

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

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-KT**

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

OR

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

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

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

(Exact name of registrant as specified in its charter)

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

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

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

**10012**  
(Zip Code)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**EXPLANATORY NOTE**

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

**CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS**

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

**PART I**

**Item 1. Business**

**General**

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

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

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

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

\*

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

Source:

*International Development Group, February 2010*

We were incorporated under the laws of the State of Delaware in 1993 and are headquartered in New York, New York with 2,202 employees globally. Our telephone number is (646) 536-2842 and our website address is [www.take2games.com](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 Transition Report on Form 10-KT. You may also obtain copies of our reports without charge by writing to:

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

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

### **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 for approximately \$44.0 million, including \$37.3 million in cash, subject to purchase price adjustments, and up to an additional \$6.7 million, subject to the achievement of certain items. The financial results of this business, which were previously reported as our distribution business, have been classified as discontinued operations in our Consolidated Statements of Operations for all periods presented. The assets and liabilities of this business are reflected as assets and liabilities of discontinued operations in the Consolidated Balance Sheets for all periods presented. See Note 3 to our Consolidated Financial Statements for additional information regarding discontinued operations.

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**Strategy**

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

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

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

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

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

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

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

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

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

**Our Publishing and Software Development Businesses**

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

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

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

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

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

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

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

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



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

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

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

**Intellectual Property**

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

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

**Arrangements with Platform Manufacturers**

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

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

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

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

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

**Manufacturing**

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

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

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

**Sales**

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

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

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

### **Marketing**

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

We market titles by:

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

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

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

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

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

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

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

**Product Procurement**

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

**Competition**

In our publishing business, we compete with:

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

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

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

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

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

***Trends and Factors Impacting our Business***

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

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

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

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

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

**International Operations**

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

**Segment and Geographic Information**

See Note 18 to the Consolidated Financial Statements.

**Employees**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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 impact our future profitability.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Item 1B. Unresolved Staff Comments**

None

**Item 2. Properties**

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

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

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

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

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

**Item 3. Legal Proceedings**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Dividend Policy*

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

*Securities Authorized for Issuance under Equity Compensation Plans*

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



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*Stock Performance Graph*

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

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

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

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

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**Item 6. Selected Financial Data**

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

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

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

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

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

**Overview**

***Our Business***

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

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

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

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

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

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

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

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

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

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

**Discontinued operations**

In February 2010, we completed the sale to 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 for approximately \$44.0 million, including \$37.3 million in

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

***Trends and Factors Impacting our Business***

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

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

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

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

**Critical Accounting Policies and Estimates**

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

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

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

***Revenue Recognition***

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

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

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

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

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

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

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

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

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

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

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

**Software Development Costs and Licenses**

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

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

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

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



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

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

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

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

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

***Fair Value Estimates***

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

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

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

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

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

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

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

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

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***Stock-based Compensation***

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

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

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

***Income Taxes***

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

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

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

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

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

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

**Recently Issued Accounting Pronouncements**

***Business Combinations***

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

***Intangibles Goodwill and Other***

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

***Debt***

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

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

***Earnings Per Share***

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

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

***Measuring Liabilities at Fair Value***

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

***Amendments to Variable Interest Entity Guidance***

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

***Multiple-Deliverable Revenue Arrangements***

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

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

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

***Fluctuations in Operating Results and Seasonality***

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

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

**Note on Climate Change**

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

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**Results of Operations**

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

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

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

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

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

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

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

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

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



Table of Contents**Operating Expenses**

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

(1)

Includes stock-based compensation expense, as follows:

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

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

Selling and marketing

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

General and administrative

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

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

Research and development

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

Depreciation and amortization

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

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#### *Interest and other, net*

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

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

#### *Provision for income taxes*

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

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

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

#### *Discontinued operations*

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

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

### *Net loss and loss per share*

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

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

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

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

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

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

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

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



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

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

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

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

**Operating Expenses**

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

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

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

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

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#### Selling and marketing

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

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

#### General and administrative

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

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

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

#### Research and development

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

#### Depreciation and amortization

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

Table of Contents*Interest and other, net*

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

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

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

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

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

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

Table of Contents**Discontinued Operations**

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

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

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

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

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

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

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



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

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

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

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

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

Table of Contents**Operating Expenses**

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

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

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

Selling and marketing

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

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

General and administrative

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

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

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

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

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#### Research and development

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

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

#### Business reorganization and related costs

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

#### *Interest and other, net*

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

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

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

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

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

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

***Discontinued Operations***

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

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

**Liquidity and Capital Resources**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fiscal Year Ending March 31,	Licensing and Marketing		Software Development	Operating Leases	Convertible Notes Interest	Convertible Notes	Total
	2011	\$ 58,433	\$ 27,607	\$ 17,140	\$ 6,038	\$	
2012	60,842	1,386	15,310	6,038		83,576	
2013	66,425		13,176	6,038		85,639	
2014	2,000		9,888	6,038		17,926	
2015			4,633	3,019	138,000	145,652	
Thereafter			5,517			5,517	
<b>Total</b>	<b>\$ 187,700</b>	<b>\$ 28,993</b>	<b>\$ 65,664</b>	<b>\$ 27,171</b>	<b>\$ 138,000</b>	<b>\$ 447,528</b>	

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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 6 to the Consolidated Financial Statements for a full discussion of our potential acquisition commitments.

*Income Taxes.* At March 31, 2010, the Company had recorded a liability for gross unrecognized tax benefits of \$8.0 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. See Note 15 to the Consolidated Financial Statements for additional information.

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.

Our cash and cash equivalents increased by \$43.8 million for the five months ended March 31, 2010 as follows:

(thousands of dollars)	Five Months Ended March 31,		Fiscal Year Ended October 31,		
	2010	2009	2009	2008	2007
Cash provided by (used in) operating activities	\$ 6,579	\$ (67,923)	\$ (210,204)	\$ 151,426	\$ (64,045)
Cash provided by (used in) investing activities	35,622	(4,392)	(16,989)	(16,780)	(24,611)
Cash provided by financing activities		4	45,788	77,000	25,694
Effects of exchange rates on cash and cash equivalents	1,554	(3,828)	3,211	(9,126)	8,239
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ 43,755</b>	<b>\$ (76,139)</b>	<b>\$ (178,194)</b>	<b>\$ 202,520</b>	<b>\$ (54,723)</b>

At March 31, 2010 we had \$145.8 million of cash and cash equivalents, compared to \$102.1 million at October 31, 2009. Our increase in cash and cash equivalents from October 31, 2009 was primarily due to cash provided by operating activities and investing activities.

The increase in cash provided by operating activities was primarily due to the collection of accounts receivable from revenue generated by our fourth quarter fiscal year ended October 31, 2009 releases and holiday season sales, cash income generated during the five months ended March 31, 2010, partially offset by the payment of accounts payable, accrued expenses and software development costs.

The increase in cash provided by investing activities was primarily due to the sale of our Jack of all Games third party distribution business in February 2010.

Cash and cash equivalents were positively impacted by \$1.6 million during the five months ended March 31, 2010 as a result of foreign currency exchange movements.

### *Off-Balance Sheet Arrangements*

As of March 31, 2010, October 31, 2009 and 2008, 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



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arrangements and are not exposed to any financing, liquidity, market, or credit risk that could arise if we had engaged in such relationships.

**International Operations**

Net revenue earned outside of the United States is principally generated by our operations in Europe, Canada, Australia, and Asia. For the five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2009 and 2008, approximately 34.1%, 39.8%, 42.2% and 49.1%, respectively, of our net revenue was earned outside of the United States. We are subject to risks inherent in foreign trade, including increased credit risks, tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays and international political, regulatory and economic developments, all of which can have a significant impact 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.

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

*Interest Rate Risk*

Historically, fluctuations in interest rates have not had a significant impact on our operating results. Under our Credit Agreement, outstanding balances bear interest at our election of (a) 2.00% to 2.50% above a certain base rate with a minimum 6.00% base rate (8.00% at March 31, 2010), or (b) 3.25% to 3.75% above the LIBOR rate with a minimum 4.00% LIBOR Rate (7.25% at March 31, 2010), with the margin rate subject to the achievement of certain average liquidity levels. Changes in market rates may impact our future interest expense if there is an outstanding balance on our line of credit. The Convertible Notes pay interest semi-annually at a fixed rate of 4.375% per annum and we expect that there will be no fluctuation related to the Convertible Notes impacting 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 five months ended March 31, 2010, our foreign currency translation loss adjustment was approximately \$11.9 million. We recognized a foreign exchange transaction loss in interest and other, net in our Consolidated Statements of Operations for the five months ended March 31, 2010 and fiscal year ended October 31, 2008 of \$0.7 million and \$5.0 million, respectively, and a foreign exchange transaction gain for the five months ended March 31, 2009 and fiscal year ended October 31, 2009 of \$4.2 million and \$4.3 million, respectively.

We use forward foreign exchange contracts to mitigate foreign currency risk related to foreign currency transactions. These transactions primarily relate to non-functional currency denominated inter-company

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funding loans, non-functional currency denominated accounts receivable and non-functional currency denominated accounts payable. We do not enter into derivative financial instruments for trading purposes. At March 31, 2010, we had forward contracts outstanding to purchase \$19.2 million of foreign currency in exchange for U.S. dollars and \$17.6 million of U.S. dollars in exchange for foreign currencies with a maturity of less than one year. For the five months ended March 31, 2010 we recorded a \$2.3 million loss related to foreign currency forward contracts in interest and other, net on the Consolidated Statements of Operations.

For the five months ended March 31, 2010, 34.1% 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 3.4%, while a hypothetical 10% decrease in the value of the U.S. dollar against all currencies would increase revenues by 3.4%. 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 20 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**

*Evaluation of Disclosure Controls and Procedures*

Based on an evaluation under the supervision and with the participation of management, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures as defined in rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act") were effective as of the end of the period covered by this report to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

*Inherent Limitations Over Internal Controls*

Our internal control over financial reporting is 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. Our internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

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(iii)

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Management, including our principal executive officer and principal financial officer, does not expect that our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods is subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*Management's Annual 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, 2010. Our independent registered public accounting firm, E&Y, has issued an attestation report on our internal control over financial reporting. The report on the audit of internal control over financial reporting appears on page 70 of this Form 10-KT.

*Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting during the five month transition period ended March 31, 2010, 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 which was held on April 15, 2010. The Company filed the Proxy Statement on February 26, 2010. 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 section entitled "Security Ownership of Certain Beneficial Owners and Management" 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.

