consolidated Statement of Operations and Consolidated Statement of Cash Flows have been included for the fiscal year ended March 31, 2010. The reported numbers for the fiscal year ended March 31, 2010, which have not been audited, are derived from the books and records of the Company and, in the opinion of management, reflect all adjustments necessary to present the financial position and results of operations in accordance with U.S. generally accepted accounting principles.

**Reclassifications**

Certain amounts in the financial statements of the prior years have been reclassified to conform to the current year presentation for comparative purposes.

**Discontinued Operations**

In February 2010, we completed the sale to SYNnex Corporation ("Synnex") of our Jack of All Games third-party distribution business, which primarily distributed third-party interactive entertainment software, hardware and accessories in North America. The financial results of our distribution business have been classified as discontinued operations in the Consolidated Statements of Operations for all of the periods presented. The assets and liabilities of this business are reflected as assets and liabilities of discontinued operations in the Consolidated Balance Sheets for all periods presented. See Note 2 for additional information regarding discontinued operations. Unless otherwise noted, amounts and disclosures throughout the Notes to Consolidated Financial Statements relate to the Company's continuing operations.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and

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the reported amounts of net revenue and expenses during the reporting periods. The most significant estimates and assumptions relate to the recoverability of software development costs, licenses and intangibles, valuation of inventories, realization of deferred income taxes, the adequacy of allowances for sales returns, price concessions and doubtful accounts, accrued liabilities, the service period for deferred net revenue, fair value estimates, the valuation of stock-based compensation and assumptions used in our goodwill impairment test. These estimates generally involve complex issues and require us to make judgments, involve analysis of historical and the prediction of future trends, and are subject to change from period to period. Actual amounts could differ significantly from these estimates.

**Financial Instruments**

The carrying amounts of our financial instruments, including cash and cash equivalents, 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. At March 31, 2012 and 2011 we had \$16,464 and \$20,091, respectively, of cash on deposit reported as a component of prepaid expenses and other in the accompanying Consolidated Balance Sheets because its use was restricted.

As of March 31, 2012, the estimated fair value of the Company's 4.375% Convertible Notes due 2014 and the Company's 1.75% Convertible Notes due 2016 was \$213,265 and \$263,600, respectively. See Note 12 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.

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 currency exchange rate movements.

***Cash Flow Hedging Activities***

During the fiscal year ended March 31, 2012, we entered into foreign currency forward contracts to mitigate foreign currency exchange rate risk associated with forecasted non-functional currency denominated expenses. These transactions, 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 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 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 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 Consolidated Statements of Operations. During the fiscal year ended March 31, 2012, 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. As of March 31, 2012, we had \$10,192 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, 2012, the fair value of these outstanding forward contracts was immaterial and is included in prepaid expenses and other.

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***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 Consolidated Balance Sheets, and gains and losses resulting from changes in the fair value are reported in interest and other, net, in our Consolidated Statements of Operations. We do not enter into derivative financial contracts for speculative or trading purposes. At March 31, 2012, we had \$4,005 of forward contracts outstanding to buy foreign currencies in exchange for U.S. dollars and \$28,304 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, 2011, we had \$2,399 of forward contracts outstanding to buy foreign currencies in exchange for U.S. dollars and \$35,539 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 fiscal year ended March 31, 2012, we recorded a gain of \$746 and for the fiscal years ended March 31, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009, we recorded losses of \$6,901, \$953, \$2,300 and \$73, respectively, related to foreign currency forward contracts in interest and other, net on the Consolidated Statements of Operations. As of March 31, 2012 and 2011, the fair value of these outstanding forward contracts was immaterial and is included in accrued expenses and other current liabilities.

**Concentration of Credit Risk and Accounts Receivable**

We maintain cash balances at several major financial institutions. While we attempt to limit credit exposure with any single institution, balances often exceed insurable amounts.

If the financial condition and operations of our customers deteriorate, our risk of collection could increase substantially. A majority of our trade receivables are derived from sales to major retailers and distributors. Our five largest customers accounted for 43.9%, 43.8%, 59.8%, 55.7%, and 56.4% of net revenue during the fiscal years ended March 31, 2012, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009, respectively. As of March 31, 2012 and 2011, the five largest customers accounted for 61.3% and 54.2% of our gross accounts receivable, respectively. Customers that individually accounted for more than 10% of our gross accounts receivable balance comprised 40.6% and 38.2% of such balances at March 31, 2012 and 2011, respectively. We believe that the receivable balances from these largest customers do not represent a significant credit risk based on past collection experience.

**Inventory**

Inventory is stated at the lower of average cost or market. Estimated product returns are included in the inventory balance at their cost. We regularly review inventory quantities on-hand and in the retail channels and record an inventory provision for excess or obsolete inventory based on the future expected demand for our products. Significant changes in demand for our products would affect management's estimates in establishing our inventory provision.

**Software Development Costs and Licenses**

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

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

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

Licenses consist of payments and guarantees made to holders of intellectual property rights for use of their trademarks, copyrights or other intellectual property rights in the development of our products. Agreements with license holders generally provide for guaranteed minimum royalty payments for use of their intellectual property. Guaranteed minimum payments are initially recorded as an asset (licenses) and as a liability (accrued licenses) upon execution of a licensing agreement, provided that no significant performance remains to be completed by the licensor. When significant performance remains to be completed by the licensor, we record payments when actually paid.

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

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

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

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

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**Fixed Assets, net**

Office equipment, furniture and fixtures are depreciated using the straight-line method over their estimated useful life of five years. Computer equipment and software are generally depreciated using the straight-line method over three years. Leasehold improvements are amortized over the lesser of the term of the related lease or seven years. The cost of additions and betterments are capitalized, and repairs and maintenance costs are charged to operations, in the periods incurred. When depreciable assets are retired or sold, the cost and related allowances for depreciation are removed from the accounts and the gain or loss is recognized. The carrying amounts of these assets are recorded at historical cost.

**Goodwill and Intangible Assets**

Goodwill is the excess of purchase price paid over identified intangible and tangible net assets of acquired companies. Intangible assets consist of trademarks, intellectual property, non-compete agreements, customer lists and acquired technology. Certain intangible assets acquired in a business combination are recognized as assets apart from goodwill.

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

Identified intangibles other than goodwill are generally amortized using the straight-line method over the period of expected benefit ranging from three to ten years, except for intellectual property, which is a usage-based intangible asset that is amortized using the shorter of the useful life or expected revenue stream.

We perform an annual test for impairment of goodwill as of the beginning of August, or whenever events or changes in circumstances indicate the fair value of a reporting unit is below its carrying amount. In the evaluation of goodwill for impairment, we first perform a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than the carrying amount. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, the remaining impairment steps would be unnecessary. If however it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not less than its carrying value, we perform a quantitative assessment and compare the fair value of the reporting unit to the carrying value.

In performing the quantitative assessment we measure the fair value of the reporting unit using a combination of the income approach, which uses discounted cash flows, and the market approach, which uses market capitalization and comparable companies' data. Each step requires us to make judgments and involves the use of significant estimates and assumptions. These estimates and assumptions include long-term growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates based on our weighted average cost of capital, future economic and market conditions and the determination of appropriate market comparables. These estimates and assumptions have to be made for each reporting unit evaluated for impairment. Our estimates for market growth are based on historical data, various internal estimates and observable external sources when available, and are based on assumptions that are consistent with the plans and estimates we use to manage the underlying business. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is potentially impaired and we proceed to step two of the impairment analysis. In step two of the analysis, we will record an impairment loss equal to the excess of the carrying value of the reporting unit's goodwill over its implied fair value should such a circumstance arise.

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**Long-lived Assets**

We review all long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We compare the carrying amount of the asset to the estimated undiscounted future cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds estimated expected undiscounted future cash flows, we record an impairment charge for the difference between the carrying amount of the asset and its fair value. The estimated fair value is generally measured by discounting expected future cash flows using our incremental borrowing rate or fair value, if available.

**Income Taxes**

We record a tax provision for the anticipated tax consequences of the reported results of operations. Our provision for income taxes is computed using the asset and liability method, under which deferred income taxes are recognized for differences between the financial statement and tax bases of assets and liabilities at currently enacted statutory tax rates for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment. Valuation allowances are established when we determine that it is more likely than not that such deferred tax assets will not be realized. We do not record income tax expense related to foreign withholding taxes or United States income taxes which may become payable upon the repatriation of undistributed earnings of foreign subsidiaries, as such earnings are expected to be reinvested indefinitely outside of the United States.

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

We recognize and measure uncertain tax positions and record tax benefits when it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

**Revenue Recognition**

We earn our revenue from the sale of internally developed interactive software titles and from the sale of titles developed by and/or licensed from third-party developers.

We recognize revenue upon the transfer of title and risk of loss to our customers. We recognize revenue for software titles when there is (1) persuasive evidence that an arrangement with the customer exists, which is generally based on a customer purchase order, (2) the product is delivered, (3) the selling price is fixed or determinable and (4) collection of the customer receivable is deemed probable. Certain products are sold to customers with a street date (*i.e.*, the earliest date these products may be sold by retailers). For these products we recognize revenue on the later of the street date or the sale date.

Our payment arrangements with customers typically provide net 30 and 60 day terms. Advances received for licensing and exclusivity arrangements are reported on the balance sheet as deferred revenue until we meet our performance obligations, at which point we recognize the revenue.

Some of our software products provide limited online functionality at no additional cost to the consumer. Generally, we consider such features to be incidental to the overall product offering and an inconsequential deliverable. Accordingly, we do not defer revenue related to products containing such

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online features. We determine whether our products contain substantial online functionality by evaluating the significance of the development effort and the nature of the online features, the extent of anticipated marketing focus on the online features, the significance of the online features to the customers' anticipated overall gameplay experience, and the significance of our post sale obligations to customers. Overall, online play functionality is still an emerging area for us, and we continue to monitor this developing functionality and its significance to our products.

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

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

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

**Allowances for Returns, Price Concessions and Other Allowances**

We accept returns and grant price concessions in connection with our publishing arrangements. Following reductions in the price of our products, we grant price concessions to permit customers to take credits against amounts they owe us with respect to merchandise unsold by them. Our customers must satisfy certain conditions to entitle them to return products or receive price concessions, including compliance with applicable payment terms and confirmation of field inventory levels.

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

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

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

**Consideration Given to Customers and Received from Vendors**

We have various marketing arrangements with retailers and distributors of our products that provide for cooperative advertising and market development funds, among others, which are generally based on single exchange transactions. Such amounts are accrued as a reduction to revenue at the later of: (1) the date at which the related revenue is recognized by us, or (2) the date at which the sales incentive is offered, except

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for cooperative advertising which is included in selling and marketing expense if there is a separate identifiable benefit and the benefit's fair value can be established.

We receive various incentives from our manufacturers, including up-front cash payments as well as rebates based on a cumulative level of purchases. Such amounts are generally accounted for as a reduction in the price of the manufacturer's product and included as a reduction of inventory or cost of goods sold, based on (1) a ratio of current period revenue to the total revenue expected to be recorded over the remaining life of the product or (2) an agreed upon per unit rebate, based on actual units manufactured during the period.