Table of Contents**PART IV****Item 15. Exhibits, Financial Statement Schedules**

(a)

The following documents are filed as part of this Report:

- (i) Financial Statements. See Index to Financial Statements on page 68 of this Report.
- (ii) Financial Statement Schedule. See Note 20 to the Consolidated Financial Statements.
- (iii) Index to Exhibits:

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Filing Date	Exhibit	
3.1	Restated Certificate of Incorporation	10-K	2/12/2004	3.1	
3.1.1	Certificate of Designation, dated March 11, 1998	10-K	2/12/2004	3.1.1	
3.1.2	Certificate of Amendment of Restated Certificate of Incorporation, dated April 30, 1998	10-K	2/12/2004	3.1.2	
3.1.3	Certificate of Amendment of Restated Certificate of Incorporation, dated November 17, 2003	10-K	2/12/2004	3.1.3	
3.1.4	Certificate of Amendment of the Restated Certificate of Incorporation, dated April 23, 2009.	8-K	4/23/2009	3.1	
3.2	Amended and Restated By-laws of the Company	8-K	4/4/2007	99.3	
3.2.1	Amendment dated March 16, 2007 to the Company's Bylaws	8-K	3/22/2007	3(ii)	
3.2.2	Amendment dated April 10, 2007 to the Company's Bylaws	8-K	4/13/2007	3(ii)	
3.2.3	Amendment to the Amended and Restated By-laws of the Company dated February 14, 2008	8-K	2/15/2008	3.1	
3.2.4	Amendment to the Amended and Restated By-laws of the Company dated March 24, 2008	8-K	3/26/2008	3.1	
3.2.5	Amended and Restated Bylaws of the Company	8-K	2/24/2010	3.1	
3.3	Certificate of Designation of Series B Preferred Stock of the Company	8-K	3/26/2008	3.2	
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	8-K	6/4/2009	4.2	

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4.3	Form of Note (included in Exhibit 4.2)	8-K	6/4/2009	4.3
10.1	2002 Stock Option Plan <sup>+</sup>	10-Q	9/8/2005	10.2
10.2	Incentive Stock Plan <sup>+</sup>	10-Q	9/8/2005	10.1
10.3	Amendment to the 2002 Stock Option Plan <sup>+</sup>	8-K	4/23/2009	10.2
10.4	Amendment to the Incentive Stock Plan <sup>+</sup>	8-K	4/23/2009	10.3

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Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Filing Date	Exhibit	
10.5	2009 Stock Incentive Plan <sup>+</sup>	8-K	4/23/2009	10.1	
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	Form of Stock Option Grant Letter <sup>+</sup>	10-K	1/31/2006	10.15	
10.9	Employment Agreement dated February 28, 2007 between the Company and Seth Krauss. <sup>+</sup>	8-K	3/6/2007	10.1	
10.10	Form of Employee Restricted Stock Agreement <sup>+</sup>	10-Q	6/5/2009	10.2	
10.11	Form of Non-Employee Director Restricted Stock Agreement <sup>+</sup>	10-Q	6/5/2009	10.3	
10.12	Management Agreement between the Company and ZelnickMedia Corporation dated March 30, 2007 <sup>+</sup>	8-K	4/4/2007	99.1	
10.13	Employment Agreement between the Company and Lainie Goldstein dated July 16, 2007 <sup>+</sup>	8-K	7/17/2007	10.1	
10.14	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	
10.15	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	
10.16	Employment Agreement, dated February 14, 2008, by and between the Company and Benjamin Feder <sup>+</sup>	8-K	2/15/2008	10.2	
10.17	Employment Agreement, dated February 14, 2008, by and between the Company and Karl Slatoff <sup>+</sup>	8-K	2/15/2008	10.3	
10.18	Take-Two Interactive Software, Inc. Change in Control Employee Severance Plan <sup>+</sup>	8-K	3/7/2008	10.1	
10.19	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	
10.20	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	
10.21	Employment Agreement, dated March 16, 2009, between the Company and Manuel Sousa <sup>+</sup>	10-Q	6/5/2009	10.4	
10.22	Licensed Publishing Agreement dated April 1, 2000 between Sony Computer Entertainment America, Inc. and the Company <sup>*</sup>	8-K	5/8/2002	99.1	
10.23	Xbox Publisher License Agreement dated December 14, 2000 between Microsoft Corporation and the Company <sup>*</sup>	10-K	2/12/2002	10.9	
10.24	Confidential License Agreement for the Wii Console dated August 20,	10-Q	9/10/2007	10.1	





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Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form	Filing Date	Exhibit Filed Herewith
10.25	Credit Agreement dated as of July 3, 2007, by and among the Company and 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 Lenders that are signatory thereto and Wells Fargo Foothill, Inc., as the arranger and administrative agent	8-K	7/9/2007	10.1
10.26	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
10.27	Amended and Restated Credit Agreement dated as of November 16, 2007, by and among the Company and 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 Lenders that are signatory thereto and Wells Fargo Foothill, Inc., as the arranger and administrative agent	8-K	11/20/2007	99.1
10.28	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
10.29	Lease Agreement between the Company and Moklam Enterprises, Inc. dated July 1, 2002	10-Q	9/16/2002	10.2
10.30	Xbox 360 Publisher License Agreement dated November 17, 2006, between Microsoft Licensing, GP and the Company*	10-Q	6/9/2006	10.1
10.31	First Amendment to the Amended and Restated Credit Agreement, dated as of February 7, 2008, by and between the Company and 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 Lenders that are signatory thereto, Take Two GB Ltd., Wells Fargo Foothill, Inc., as the arranger and administrative agent and CitiCapital Commercial Corporation, as the syndication agent	8-K	2/13/2008	10.1
10.32	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
10.33	Convertible Note Hedge Transaction Confirmation, May 28, 2009, between the Company and JPMorgan Chase Bank, National Association, as dealer	8-K	6/3/2009	10.1
10.34	Convertible Note Hedge Transaction Confirmation, May 28, 2009, between the Company and Barclays Bank PLC, as dealer	8-K	6/3/2009	10.2

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Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Filing Date	Exhibit	
10.35	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	
10.36	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	
10.37	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	
10.38	Warrant Transaction Confirmation, dated May 28, 2009, between the Company and Barclays Bank PLC, as dealer	8-K	6/3/2009	10.6	
10.39	Warrant Transaction Confirmation, dated May 29, 2009, between the Company and JPMorgan Chase Bank, National Association, as dealer	8-K	6/3/2009	10.7	
10.40	Warrant Transaction Confirmation, dated May 29, 2009, between the Company and Barclays Bank PLC, as dealer	8-K	6/3/2009	10.8	
10.41	Second Amendment to Employment Agreement, dated December 16, 2009, by and between the Company and Lainie Goldstein*	10-K	12/18/2009	10.41	
10.42	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	Agreement by and among the Company and the persons and entities listed on Schedule A thereto, whereby the Company agrees to include certain persons in its slate of nominees for directors of the Company at the Company's 2010 Annual Meeting of Stockholders	8-K	1/21/2010	10.1	
10.45	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	
21.1	Subsidiaries of the Company				X
23.1	Consent of Ernest & 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

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Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Filing Date	Exhibit	
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

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+  
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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**TAKE-TWO INTERACTIVE SOFTWARE, INC.  
FIVE MONTHS ENDED MARCH 31, 2010**

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<u>Consolidated Statements of Operations For the five months ended March 31, 2010 and 2009 (unaudited) and fiscal years ended October 31, 2009, 2008 and 2007</u>	<u>72</u>
<u>Consolidated Statements of Cash Flows For the five months ended March 31, 2010 and 2009 (unaudited) and fiscal years ended October 31, 2009, 2008 and 2007</u>	<u>73</u>
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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, 2010 and October 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for the five months ended March 31, 2010 and for each of the three years in the period 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, 2010 and October 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for the five months ended March 31, 2010 and for each of the three years in the period ended October 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, Take-Two Interactive Software, Inc. adopted ASC Topic 470 with respect to accounting for debt with conversion and other options on November 1, 2009 and changed its method of accounting for uncertainty in income taxes effective November 1, 2007.

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, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 17, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York

December 17, 2010

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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, 2010, 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, 2010, 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, 2010 and October 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for the five months ended March 31, 2010 and for each of the three years in the period ended October 31, 2009 of Take-Two Interactive Software, Inc. and our report dated December 17, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York

December 17, 2010

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

	March 31, 2010	October 31, 2009 (as adjusted)	October 31, 2008 (as adjusted)
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 145,838	\$ 102,083	\$ 280,277
Accounts receivable, net of allowances of \$72,535, \$37,191 and \$58,762 at March 31, 2010, October 31, 2009 and October 31, 2008, respectively	74,135	181,065	116,005
Inventory	24,479	26,687	38,479
Software development costs and licenses	114,608	167,341	113,436
Prepaid taxes and taxes receivable	8,654	8,814	23,763
Prepaid expenses and other	51,704	47,473	43,477
Assets of discontinued operations	7,182	95,104	108,337
 Total current assets	 426,600	 628,567	 723,774
Fixed assets, net	23,571	27,049	31,224
Software development costs and licenses, net of current portion	139,340	75,521	61,991
Goodwill	216,289	220,881	216,657
Other intangibles, net	22,729	23,224	25,556
Other assets	10,747	31,886	8,294
Assets of discontinued operations, net of current portion			15,856
 Total assets	 \$ 839,276	 \$ 1,007,128	 \$ 1,083,352
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 45,913	\$ 114,379	\$ 95,570
Accrued expenses and other current liabilities	134,449	172,784	148,782
Deferred revenue	11,944	6,334	56,163
Liabilities of discontinued operations	17,561	60,796	64,904
 Total current liabilities	 209,867	 354,293	 365,419
Long-term debt	99,865	97,063	70,000
Income taxes payable	7,980	10,146	26,399
Other long-term liabilities	941		6,416
 Total liabilities	 318,653	 461,502	 468,234
Commitments and contingencies			
Stockholders' equity:			
Preferred stock, \$.01 par value, 5,000 shares authorized			
Common stock, \$.01 par value, 150,000 shares authorized; 83,977, 81,925 and 77,694 shares issued and outstanding at March 31, 2010,	840	819	777

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October 31, 2009 and October 31, 2008,  
respectively

Additional paid-in capital	<b>674,477</b>	658,794	603,579
Retained earnings (accumulated deficit)	<b>(150,981)</b>	(122,179)	18,275
Accumulated other comprehensive income (loss)	<b>(3,713)</b>	8,192	(7,513)
Total stockholders' equity	<b>520,623</b>	545,626	615,118
Total liabilities and stockholders' equity	<b>\$ 839,276</b>	\$ 1,007,128	\$ 1,083,352

*See accompanying Notes.*



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

	Five Months Ended March 31,		Fiscal Year Ended October 31,		
	2010	2009 (unaudited)	2009 (as adjusted)	2008 (as adjusted)	2007 (as adjusted)
Net revenue	\$ 359,231	\$ 297,347	\$ 701,057	\$ 1,231,106	\$ 695,828
Cost of goods sold	222,396	195,393	467,576	709,719	475,737
Gross profit	136,835	101,954	233,481	521,387	220,091
Selling and marketing	72,402	59,845	141,962	154,396	115,203
General and administrative	43,466	58,169	130,376	166,228	145,657
Research and development	25,279	31,139	63,748	63,929	48,455
Business reorganization and related				4,478	17,467
Depreciation and amortization	6,622	7,793	17,574	21,322	21,206
Total operating expenses	147,769	156,946	353,660	410,353	347,988
Income (loss) from operations	(10,934)	(54,992)	(120,179)	111,034	(127,897)
Interest and other, net	(11,352)	1,671	(5,771)	(3,279)	(629)
Income (loss) from continuing operations before income taxes	(22,286)	(53,321)	(125,950)	107,755	(128,526)
Provision (benefit) for income taxes	4,266	(4,392)	4,487	13,271	9,943
Income (loss) from continuing operations	(26,552)	(48,929)	(130,437)	94,484	(138,469)
Income (loss) from discontinued operations, net of taxes	(2,250)	2,668	(10,017)	2,613	63
Net income (loss)	\$ (28,802)	\$ (46,261)	\$ (140,454)	\$ 97,097	\$ (138,406)
Earnings (loss) per share:					
Continuing operations	\$ (0.34)	\$ (0.64)	\$ (1.70)	\$ 1.23	\$ (1.93)
Discontinued operations	(0.03)	0.03	(0.13)	0.03	
Basic earnings (loss) per share	\$ (0.37)	\$ (0.61)	\$ (1.83)	\$ 1.26	\$ (1.93)
Continuing operations	\$ (0.34)	\$ (0.64)	\$ (1.70)	\$ 1.22	\$ (1.93)
Discontinued operations	(0.03)	0.03	(0.13)	0.03	
Diluted earnings (loss) per share	\$ (0.37)	\$ (0.61)	\$ (1.83)	\$ 1.25	\$ (1.93)

See accompanying Notes.