### **Advertising**

We expense advertising costs as incurred. Advertising expense for the fiscal years ended March 31, 2012, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009 amounted to \$122,932, \$115,089, \$103,718, \$51,481, and \$93,390, respectively.

### **Earnings (Loss) per Share ("EPS")**

Basic EPS is computed by dividing the net income (loss) applicable to common stockholders for the period by the weighted average number of shares of common stock outstanding during the same period. Diluted EPS is computed by dividing the net income (loss) applicable to common stockholders for the period by the weighted average number of shares of common stock and common stock equivalents outstanding.

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

|   | Fiscal Year Ended March 31, |           |              | Five Months<br>Ended<br>March 31,<br>2010 | Fiscal Year<br>Ended<br>October 31,<br>2009 |
|---|-----------------------------|-----------|--------------|---|---|
|   | 2012                        | 2011      | 2010         |   |   |
|   | (Unaudited)                 |           |              |   |   |
| <b>Computation of Basic EPS:</b>                        |                             |           |              |   |   |
| Net income (loss)                                       | \$ (108,816)                | \$ 48,458 | \$ (122,995) | \$ (28,802)                               | \$ (140,454)                                |
| Less: net income allocated to participating securities  |                             | (3,159)   |              |   |   |
| Net income (loss) for basic EPS calculation             | \$ (108,816)                | \$ 45,299 | \$ (122,995) | \$ (28,802)                               | \$ (140,454)                                |
| Total weighted average shares outstanding basic         | 83,356                      | 86,127    | 77,858       | 78,453                                    | 76,815                                      |
| Less: weighted average participating shares outstanding |                             | (5,615)   |              |   |   |
| Weighted average common shares outstanding basic        | 83,356                      | 80,512    | 77,858       | 78,453                                    | 76,815                                      |
| Basic EPS   | \$ (1.31)                   | \$ 0.56   | \$ (1.58)    | \$ (0.37)                                 | \$ (1.83)                                   |

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|  | Fiscal Year Ended March 31, |           |                     | Five Months<br>Ended<br>March 31,<br>2010 | Fiscal Year<br>Ended<br>October 31,<br>2009 |
|--|-----------------------------|-----------|---------------------|---|---|
|  | 2012                        | 2011      | 2010<br>(Unaudited) |   |   |
| <b>Computation of Diluted EPS:</b>                     |                             |           |                     |   |   |
| Net income (loss)                                      | \$ (108,816)                | \$ 48,458 | \$ (122,995)        | \$ (28,802)                               | \$ (140,454)                                |
| Less: net income allocated to participating securities |                             | (3,159)   |                     |   |   |
| Net income (loss) for diluted EPS calculation          | \$ (108,816)                | \$ 45,299 | \$ (122,995)        | \$ (28,802)                               | \$ (140,454)                                |
| Weighted average common shares outstanding basic       | 83,356                      | 80,512    | 77,858              | 78,453                                    | 76,815                                      |
| Add: dilutive effect of common stock equivalents       |                             | 12        |                     |   |   |
| Weighted average common shares outstanding diluted     | 83,356                      | 80,524    | 77,858              | 78,453                                    | 76,815                                      |
| Diluted EPS  | \$ (1.31)                   | \$ 0.56   | \$ (1.58)           | \$ (0.37)                                 | \$ (1.83)                                   |

The Company incurred a net loss for the fiscal years ended March 31, 2012 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009; therefore, the basic and diluted weighted average shares outstanding exclude the effect of unvested share-based awards that are considered participating restricted stock and all common stock equivalents because their effect would be antidilutive.

Our unvested restricted stock rights (including restricted stock units, time-based and market-based restricted stock awards) are considered participating restricted stock 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 unvested restricted stock rights from the numerator and excludes the dilutive effect of those awards from the denominator. For the fiscal year ended March 31, 2012, fiscal year and five months ended March 31, 2010 and fiscal year ended October 31, 2009, we had 5,724,000, 6,261,000 and 5,320,000, respectively, of unvested share-based awards that are considered participating restricted stock which are excluded due to the net loss for those periods.

The Company defines common stock equivalents as unexercised stock options, common stock equivalents underlying the Convertible Notes (see Note 12) and warrants outstanding during the period. Common stock equivalents are measured using the treasury stock method, except for the Convertible 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 12) 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 12). For the fiscal year ended March 31, 2011, the Company excluded the warrants outstanding from its diluted EPS because the warrants' strike price of \$14.945 was greater than the average market price of our common stock.

Other common stock equivalents excluded from the diluted EPS calculation were unexercised stock option awards of approximately 2,164,000 for the fiscal year ended March 31, 2012, 3,514,000 for the fiscal year

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and five months ended March 31, 2010 and 3,803,000 for the fiscal year ended October 31, 2009 due to the net loss for those periods. For the fiscal year ended March 31, 2011, the Company excluded from its diluted EPS calculation approximately 2,299,000 of common stock equivalents which were antidilutive because the common stock equivalents' exercise prices exceeded the average fair market value of the Company's common stock.

**Stock-based Compensation**

We have issued stock-based compensation to employees and non-employee consultants, such as ZelnickMedia Corporation.

We calculated the fair value of our employee and non-employee stock option awards using the Black-Scholes pricing model. Employee stock option awards were amortized as stock-based compensation expense on a straight-line basis over the expected vesting period, which was generally three years, and reduced for estimated forfeitures. We applied variable accounting to our non-employee based stock option awards, whereby we remeasured the fair value of the unvested portion of the awards at each vest date, and recorded stock-based compensation expense for the difference between total earned compensation at the end of the period and total earned compensation at the beginning of the period.

We value time-based restricted stock awards to employees using our closing stock price on the date of grant. Time-based restricted stock awards are amortized and recorded as expense on a straight-line basis over their expected vesting period, which is typically three years, and reduced for estimated forfeitures. We apply variable accounting to our non-employee time-based restricted stock awards, whereby we remeasure the value of such awards at each balance sheet date and adjust the value of the awards based on the closing price of our common stock at the end of the reporting period. Changes in the value of the awards from period to period are recorded as stock-based compensation expense over the vesting period, which typically ranges from three to four years.

Estimated forfeitures are adjusted, if necessary, in subsequent periods if actual forfeitures differ from our estimates.

Market-based restricted stock is typically awarded to executives and non-employee consultants. We estimate the fair value of market-based awards using the Monte Carlo Simulation method which takes into account the probability that the market conditions of the awards will be achieved. We apply variable accounting to our non-employee market-based awards. We have issued market-based awards that vest based on a variety of conditions. Our employee and non-employee market-based awards are amortized over their estimated derived service period, which typically ranges from three to four years.

See Note 15 for a full discussion of our stock-based compensation arrangements.

**Foreign Currency**

The functional currency for our foreign operations is primarily the applicable local currency. Accounts of foreign operations are translated into U.S. dollars using exchange rates for assets and liabilities at the balance sheet date and average prevailing exchange rates for the period for revenue and expense accounts. Adjustments resulting from translation are included in accumulated other comprehensive income (loss). Realized and unrealized transaction gains and losses are included in our Consolidated Statements of Operations in the period in which they occur, except on inter-company balances considered to be long term. Transaction gains and losses on inter-company balances which are considered to be long term are recorded in accumulated other comprehensive income (loss). The Company recorded foreign currency exchange transaction losses of \$1,311, \$609 and \$704 for the fiscal years ended March 31, 2012 and 2010 and five months ended March 31, 2010, respectively, and foreign currency exchange transaction gains of \$1,414 and \$4,289 for the fiscal years ended March 31, 2011 and October 31, 2009, respectively.

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**Comprehensive Income (Loss)**

Comprehensive income (loss) is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. The Company's items of accumulated other comprehensive income (loss) include foreign currency translation adjustments, which relate to investments that are permanent in nature and therefore do not require tax adjustments, and the net of tax amounts for unrealized gains (losses) on derivative instruments designated as cash flow hedges.

**Recently Issued Accounting Pronouncements**

*Multiple-Deliverable Revenue Arrangements*

On April 1, 2011, the Company adopted new guidance related to the accounting for multiple-deliverable revenue arrangements. These new rules amend the existing guidance for separating consideration in multiple-deliverable arrangements and establish a selling price hierarchy for determining the selling price of a deliverable. The adoption of this new guidance did not have any effect on our consolidated financial position, cash flows or results of operations.

*Certain Revenue Arrangements That Include Software Elements*

On April 1, 2011, the Company adopted new guidance that changes the accounting model for revenue arrangements by excluding tangible products containing both software and non-software components that function together to deliver the product's essential functionality. The adoption of this new guidance did not have any effect on our consolidated financial position, cash flows or results of operations.

*Testing Goodwill for Impairment*

On September 30, 2011, the Company adopted new guidance related to testing goodwill for impairment effective for the Company's annual impairment test as of August 1, 2011. This new guidance permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying value as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing entities to go directly to the quantitative assessment. This new guidance is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011. However, early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. The early adoption of this new guidance did not have any effect on our consolidated financial position, cash flows or results of operations.

*Comprehensive Income*

In June 2011, new guidance was issued related to the presentation of comprehensive income. The main provisions of the new guidance provide that an entity that reports items of other comprehensive income has the option to present comprehensive income as (i) a single statement that presents the components of net income and total net income, the components of other comprehensive income and total other comprehensive income and a total for comprehensive income or (ii) in two separate but consecutive statements, whereby an entity must present the components of net income and total net income in the first statement and that statement is immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income and a total for comprehensive income. The new rules eliminate the option to present the components of other comprehensive income as part of the statement of stockholders' equity. These new rules are to be applied retrospectively and become effective for fiscal years, and interim periods within those fiscal years,

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beginning on or after December 15, 2011 (April 1, 2012 for the Company), with early adoption permitted. We do not expect the adoption of this new guidance to have a material effect on our consolidated financial position, cash flows or results of operations.

**2. DISCONTINUED OPERATIONS**

In February 2010, we completed the sale of our Jack of All Games third-party distribution business, which primarily distributed third-party interactive entertainment software, hardware and accessories in North America, for approximately \$44,000, including \$37,250 in cash, subject to purchase price adjustments, and up to an additional \$6,750, subject to the achievement of certain items, which were not met. In April 2011, we settled on the purchase adjustments and as a result the purchase price was lowered by \$1,475. Consequently, the net purchase price after the settlement was \$35,775. The sale has allowed us to focus our resources on our publishing operations. The financial information of our distribution business has been classified as discontinued operations in the Consolidated Financial Statements for all of the periods presented.

The following is a summary of the results of the discontinued operations:

|                                      | Fiscal Year Ended March 31, |            |             | Five Months<br>Ended<br>March 31,<br>2010 | Fiscal Year<br>Ended October 31,<br>2009 |
|--------------------------------------|-----------------------------|------------|-------------|---|--|
|                                      | 2012                        | 2011       | 2010        |   |  |
|                                      |                             |            | (Unaudited) |   |  |
| Net revenue                          | \$                          | \$         | \$ 254,447  | \$ 131,937                                | \$ 267,431                               |
| Loss before income taxes             | \$ (1,116)                  | \$ (4,416) | \$ (16,484) | \$ (2,216)                                | \$ (9,983)                               |
| Loss on sale                         |                             | (570)      | (447)       | (447)                                     |  |
| Provision (benefit) for income taxes |                             | 360        | (1,996)     | (413)                                     | 34                                       |
| Net loss                             | \$ (1,116)                  | \$ (5,346) | \$ (14,935) | \$ (2,250)                                | \$ (10,017)                              |

The results for the fiscal year ended March 31, 2011 include an expense of \$5,464 related to a liability for a lease assumption without economic benefit less estimates of sublease income. The lease matures on September 30, 2014.

The following is a summary of the liabilities of discontinued operations:

|  | March 31, |          |
|--|-----------|----------|
|  | 2012      | 2011     |
| Liabilities of discontinued operations:        |           |          |
| Current:                                       |           |          |
| Accrued expenses and other current liabilities | \$ 1,412  | \$ 2,842 |
| Total current liabilities                      | 1,412     | 2,842    |
| Other non-current liabilities                  | 2,319     | 3,255    |
| Total liabilities of discontinued operations   | \$ 3,731  | \$ 6,097 |

**3. MANAGEMENT AGREEMENT**

In March 2007, we entered into a management services agreement (as amended, the "Management Agreement") with ZelnickMedia Corporation ("ZelnickMedia"), whereby ZelnickMedia provides us with certain management, consulting and executive level services. Strauss Zelnick, the President of ZelnickMedia, serves as our Executive Chairman and Chief Executive Officer and Karl Slatoff, a partner of ZelnickMedia, serves as our Chief Operating Officer. In May 2011, we entered into a new management agreement (the "New Management Agreement") with ZelnickMedia pursuant to which ZelnickMedia will continue to provide management, consulting and executive level services to the Company through

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May 2015. As part of the New Management Agreement, Mr. Zelnick serves as Executive Chairman and Chief Executive Officer and Mr. Slatoff serves as Chief Operating Officer. In September 2011, the New Management Agreement, which upon effectiveness, superseded and replaced the Management Agreement was approved by the Company's stockholders at the Company's 2011 Annual Meeting. The New Management Agreement provides for the annual management fee to remain at \$2,500, subject to annual increases in the amount of 3% over the term of the agreement, and the maximum annual bonus was increased to \$3,500 from \$2,500, subject to annual increases in the amount of 3% 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 \$2,500, \$5,521, \$3,021, \$1,563 and \$2,500 for the fiscal years ended March 31, 2012, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009, respectively.

Pursuant to the Management Agreement, we also issued stock-based awards to ZelnickMedia. See Note 15 for a discussion of such awards.

**4. 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.

|                    | March 31,<br>2012 | Quoted prices<br>in active markets<br>for identical<br>assets<br>(level 1) | Significant<br>other<br>observable<br>inputs<br>(level 2) | Significant<br>unobservable<br>inputs<br>(level 3) |
|--------------------|-------------------|--|---|--|
| Money market funds | \$ 211,711        | \$ 211,711   | \$  | \$   |
| Bank-time deposits | \$ 126,820        | \$ 126,820   | \$  | \$   |

**5. BUSINESS ACQUISITIONS AND CONSOLIDATION**

In prior years, we consummated the acquisitions described below, which largely reflect our strategy to diversify our business by adding experienced development studios, intellectual properties and talented personnel resources to our existing infrastructure. The acquisitions were not considered to be material to our Consolidated Statements of Operations, individually or in the aggregate. The results of operations and financial positions of these acquisitions are included in our Consolidated Financial Statements from their respective acquisition dates forward and therefore affect comparability from period to period. During the fiscal years ended March 31, 2012, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009, we paid contingent consideration in cash of \$4,101, \$1,000, \$6,804, \$991 and \$5,813, respectively, for our prior year acquisitions. During the fiscal years ended March 31, 2012 and 2011, we

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paid \$2,000 and \$2,000 by issuing 128,439 and 192,826 shares, respectively, of our unregistered common stock as contingent consideration for our prior year acquisitions.

| Acquired Business    | Acquisition Date | Cash and Development Advances Paid | Value of Stock Issued | Goodwill Recorded on Acquisition Date | Identified Intangible Assets | Contingent Consideration  |
|----------------------|------------------|------------------------------------|-----------------------|---------------------------------------|------------------------------|---|
| Mad Doc Software LLC | March 2008       | \$ 4,715                           | \$ 1,353              | \$ 4,617                              | \$ 1,275                     | Up to \$15,000 payable in cash or stock, based on meeting certain employment provisions and future product sales, of which \$1,250 was paid as of March 31, 2012. |
| Illusion Softworks   | December 2007    | 5,033                              | 27,875                | 24,901                                | 8,200                        | Up to \$10,000 based on future product sales, of which \$8,601 was paid as of March 31, 2012.   |

In March 2008, we acquired the assets of Rockstar New England, Inc., formerly known as Mad Doc Software LLC ("Rockstar New England"), an independent development studio in North America and developer of the Bully franchise. Total consideration paid upon acquisition was \$6,068, consisting of \$3,740 in cash, 53,033 shares of our unregistered common stock and \$975 of development advances paid prior to the acquisition. The terms of the transaction also include additional contingent deferred payments payable in cash or stock of up to \$15,000, which are being allocated to purchase price when the conditions requiring their payment are met. The goodwill recorded in connection with this acquisition is deductible for tax purposes.

In December 2007, we acquired all of the outstanding capital stock of 2K Czech a.s., formerly known as Illusion Softworks, a.s. ("2K Czech"), the Czech Republic developer of the Mafia video game franchise. The acquisition reflects our strategy to add high-value intellectual property and development studios to our portfolio. Total consideration paid upon acquisition was \$32,908, consisting primarily of 1,496,647 shares of our unregistered common stock and \$4,645 of development advances paid prior to the acquisition. The terms of the transaction also include additional contingent deferred payments in cash and stock of up to \$10,000, which are being allocated to purchase price when the conditions requiring their payment are met. The goodwill recorded in connection with this acquisition is not deductible for tax purposes.

### 6. COMPREHENSIVE INCOME (LOSS)

Components of comprehensive income (loss) are as follows:

|   | Fiscal Year Ended March 31, |           |              | Five Months Ended March 31, 2010 | Fiscal Year Ended October 31, 2009 |
|---|-----------------------------|-----------|--------------|----------------------------------|------------------------------------|
|   | 2012                        | 2011      | 2010         |                                  |                                    |
|   |                             |           | (Unaudited)  |                                  |                                    |
| Net income (loss)   | \$ (108,816)                | \$ 48,458 | \$ (122,995) | \$ (28,802)                      | \$ (140,454)                       |
| Foreign currency translation adjustment                   | (3,785)                     | 14,172    | 21,394       | (11,905)                         | 15,705                             |
| Change in unrealized gains on derivative instruments, net | 59                          |           |              |                                  |                                    |
| Comprehensive income (loss)                               | \$ (112,542)                | \$ 62,630 | \$ (101,601) | \$ (40,707)                      | \$ (124,749)                       |

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Inventory balances by category are as follows:

|                    | March 31,        |                  |
|--------------------|------------------|------------------|
|                    | 2012             | 2011             |
| Finished products  | \$ 20,076        | \$ 21,541        |
| Parts and supplies | 2,401            | 3,037            |
| <b>Inventory</b>   | <b>\$ 22,477</b> | <b>\$ 24,578</b> |

Estimated product returns included in inventory at March 31, 2012 and 2011 were \$1,610 and \$1,183, respectively.

**8. SOFTWARE DEVELOPMENT COSTS AND LICENSES**

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

|  | March 31, 2012    |                   | March 31, 2011    |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | Current           | Non-current       | Current           | Non-current       |
| Software development costs, internally developed | \$ 154,557        | \$ 84,315         | \$ 65,297         | \$ 100,251        |
| Software development costs, externally developed | 53,542            | 14,440            | 65,292            | 38,069            |
| Licenses   | 3,125             | 6,000             | 1,087             |                   |
| <b>Software development costs and licenses</b>   | <b>\$ 211,224</b> | <b>\$ 104,755</b> | <b>\$ 131,676</b> | <b>\$ 138,320</b> |

Software development costs and licenses as of March 31, 2012 and 2011 included \$313,090 and \$263,082, respectively, related to titles that have not been released.

Amortization and impairment of software development costs and licenses are as follows:

|  | Fiscal Year Ended March 31, |                   |                   | Five Months<br>Ended<br>March 31,<br>2010 | Fiscal Year<br>Ended<br>October 31,<br>2009 |
|--|-----------------------------|-------------------|-------------------|---|---|
|  | 2012                        | 2011              | 2010              |   |   |
|  | (Unaudited)                 |                   |                   |   |   |
| Amortization and impairment of software development costs and licenses | \$ 155,844                  | \$ 154,506        | \$ 117,955        | \$ 53,108                                 | \$ 111,615                                  |
| Less: Portion representing stock-based compensation                    | (5,144)                     | (10,695)          | (5,213)           | (2,152)                                   | (6,094)                                     |
| <b>Amortization and impairment, net of stock-based compensation</b>    | <b>\$ 150,700</b>           | <b>\$ 143,811</b> | <b>\$ 112,742</b> | <b>\$ 50,956</b>                          | <b>\$ 105,521</b>                           |

Table of Contents**9. FIXED ASSETS, NET**

Fixed asset balances by category are as follows:

|                                | March 31,        |           |
|--------------------------------|------------------|-----------|
|                                | 2012             | 2011      |
| Computer equipment             | \$ 41,827        | \$ 38,224 |
| Computer software              | 32,645           | 29,900    |
| Leasehold improvements         | 27,604           | 24,733    |
| Office equipment               | 6,331            | 5,853     |
| Furniture and fixtures         | 5,366            | 5,052     |
|                                | <b>113,773</b>   | 103,762   |
| Less: accumulated depreciation | 94,824           | 84,130    |
| Fixed assets, net              | <b>\$ 18,949</b> | \$ 19,632 |

Depreciation expense related to fixed assets for the fiscal years ended March 31, 2012, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009 was \$11,467, \$14,016, \$15,169, \$6,180 and \$15,713, respectively.

**10. GOODWILL AND INTANGIBLE ASSETS, NET**

We perform an annual test for impairment of goodwill as of the beginning of August or whenever events or changes in circumstances indicate the fair value of a reporting unit is below its carrying amount. In the evaluation of goodwill for impairment, we first perform a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than the carrying amount. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, the remaining impairment steps would be unnecessary. If however it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not less than its carrying value, we must then perform a quantitative assessment and compare the fair value of the reporting unit to the carrying value. The first step of the quantitative assessment measures impairment by applying fair value-based tests at the reporting unit level. The second step (if necessary) measures the amount of impairment by applying fair value-based tests to individual assets and liabilities within each reporting unit. Prior to the sale of our Jack of All Games third-party distribution business, which closed in February 2010 (see Note 2), we managed our business primarily based on our publishing and distribution businesses. Accordingly, after the sale of the assets of our distribution business, the Company operates as a single reporting unit.

In performing the quantitative assessment we measure the fair value of the reporting unit using a combination of the income approach, which uses discounted cash flows, and the market approach, which uses market capitalization and comparable companies' data. Each step requires us to make judgments and involves the use of significant estimates and assumptions. These estimates and assumptions include long-term growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates based on our weighted average cost of capital, future economic and market conditions and the determination of appropriate market comparables. Our estimates for market growth are based on historical data, various internal estimates and observable external sources when available, and are based on assumptions that are consistent with the plans and estimates we use to manage the underlying business.