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

	Five Months Ended March 31,		Fiscal Year Ended October 31,							
	2010	2009	2009	2008	2007					
		(unaudited)	(as adjusted)	(as adjusted)	(as adjusted)					
<b>Operating activities:</b>										
Net income (loss)	\$	(28,802)	\$	(46,261)	\$	(140,454)	\$	97,097	\$	(138,406)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:										
Amortization and impairment of software development costs and licenses		50,956	43,735	105,521	146,102	106,675				
Depreciation and amortization		6,622	7,793	17,574	21,322	21,206				
Loss (income) from discontinued operations		2,250	(2,668)	10,017	(2,613)	(63)				
Amortization and impairment of intellectual property		40	409	478	2,350	8,626				
Stock-based compensation		10,479	9,909	25,933	40,387	17,329				
Loss on sale of subsidiary		3,831				3,080				
Deferred income taxes		761	(357)	3,432	(391)	(1,718)				
Amortization of discount on Convertible Notes		2,802		2,655						
Amortization of debt issuance costs		521	237	852	562	120				
Other, net		1,086	(4,158)	(4,456)	4,539	228				
Changes in assets and liabilities, net of effect from purchases of businesses:										
Accounts receivable		106,930	52,987	(57,275)	(50,392)	45,910				
Inventory		1,893	8,104	11,792	(7,403)	(2,015)				
Software development costs and licenses		(61,563)	(54,536)	(164,828)	(157,076)	(160,643)				
Prepaid expenses, other current and other non-current assets		(6,420)	7,362	(309)	11,608	13,578				
Deferred revenue		5,610	(31,848)	(49,829)	(5,381)	227				
Accounts payable, accrued expenses, income taxes payable and other liabilities		(95,604)	(76,562)	13,728	36,672	33,681				
Net cash provided by (used in) discontinued operations		5,187	17,931	14,965	14,043	(11,860)				
Net cash provided by (used in) operating activities		6,579	(67,923)	(210,204)	151,426	(64,045)				
<b>Investing activities:</b>										
Purchase of fixed assets		(3,149)	(4,392)	(11,176)	(12,123)	(19,923)				
Cash received from sale of business		2,512				2,778				
Net cash provided by (used in) discontinued operations		37,250			2,846	(1,671)				
Payments in connection with business combinations, net of cash acquired		(991)		(5,813)	(7,503)	(5,795)				
Net cash provided by (used in) investing activities		35,622	(4,392)	(16,989)	(16,780)	(24,611)				
<b>Financing activities:</b>										
Proceeds from exercise of employee stock options			4	22	25,962	9,503				
Net (payments) borrowings on line of credit				(70,000)	52,000	18,000				
Proceeds from issuance of Convertible Notes				138,000						
Purchase of convertible note hedges				(43,592)						
Issuance of warrants to purchase common stock				26,342						
Payment of debt issuance costs				(4,984)	(962)	(1,809)				
Net cash provided by financing activities			4	45,788	77,000	25,694				
Effects of exchange rates on cash and cash equivalents		1,554	(3,828)	3,211	(9,126)	8,239				
Net increase (decrease) in cash and cash equivalents		43,755	(76,139)	(178,194)	202,520	(54,723)				
Cash and cash equivalents, beginning of year		102,083	280,277	280,277	77,757	132,480				

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Cash and cash equivalents, end of period	\$	145,838	\$	204,138	\$	102,083	\$	280,277	\$	77,757
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*See accompanying Notes.*

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

	Fiscal Year Ended October 31, 2008
<b>Supplemental information of businesses acquired:</b>	
Fair value of assets acquired	
Current assets	\$ 381
Non-current assets	9,296
Intangible assets	1,300
Goodwill	29,518
Less, liabilities assumed	
Current liabilities	(1,519)
 Net assets of businesses acquired, excluding cash	 \$ 38,976
 Net cash paid for businesses acquired	 \$ 4,128
Additional consideration in connection with acquisitions	5,620
Issuance of common stock in connection with acquisitions	29,228
 Total consideration	 \$ 38,976

	Five Months Ended March 31,		Fiscal Year Ended October 31,		
	2010	2009	2009	2008	2007
	(unaudited)				
<b>Supplemental data:</b>					
Interest paid	\$ 3,680	\$ 2,855	\$ 4,371	\$ 3,018	\$ 895
Income taxes paid (received)	\$ 10,519	\$ 3,423	\$ (5,423)	\$ (16,484)	\$ (13,439)

See accompanying Notes.

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

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Paid-in	Earnings	Other	Stockholders'
			Capital	(Accumulated	Income	Equity
				Deficit)	(Loss)	
Balance, October 31, 2006	72,745	\$ 727	\$ 482,104	\$ 60,659	\$ 6,902	\$ 550,392
Net loss				(138,406)		(138,406)
Change in cumulative foreign currency translation adjustment					27,959	27,959
Proceeds from exercise of stock options	679	7	10,174			10,181
Stock-based compensation			25,409			25,409
Issuance of restricted stock, net of forfeitures and cancellations	849	9	(2,342)			(2,333)
Income tax effect of stock option cancellations and forfeitures			(2,048)			(2,048)
Balance, October 31, 2007	74,273	743	513,297	(77,747)	34,861	471,154
Net income				97,097		97,097
Change in cumulative foreign currency translation adjustment					(42,374)	(42,374)
Cumulative effect of adopting uncertain tax position guidance				(1,075)		(1,075)
Proceeds from exercise of stock options	1,236	12	25,950			25,962
Stock-based compensation			35,341			35,341
Issuance of common stock in connection with acquisition	1,550	16	29,212			29,228
Issuance of restricted stock, net of forfeitures and cancellations	635	6	(221)			(215)
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
Adoption of new accounting guidance related to convertible debt			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 (as adjusted)	81,925	819	658,794	(122,179)	8,192	545,626
Net loss				(28,802)	(11,905)	(28,802)
						(11,905)

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Change in cumulative foreign currency translation adjustment						
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
<b>Balance, March 31, 2010</b>	<b>83,977</b>	<b>\$ 840</b>	<b>\$ 674,477</b>	<b>\$ (150,981)</b>	<b>\$ (3,713)</b>	<b>\$ 520,623</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 global publisher and developer of interactive entertainment software. Our business consists of our wholly-owned labels Rockstar Games and 2K, which publishes its titles under 2K Games, 2K Sports and 2K Play. We develop, publish, market and sell software titles for the following gaming and entertainment hardware platforms:

Sony PlayStation® 3	Microsoft Xbox 360®	Nintendo Wii	Apple iPhone®
PlayStation® 2		DS	iPod® touch
PSP® (PlayStation® Portable)			iPad

We also develop and publish software titles for the PC and for digital distribution.

**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. This Form 10-KT is a Transition Report and includes financial information for the five-month period ended March 31, 2010 (the "Transition Period"). For comparative purposes, an unaudited Statement of Operations and Statement of Cash Flows have been included for the five-month period ended March 31, 2009. The reported numbers for the five-month period ended March 31, 2009, 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 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. As discussed in Notes 2 and 3, the Company has reclassified certain prior year amounts related to the retroactive adoption of new convertible debt accounting guidance and adjustments related to our discontinued operations.

**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. 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 3 for additional information regarding discontinued operations. Unless otherwise noted, amounts and disclosures

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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 accounting principles generally accepted in the United States of America 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 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 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, 2010, October 31, 2009 and 2008 we had \$14,667, \$9,235 and \$3,199, 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.

The estimated fair value of the Company's Convertible Notes (defined in Note 12) is \$106,201 at March 31, 2010. 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. From time to time, we use forward exchange contracts to mitigate foreign currency risk associated with foreign currency assets and liabilities, consisting primarily of cash balances and certain non-functional currency denominated inter-company funding loans, non-functional currency denominated accounts receivable and non-functional currency denominated accounts payable. We do not enter into derivative financial instruments for trading purposes. We do not designate foreign currency forward contracts as hedging instruments and accordingly, we mark to market our foreign currency forward contracts each period and any gains and losses are recognized in net income (loss). At March 31, 2010, we had forward contracts outstanding to purchase \$19,200 of foreign currency in exchange for U.S. dollars and to purchase \$17,600 of U.S. dollars in exchange for foreign currencies with maturities of less than one year. The fair value of our foreign currency forward contracts was immaterial as of March 31, 2010. At October 31, 2009, we had forward contracts outstanding to purchase \$30,400 of foreign currency in exchange for U.S. dollars with a maturity of less than one year. At October 31, 2008, we had no outstanding foreign currency forward contracts. For the five months ended March 31, 2010 and fiscal year ended October 31, 2009, we recorded losses of \$2,300 and \$73, respectively, related to foreign currency forward contracts in interest and other, net on the Consolidated Statements of Operations.

**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.



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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 55.7%, 44.8%, 56.4%, 40.4% and 56.4% of net revenue during the five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2009, 2008 and 2007, respectively. As of March 31, 2010, October 31, 2009 and 2008, the five largest customers accounted for 65.7%, 59.7% and 39.4% of our gross accounts receivable, respectively. Customers that individually accounted for more than 10% of our gross accounts receivable balance comprised 56.1%, 50.3% and 12.5% of such balances at March 31, 2010, October 31, 2009 and 2008, respectively. Except for the largest customers noted above, all receivable balances from the remaining individual customers are less than 10% of our net receivable balance. 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 impact 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.

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. We capitalize all development and production service payments to third party developers as software development costs and licenses. On a product-by-product basis, we reduce software development costs and record a corresponding amount of research and development expense for any costs incurred by third party developers prior to establishing technological feasibility of a product. We typically enter into agreements with third party developers after completing the technical design documentation for our products and therefore record the design costs leading up to a signed development contract as research and development expense. When we contract with third party developers, we generally select 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

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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.

**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

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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 earlier if indicators of impairment exist. We use a combination of the market approach, which uses market capitalization and comparable companies' data, and the income approach, which uses discounted cash flows. 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.

**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 impact of these revisions is recorded in income tax expense or benefit in the period in which they become known.

In June 2006, the Financial Accounting Standards Board ("FASB") clarified the accounting for uncertainty in income taxes by prescribing application of a more likely than not threshold to the recognition and derecognition of uncertain tax positions. It also prescribed guidance on measurement, classification, interest and penalties, accounting for interim periods, and disclosures. The Company adopted the new

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guidance in November 2007. See Note 16 for a detailed discussion of the Company's uncertain tax positions.

**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. 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 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.

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.

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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 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 five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2009, 2008 and 2007 amounted to \$51,481, \$41,153, \$93,390, \$100,452 and \$76,807, 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.