Due to a decline in the retail environment during the fiscal year ended October 31, 2009 and its effect on our outlook for our distribution reporting unit, we determined that the goodwill and intangible assets attributed to our distribution reporting unit were impaired. As a result, we recorded an impairment charge of \$14,754 which was reported in loss from discontinued operations on the Consolidated Statements of

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Operations (see Note 2). For the fiscal years ended March 31, 2012 and 2011 and five months ended March 31, 2010, we did not recognize an impairment loss on goodwill.

The change in our goodwill balance is as follows:

|                                      | <b>Total</b>          |
|--------------------------------------|-----------------------|
| Balance at March 31, 2010            | \$ 216,289            |
| Additions and adjustments            | 5,272                 |
| Currency translation adjustment      | 3,609                 |
| <br>Balance at March 31, 2011        | <br>225,170           |
| Additions and adjustments            | <b>5,000</b>          |
| Currency translation adjustment      | (2,001)               |
| <br><b>Balance at March 31, 2012</b> | <br><b>\$ 228,169</b> |

The following table sets forth the components of the intangible assets subject to amortization:

|                       | Estimated Useful Lives (Years) | March 31, 2012        |                          |                  | March 31, 2011        |                          |                  |
|-----------------------|--------------------------------|-----------------------|--------------------------|------------------|-----------------------|--------------------------|------------------|
|                       |                                | Gross Carrying Amount | Accumulated Amortization | Net Book Value   | Gross Carrying Amount | Accumulated Amortization | Net Book Value   |
| Intellectual property | 2-6                            | \$ 26,957             | \$ (11,724)              | \$ 15,233        | \$ 26,962             | \$ (10,744)              | \$ 16,218        |
| Trademarks            | 7-10                           | 13,860                | (13,339)                 | 521              | 13,796                | (12,910)                 | 886              |
| Technology            | 3                              | 4,333                 | (3,893)                  | 440              | 4,394                 | (3,954)                  | 440              |
| Non-compete           | 5-10                           | 5,245                 | (5,173)                  | 72               | 5,246                 | (4,957)                  | 289              |
|                       |                                | <b>\$ 50,395</b>      | <b>\$ (34,129)</b>       | <b>\$ 16,266</b> | <b>\$ 50,398</b>      | <b>\$ (32,565)</b>       | <b>\$ 17,833</b> |

Amortization of intangible assets is included in our Consolidated Statements of Operations as follows:

|   | Fiscal Year Ended March 31, |                     |                     | Five Months Ended March 31, 2010 | Fiscal Year Ended October 31, 2009 |
|---|-----------------------------|---------------------|---------------------|----------------------------------|------------------------------------|
|   | 2012                        | 2011                | 2010                |                                  |                                    |
|   | (Unaudited)                 |                     |                     |                                  |                                    |
| Cost of goods sold                          | \$ 983                      | \$ 3,927            | \$ 109              | \$ 40                            | \$ 478                             |
| Depreciation and amortization               | 656                         | 983                 | 1,234               | 442                              | 1,861                              |
| <br>Total amortization of intangible assets | <br><b>\$ 1,639</b>         | <br><b>\$ 4,910</b> | <br><b>\$ 1,343</b> | <br><b>\$ 482</b>                | <br><b>\$ 2,339</b>                |

Estimated future amortization of intangible assets that will be recorded in cost of goods sold and operating expenses for the years ending March 31 are as follows:

|            |                      |
|------------|----------------------|
| 2013       | \$ 6,083             |
| 2014       | 9,210                |
| 2015       | 932                  |
| 2016       | 12                   |
| 2017       | 12                   |
| Thereafter | 17                   |
| <br>Total  | <br><b>\$ 16,266</b> |



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Accrued expenses and other current liabilities consisted of:

|   | March 31, |           |
|---|-----------|-----------|
|   | 2012      | 2011      |
| Income tax payable and deferred tax liability | \$ 38,490 | \$ 12,481 |
| Licenses                                      | 32,706    | 28,488    |
| Software development royalties                | 31,689    | 63,720    |
| Compensation and benefits                     | 15,435    | 19,699    |
| Marketing and promotions                      | 9,771     | 8,238     |
| Rent and deferred rent obligations            | 5,511     | 5,006     |
| Professional fees                             | 4,387     | 4,093     |
| Deferred consideration for acquisitions       | 1,399     | 2,500     |
| Other   | 17,380    | 14,234    |

Accrued expenses and other current liabilities                    \$ 156,768    \$ 158,459

**12. LONG-TERM DEBT***Credit Agreement*

In October 2011, we entered into a Second Amended and Restated Credit Agreement (the "Credit Agreement") which amended and restated our July 2007 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 October 17, 2016. Revolving loans under the Credit Agreement bear interest at our election of (a) 1.50% to 2.00% above a certain base rate (4.75% at March 31, 2012), or (b) 2.50% to 3.00% above the LIBOR Rate (approximately 2.74% at March 31, 2012), 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 0.375% to 0.50% based on availability. We had no outstanding borrowings at March 31, 2012 related to the Credit Agreement.

Prior to its amendment and restatement in October 2011, the July 2007 Credit Agreement provided for borrowings of up to \$140,000 and was secured by substantially all of our assets and the equity of our subsidiaries. We had no outstanding borrowings at March 31, 2011 related to the July 2007 Credit Agreement.

Availability under the Credit Agreement is restricted by our domestic and United Kingdom based accounts receivable and inventory balances. The Credit Agreement also allows for the issuance of letters of credit in an aggregate amount of up to \$25,000.

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

|                               | March 31, 2012 | March 31, 2011 |
|-------------------------------|----------------|----------------|
| Available borrowings          | \$ 79,069      | \$ 115,503     |
| Outstanding letters of credit | 1,664          | 1,664          |

We recorded \$1,248, \$1,783, \$2,731, \$910 and \$4,782 of interest expense and fees related to the Credit Agreement for the fiscal years ended March 31, 2012, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009, 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

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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 Convertible 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 March 31, 2012, 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 is payable semi-annually in arrears on June 1<sup>st</sup> and December 1<sup>st</sup> of each year, and commenced on December 1, 2009. The 4.375% Convertible Notes mature on June 1, 2014, unless earlier redeemed or repurchased by the Company or converted.

The 4.375% Convertible Notes are convertible at an initial conversion rate of 93.6768 shares of our common stock per \$1 principal amount of 4.375% Convertible Notes (representing an initial conversion price of approximately \$10.675 per share of common stock for a total of approximately 12,927,000 underlying conversion shares) subject to adjustment in certain circumstances. Holders may convert the 4.375% Convertible Notes at their option prior to the close of business on the business day immediately preceding December 1, 2013 only under the following circumstances: (1) during any fiscal quarter commencing after July 31, 2009, if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day; (2) during the five business day period after any 10 consecutive trading day period (the "measurement period") in which the trading price per \$1 principal amount of 4.375% Convertible Notes for each day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate on each such day; (3) if we call the 4.375% Convertible Notes for redemption, at any time prior to the close of business on the third scheduled trading day prior to the redemption date; or (4) upon the occurrence of specified corporate events. On and after December 1, 2013 until the close of business on the third scheduled trading day immediately preceding the maturity date, holders may convert their 4.375% Convertible Notes at any time, regardless of the foregoing circumstances. Upon conversion, the 4.375% 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 of \$10.675 per share for at least 20 trading days during the 30 consecutive trading days ended March 31, 2012. Accordingly, as of April 1, 2012, the 4.375% Convertible Notes may be converted at the holder's option through June 30, 2012. If the 4.375% 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 4.375% Convertible Notes as long-term debt.

At any time on or after June 5, 2012, the Company may redeem all of the outstanding 4.375% Convertible Notes for cash, but only if the last reported sale of our common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the trading day prior to the date we provide notice of redemption to holders of the 4.375% Convertible Notes exceeds 150% of the conversion price in effect on each such trading day. The redemption price will equal 100% of the principal amount of the 4.375% Convertible Notes to be redeemed, plus all accrued and unpaid interest (including additional interest, if any) to, but excluding, the redemption date.

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Upon the occurrence of certain fundamental changes involving the Company, holders of the 4.375% Convertible Notes may require us to purchase all or a portion of their 4.375% 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 4.375% 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 4.375% 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 4.375% 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 4.375% Convertible Notes will automatically become due and payable immediately. As of March 31, 2012, we were in compliance with all covenants and requirements outlined in the indenture governing the 4.375% Convertible Notes.

The 4.375% Convertible Notes are senior unsecured obligations and rank senior in right of payment to our existing and future indebtedness that may be expressly subordinated in right of payment to the 4.375% Convertible Notes; equal in right of payment to our existing and future indebtedness that is not so subordinated; 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.

In connection with the offering of the 4.375% Convertible Notes, we entered into convertible note hedge transactions which are expected to reduce the potential dilution to our common stock upon conversion of the 4.375% Convertible Notes. The convertible note hedge transactions allow the Company to receive shares of its common stock related to the excess conversion value that it would convey to the holders of the 4.375% Convertible Notes upon conversion. The transactions include 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, the Company entered into a warrant transaction with a strike price of \$14.945 per share. The warrants will be net share settled and will cover approximately 12,927,000 shares of the Company's common stock and expire on August 30, 2014, for total proceeds of approximately \$26,300, which was credited to additional paid-in capital.

A portion of the net proceeds from the 4.375% Convertible Notes offering was used to pay the net cost of the convertible note hedge transactions (after such cost was partially offset by proceeds from the sale of the warrants). We recorded approximately \$3,410 of banking, legal and accounting fees related to the issuance of the 4.375% Convertible Notes which were capitalized as debt issuance costs and will be amortized to interest and other, net over the term of the 4.375% Convertible Notes.

The following table provides additional information related to our 4.375% Convertible Notes:

|   | March 31,  |            |
|---|------------|------------|
|   | 2012       | 2011       |
| Additional paid-in capital                      | \$ 42,018  | \$ 42,018  |
| Principal amount of 4.375% Convertible Notes    | \$ 138,000 | \$ 138,000 |
| Unamortized discount of the liability component | 22,369     | 30,761     |
| Net carrying amount of 4.375% Convertible Notes | \$ 115,631 | \$ 107,239 |
| Carrying amount of debt issuance costs          | \$ 1,479   | \$ 2,161   |

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The following table provides the components of interest expense related to our 4.375% Convertible Notes:

|   | Fiscal Year Ended March 31, |           |           | Five Months<br>Ended<br>March 31,<br>2010 | Fiscal Year<br>Ended<br>October 31,<br>2009 |
|---|-----------------------------|-----------|-----------|---|---|
|   | 2012                        | 2011      | 2010      |   |   |
|   | (Unaudited)                 |           |           |   |   |
| Cash interest expense (coupon interest expense)               | \$ 6,038                    | \$ 6,004  | \$ 5,032  | \$ 2,516                                  | \$ 2,516                                    |
| Non-cash amortization of discount on 4.375% Convertible Notes | 8,392                       | 7,374     | 5,457     | 2,802                                     | 2,655                                       |
| Amortization of debt issuance costs                           | 682                         | 682       | 566       | 284                                       | 282   |
| Total interest expense related to 4.375% Convertible Notes    | \$ 15,112                   | \$ 14,060 | \$ 11,055 | \$ 5,602                                  | \$ 5,453                                    |

### ***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" and together with the 4.375% Convertible Notes, the "Convertible Notes"). The issuance of the 1.75% Convertible Notes included \$30,000 related to the exercise of an over-allotment option by the underwriters. Interest on the 1.75% Convertible Notes is payable semi-annually in arrears on June 1<sup>st</sup> and December 1<sup>st</sup> 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.

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

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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 March 31, 2012, 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 cost 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.

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

|   | <b>March 31, 2012</b> |
|---|-----------------------|
| Additional paid-in capital                      | <b>\$ 51,180</b>      |
| Principal amount of 1.75% Convertible Notes     | <b>\$ 250,000</b>     |
| Unamortized discount of the liability component | <b>49,291</b>         |
| Net carrying amount of 1.75% Convertible Notes  | <b>\$ 200,709</b>     |
| Carrying amount of debt issuance costs          | <b>\$ 4,979</b>       |

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

|  | <b>Fiscal Year Ended<br/>March 31, 2012</b> |
|--|---|
| Cash interest expense (coupon interest expense)              | <b>\$ 1,641</b>                             |
| Non-cash amortization of discount on 1.75% Convertible Notes | <b>3,336</b>                                |
| Amortization of debt issuance costs                          | <b>449</b>                                  |
| Total interest expense related to 1.75% Convertible Notes    | <b>\$ 5,426</b>                             |

Table of Contents**13. COMMITMENTS AND CONTINGENCIES**

A summary of annual minimum contractual obligations and commitments as of March 31, 2012 is as follows:

| Fiscal Year Ending<br>March 31, | Licensing<br>and<br>Marketing | Software<br>Development | Operating<br>Leases | Purchase<br>Obligations | Convertible<br>Notes<br>Interest | Convertible<br>Notes | Total             |
|---------------------------------|-------------------------------|-------------------------|---------------------|-------------------------|----------------------------------|----------------------|-------------------|
| 2013                            | \$ 61,591                     | \$ 37,759               | \$ 16,506           | \$ 4,057                | \$ 10,595                        | \$                   | \$ 130,508        |
| 2014                            | 16,520                        | 10,728                  | 14,991              | 4,305                   | 10,413                           |                      | 56,957            |
| 2015                            | 10,825                        | 809                     | 11,073              | 2,341                   | 7,394                            | 138,000              | 170,442           |
| 2016                            | 13,893                        |                         | 9,804               | 899                     | 4,375                            |                      | 28,971            |
| 2017                            | 12,400                        |                         | 4,958               |                         | 4,375                            | 250,000              | 271,733           |
| Thereafter                      | 20,250                        |                         | 29,828              |                         |                                  |                      | 50,078            |
| <b>Total</b>                    | <b>\$ 135,479</b>             | <b>\$ 49,296</b>        | <b>\$ 87,160</b>    | <b>\$ 11,602</b>        | <b>\$ 37,152</b>                 | <b>\$ 388,000</b>    | <b>\$ 708,689</b> |

*Licensing and Marketing Agreements:* Our licensing commitments primarily consist of obligations to holders of intellectual property rights for use of their trademarks, copyrights, technology or other intellectual property rights in the development of our products. In addition, we have certain minimum marketing support commitments where we commit to spend specified amounts related to marketing our products. Licensing and marketing commitments expire at various times through September 2018 and primarily reflect our agreements with major sports leagues and players' associations. Certain of our licensing and marketing agreements also contain provisions that would impose penalties if we fail to meet agreed upon software release dates.

*Software Development Agreements:* We make payments to third-party software developers that include contractual payments to developers under several software development agreements that expire at various times through July 2014. Our aggregate outstanding software development commitments assume satisfactory performance by third-party software developers.

*Lease Commitments:* Our offices are occupied under non-cancelable operating leases expiring at various times through March 2023. We also lease certain furniture, equipment and automobiles under non-cancelable leases expiring through March 2020. Some of the leases have fixed rent increases and also include inducements to enter into the lease. The effect of such amounts are deferred and recognized on a straight-line basis over the related lease term. Included in the cash commitments for operating leases above is a lease assumption without economic benefit related to our discontinued operations. See Note 2 to our Consolidated Financial Statements for additional information regarding discontinued operations. Rent expense amounted to \$16,018, \$14,088, \$13,809, \$6,131 and \$13,601 for the fiscal years ended March 31, 2012, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009, respectively.

*Purchase obligations:* These obligations are primarily related to agreements to purchase services that are enforceable and legally binding on the Company that specifies all significant terms, including fixed, minimum or variable pricing provisions; and the approximate timing of the transactions, expiring at various times through October 2015.

*Contingent Consideration:* Part of our business acquisition strategy has been to make a portion of the purchase price of certain acquisitions dependent on product delivery or future product sales. The amounts and timing of these payments are currently not fixed or determinable. See Note 5 for a discussion of our contingent commitments related to our business acquisitions.

*Employee Savings Plan:* We maintain a 401(k) retirement savings plan and trust. Our 401(k) plan is offered to all eligible employees and participants may make voluntary contributions. The Company

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matched a portion of the contributions during the fiscal years ended March 31, 2012, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009 and the matching contribution expense incurred by us was \$3,130, \$2,767, \$2,616, \$1,146 and \$2,665, respectively.

*Income Taxes:* At March 31, 2012, the Company had recorded a liability for gross unrecognized tax benefits of \$15,621 for which we are unable to make a reasonable and reliable estimate of the period in which these liabilities will be settled with the respective tax authorities, therefore, these liabilities have not been included in the contractual obligations table.

*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.

## 14. INCOME TAXES

Components of income (loss) before income taxes are as follows:

|  | Fiscal Year Ended March 31, |           |             | Five Months<br>Ended<br>March 31,<br>2010 | Fiscal Year<br>Ended<br>October 31,<br>2009 |
|--|-----------------------------|-----------|-------------|---|---|
|  | 2012                        | 2011      | 2010        |   |   |
|  | (Unaudited)                 |           |             |   |   |
| Domestic   | \$ (62,655)                 | \$ 29,926 | \$ (38,182) | \$ 2,688                                  | \$ (78,825)                                 |
| Foreign  | (41,182)                    | 33,697    | (56,733)    | (24,974)                                  | (47,125)                                    |
| Income (loss) from continuing operations before income taxes | \$ (103,837)                | \$ 63,623 | \$ (94,915) | \$ (22,286)                               | \$ (125,950)                                |

Provision for current and deferred income taxes consists of the following:

|                             | Fiscal Year Ended March 31, |          |            | Five Months<br>Ended<br>March 31,<br>2010 | Fiscal Year<br>Ended<br>October 31,<br>2009 |
|-----------------------------|-----------------------------|----------|------------|---|---|
|                             | 2012                        | 2011     | 2010       |   |   |
|                             | (Unaudited)                 |          |            |   |   |
| <b>Current:</b>             |                             |          |            |   |   |
| U.S. federal                | \$ (729)                    | \$ 3,193 | \$ (3,666) | \$ (4,566)                                | \$ (3,870)                                  |
| U.S. state and local        | (55)                        | 1,521    | 52         | 124                                       | (779)                                       |
| Foreign                     | 2,769                       | 6,189    | 8,925      | 5,404                                     | 6,475                                       |
| Total current income taxes  | 1,985                       | 10,903   | 5,311      | 962                                       | 1,826                                       |
| <b>Deferred:</b>            |                             |          |            |   |   |
| U.S. federal                | 1,712                       | (798)    | 8,486      | 3,458                                     | 3,633                                       |
| U.S. state and local        | 126                         | (45)     | 293        | 255                                       | (40)  |
| Foreign                     | 40                          | (241)    | (945)      | (409)                                     | (932)                                       |
| Total deferred income taxes | 1,878                       | (1,084)  | 7,834      | 3,304                                     | 2,661                                       |
| Provision for income taxes  | \$ 3,863                    | \$ 9,819 | \$ 13,145  | \$ 4,266                                  | \$ 4,487                                    |



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A reconciliation of our effective tax rate to the U.S. statutory federal income tax rate is as follows:

|  | Fiscal Year Ended March 31, |         |                     | Five Months<br>Ended<br>March 31,<br>2010 | Fiscal Year<br>Ended<br>October 31,<br>2009 |
|--|-----------------------------|---------|---------------------|---|---|
|  | 2012                        | 2011    | 2010<br>(Unaudited) |   |   |
| U.S. federal statutory rate                        | (35.0)%                     | 35.0%   | (35.0)%             | (35.0)%                                   | (35.0)%                                     |
| Foreign tax rate differential                      | 16.5%                       | (7.1)%  | 29.0%               | 61.7%                                     | 22.1%                                       |
| State and local taxes, net of U.S. federal benefit | 0.0%                        | 1.3%    | (1.3)%              | 0.8%                                      | (1.9)%                                      |
| Federal valuation allowance                        | 20.5%                       | (19.8)% | 15.1%               | (4.7)%                                    | 23.9%                                       |
| Other  | 1.7%                        | 6.0%    | 6.0%                | (3.7)%                                    | (5.5)%                                      |
| <br>   |                             |         |                     |   |   |
| Effective tax rate                                 | 3.7%                        | 15.4%   | 13.8%               | 19.1%                                     | 3.6%  |

The effects of temporary differences that gave rise to our deferred tax assets and liabilities were as follows:

|   | March 31,  |            |
|---|------------|------------|
|   | 2012       | 2011       |
| Current deferred tax assets and (liabilities):                |            |            |
| Sales returns and allowances (including bad debt)             | \$ 7,017   | \$ 4,883   |
| Inventory reserves  | 815        | 798        |
| Deferred rent   | 1,843      | 3,405      |
| Deferred revenue  | 2,339      | 2,741      |
| Other   | 14,920     | 16,881     |
| Capitalized software and depreciation                         | (46,886)   | (19,706)   |
| <br>  |            |            |
| Total current deferred tax (liabilities) assets               | (19,952)   | 9,002      |
| Less: Valuation allowance                                     | (15,921)   | (9,002)    |
| <br>  |            |            |
| Net current deferred tax liability <sup>(a)</sup>             | (35,873)   |            |
| Non-current deferred tax assets and (liabilities):            |            |            |
| Equity compensation   | 2,574      | 2,535      |
| Domestic net operating loss carryforward                      | 166,887    | 116,652    |
| Foreign tax credit carryforward                               | 7,680      | 7,348      |
| Convertible debt  | (26,380)   | (11,380)   |
| Foreign net operating loss carryforwards                      | 22,898     | 11,947     |
| Intangible amortization                                       | (1,867)    | 1,100      |
| Capitalized software and depreciation                         | (22,511)   | (25,522)   |
| <br>  |            |            |
| Total non-current deferred tax asset                          | 149,281    | 102,680    |
| Less: Valuation allowance                                     | (118,247)  | (105,641)  |
| <br>  |            |            |
| Net non-current deferred tax asset (liability) <sup>(b)</sup> | 31,034     | (2,961)    |
| <br>  |            |            |
| Deferred taxes, net   | \$ (4,839) | \$ (2,961) |

(a) Included in accrued expenses and other current liabilities as of March 31, 2012.