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The following table sets forth the computation of basic and diluted earnings (loss) per common share (shares in thousands):

	Five Months Ended March 31,		Fiscal Year Ended October 31,		
	2010	2009	2009	2008	2007
	(unaudited)		(as adjusted)		
<b>Computation of Basic Earnings (Loss) Per Share:</b>					
Net income (loss)	\$ (28,802)	\$ (46,261)	\$ (140,454)	\$ 97,097	\$ (138,406)
Net income allocated to participating securities				(2,784)	
Net income (loss) allocated to common stockholders	\$ (28,802)	\$ (46,261)	\$ (140,454)	\$ 94,313	\$ (138,406)
Total weighted average shares outstanding basic	78,453	76,257	76,815	77,254	71,860
Less: weighted average participating shares outstanding				(2,215)	
Weighted average common shares outstanding basic	78,453	76,257	76,815	75,039	71,860
Basic earnings (loss) per common share	\$ (0.37)	\$ (0.61)	\$ (1.83)	\$ 1.26	\$ (1.93)
<b>Computation of Diluted Earnings (Loss) Per Share:</b>					
Net income (loss)	\$ (28,802)	\$ (46,261)	\$ (140,454)	\$ 97,097	\$ (138,406)
Net income allocated to participating securities				(2,784)	
Net income (loss) allocated to common stockholders	\$ (28,802)	\$ (46,261)	\$ (140,454)	\$ 94,313	\$ (138,406)
Weighted average common shares outstanding basic	78,453	76,257	76,815	75,039	71,860
Plus: dilutive effect of common stock equivalents				412	
Weighted average common shares outstanding diluted	78,453	76,257	76,815	75,451	71,860
Diluted earnings (loss) per common share	\$ (0.37)	\$ (0.61)	\$ (1.83)	\$ 1.25	\$ (1.93)

The Company incurred a net loss for the five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2009 and 2007; therefore, the basic and diluted weighted average shares outstanding exclude the impact of unvested share-based awards that are considered participating restricted stock and all common stock equivalents because their impact would be antidilutive.

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 impact 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. For the five months ended March 31, 2010 and fiscal year ended October 31, 2009, the assumed conversion of 12,927,000 shares underlying our Convertible Notes was antidilutive; therefore, the shares were excluded from the computation of diluted EPS.

In connection with the issuance of our 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 impact 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 Convertible

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Notes, the Company entered into warrant transactions (see Note 12). For the five months ended March 31, 2010 and fiscal year ended October 31, 2009, 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.

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Other common stock equivalents excluded from the diluted EPS calculation were unexercised stock option awards of approximately 3,514,000 and 4,219,000 for the five months ended March 31, 2010 and 2009, respectively, and approximately 3,803,000 and 3,905,000 for the fiscal years ended October 31, 2009 and 2007, respectively, because their effect would have been antidilutive for those periods.

For the fiscal year ended October 31, 2008, the Company excluded from its diluted EPS calculation approximately 3,651,000 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.

On November 1, 2009, we adopted new accounting guidance for determining whether instruments granted in share-based payment transactions are participating securities. 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. For the five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2009 and 2007, we had 6,261,000, 3,561,000, 5,320,000 and 1,719,000, respectively, of unvested share-based awards that are considered participating restricted stock which are excluded due to the net loss for those periods.

**Stock-based Compensation**

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

We calculate the fair value of our employee and non-employee stock option awards using the Black-Scholes pricing model. Employee stock option awards are amortized as stock-based compensation expense on a straight-line basis over the expected vesting period, which is generally three years, and reduced for estimated forfeitures. We apply variable accounting to our non-employee based stock option awards, whereby we re-measure the fair value of the unvested portion of the awards at each vest date, and record 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 re-measure 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 is typically three 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: (1) the correlation of the return of our common stock price relative to companies in the NASDAQ Industrial Index and (2) appreciation in the price of our common stock. 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 17 for a full discussion of our stock-based compensation arrangements.



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**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 exchange transaction losses of \$704 and \$5,047 for the five months ended March 31, 2010 and fiscal year ended October 31, 2008, respectively, and foreign exchange transaction gains of \$4,194, \$4,289 and \$2,259 for the five months ended March 31, 2009 and fiscal years ended October 31, 2009 and 2007, respectively.

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) are foreign currency translation adjustments, which relate to investments that are permanent in nature and therefore do not require tax adjustments.

**Recently Issued Accounting Pronouncements**

*Business Combinations*

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

*Intangibles Goodwill and Other*

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

*Debt*

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

In June 2009, we issued \$138,000 aggregate principal amount of 4.375% Convertible Notes which was classified as long-term debt at October 31, 2009. On November 1, 2009 we calculated the difference between the principal amount of the Convertible Notes and the remaining liability component after the bifurcation to be \$43,592, which was reclassified to debt discount with a corresponding adjustment made to additional paid-in capital. Also upon adoption of this new guidance, on November 1, 2009 we retrospectively adjusted the debt discount which is being amortized as non-cash interest expense in our Consolidated Statements of Operations in addition to the Convertible Notes' coupon interest payments

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over the five year period of the Convertible Notes. For additional details on our Convertible Notes see Note 12.

***Earnings Per Share***

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

***Measuring Liabilities at Fair Value***

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

***Amendments to Variable Interest Entity Guidance***

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

***Multiple-Deliverable Revenue Arrangements***

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

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

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

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#### 2. RECLASSIFICATION AND ADOPTION OF NEW ACCOUNTING GUIDANCE

The following table provides a reconciliation of our adjusted October 31, 2009 balance sheet for adjustments made related to the retroactive adoption of new convertible debt accounting guidance (see Note 12 for additional information) and adjustments related to our discontinued operations (see Note 3 for additional information and impact on the assets and liabilities as of October 31, 2008).

	October 31, 2009	Adoption of convertible debt guidance	Assets and liabilities of discontinued operations	October 31, 2009 (as adjusted)
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 102,083			\$ 102,083
Accounts receivable, net of allowances <sup>(1)</sup>	207,180		\$ (26,115)	181,065
Inventory	93,996		(67,309)	26,687
Software development costs and licenses	167,341			167,341
Prepaid taxes and taxes receivable	8,814			8,814
Prepaid expenses and other <sup>(1)</sup>	48,810		(1,337)	47,473
Assets of discontinued operations			95,104	95,104
 Total current assets	 628,224		 343	 628,567
Fixed assets, net	27,392		(343)	27,049
Software development costs and licenses, net of current portion	75,521			75,521
Goodwill	220,881			220,881
Other intangibles, net	23,224			23,224
Other assets	33,329	(1,443)		31,886
 Total assets	 \$ 1,008,571	 \$ (1,443)	 \$	 \$ 1,007,128
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Current liabilities:				
Accounts payable	\$ 172,976		\$ (58,597)	\$ 114,379
Accrued expenses and other current liabilities	174,983		(2,199)	172,784
Deferred revenue	6,334			6,334
Liabilities of discontinued operations			60,796	60,796
 Total current liabilities	 354,293			 354,293
Long-term debt	138,000	(40,937)		97,063
Income taxes payable	10,146			10,146
 Total liabilities	 502,439	 (40,937)		 461,502
Commitments and contingencies				
Stockholders' equity:				
Preferred stock				
Common stock	819			819
Additional paid-in capital	616,776	42,018		658,794
Accumulated deficit	(119,655)	(2,524)		(122,179)
Accumulated other comprehensive income	8,192			8,192
 Total stockholders' equity	 506,132	 39,494		 545,626

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Total liabilities and stockholders' equity	\$ 1,008,571	\$ (1,443)	\$ 1,007,128
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- (1) Additionally, the Company reclassified \$7,785 of prepaid expenses and other assets to accounts receivable in its October 31, 2009 Consolidated Balance Sheets to conform to current year presentation.

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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. The sale will allow us to focus our resources on our publishing operations. For the five months ended March 31, 2010, we recorded a loss on the sale of \$447. The financial results of our distribution business have been classified as discontinued operations in our 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.

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

	Five Months Ended March 31,		Fiscal Year Ended October 31,		
	2010	2009	2009	2008	2007
	(unaudited)				
Net revenue	\$ 131,937	\$ 144,921	\$ 267,431	\$ 306,424	\$ 285,963
Income (loss) before income taxes	\$ (2,216)	\$ 4,285	\$ (9,983)	\$ 4,388	\$ 311
Loss on sale	447				
Provision (benefit) for income taxes	(413)	1,617	34	1,775	248
Net income (loss)	\$ (2,250)	\$ 2,668	\$ (10,017)	\$ 2,613	\$ 63

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

	March 31, 2010	October 31, 2009	October 31, 2008
Assets of discontinued operations:			
Current:			
Accounts receivable, net of allowances	\$	\$ 26,115	\$ 41,453
Inventory	5,515	67,309	65,756
Prepaid expenses and other	1,667	1,337	1,128
Fixed assets, net		343	
<b>Total current assets</b>	<b>7,182</b>	<b>95,104</b>	<b>108,337</b>
Fixed assets, net			1,137
Goodwill			14,152
Other intangibles, net			567
<b>Total assets of discontinued operations</b>	<b>\$ 7,182</b>	<b>\$ 95,104</b>	<b>\$ 124,193</b>
Liabilities of discontinued operations:			
Accounts payable	\$ 14,218	\$ 58,597	\$ 60,597
Accrued expenses and other current liabilities	3,343	2,199	4,307
<b>Total liabilities of discontinued operations</b>	<b>\$ 17,561</b>	<b>\$ 60,796</b>	<b>\$ 64,904</b>

**4. MANAGEMENT AGREEMENT**

In March 2007, we entered into a management services agreement (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. In addition, we entered into employment agreements with Ben Feder and Karl Slatoff to serve as our Chief Executive Officer and Executive Vice President, respectively. Both Mr. Feder and Mr. Slatoff are partners of ZelnickMedia. Effective October 25, 2010, Mr. Slatoff was



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named to the newly created role of Chief Operating Officer. Effective January 1, 2011, Mr. Feder will resign from his position as Chief Executive Officer of the Company and Mr. Zelnick will take on the additional role of Chief Executive Officer. The Management Agreement expires in October 2012 and provides for an annual management fee of \$2,500 and a maximum bonus of \$2,500 per fiscal year based on the Company achieving certain performance thresholds. In consideration for ZelnickMedia's services under the Management Agreement, we recorded consulting expense (a component of general and administrative expenses) of \$1,563, \$1,042, \$2,500, \$3,674 and \$649 for the five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2009, 2008 and 2007, respectively.

Pursuant to the Management Agreement, we also issued stock-based awards to ZelnickMedia. See Note 17 for a discussion of such awards.

## 5. 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, 2010	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Money market funds	\$ 73,567	\$ 73,567	\$	\$

On November 1, 2009, the Company adopted new Fair Value Measurements guidance, for all non-financial assets and liabilities that are measured at fair value on a non-recurring basis, such as goodwill and identifiable intangible assets. The adoption of this guidance for non-financial assets and liabilities that are measured at fair value on a non-recurring basis did not impact the Company's consolidated financial position or results of operations.

## 6. BUSINESS ACQUISITIONS AND CONSOLIDATION

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

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five months ended March 31, 2010 and fiscal years ended October 31, 2009, 2008 and 2007, we paid contingent consideration of \$991, \$5,813, \$3,375 and \$5,795 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.
Illusion Softworks	December 2007	5,033	27,875	24,901	8,200	Up to \$10,000 based on future product sales.

In March 2008, we acquired the assets of Rockstar New England, 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 of up to \$15,000 payable in cash or stock, based on meeting certain employment provisions, the release of several titles, and achievements based on sales of specific titles. 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, 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 is expected to be 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.

## 7. COMPREHENSIVE INCOME (LOSS)

Components of comprehensive income (loss) are as follows:

	Five Months Ended March 31,		Fiscal Year Ended October 31,		
	2010	2009	2009	2008	2007
		(unaudited)	(as adjusted)		
Net income (loss)	\$ (28,802)	\$ (46,261)	\$ (140,454)	\$ 97,097	\$ (138,406)
Foreign currency translation adjustment	(11,905)	(17,594)	15,705	(42,374)	27,959
Comprehensive income (loss)	\$ (40,707)	\$ (63,855)	\$ (124,749)	\$ 54,723	\$ (110,447)



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Inventory balances by category are as follows:

	March 31, 2010	October 31, 2009 (as adjusted)	October 31, 2008 (as adjusted)
Finished products	\$ 21,155	\$ 20,288	\$ 30,383
Parts and supplies	3,324	6,399	8,096
<b>Inventory</b>	<b>\$ 24,479</b>	<b>\$ 26,687</b>	<b>\$ 38,479</b>

Estimated product returns included in inventory at March 31, 2010, October 31, 2009 and 2008 were \$2,394, \$2,971 and \$3,998, respectively.