(b) Included in other assets as of March 31, 2012 and other long-term liabilities as of March 31, 2011.

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The valuation allowance is primarily attributable to net operating losses for which no benefit is provided due to uncertainty with respect to their realization. The net deferred tax liability is primarily the result of deferred tax liabilities related to goodwill which cannot be used to offset deferred tax assets.

At March 31, 2012, we had domestic net operating loss carryforwards totaling \$428,464, which will begin to expire in 2027. In addition, we had foreign net operating loss carryforwards of \$194,218, of which \$5,840

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will begin to expire in 2013, \$173,340 will begin to expire in 2016, \$1,614 will expire in 2023, and the remainder may be carried forward indefinitely.

The total amount of undistributed earnings of foreign subsidiaries was approximately \$151,400 at March 31, 2012 and \$200,900 at March 31, 2011. It is our intention to reinvest undistributed earnings of our foreign subsidiaries and thereby indefinitely postpone their remittance. Accordingly, no provision has been made for foreign withholding taxes or U.S. income taxes which may become payable if undistributed earnings of foreign subsidiaries are repatriated. It is not practicable to estimate the tax liability that would arise if these earnings were remitted.

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 return positions comply with applicable tax law and that we have adequately provided for reasonably foreseeable assessments of additional taxes. Additionally, we believe that any assessments in excess of the amounts provided for will not have a material adverse effect on the Consolidated Financial Statements.

As of March 31, 2012 and 2011, we had gross unrecognized tax benefits, including interest and penalties, of \$22,406 and \$15,091, respectively, all of which would affect our effective tax rate if realized.

The aggregate changes to the liability for gross uncertain tax positions, excluding interest and penalties, were as follows:

|                                       | Fiscal Year Ended March 31, |                  |                 | Five Months<br>Ended<br>March 31,<br>2010 | Fiscal Year<br>Ended<br>October 31,<br>2009 |
|---------------------------------------|-----------------------------|------------------|-----------------|---|---|
|                                       | 2012                        | 2011             | 2010            |   |   |
|                                       |                             |                  | (Unaudited)     |   |   |
| Balance, beginning of period          | \$ 13,352                   | \$ 9,195         | \$ 13,182       | \$ 18,423                                 | \$ 18,412                                   |
| Additions:                            |                             |                  |                 |   |   |
| Current year tax positions            | 1,741                       | 1,077            | 6,318           | 1,942                                     | 5,630                                       |
| Prior year tax positions              | 5,805                       | 4,097            | 2,237           |   | 3,316                                       |
| Reduction of prior year tax positions |                             |                  | (6,034)         | (4,350)                                   | (4,013)                                     |
| Settlements                           |                             |                  | (7,033)         | (6,487)                                   | (4,762)                                     |
| Lapse of statute of limitations       | (750)                       | (1,273)          |                 |   |   |
| Other, net                            | 180                         | 256              | 525             | (333)                                     | (160)                                       |
| <b>Balance, end of period</b>         | <b>\$ 20,328</b>            | <b>\$ 13,352</b> | <b>\$ 9,195</b> | <b>\$ 9,195</b>                           | <b>\$ 18,423</b>                            |

We recognize interest and penalties related to uncertain tax positions in the provision for income taxes in our Consolidated Statements of Operations. For the fiscal years ended March 31, 2012 and 2011, we recognized an increase in interest and penalties of approximately \$339 and \$5, respectively. For the fiscal year ended March 31, 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009, we recognized a decrease in interest and penalties of approximately \$2,507, \$4,480 and \$1,773, respectively. The gross amount of interest and penalties accrued as of March 31, 2012 and 2011 was approximately \$2,078 and \$1,739, respectively.

We are generally no longer subject to audit for U.S. federal income tax returns for periods prior to our fiscal year ended October 31, 2008 and state income tax returns for periods prior to the fiscal year ended October 31, 2004. With few exceptions, we are no longer subject to income tax examinations in non-U.S. jurisdictions for years prior to our fiscal year ended October 31, 2005. U.S. federal taxing authorities have completed examinations of our income tax returns through the fiscal years ended October 31, 2006 and commenced their audit of fiscal years ending October 31, 2008 and 2009. Certain U.S. state taxing authorities are currently examining our income tax returns for fiscal years ending October 31, 2004 through October 31, 2006. In addition, tax authorities in certain non-U.S. jurisdictions are currently examining our

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income tax returns. The determination as to further adjustments to our gross unrecognized tax benefits during the next 12 months is not practicable.

We believe that we have provided for any reasonably foreseeable outcomes related to our tax audits and that any settlement will not have a material adverse effect on our consolidated financial statements. However, there can be no assurances as to the possible outcomes.

**15. STOCK-BASED COMPENSATION**

Our stock-based compensation plans are broad-based, long-term retention programs intended to attract and retain talented employees and align stockholder and employee interests. For similar reasons, we also granted non-employee equity awards, which are subject to variable accounting, to ZelnickMedia in connection with their contract to provide executive management services to us. We began replacing stock option awards with restricted stock awards during the fiscal year ended October 31, 2007. We issue shares to employees on the date the restricted stock is granted and therefore shares granted have voting rights, participate in dividends and are considered issued and outstanding.

In April 2009, our stockholders approved our 2009 Stock Incentive Plan (the "2009 Plan"). The aggregate number of shares issuable under this plan is 6,409,000, representing 4,900,000 new shares available for grant approved by our stockholders and 1,509,000 shares allocated from the Incentive Stock Plan and 2002 Stock Option Plan (the "2002 Plan"). In April 2010, our stockholders approved an amendment to the 2009 Plan to increase the available shares for issuance by 2,750,000. In September 2011, our stockholders approved Amendment No. 2 to the 2009 Plan to increase the available shares for issuance by 5,000,000. The 2009 Plan is administered by the Compensation Committee of the Board of Directors and allows for awards of restricted stock, deferred stock and other stock-based awards of our common stock to employees and non-employees. As of March 31, 2012, there were approximately 4,366,000 shares available for issuance under the 2009 Plan.

In April 2008, our stockholders approved an increase to the number of shares available for grant under the Incentive Stock Plan from 4,500,000 to 6,500,000. The Incentive Stock Plan is administered by the Compensation Committee of the Board of Directors and allows for awards of restricted stock, deferred stock and other stock-based awards of our common stock to employees and non-employees. As of March 31, 2012, there were no shares available for issuance under the Incentive Stock Plan.

In June 2002, our stockholders approved our 2002 Plan, as previously adopted by our Board of Directors, pursuant to which officers, directors, employees and consultants may receive options to purchase shares of our common stock. The aggregate amount of shares issuable under the 2002 Plan was 11,000,000 shares. As of March 31, 2012, there were no shares available for issuance under the 2002 Plan.

Subject to the provisions of the plans, the Board of Directors or any Committee appointed by the Board of Directors, has the authority to determine the individuals to whom the equity awards are to be granted, the number of shares to be covered by each equity award, the vesting period, restrictions, if any, on the equity award, the terms and conditions of the equity award.

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The following table summarizes stock-based compensation expense resulting from stock options and restricted stock included in our Consolidated Statements of Operations:

|   | Fiscal Year Ended March 31, |           |                     | Five Months<br>Ended<br>March 31,<br>2010 | Fiscal Year<br>Ended<br>October 31,<br>2009 |
|---|-----------------------------|-----------|---------------------|---|---|
|   | 2012                        | 2011      | 2010<br>(Unaudited) |   |   |
| Cost of goods sold                              | \$ 5,144                    | \$ 10,695 | \$ 5,213            | \$ 2,152                                  | \$ 6,094                                    |
| Selling and marketing                           | 5,042                       | 4,659     | 3,321               | 1,492                                     | 2,551                                       |
| General and administrative                      | 19,963                      | 9,781     | 14,319              | 4,908                                     | 14,119                                      |
| Research and development                        | 3,345                       | 3,630     | 3,650               | 1,927                                     | 3,169                                       |
| Stock-based compensation expense                | 33,494                      | 28,765    | 26,503              | 10,479                                    | 25,933                                      |
| Capitalized stock-based<br>compensation expense | 11,220                      | 11,266    | 13,521              | 4,617                                     | 11,413                                      |
| Total stock-based compensation<br>expense       | \$ 44,714                   | \$ 40,031 | \$ 40,024           | \$ 15,096                                 | \$ 37,346                                   |

During the fiscal years ended March 31, 2012, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009, we recorded \$13,365, \$3,159, \$6,456, \$1,588 and \$6,502, respectively, of stock-based compensation expense for non-employee awards, which was included in general and administrative expenses.

We capitalize and amortize stock-based compensation awards in accordance with our software development cost accounting policy.

#### *Restricted Stock*

Restricted stock awards granted to employees under our stock-based compensation plans generally vest over 3 years from the date of grant. Certain restricted stock awards granted to key officers, senior-level employees, and key employees vest based on market conditions, primarily related to the performance of the price of our common stock.

In June 2008, pursuant to an amendment to our Management Agreement, we granted 600,000 shares of restricted stock to ZelnickMedia that vested annually over a three year period and 900,000 shares of market-based restricted stock that vest over a four year period through 2012, provided that the Company's Total Shareholder Return (as defined in the relevant grant agreements) is at or higher than the 75<sup>th</sup> percentile of the NASDAQ Industrial Index measured annually on a cumulative basis. For the fiscal years ended March 31, 2012, 2011 and 2010 and fiscal year ended October 31, 2009, we recorded expenses of \$499, \$1,594, \$2,467 and \$2,534, respectively, and for the five months ended March 31, 2010, we recorded a benefit of \$104 of stock-based compensation (a component of general and administrative expenses) related to these grants of restricted stock.

In addition, pursuant to the New Management Agreement, we granted 1,100,000 shares of restricted stock to ZelnickMedia that will vest annually through April 1, 2015 and 1,650,000 shares of market-based restricted stock that vest through April 1, 2015, provided that the price of our common stock outperforms 75% of the companies in the NASDAQ Composite Index measured annually on a cumulative basis. For the fiscal year ended March 31, 2012, we recorded an expense of \$12,866 of stock-based compensation (a component of general and administrative expenses) related to these grants of restricted stock.

We measure the fair value of our market-based awards to employees and non-employees using the Monte Carlo Simulation method, which takes into account assumptions such as the expected volatility of our common stock, the risk-free interest rate based on the contractual term of the award, expected dividend yield, vesting schedule and the probability that the market conditions of the award will be achieved. The estimated value of market-based restricted stock awards granted to employees during the fiscal years

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ended March 31, 2012, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009 was \$16.29, \$15.36, \$8.96, \$9.25 and \$6.00 per share, respectively.

Each reporting period, we remeasure the fair value of the unvested portion of the market-based restricted stock awards granted to ZelnickMedia during the fiscal years ended March 31, 2012 and October 31, 2008. For the fiscal year ended March 31, 2012, the estimated value of the awards granted to ZelnickMedia during the fiscal year ended March 31, 2012 was \$12.10 per share. For the fiscal years ended March 31, 2012, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009, the estimated value of the awards granted to ZelnickMedia during the fiscal year ended October 31, 2008 was \$0.02, \$1.11, \$3.20, \$2.58 and \$4.67 per share, respectively.