**9. SOFTWARE DEVELOPMENT COSTS AND LICENSES**

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

	March 31, 2010		October 31, 2009		October 31, 2008	
	Current	Non-current	Current	Non-current	Current	Non-current
Software development costs, internally developed	\$ 111,631	\$ 71,691	\$ 123,018	\$ 46,574	\$ 72,381	\$ 39,508
Software development costs, externally developed	2,237	66,073	42,306	27,202	37,422	20,495
Licenses	740	1,576	2,017	1,745	3,633	1,988
 Software development costs and licenses	 \$ 114,608	 \$ 139,340	 \$ 167,341	 \$ 75,521	 \$ 113,436	 \$ 61,991

Software development costs and licenses as of March 31, 2010, October 31, 2009 and 2008 included \$238,553, \$212,939 and \$136,687, respectively, related to titles that have not been released.

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

	Five Months Ended March 31,		Fiscal Year Ended October 31,		
	2010	2009	2009	2008	2007
	(unaudited)				
Amortization and impairment of software development costs and licenses	\$ 53,108	\$ 46,768	\$ 111,615	\$ 159,563	\$ 109,891
Less: Portion representing stock-based compensation	(2,152)	(3,033)	(6,094)	(13,461)	(3,216)
<b>Amortization and impairment, net of stock-based compensation</b>	<b>\$ 50,956</b>	<b>\$ 43,735</b>	<b>\$ 105,521</b>	<b>\$ 146,102</b>	<b>\$ 106,675</b>

Table of Contents**10. FIXED ASSETS, NET**

Fixed asset balances by category are as follows:

	March 31, 2010	October 31, 2009 (as adjusted)	October 31, 2008 (as adjusted)
Computer equipment	\$ 32,927	\$ 32,287	\$ 27,421
Office equipment	5,286	5,234	4,463
Computer software	26,187	24,642	20,235
Furniture and fixtures	4,971	5,238	4,582
Leasehold improvements	23,899	23,507	21,601
	<b>93,270</b>	90,908	78,302
Less: accumulated depreciation	<b>69,699</b>	63,859	47,078
Fixed assets, net	<b>\$ 23,571</b>	\$ 27,049	\$ 31,224

Depreciation expense related to fixed assets for the five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2009, 2008, and 2007, was \$6,180, \$6,724, \$15,713, \$17,424 and \$18,147, respectively.

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

We perform an annual two-step test for impairment of goodwill as of the beginning of August or earlier if indicators of impairment exist. The first step of the test 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 3), 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.

We use a combination of the market approach, and the income approach, which uses discounted cash flows. 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 impact 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 is reported in loss from discontinued operations on the Consolidated Statements of Operations (see Note 3). For the five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2008 and 2007, we did not recognize an impairment loss on goodwill.

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The change in our goodwill balance is as follows:

	<b>Total</b>
Balance at November 1, 2007 (as adjusted)	\$ 190,125
Additions and adjustments	33,021
Currency translation adjustment	(6,489)
 Balance at October 31, 2008 (as adjusted)	 216,657
Additions and Adjustments	1,898
Currency translation adjustment	2,326
 Balance at October 31, 2009	 220,881
Sale of Italian subsidiary	(1,937)
Currency translation adjustment	(2,655)
 <b>Balance at March 31, 2010</b>	 <b>\$ 216,289</b>

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

	March 31, 2010			October 31, 2009			October 31, 2008 (as adjusted)			
	Estimated Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization Value	Gross Carrying Amount	Accumulated Amortization Value	Net Book Value	Gross Carrying Amount	Accumulated Amortization Value	Net Book Value	
Trademarks	7-10	\$ 13,778	\$ (12,306)	\$ 1,472	\$ 13,796	\$ (12,101)	\$ 1,695	\$ 13,777	\$ (10,817)	\$ 2,960
Intellectual property	2-6	26,954	(6,813)	20,141	26,959	(6,775)	20,184	26,956	(6,399)	20,557
Non-compete Technology	5-10 3	5,241	(4,565)	676	5,248	(4,344)	904	6,186	(4,690)	1,496
		4,342	(3,902)	440	4,458	(4,017)	441	4,308	(3,765)	543
		<b>\$ 50,315</b>	<b>\$ (27,586)</b>	<b>\$ 22,729</b>	<b>\$ 50,461</b>	<b>\$ (27,237)</b>	<b>\$ 23,224</b>	<b>\$ 51,227</b>	<b>\$ (25,671)</b>	<b>\$ 25,556</b>

The change in the gross carrying amount of intangibles is as follows:

	Five Months Ended March 31, 2010	Fiscal Year Ended October 31,	
		2009 (as adjusted)	2008 (as adjusted)
Beginning balance	\$ 50,461	\$ 51,227	\$ 52,241
Recognized in connection with acquisitions			1,300
Impairment charges			(2,498)
Write-off of fully amortized assets		(938)	
Other	(146)	172	184
 Ending balance	 \$ 50,315	 \$ 50,461	 \$ 51,227

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

	Five Months Ended March 31,		Fiscal Year Ended October 31,		
	2010	2009	2009	2008	2007
		(unaudited)	(as adjusted)	(as adjusted)	(as adjusted)
Cost of goods sold	\$ 40	\$ 409	\$ 478	\$ 2,350	\$ 3,462

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Depreciation and amortization	442	1,069	1,861	3,898	3,059
Total amortization of intangible assets	\$ 482	\$ 1,478	\$ 2,339	\$ 6,248	\$ 6,521

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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:

2011	\$ 4,398
2012	9,103
2013	4,285
2014	263
2015	2,375
Thereafter	2,305
<b>Total</b>	<b>\$ 22,729</b>

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

In July 2007, we entered into a credit agreement (the "Credit Agreement") which provides for borrowings of up to \$140,000 and is secured by substantially all of our assets and the equity of our subsidiaries. The Credit Agreement expires on July 3, 2012. Revolving loans under the Credit Agreement bear interest at our election of (a) 2.00% to 2.50% above a certain base rate with a minimum 6.00% base rate (8.00% at March 31, 2010), or (b) 3.25% to 3.75% above the LIBOR Rate with a minimum 4.00% LIBOR Rate (7.25% at March 31, 2010), with the margin rate subject to the achievement of certain average liquidity levels. We are also required to pay a monthly fee on the unused available balance, ranging from 0.25% to 0.75%. Information related to availability on our Credit Agreement is as follows:

	March 31, 2010	October 31, 2009	October 31, 2008
Outstanding borrowings	\$ 70,000	\$ 28,964	\$ 11,560
Available borrowings	\$ 96,115	\$ 88,137	\$ 70,000
Outstanding letters of credit	\$ 8,164	\$ 11,560	\$ 11,560

Debt issuance costs capitalized in connection with the Credit Agreement totaled \$2,770 and are being amortized as interest expense over the five year term of the credit facility. We recorded \$910, \$2,961, \$4,782, \$3,389, and \$1,084 of interest expense and fees related to the Credit Agreement for the five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2009, 2008, and 2007, respectively.

The Credit Agreement substantially limits us and our subsidiaries' ability to: create, incur, assume or be liable for indebtedness; dispose of assets outside the ordinary course of business; acquire, merge or consolidate with or into another person or entity; create, incur or allow any lien on any of their respective properties; make investments; or pay dividends or make distributions (each subject to certain limitations). In addition, the Credit Agreement provides for certain events of default such as nonpayment of principal and interest, breaches of representations and warranties, noncompliance with covenants, acts of insolvency, default on indebtedness held by third parties and default on certain material contracts (subject to certain limitations and cure periods). The Credit Agreement also contains a requirement that we maintain an interest coverage ratio of more than one to one for the trailing twelve month period, if the liquidity of our domestic operations falls below \$30,000 (including available borrowings under the credit facility), based on a 30-day average. As of March 31, 2010, we were in compliance with all covenants and requirements in the Credit Agreement.

*Convertible Notes*

In June 2009, we issued \$138,000 aggregate principal amount of 4.375% convertible senior notes due 2014 ("Convertible Notes"). The issuance of the Convertible Notes included \$18,000 related to the exercise of an over-allotment option by the underwriters. Interest on the 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

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Convertible Notes mature on June 1, 2014, unless earlier redeemed or repurchased by the Company or converted.

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

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

Upon the occurrence of certain fundamental changes involving the Company, holders of the Convertible Notes may require us to purchase all or a portion of their 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 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 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 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 Convertible Notes will automatically become due and payable immediately. As of March 31, 2010, we were in compliance with all covenants and requirements outlined in the indenture governing the Convertible Notes.

The 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 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 Convertible Notes, we entered into convertible note hedge transactions which are expected to reduce the potential dilution to our common stock upon conversion of

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the 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 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 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 incurred approximately \$4,984 of banking, legal and accounting fees related to the issuance of the Convertible Notes which were capitalized as debt issuance costs and will be amortized to interest and other, net over the term of the Convertible Notes.

**Adoption of new debt guidance impacting Convertible Notes**

In May 2008, the FASB issued new accounting guidance on debt with conversion and other options. This guidance specifies that issuers of such instruments should separately account for the liability and equity components in a manner that reflects the company's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The guidance requires retrospective application of its provisions and it does not affect our cash flows. On November 1, 2009 we adopted this new guidance related to the accounting for convertible notes, and we reclassified the difference between the fair value and the principal amount of our Convertible Notes balance to additional paid-in capital, representing the fair value of the embedded conversion option of the Convertible Notes. We estimated the fair value to be \$94,408, as of the date of issuance of our Convertible Notes, assuming a 13% non-convertible borrowing rate. On November 1, 2009 we calculated the difference between the principal amount of the Convertible Notes and the remaining liability component after the bifurcation to be \$43,592 which we reclassified to debt discount with a corresponding adjustment made to additional paid-in capital. Also upon adoption of this new guidance, we retrospectively adjusted the debt discount which is being amortized using the effective interest method as non-cash interest expense in our Consolidated Statements of Operations in addition to the Convertible Notes' coupon interest payments over the five year period of the Convertible Notes. The results of the retrospective amortization on our Consolidated Statements of Operations reflected an additional pre-tax, non-cash interest expense of approximately \$2,655 for the fiscal year ended October 31, 2009. Debt issuance costs of \$4,984 were capitalized and are being amortized to interest expense over the term of the Convertible Notes. Debt issuance costs of \$1,574 were related to the equity component and were recorded as a reduction of additional paid-in capital. See Note 2 for retrospective application to previously reported items.

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

	March 31, 2010	October 31, 2009
Additional paid-in capital	\$ 42,018	\$ 42,018
Principal amount of Convertible Notes	\$ 138,000	\$ 138,000
Unamortized discount of the liability component	38,135	40,937
Net carrying amount of Convertible Notes	\$ 99,865	\$ 97,063
Carrying amount of debt issuance costs	\$ 2,843	\$ 3,127

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

	Five Months Ended March 31, 2010	Fiscal Year Ended October 31, 2009
Cash interest expense (coupon interest expense)	\$ 2,516	\$ 2,516
Non-cash amortization of discount on Convertible Notes	2,802	2,655
Amortization of debt issuance costs	284	282
<b>Total interest expense related to Convertible Notes</b>	<b>\$ 5,602</b>	<b>\$ 5,453</b>

**13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consisted of:

	March 31, 2010	October 31, 2009 (as adjusted)	October 31, 2008 (as adjusted)
Software development royalties	\$ 39,143	\$ 55,151	\$ 39,803
Income tax payable and deferred tax liability	14,592	41,669	13,263
Compensation and benefits	17,783	16,749	38,827
Licenses	24,971	13,202	13,594
Marketing and promotions	9,934	11,038	7,393
Professional fees	2,684	6,153	7,554
Rent and deferred rent obligations	5,474	5,767	6,682
Deferred consideration for acquisitions		1,103	921
Other	19,868	21,952	20,745
<b>Accrued expenses and other current liabilities</b>	<b>\$ 134,449</b>	<b>\$ 172,784</b>	<b>\$ 148,782</b>

**14. LEGAL AND OTHER PROCEEDINGS**

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

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



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

*Securities Class Action Grand Theft Auto: San Andreas and Option Backdating.* In February and March 2006, four purported class action complaints were filed against us and certain of our then current and former officers and directors in the SDNY Court. The actions were consolidated, and in April 2007 the lead plaintiffs filed a consolidated second amended complaint which contained allegations related to purported "hidden content" contained in *Grand Theft Auto: San Andreas* and the backdating of stock options, including the investigation thereof conducted by the Special Litigation Committee of the Board of Directors and the restatement of our financial statements relating thereto. This complaint was filed against us, our former Chief Executive Officer, our former Chief Financial Officer, our former Chairman of the Board, our Rockstar Games subsidiary, and one officer and one former officer of our Rockstar Games subsidiary. The lead plaintiffs sought unspecified compensatory damages and costs including attorneys' fees and expenses. In April 2008, the Court dismissed, with leave to amend, all claims as to all defendants relating to *Grand Theft Auto: San Andreas* and certain claims as to our former CEO, CFO and certain director defendants relating to the backdating of stock options. In September 2008, the lead plaintiff filed a third amended consolidated complaint seeking to reinstate these claims, which we opposed. On August 31, 2009, we entered into a memorandum of understanding with the lead plaintiffs to comprehensively settle all claims asserted by them against us, our Rockstar Games subsidiary and all of the current and former officers and directors named in the actions. On June 29, 2010, the SDNY Court granted preliminary approval of the settlement. In accordance with the terms of the settlement, \$20,115 was placed into an escrow fund for the benefit of class members. Our insurance carriers contributed \$15,315 of this payment, and the Company contributed \$4,800, which had previously been accrued for in our financial statements. In addition to the payment to the settlement fund, we will also supplement the substantial changes that we have already implemented in our corporate governance policies and practices with certain additional changes. On October 12, 2010, the Court gave its final approval to the settlement, and subsequently issued its Final Judgment and Order of Dismissal on October 19, 2010. No appeal of the Court's Judgment was filed by the deadline of November 18, 2010. Neither we, our subsidiary nor any of the individuals admit any wrongdoing as part of the proposed settlement agreement.

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

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

*St. Clair Derivative Action.* In January 2006, the St. Clair Shores General Employees Retirement System filed a purported class and derivative action complaint in the SDNY Court against us, as nominal defendant, and certain of our directors and certain former officers and directors. Certain of the factual

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

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

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*Strickland et al. Personal Injury Action.* In February 2005, the personal representatives of the Estates of Arnold Strickland, James Crump and Ace Mealer brought an action in the Circuit Court of Fayette County, Alabama against us, Sony Computer Entertainment America Inc., Sony Corporation of America, Wal-Mart, GameStop and Devin Moore, alleging under Alabama's manufacturers' liability and wrongful death statutes that our video games resulted in "copycat violence" that caused the deaths of Messrs. Strickland, Crump and Mealer by Mr. Moore. The suit seeks damages (including punitive damages) against all of the defendants in excess of \$600,000. Upon the Company's motion, on July 29, 2009 the Court entered an order excluding Plaintiff's expert testimony and granting summary judgment to the Company. Plaintiff Steve Strickland filed a Notice of Appeal on August 10, 2009 and briefing was completed on June 3, 2010. The Alabama Supreme Court affirmed the lower court decision and dismissed the appeal on September 24, 2010. The plaintiffs did not file an appeal within the necessary time frame and the decision in our favor cannot be challenged. This matter is now resolved.

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

**15. COMMITMENTS AND CONTINGENCIES**

A summary of annual minimum contractual obligations and commitments as of March 31, 2010 is as follows:

Fiscal Year Ending March 31,	Licensing and Marketing	Software Development	Operating Leases	Convertible Notes Interest	Convertible Notes	Total
2011	\$ 58,433	\$ 27,607	\$ 17,140	\$ 6,038	\$	\$ 109,218
2012	60,842	1,386	15,310	6,038		83,576
2013	66,425		13,176	6,038		85,639
2014	2,000		9,888	6,038		17,926
2015			4,633	3,019	138,000	145,652
Thereafter			5,517			5,517
<b>Total</b>	<b>\$ 187,700</b>	<b>\$ 28,993</b>	<b>\$ 65,664</b>	<b>\$ 27,171</b>	<b>\$ 138,000</b>	<b>\$ 447,528</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. As of March 31, 2010, \$770 of our guaranteed minimum licensing and marketing commitments were recorded in our Consolidated Balance Sheets because the licensor did not have any significant remaining performance obligation to us. Licensing and marketing commitments expire at various times through September 2014 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 October 2011. 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 January 2017. We also lease certain furniture, equipment and automobiles under non-cancelable leases expiring through November 2013. 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. Rent expense amounted to \$6,131, \$5,923, \$13,601, \$14,588 and \$15,042 for the five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2009, 2008 and 2007, respectively.

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*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 6 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. We began matching a portion of the contributions in July 2002. The matching contribution expense incurred by us during the five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2009, 2008 and 2007 was \$1,146, \$1,195, \$2,665, \$2,118 and \$1,748, respectively.

*Income Taxes:* At March 31, 2010, the Company had recorded a liability for gross unrecognized tax benefits of \$7,980 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.

**16. INCOME TAXES**

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

	Five Months Ended March 31,		Fiscal Year Ended October 31,		
	2010	2009	2009	2008	2007
		(unaudited)	(as adjusted)	(as adjusted)	(as adjusted)
Domestic	\$ 2,688	\$ (37,955)	\$ (78,825)	\$ 15,339	\$ (101,093)
Foreign	(24,974)	(15,366)	(47,125)	92,416	(27,433)
Income (loss) from continuing operations before income taxes	\$ (22,286)	\$ (53,321)	\$ (125,950)	\$ 107,755	\$ (128,526)

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

	Five Months Ended March 31,		Fiscal Year Ended October 31,		
	2010	2009	2009	2008	2007
		(unaudited)	(as adjusted)	(as adjusted)	(as adjusted)
Current:					
U.S. federal	\$ (4,566)	\$ (4,770)	\$ (3,870)	\$ 1,524	\$ 2,390
U.S. state and local	124	(707)	(779)	2,197	491
Foreign	5,404	2,954	6,475	11,887	8,804
Total current income taxes	962	(2,523)	1,826	15,608	11,685
Deferred:					
U.S. federal	3,458	(1,395)	3,633	(2,079)	(1,886)
U.S. state and local	255	(78)	(40)	(9)	(161)
Foreign	(409)	(396)	(932)	(249)	305
Total deferred income taxes	3,304	(1,869)	2,661	(2,337)	(1,742)
Provision (benefit) for income taxes	\$ 4,266	\$ (4,392)	\$ 4,487	\$ 13,271	\$ 9,943

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

	Five Months Ended March 31,		Fiscal Year Ended October 31,		
	2010	2009 (unaudited)	2009 (as adjusted)	2008 (as adjusted)	2007 (as adjusted)
U.S. federal statutory rate	(35.0)%	(35.0)%	(35.0)%	35.0%	(35.0)%
Foreign tax rate differential	47.1%	16.2%	22.1%	(19.9)%	8.6%
State and local taxes, net of U.S. federal benefit	0.8%	(1.4)%	(1.9)%	1.9%	(0.5)%
Federal valuation allowance	(4.7)%	22.5%	23.9%	(8.8)%	27.9%
Convertible debt	4.4%	0.0%	0.0%	0.0%	0.0%
Other	6.5%	(10.5)%	(5.5)%	4.1%	6.9%
<b>Effective tax rate</b>	<b>19.1%</b>	<b>(8.2)%</b>	3.6%	12.3%	7.9%

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

	March 31, 2010	October 31, 2009 (as adjusted)		2008
	<b>Current deferred tax assets and (liabilities):</b>			
Sales returns and allowances (including bad debt)	\$ 8,693	\$ 8,473	\$ 9,129	
Inventory reserves	1,589	4,307	4,068	
Deferred rent	2,006	2,097	2,423	
Deferred revenue	3,011	747	13,520	
Other	15,748	11,802	10,462	
Capitalized software and depreciation	(34,122)	(49,726)	(33,685)	
<b>Total current deferred tax assets (liabilities)</b>	<b>(3,075)</b>	<b>(22,300)</b>	<b>5,917</b>	
Less: Valuation allowance			(4,468)	
<b>Net current deferred tax asset (liability)<sup>(a)</sup></b>	<b>(3,075)</b>	<b>(22,300)</b>	<b>1,449</b>	
<b>Non-current deferred tax assets:</b>				
Equity compensation	2,575	2,534	2,558	
Domestic net operating loss carryforward	127,630	123,188	71,324	
Foreign tax credit carryforward	6,986	6,599	5,947	
Foreign net operating loss carryforwards	14,299	9,189	5,350	
Intangible amortization	2,866	(432)	2,774	
Capitalized software and depreciation	(14,066)	7,991	10,573	
<b>Total non-current deferred tax asset</b>	<b>140,290</b>	<b>149,069</b>	<b>98,526</b>	
Less: Valuation allowance	(141,231)	(130,024)	(99,837)	
<b>Net non-current deferred tax (liability) asset<sup>(b)</sup></b>	<b>(941)</b>	<b>19,045</b>	<b>(1,311)</b>	
<b>Deferred taxes, net</b>	<b>\$ (4,016)</b>	<b>\$ (3,255)</b>	<b>\$ 138</b>	

(a) Included in accrued expenses and other current liabilities as of March 31, 2010 and October 31, 2009, and prepaid expenses and other as of October 31, 2008.

(b) Included in other long-term liabilities as of March 31, 2010 and October 31, 2008, and other assets as of October 31, 2009.

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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 the result of deferred tax liabilities related to goodwill which cannot be used to offset deferred tax assets.

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At March 31, 2010, we had domestic net operating loss carryforwards totaling \$335,856, which will begin to expire in 2026. In addition, we had foreign net operating loss carryforwards of \$94,258, of which \$79,351 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 \$172,700 at March 31, 2010, \$209,200 at October 31, 2009 and \$229,800 at October 31, 2008. 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 impact on the Consolidated Financial Statements.

As of March 31, 2010, October 31, 2009 and 2008, we had gross unrecognized tax benefits, including interest and penalties, of \$10,929, \$24,637 and \$26,399, 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:

	Five Months Ended March 31,		Fiscal Year Ended October 31,	
	2010	2009	2009	2008
	(unaudited)			
Balance, beginning of period	\$ 18,423	\$ 18,412	\$ 18,412	\$ 18,960
Additions:				
Current year tax positions	1,942	1,254	5,630	537
Prior year tax positions		1,079	3,316	2,256
Reduction of prior year tax positions	(4,350)	(2,329)	(4,013)	(2,759)
Settlements	(6,487)	(4,216)	(4,762)	(512)
Lapse of statute of limitations				(70)
Other, net	(333)	(1,018)	(160)	
<b>Balance, end of period</b>	<b>\$ 9,195</b>	<b>\$ 13,182</b>	<b>\$ 18,423</b>	<b>\$ 18,412</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 five months ended March 31, 2010 and 2009 and fiscal year ended October 31, 2009, we recognized a decrease in interest and penalties of approximately \$4,480, \$3,746 and \$1,773, respectively. The gross amount of interest and penalties accrued as of March 31, 2010, October 31, 2009 and 2008 was approximately \$1,734, \$6,214 and \$7,987, respectively.