The following table summarizes the weighted-average assumptions used in the Monte Carlo Simulation method:

|                                 | Fiscal Year Ended        |                              |                          |                              |                          |                              |
|---------------------------------|--------------------------|------------------------------|--------------------------|------------------------------|--------------------------|------------------------------|
|                                 | March 31, 2012           |                              | March 31, 2011           |                              | March 31, 2010           |                              |
|                                 | Employee<br>Market-Based | Non-Employee<br>Market-Based | Employee<br>Market-Based | Non-Employee<br>Market-Based | Employee<br>Market-Based | Non-Employee<br>Market-Based |
| Risk-free interest rate         | 0.4%                     | 0.4%                         | 1.4%                     | 0.5%                         | 1.6%                     | 1.4%                         |
| Expected stock price volatility | 58.2%                    | 46.3%                        | 52.6%                    | 55.0%                        | 58.0%                    | 66.4%                        |
| Expected service period (years) | 2.0                      | 3.1                          | 2.0                      | 4.0                          | 2.0                      | 3.3                          |
| Dividends                       | None                     | None                         | None                     | None                         | None                     | None                         |

|                                 | Five Months Ended<br>March 31, 2010 |                              | Fiscal Year Ended<br>October 31, 2009 |                              |
|---------------------------------|-------------------------------------|------------------------------|---------------------------------------|------------------------------|
|                                 | Employee<br>Market-Based            | Non-Employee<br>Market-Based | Employee<br>Market-Based              | Non-Employee<br>Market-Based |
|                                 | Risk-free interest rate             | 1.6%                         | 1.1%                                  | 1.2%                         |
| Expected stock price volatility | 57.2%                               | 69.2%                        | 60.8%                                 | 61.4%                        |
| Expected service period (years) | 2.0                                 | 3.5                          | 2.0                                   | 2.9                          |
| Dividends                       | None                                | None                         | None                                  | None                         |

The following table summarizes the activity in non-vested restricted stock awarded to employees and ZelnickMedia under our stock-based compensation plans:

|  | Shares<br>(in thousands) | Weighted<br>Average Fair<br>Value on<br>Grant Date |
|--|--------------------------|--|
| Non-vested restricted stock at March 31, 2011        | 5,118                    | \$ 9.68  |
| <b>Granted</b>                                       | <b>2,970</b>             | <b>13.27</b>                                       |
| <b>Vested</b>  | <b>(2,439)</b>           | <b>10.77</b>                                       |
| <b>Forfeited</b>                                     | <b>(102)</b>             | <b>11.27</b>                                       |
| <b>Non-vested restricted stock at March 31, 2012</b> | <b>5,547</b>             | <b>\$ 11.06</b>                                    |

As of March 31, 2012, the total future unrecognized compensation cost, net of estimated forfeitures, related to outstanding unvested restricted stock was approximately \$37,911 and will be recognized as compensation expense on a straight-line basis over the remaining vesting period, or capitalized as software development costs.

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### Stock Options

As of March 31, 2012, all of the outstanding stock options are exercisable and expire at various times through the fiscal year ending March 31, 2018. Options granted generally vested over a period of three to four years and expire within a period of five to ten years.

Pursuant to the Management Agreement, in August 2007, we issued stock options to ZelnickMedia to acquire 2,009,075 shares of our common stock at an exercise price of \$14.74 per share, which vested over 36 months and expire 10 years from the date of grant. Each month, we remeasured the fair value of the unvested portion of such options and recorded compensation expense for the difference between total earned compensation at the end of the period and total earned compensation at the beginning of the period. As a result, changes in the price of our common stock affected compensation expense or benefit recognized from period to period. For the fiscal years ended March 31, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009, we recorded \$1,565, \$3,989, \$1,692 and \$3,968, respectively, of stock-based compensation related to this option grant.

The following table summarizes the activity in stock options awarded to employees and ZelnickMedia under our stock-based compensation plans and also includes non-plan options:

| (options in thousands)   | Fiscal Year Ended |                                 | Fiscal Year Ended |                                 | Five Months Ended |                                 | Fiscal Year Ended |                                 |
|--|-------------------|---------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|  | March 31, 2012    | March 31, 2011                  | March 31, 2011    | March 31, 2010                  | March 31, 2010    | March 31, 2010                  | October 31, 2009  | October 31, 2009                |
|  | Options           | Weighted Average Exercise Price | Options           | Weighted Average Exercise Price | Options           | Weighted Average Exercise Price | Options           | Weighted Average Exercise Price |
| Outstanding at beginning of period   | 2,317             | \$ 15.37                        | 3,514             | \$ 18.17                        | 3,803             | \$ 18.45                        | 4,347             | \$ 18.92                        |
| Exercised  | (22)              | 10.96                           | (65)              | 11.30                           |                   |                                 | (2)               | 10.42                           |
| Forfeited  | (131)             | 19.52                           | (1,132)           | 24.30                           | (289)             | 21.89                           | (542)             | 22.24                           |
| <b>Outstanding at end of period</b>  | <b>2,164</b>      | <b>\$ 15.16</b>                 | <b>2,317</b>      | <b>\$ 15.37</b>                 | <b>3,514</b>      | <b>\$ 18.17</b>                 | <b>3,803</b>      | <b>\$ 18.45</b>                 |
| <b>Exercisable at period-end</b>   | <b>2,164</b>      | <b>\$ 15.16</b>                 | <b>2,317</b>      | <b>\$ 15.37</b>                 | <b>3,183</b>      | <b>\$ 18.43</b>                 | <b>3,133</b>      | <b>\$ 19.08</b>                 |
| Remaining weighted average contractual life of options exercisable (years) |                   | 5.0                             |                   | 5.7                             |                   | 4.3                             |                   | 4.1                             |

The total estimated fair value of options vested during the fiscal years ended March 31, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009 was \$1,880, \$5,225, \$1,928 and \$7,848, respectively.

The following summarizes information about stock options outstanding and exercisable at March 31, 2012 (options in thousands):

| Options Outstanding and Exercisable |          |                   |   |                                 |                           |
|-------------------------------------|----------|-------------------|---|---------------------------------|---------------------------|
| Exercise Price Ranges               |          | Number of Options | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Aggregate Intrinsic Value |
| From                                | To       |                   |   |                                 |                           |
| \$14.74                             | \$ 14.74 | 2,009             | 5.4   | \$ 14.74                        |                           |
| 20.51                               | 20.80    | 155               | 0.1   | 20.59                           |                           |
|                                     |          | 2,164             | 5.0   | 15.16                           | \$ 1,296                  |

The fair value of our stock options was estimated using the Black-Scholes option-pricing model. This model requires the input of assumptions regarding a number of complex and subjective variables that would usually have a significant effect on the fair value estimate. These variables included, but were not

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limited to, the volatility of our common stock price, the current market price of our common stock, the risk-free interest rate and expected exercise term. The following table summarizes the weighted average assumptions used in the Black-Scholes option-pricing model to value outstanding stock options awarded to ZelnickMedia in August 2007 and employee stock options, which were last granted during the fiscal year ended October 31, 2007:

|                                      | Fiscal Year Ended<br>March 31, |       | Five Months<br>Ended March 31,<br>2010 | Fiscal Year Ended<br>October 31, |  |
|--------------------------------------|--------------------------------|-------|--|----------------------------------|--|
|                                      | 2011                           | 2010  |  | 2009                             |  |
| Risk-free interest rate              | 3.4%                           | 3.4%  | 3.6%                                   | 3.2%                             |  |
| Expected stock price volatility      | 57.2%                          | 62.3% | 59.6%                                  | 67.4%                            |  |
| Expected term until exercise (years) | 7.3                            | 8.0   | 7.7                                    | 8.4                              |  |
| Dividends                            | None                           | None  | None                                   | None                             |  |

*Valuation Assumptions*

Generally, our assumptions are based on historical information and judgment is required to determine if historical trends could be indicators of future outcomes. For the fiscal years ended March 31, 2012, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009, we estimated stock price volatility of all stock-based compensation awards using a combination of historical volatility and implied volatility for publicly traded options on our common stock. In addition, stock-based compensation expense is calculated based on the number of awards that are ultimately expected to vest, and therefore are reduced for estimated forfeitures. Our estimate of expected forfeitures is based on our historical annual forfeiture rate of 5%. The estimated forfeiture rate, which is evaluated at each balance sheet date throughout the life of the award, provides a time-based adjustment of forfeited shares. The estimated forfeiture rate is reassessed at each balance sheet date and may have changed based on new facts and circumstances.

**16. 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, and 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.

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

| Net revenue by geographic region: | Fiscal Year Ended March 31, |                     |                   | Five Months<br>Ended March 31,<br>2010 | Fiscal Year<br>Ended October 31,<br>2009 |
|-----------------------------------|-----------------------------|---------------------|-------------------|--|--|
|                                   | 2012                        | 2011                | 2010              |  |  |
|                                   | (Unaudited)                 |                     |                   |  |  |
| United States                     | \$ 449,189                  | \$ 619,731          | \$ 454,805        | \$ 231,357                             | \$ 400,674                               |
| Europe                            | 246,260                     | 364,017             | 207,305           | 77,550                                 | 218,195                                  |
| Asia Pacific                      | 68,601                      | 81,652              | 44,764            | 18,474                                 | 43,185                                   |
| Canada and Latin America          | 61,773                      | 71,476              | 56,067            | 31,850                                 | 39,003                                   |
| <b>Total net revenue</b>          | <b>\$ 825,823</b>           | <b>\$ 1,136,876</b> | <b>\$ 762,941</b> | <b>\$ 359,231</b>                      | <b>\$ 701,057</b>                        |

Net revenue by product platform was as follows:

| Net revenue by product platform: | Fiscal Year Ended March 31, |                     |                   | Five Months<br>Ended March 31,<br>2010 | Fiscal Year<br>Ended October 31,<br>2009 |
|----------------------------------|-----------------------------|---------------------|-------------------|--|--|
|                                  | 2012                        | 2011                | 2010              |  |  |
|                                  | (Unaudited)                 |                     |                   |  |  |
| Microsoft Xbox 360               | \$ 370,032                  | \$ 454,362          | \$ 350,754        | \$ 163,826                             | \$ 283,094                               |
| Sony PlayStation 3               | 300,530                     | 442,115             | 159,097           | 87,019                                 | 113,117                                  |
| PC and other                     | 87,318                      | 110,511             | 70,814            | 33,119                                 | 81,866                                   |
| Nintendo Wii                     | 19,700                      | 57,148              | 61,774            | 30,672                                 | 76,543                                   |
| Sony PSP                         | 18,521                      | 21,676              | 46,240            | 15,644                                 | 51,716                                   |
| Nintendo DS                      | 16,796                      | 30,735              | 32,392            | 12,935                                 | 45,823                                   |
| Sony PlayStation 2               | 12,926                      | 20,329              | 41,870            | 16,016                                 | 48,898                                   |
| <b>Total net revenue</b>         | <b>\$ 825,823</b>           | <b>\$ 1,136,876</b> | <b>\$ 762,941</b> | <b>\$ 359,231</b>                      | <b>\$ 701,057</b>                        |

## 17. INTEREST AND OTHER, NET

|                                       | Fiscal Year Ended March 31, |                    |                    | Five Months<br>Ended March 31,<br>2010 | Fiscal Year<br>Ended October 31,<br>2009 |
|---------------------------------------|-----------------------------|--------------------|--------------------|--|--|
|                                       | 2012                        | 2011               | 2010               |  |  |
|                                       | (Unaudited)                 |                    |                    |  |  |
| Interest income (expense), net        | \$ (20,616)                 | \$ (15,248)        | \$ (13,584)        | \$ (6,461)                             | \$ (9,611)                               |
| Gain (loss) on sale                   | 2,200                       | (106)              | (3,831)            | (3,831)                                |  |
| Foreign currency exchange gain (loss) | (1,311)                     | 1,414              | (609)              | (704)                                  | 4,289                                    |
| Other                                 | 156                         | 421                | (770)              | (356)                                  | (449)                                    |
| <b>Interest and other, net</b>        | <b>\$ (19,571)</b>          | <b>\$ (13,519)</b> | <b>\$ (18,794)</b> | <b>\$ (11,352)</b>                     | <b>\$ (5,771)</b>                        |

During the fiscal year ended March 31, 2012, we sold certain intellectual property assets for \$2,200 in cash and additional contingent royalties, resulting in a gain on sale of \$2,200. The disposition did not involve a significant amount of assets or materially affect our operating results.