We are generally no longer subject to audit for U.S. federal income tax returns for periods prior to the fiscal year ended October 31, 2007 and state income tax returns for periods prior to the fiscal year ended October 31, 2004. With some 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 for fiscal years through October 31, 2006. 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 tax returns. The determination as to further adjustments to our gross unrecognized tax benefits during the next 12 months is not practicable.

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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 position, cash flows or results of operations. However, there can be no assurances as to the possible outcomes.

**17. 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"). 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, 2010, there were approximately 1,252,000 shares available for issuance under the 2009 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 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, 2010, 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 is 11,000,000 shares. As of March 31, 2010, there were no shares available for issuance under the 2002 Plan.

In January 1997, our stockholders approved our 1997 Stock Option Plan, as amended, as previously adopted by our Board of Directors (the "1997 Plan"), pursuant to which officers, directors, employees and consultants may receive options to purchase up to an aggregate of 9,750,000 shares of our common stock. As of March 31, 2010, there were no shares of common stock available for issuance under the 1997 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 stock options or other awards are to be granted, the number of shares to be covered by each option or other award, the option price, the type of option, the option period, restrictions, if any, on the exercise of the option or other award, the terms for the payment of the option price and other terms and conditions of the option or other 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:

	Five Months Ended March 31,		Fiscal Year Ended October 31,		
	2010	2009	2009	2008	2007
	(unaudited)				
Cost of goods sold	\$ 2,152	\$ 3,033	\$ 6,094	\$ 13,461	\$ 3,216
Selling and marketing	1,492	722	2,551	2,370	1,232
General and administrative	4,908	4,708	14,119	19,678	7,080
Research and development	1,927	1,446	3,169	4,878	3,735
Business reorganization and related					2,066
Stock-based compensation expense	<b>10,479</b>	<b>9,909</b>	25,933	40,387	17,329
Capitalized stock-based compensation expense	<b>4,617</b>	<b>2,509</b>	11,413	8,215	9,983
Total stock-based compensation expense	<b>\$ 15,096</b>	<b>\$ 12,418</b>	\$ 37,346	\$ 48,602	\$ 27,312

During the five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2009, 2008 and 2007, we recorded \$1,588, \$1,634, \$6,502, \$13,481 and \$1,283, 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.

On June 13, 2008, pursuant to an amendment to our Management Agreement, we granted 600,000 shares of restricted stock to ZelnickMedia that vest 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 price of our common stock outperforms 75% of the companies in the NASDAQ Industrial Index. For the five months ended March 31, 2010 and 2009, we recorded a benefit of \$104 and \$37, respectively and for the fiscal years ended October 31, 2009 and 2008, we recorded expenses of \$2,534 and \$2,227, respectively, 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 five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2009 and 2008 was \$9.25 per share, \$5.75 per share, \$6.00 per share and \$16.37 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 2008. For the five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2009 and 2008 the estimated value of these awards was \$2.58, \$5.52, \$4.67 and \$9.38 per share, respectively. The

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

	Five Months Ended				Fiscal Year Ended			
	March 31, 2010		March 31, 2009		October 31, 2009		October 31, 2008	
	Employee Market-Based	Non-Employee Market-Based	Employee Market-Based	Non-Employee Market-Based	Employee Market-Based	Non-Employee Market-Based	Employee Market-Based	Non-Employee Market-Based
Risk-free interest rate	1.6%	1.1%	1.0%	1.3%	1.2%	1.5%	3.1%	2.3%
Expected stock price volatility	57.2%	69.2%	60.2%	59.2%	60.8%	61.4%	51.8%	52.1%
Expected service period (years)	2.0	3.5	2.0	2.8	2.0	2.9	2.0	2.6
Dividends	None	None	None	None	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 (in thousands)	Weighted Average Fair Value on Grant Date
Non-vested restricted stock at October 31, 2009	5,320	\$ 9.98
<b>Granted</b>	<b>2,131</b>	<b>9.72</b>
<b>Vested</b>	<b>(1,115)</b>	<b>11.80</b>
<b>Forfeited</b>	<b>(75)</b>	<b>9.49</b>
<b>Non-vested restricted stock at March 31, 2010</b>	<b>6,261</b>	<b>\$ 9.34</b>

As of March 31, 2010, the total future unrecognized compensation cost, net of estimated forfeitures, related to outstanding unvested restricted stock was approximately \$48,617 and will be recognized as compensation expense on a straight-line basis over the remaining vesting period, or capitalized as software development costs.

### *Stock Options*

As of March 31, 2010, October 31, 2009 and 2008, there were outstanding stock options granted under our stock-based compensation plans to purchase in the aggregate approximately 3,514,000, 3,803,000 and 4,347,000 shares of our common stock, respectively, vesting at various times from 2009 to 2010 and expiring at various times from 2009 to 2017. Options granted generally vest 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 vest over 36 months and expire 10 years from the date of grant. Each month, we remeasure the fair value of the unvested portion of such options and record 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 impact compensation expense or benefit recognized from period to period. For the five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2009, 2008 and 2007 we recorded \$1,692, \$1,671, \$3,968, \$11,254 and \$1,283 respectively, of stock-based compensation related to this option grant.

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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)	Five Months Ended March 31, 2010		October 31, 2009		Fiscal Year Ended October 31, 2008		October 31, 2007	
	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	3,803	\$ 18.45	4,347	\$ 18.92	5,914	\$ 19.72	5,802	\$ 20.70
Granted							2,465	15.53
Exercised			(2)	10.42	(1,236)	21.00	(679)	15.39
Forfeited	(289)	21.89	(542)	22.24	(331)	19.36	(1,674)	18.70
<b>Outstanding at end of period</b>	<b>3,514</b>	<b>\$ 18.17</b>	<b>3,803</b>	<b>\$ 18.45</b>	<b>4,347</b>	<b>\$ 18.92</b>	<b>5,914</b>	<b>\$ 19.72</b>
<b>Exercisable at period-end</b>	<b>3,183</b>	<b>\$ 18.43</b>	<b>3,133</b>	<b>\$ 19.08</b>	<b>2,588</b>	<b>\$ 20.84</b>	<b>2,750</b>	<b>\$ 22.06</b>
Weighted average fair value of options granted during the period		\$		\$		\$		\$ 11.45
Remaining weighted average contractual life of options exercisable (years)		4.3		4.1		3.8		2.2

The total estimated fair value of options vested during the five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2009, 2008 and 2007 was \$1,928, \$4,551, \$7,848, \$19,376 and \$13,777, respectively.

The following summarizes information about stock options outstanding and exercisable at March 31, 2010 (options in thousands):

Options Outstanding				Options Exercisable		
Exercise Price Ranges		Number of Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
From	To					
\$10.42	\$ 15.39	2,120	7.1	\$ 14.56	1,840	\$ 14.53
	15.50	286	1.6	18.74	243	18.42
	20.70	190	1.2	22.60	182	22.68
	25.10	918	0.1	25.42	918	25.42
		3,514	5.0	18.17	3,183	18.43

As of March 31, 2010, there was no aggregate intrinsic value related to options outstanding or exercisable and the total future unrecognized compensation cost, net of estimated forfeitures, related to outstanding unvested options was approximately \$1,571, which will be recognized as compensation expense on a straight-line basis over the remaining vesting periods, or capitalized as software development costs. At March 31,

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2010, the weighted average exercise price of stock options expected to vest was \$15.65.

The fair value of our stock options is estimated using the Black-Scholes option-pricing model. This model requires the input of assumptions regarding a number of complex and subjective variables that will usually have a significant impact on the fair value estimate. These variables include, but are not 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

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the Black-Scholes option-pricing model to value outstanding stock options awarded to ZelnickMedia in 2007 and employee stock options, which were last granted in 2007:

	Five Months Ended March 31,		Fiscal Year Ended October 31,		
	2010	2009	2009	2008	2007
Risk-free interest rate	3.6%	2.9%	3.2%	3.9%	4.7%
Expected stock price volatility	59.6%	71.8%	67.4%	58.8%	50.7%
Expected term until exercise (years)	7.7	8.7	8.4	9.4	3.5
Dividends	None	None	None	None	None

For the five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2009, 2008 and 2007, 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 has been 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 change based on new facts and circumstances.

**18. SEGMENT AND GEOGRAPHIC INFORMATION**

We are a publisher of interactive software games designed for video game consoles, personal computers, handheld devices and digital distribution.

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.

Prior to the sale of the assets of our Jack of all Games third party distribution business, which closed in February 2010 (see Note 3), 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 segment. As a result, the financial results of our distribution business have been classified as discontinued operations in our 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.

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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:	Five Months Ended March 31,		Fiscal Year Ended October 31,		
	2010	2009	2009	2008	2007
		(unaudited)	(as adjusted)	(as adjusted)	(as adjusted)
United States	\$ 236,792	\$ 178,902	\$ 405,142	\$ 626,121	\$ 412,523
Canada	26,415	13,110	34,535	69,383	40,603
North America	263,207	192,012	439,677	695,504	453,126
Continental Europe	37,021	55,924	154,101	296,030	136,920
United Kingdom	40,529	32,516	64,094	163,498	66,237
Asia Pacific and other	18,474	16,895	43,185	76,074	39,545
<b>Total net revenue</b>	<b>\$ 359,231</b>	<b>\$ 297,347</b>	<b>\$ 701,057</b>	<b>\$ 1,231,106</b>	<b>\$ 695,828</b>

Net revenue by product platform was as follows:

Net revenue by product platform:	Five Months Ended March 31,		Fiscal Year Ended October 31,		
	2010	2009	2009	2008	2007
		(unaudited)	(as adjusted)	(as adjusted)	(as adjusted)
Microsoft Xbox 360	\$ 163,826	\$ 96,166	\$ 283,094	\$ 487,013	\$ 205,515
Sony PlayStation 3	87,019	41,039	113,117	413,131	66,156
Nintendo Wii	30,672	45,441	76,543	112,047	35,489
PC	30,916	43,200	78,936	41,085	93,538
Sony PSP	15,644	21,120	51,716	55,406	69,331
Sony PlayStation 2	16,016	23,044	48,898	94,388	179,097
Nintendo DS	12,935	26,366	45,823	22,748	5,870
Other	2,203	971	2,930	5,288	40,832
<b>Total net revenue</b>	<b>\$ 359,231</b>	<b>\$ 297,347</b>	<b>\$ 701,057</b>	<b>\$ 1,231,106</b>	<b>\$ 695,828</b>

### 19. INTEREST AND OTHER, NET

	Five Months Ended March 31,		Fiscal Year Ended October 31,		
	2010	2009	2009	2008	2007
		(unaudited)	(as adjusted)	(as adjusted)	(as adjusted)
Interest income (expense), net	\$ (6,461)	\$ (2,488)	\$ (9,611)	\$ 696	\$ 1,547
Gain (loss) on sale and deconsolidation	(3,831)			396	(4,469)
Foreign exchange gain (loss)	(704)	4,194	4,289	(5,047)	2,259
Other	(356)	(35)	(449)	676	34
<b>Interest and other, net</b>	<b>\$ (11,352)</b>	<b>\$ 1,671</b>	<b>\$ (5,771)</b>	<b>\$ (3,279)</b>	<b>\$ (629)</b>

During the 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 impact our operating results.