During the fiscal year and five months ended March 31, 2010, we sold the shares of our wholly-owned Italian subsidiary for approximately \$6,072 in cash and notes receivable resulting in a loss on sale of approximately \$3,831. The disposition of our Italian subsidiary did not involve a significant amount of assets or materially affect our operating results.

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**18. SUPPLEMENTARY FINANCIAL INFORMATION**

The following table provides details of our valuation and qualifying accounts:

|  | Beginning<br>Balance | Additions <sup>(1)</sup> | Deductions          | Other             | Ending<br>Balance |
|--|----------------------|--------------------------|---------------------|-------------------|-------------------|
| <i>Fiscal Year Ended March 31, 2012</i>              |                      |                          |                     |                   |                   |
| Valuation allowance for deferred income taxes        | \$ 114,643           | 19,525                   |                     |                   | \$ 134,168        |
| Sales returns, price protection and other allowances | \$ 42,104            | \$ 119,462               | \$ (110,085)        | \$ (1,191)        | \$ 50,290         |
| Allowance for doubtful accounts                      | 796                  |                          | (84)                |                   | 712               |
| <b>Total accounts receivable allowances</b>          | <b>\$ 42,900</b>     | <b>\$ 119,462</b>        | <b>\$ (110,169)</b> | <b>\$ (1,191)</b> | <b>\$ 51,002</b>  |
| <i>Fiscal Year Ended March 31, 2011</i>              |                      |                          |                     |                   |                   |
| Valuation allowance for deferred income taxes        | \$ 141,231           |                          | (26,588)            |                   | \$ 114,643        |
| Sales returns, price protection and other allowances | \$ 71,764            | \$ 90,119                | \$ (119,356)        | \$ (423)          | \$ 42,104         |
| Allowance for doubtful accounts                      | 771                  | 43                       | (32)                | 14                | 796               |
| Total accounts receivable allowances                 | \$ 72,535            | \$ 90,162                | \$ (119,388)        | \$ (409)          | \$ 42,900         |
| <i>Fiscal Year Ended March 31, 2010 (Unaudited)</i>  |                      |                          |                     |                   |                   |
| Valuation allowance for deferred income taxes        | \$ 116,177           | 25,054                   |                     |                   | \$ 141,231        |
| Sales returns, price protection and other allowances | \$ 39,868            | \$ 87,305                | \$ (55,400)         | \$ (9)            | \$ 71,764         |
| Allowance for doubtful accounts                      | 5,878                | (882)                    | (4,819)             | 594               | 771               |
| Total accounts receivable allowances                 | \$ 45,746            | \$ 86,423                | \$ (60,219)         | \$ 585            | \$ 72,535         |
| <i>Five Months Ended March 31, 2010</i>              |                      |                          |                     |                   |                   |
| Valuation allowance for deferred income taxes        | \$ 130,024           | 11,207                   |                     |                   | \$ 141,231        |
| Sales returns, price protection and other allowances | \$ 35,330            | \$ 64,946                | \$ (27,132)         | \$ (1,380)        | \$ 71,764         |
| Allowance for doubtful accounts                      | 1,861                | (1,010)                  |                     | (80)              | 771               |
| Total accounts receivable allowances                 | \$ 37,191            | \$ 63,936                | \$ (27,389)         | \$ (1,460)        | \$ 72,535         |
| <i>Fiscal Year Ended October 31, 2009</i>            |                      |                          |                     |                   |                   |
| Valuation allowance for deferred income taxes        | \$ 104,305           | 25,719                   |                     |                   | \$ 130,024        |
| Sales returns, price protection and other allowances | \$ 54,718            | \$ 70,527                | \$ (89,621)         | \$ (294)          | \$ 35,330         |
| Allowance for doubtful accounts                      | 4,044                | 1,988                    | (4,819)             | 648               | 1,861             |
| Total accounts receivable allowances                 | \$ 58,762            | \$ 72,515                | \$ (94,440)         | \$ 354            | \$ 37,191         |

(1)

Includes price concessions of \$85,977, \$59,894, \$61,147, \$53,237 and \$49,354; returns of \$9,608, \$8,721, \$19,940, \$10,653 and \$12,592; and other sales allowances including rebates, discounts and cooperative advertising of \$23,877, \$21,504, \$6,218, \$1,056 and \$8,581 for the fiscal years ended March 31, 2012, 2011 and 2010, five months ended March 31, 2010 and fiscal year ended October 31, 2009, respectively.



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The following tables set forth quarterly supplementary data for each of the years in the two-year period ended March 31, 2012:

| Fiscal Year Ended March 31, 2012                             | Quarter    |             |            |             |
|--|------------|-------------|------------|-------------|
|  | First      | Second      | Third      | Fourth      |
| Net revenue  | \$ 334,380 | \$ 107,034  | \$ 236,325 | \$ 148,084  |
| Product costs  | 98,451     | 40,137      | 68,803     | 47,845      |
| Software development costs and royalties                     | 84,602     | 17,248      | 27,236     | 35,401      |
| Internal royalties   | 16,512     | 6,579       | 9,907      | 1,158       |
| Licenses   | 11,654     | 10,739      | 20,521     | 32,062      |
| Cost of goods sold   | 211,219    | 74,703      | 126,467    | 116,466     |
| Gross profit   | 123,161    | 32,331      | 109,858    | 31,618      |
| Selling and marketing  | 74,683     | 28,773      | 40,228     | 40,065      |
| General and administrative                                   | 30,577     | 25,785      | 29,705     | 35,133      |
| Research and development                                     | 16,519     | 15,998      | 16,823     | 14,822      |
| Depreciation and amortization                                | 3,245      | 3,284       | 2,854      | 2,740       |
| Total operating expenses                                     | 125,024    | 73,840      | 89,610     | 92,760      |
| Income (loss) from operations                                | (1,863)    | (41,509)    | 20,248     | (61,142)    |
| Interest and other, net                                      | (3,680)    | (4,333)     | (6,190)    | (5,368)     |
| Income (loss) from continuing operations before income taxes | (5,543)    | (45,842)    | 14,058     | (66,510)    |
| Provision (benefit) for income taxes                         | 3,076      | 1,419       | (127)      | (505)       |
| Income (loss) from continuing operations                     | (8,619)    | (47,261)    | 14,185     | (66,005)    |
| Loss from discontinued operations, net of taxes              | (94)       | (110)       | (81)       | (831)       |
| Net income (loss)  | \$ (8,713) | \$ (47,371) | \$ 14,104  | \$ (66,836) |
| Earnings (loss) per share:                                   |            |             |            |             |
| Continuing operations  | \$ (0.11)  | \$ (0.57)   | \$ 0.16    | \$ (0.78)   |
| Discontinued operations                                      |            |             |            | (0.01)      |
| Basic earnings (loss) per share                              | \$ (0.11)  | \$ (0.57)   | \$ 0.16    | \$ (0.79)   |
| Continuing operations  | \$ (0.11)  | \$ (0.57)   | \$ 0.16    | \$ (0.78)   |
| Discontinued operations                                      |            |             |            | (0.01)      |
| Diluted earnings (loss) per share                            | \$ (0.11)  | \$ (0.57)   | \$ 0.16    | \$ (0.79)   |

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| Fiscal Year Ended March 31, 2011                             | Quarter    |            |            |             |
|--|------------|------------|------------|-------------|
|  | First      | Second     | Third      | Fourth      |
| Net revenue  | \$ 375,390 | \$ 244,972 | \$ 334,259 | \$ 182,255  |
| Product costs  | 101,077    | 67,026     | 98,067     | 60,766      |
| Software development costs and royalties                     | 64,038     | 44,592     | 40,276     | 23,491      |
| Internal royalties   | 67,462     | 15,803     | 22,001     | 9,766       |
| Licenses   | 11,469     | 9,221      | 28,306     | 26,020      |
| Cost of goods sold   | 244,046    | 136,642    | 188,650    | 120,043     |
| Gross profit   | 131,344    | 108,330    | 145,609    | 62,212      |
| Selling and marketing  | 49,805     | 46,602     | 47,861     | 32,026      |
| General and administrative                                   | 26,202     | 26,620     | 27,492     | 29,170      |
| Research and development                                     | 16,181     | 18,074     | 18,073     | 17,248      |
| Depreciation and amortization                                | 3,765      | 4,005      | 3,501      | 3,728       |
| Total operating expenses                                     | 95,953     | 95,301     | 96,927     | 82,172      |
| Income (loss) from operations                                | 35,391     | 13,029     | 48,682     | (19,960)    |
| Interest and other, net                                      | (4,738)    | (1,644)    | (4,013)    | (3,124)     |
| Income (loss) from continuing operations before income taxes | 30,653     | 11,385     | 44,669     | (23,084)    |
| Provision for income taxes                                   | 3,291      | 3,347      | 3,849      | (668)       |
| Income (loss) from continuing operations                     | 27,362     | 8,038      | 40,820     | (22,416)    |
| Income (loss) from discontinued operations, net of taxes     | (1,048)    | (4,699)    | 39         | 362         |
| Net income (loss)  | \$ 26,314  | \$ 3,339   | \$ 40,859  | \$ (22,054) |
| Earnings (loss) per share:                                   |            |            |            |             |
| Continuing operations  | \$ 0.32    | \$ 0.09    | \$ 0.47    | \$ (0.27)   |
| Discontinued operations                                      | (0.01)     | (0.05)     |            |             |
| Basic earnings (loss) per share                              | \$ 0.31    | \$ 0.04    | \$ 0.47    | \$ (0.27)   |
| Continuing operations  | \$ 0.31    | \$ 0.09    | \$ 0.45    | \$ (0.27)   |
| Discontinued operations                                      | (0.01)     | (0.05)     |            |             |
| Diluted earnings (loss) per share                            | \$ 0.30    | \$ 0.04    | \$ 0.45    | \$ (0.27)   |

Basic and diluted earnings per share are computed independently for each of the quarters presented. Therefore, the sum of quarterly basic and diluted earnings per share information may not equal annual basic and diluted earnings per share.