During the fiscal year ended October 31, 2007, we sold substantially all of the assets, primarily inventory and accounts receivable, of our wholly-owned Joytech video game accessories subsidiary, formerly a component of our publishing business, to Mad Catz Interactive, Inc. for approximately \$3,575 in cash and notes receivable resulting in a loss on sale of \$3,080. The disposition of Joytech did not involve a significant amount of assets or materially impact our operating results.



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Also, during the fiscal year ended October 31, 2007, we recognized a loss of \$1,389 when we deconsolidated the net assets of Blue Castle Games, Inc. ("Blue Castle"), which was previously accounted for, in accordance with Variable Interest Entity guidance, as a wholly-owned subsidiary and considered to be a variable interest entity. We are no longer considered to be the primary beneficiary of Blue Castle's future profits or losses.

**20. SUPPLEMENTARY FINANCIAL INFORMATION**

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

	Beginning Balance	Revenue Reduction <sup>(1)</sup>	Additions Charged to Costs and Expenses	Deductions	Other	Ending Balance
<b>Five Months Ended March 31, 2010</b>						
Valuation allowance for deferred income taxes	\$ 130,024		11,207			\$ 141,231
Sales returns, price protection and other allowances	\$ 35,330	\$ 63,914	\$ 1,032	\$ (27,132)	\$ (1,380)	\$ 71,764
Allowance for doubtful accounts	1,861		(1,010)		(80)	771
<b>Total accounts receivable allowances</b>	<b>\$ 37,191</b>	<b>\$ 63,914</b>	<b>\$ 22</b>	<b>\$ (27,132)</b>	<b>\$ (1,460)</b>	<b>\$ 72,535</b>
<b>Five Months Ended March 31, 2009 (unaudited)</b>						
Valuation allowance for deferred income taxes	\$ 104,305		11,872			\$ 116,177
Sales returns, price protection and other allowances	\$ 54,718	\$ 46,911	\$ 1,257	\$ (61,353)	\$ (1,665)	\$ 39,868
Allowance for doubtful accounts	4,044		1,860		(26)	5,878
<b>Total accounts receivable allowances</b>	<b>\$ 58,762</b>	<b>\$ 46,911</b>	<b>\$ 3,117</b>	<b>\$ (61,353)</b>	<b>\$ (1,691)</b>	<b>\$ 45,746</b>
<b>Fiscal Year ended October 31, 2009 (as adjusted)</b>						
Valuation allowance for deferred income taxes	\$ 104,305		25,719			\$ 130,024
Sales returns, price protection and other allowances	\$ 54,718	\$ 67,199	\$ 3,328	\$ (89,621)	\$ (294)	\$ 35,330
Allowance for doubtful accounts	4,044		1,988	(4,819)	648	1,861
<b>Total accounts receivable allowances</b>	<b>\$ 58,762</b>	<b>\$ 67,199</b>	<b>\$ 5,316</b>	<b>\$ (94,440)</b>	<b>\$ 354</b>	<b>\$ 37,191</b>
<b>Fiscal Year ended October 31, 2008 (as adjusted)</b>						
Valuation allowance for deferred income taxes	\$ 123,616			(19,311)		\$ 104,305
Sales returns, price protection and other allowances	\$ 50,567	\$ 79,911	\$ 333	\$ (72,592)	\$ (3,501)	\$ 54,718
Allowance for doubtful accounts	1,619		2,979	(507)	(47)	4,044
<b>Total accounts receivable allowances</b>	<b>\$ 52,186</b>	<b>\$ 79,911</b>	<b>\$ 3,312</b>	<b>\$ (73,099)</b>	<b>\$ (3,548)</b>	<b>\$ 58,762</b>



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*Fiscal Year ended October 31, 2007*

*(as adjusted)*

Valuation allowance for deferred income taxes	\$ 82,994		40,622			\$ 123,616
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Sales returns, price protection and other allowances

	\$ 79,554	\$ 79,068	\$ 1,772	\$ (111,688)	\$ 1,861	\$ 50,567
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Allowance for doubtful accounts	2,317		(484)	(232)	18	1,619
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<b>Total accounts receivable allowances</b>	<b>\$ 81,871</b>	<b>\$ 79,068</b>	<b>\$ 1,288</b>	<b>\$ (111,920)</b>	<b>\$ 1,879</b>	<b>\$ 52,186</b>
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(1)

Includes price concessions of \$53,237, \$41,444, \$49,354, \$41,852 and \$48,241; returns of \$10,653, \$3,305, \$12,592, \$25,206 and \$26,660; and other sales allowances including rebates, discounts and cooperative advertising of \$24, \$2,162, \$5,253, \$12,853 and \$4,167 for the five months ended March 31, 2010 and 2009 and fiscal years ended October 31, 2009, 2008 and 2007, respectively.

Table of Contents**21. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

The following tables set forth quarterly supplementary data for the Transition Period and each of the years in the two-year period ended October 31, 2009:

	Three Months Ended January 31, 2010	Two Months Ended March 31, 2010
<b>Transition Period</b>		
Net revenue	\$ 163,238	\$ 195,993
Product costs	53,079	61,799
Software development costs and royalties	37,330	35,522
Internal royalties	2,118	3,956
Licenses	7,831	20,761
Cost of goods sold	100,358	122,038
Gross profit	62,880	73,955
Selling and marketing	41,094	31,308
General and administrative	28,695	14,771
Research and development	15,455	9,824
Depreciation and amortization	4,159	2,463
Total operating expenses	89,403	58,366
Income (loss) from operations	(26,523)	15,589
Interest and other, net	(4,813)	(6,539)
Income (loss) from continuing operations before income taxes	(31,336)	9,050
Provision for income taxes	2,486	1,780
Income (loss) from continuing operations	(33,822)	7,270
Income (loss) from discontinued operations, net of taxes	(52)	(2,198)
Net income (loss)	\$ (33,874)	\$ 5,072
Earnings (loss) per share:		
Continuing operations	\$ (0.43)	\$ 0.09
Discontinued operations		(0.03)
Basic earnings (loss) per share	\$ (0.43)	\$ 0.06
Continuing operations	\$ (0.43)	\$ 0.09
Discontinued operations		(0.03)
Diluted earnings (loss) per share	\$ (0.43)	\$ 0.06

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Fiscal Year Ended October 31, 2009 (as adjusted)	Quarter			
	First	Second	Third	Fourth <sup>(1)</sup>
Net revenue	\$ 149,351	\$ 174,250	\$ 94,929	\$ 282,527
Product costs	51,762	57,270	42,580	84,900
Software development costs and royalties	23,302	28,012	17,156	47,490
Internal royalties	20,472	9,659	368	27,725
Licenses	7,181	14,936	16,835	17,928
Cost of goods sold	102,717	109,877	76,939	178,043
Gross profit	46,634	64,373	17,990	104,484
Selling and marketing	38,671	29,572	23,686	50,033
General and administrative	38,455	29,897	28,794	33,230
Research and development	20,943	14,759	13,886	14,160
Depreciation and amortization	4,782	4,497	4,218	4,077
Total operating expenses	102,851	78,725	70,584	101,500
Income (loss) from operations	(56,217)	(14,352)	(52,594)	2,984
Interest and other, net	2,388	(1,513)	(4,160)	(2,486)
Income (loss) from continuing operations before income taxes	(53,829)	(15,865)	(56,754)	498
Provision (benefit) for income taxes	19	(5,454)	1,563	8,359
Income (loss) from continuing operations	(53,848)	(10,411)	(58,317)	(7,861)
Income (loss) from discontinued operations, net of taxes	3,460	331	1,852	(15,660)
Net income (loss)	\$ (50,388)	\$ (10,080)	\$ (56,465)	\$ (23,521)
Earnings (loss) per share:				
Continuing operations	\$ (0.71)	\$ (0.13)	\$ (0.75)	\$ (0.10)
Discontinued operations	0.05		0.02	(0.20)
Basic earnings (loss) per share	\$ (0.66)	\$ (0.13)	\$ (0.73)	\$ (0.30)
Continuing operations	\$ (0.71)	\$ (0.13)	\$ (0.75)	\$ (0.10)
Discontinued operations	0.05		0.02	(0.20)
Diluted earnings (loss) per share	\$ (0.66)	\$ (0.13)	\$ (0.73)	\$ (0.30)

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Fiscal Year Ended October 31, 2008 (as adjusted)	Quarter			
	First	Second	Third	Fourth <sup>(1)</sup>
Net revenue	\$ 123,050	\$ 484,283	\$ 380,594	\$ 243,179
Product costs	42,805	134,140	104,279	73,779
Software development costs and royalties	22,713	57,688	45,721	43,276
Internal royalties	6,145	52,653	51,971	18,003
Licenses	8,998	22,875	7,602	17,071
Cost of goods sold	80,661	267,356	209,573	152,129
Gross profit	42,389	216,927	171,021	91,050
Selling and marketing	29,140	42,601	39,936	42,719
General and administrative	32,071	46,553	44,213	43,391
Research and development	15,810	14,828	17,239	16,052
Business reorganization and related	162	944	1,771	1,601
Depreciation and amortization	4,977	6,219	5,062	5,064
Total operating expenses	82,160	111,145	108,221	108,827
Income (loss) from operations	(39,771)	105,782	62,800	(17,777)
Interest and other, net	1,437	(1,810)	(456)	(2,450)
Income (loss) from continuing operations before income taxes	(38,334)	103,972	62,344	(20,227)
Provision (benefit) for income taxes	2,857	4,694	8,988	(3,268)
Income (loss) from continuing operations	(41,191)	99,278	53,356	(16,959)
Income (loss) from discontinued operations, net of taxes	3,194	(1,056)	(1,530)	2,005
Net income (loss)	\$ (37,997)	\$ 98,222	\$ 51,826	\$ (14,954)
Earnings (loss) per share:				
Continuing operations	\$ (0.56)	\$ 1.29	\$ 0.68	\$ (0.22)
Discontinued operations	0.04	(0.01)	(0.02)	0.02
Basic earnings (loss) per share	\$ (0.52)	\$ 1.28	\$ 0.66	\$ (0.20)
Continuing operations	\$ (0.56)	\$ 1.28	\$ 0.68	\$ (0.22)
Discontinued operations	0.04	(0.01)	(0.02)	0.02
Diluted earnings (loss) per share	\$ (0.52)	\$ 1.27	\$ 0.66	\$ (0.20)

(1) In the fourth quarter of the fiscal year ended October 31, 2009, the Company recorded non-cash income tax expense for the cumulative impact of deferred tax liabilities associated with tax deductible amortization of goodwill.

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.



Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934 the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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

By: /s/ BEN FEDER

Ben Feder  
Chief Executive Officer

December 17, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the date indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ BEN FEDER</u> Ben Feder	Chief Executive Officer (Principal Executive Officer)	December 17, 2010
<u>/s/ LAINIE GOLDSTEIN</u> Lainie Goldstein	Chief Financial Officer (Principal Financial and Accounting Officer)	December 17, 2010
<u>/s/ STRAUSS ZELNICK</u> Strauss Zelnick	Chairman of the Board of Directors	December 17, 2010
<u>/s/ MICHAEL DORNEMANN</u> Michael Dornemann	Lead Independent Director	December 17, 2010
<u>/s/ ROBERT A. BOWMAN</u> Robert A. Bowman	Director	December 17, 2010
<u>/s/ SUNGHWAN CHO</u> SungHwan Cho	Director	December 17, 2010
<u>/s/ BRETT ICAHN</u> Brett Icahn	Director	December 17, 2010
<u>/s/ J MOSES</u> J Moses	Director	December 17, 2010
<u>/s/ JAMES L. NELSON</u>	Director	December 17, 2010

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James L. Nelson

/s/ MICHAEL SHERESKY

Director

December 17, 2010

Michael Sheresky

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