

TAKE TWO INTERACTIVE SOFTWARE INC
Form 10-Q
March 11, 2009

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended January 31, 2009

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from _____ to _____
Commission file number 0-29230**

TAKE-TWO INTERACTIVE SOFTWARE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation or Organization)

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

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

10012
(Zip Code)

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

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

Indicate by check mark whether the registrant 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

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As of March 5, 2009, there were 80,318,077 shares of the Registrant's Common Stock outstanding.

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| (All other items in this report are inapplicable) | |

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

| ASSETS | January 31, 2009 | October 31, 2008 |
|--|---------------------|---------------------|
| | (Unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | \$ 217,836 | \$ 280,277 |
| Accounts receivable, net of allowances of \$63,296 and \$68,448 at January 31, 2009 and October 31, 2008, respectively | 60,320 | 157,458 |
| Inventory | 75,972 | 104,235 |
| Software development costs and licenses | 116,712 | 113,436 |
| Prepaid taxes and taxes receivable | 24,954 | 23,763 |
| Prepaid expenses and other | 49,052 | 44,605 |
| Total current assets | 544,846 | 723,774 |
| Fixed assets, net | | |
| Software development costs and licenses, net of current portion | 29,358 | 32,361 |
| Goodwill | 66,745 | 61,991 |
| Other intangibles, net | 225,182 | 230,809 |
| Other assets | 24,970 | 26,123 |
| | 9,648 | 8,294 |
| Total assets | \$ 900,749 | \$ 1,083,352 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 59,487 | \$ 156,167 |
| Accrued expenses and other current liabilities | 130,679 | 153,089 |
| Deferred revenue | 53,840 | 56,163 |
| Total current liabilities | 244,006 | 365,419 |
| Line of credit | 70,000 | 70,000 |
| Income taxes payable | 27,526 | 26,399 |
| Other long-term liabilities | 6,874 | 6,416 |
| Total liabilities | 348,406 | 468,234 |
| Commitments and contingencies | | |
| Stockholders' Equity: | | |
| Common Stock, \$.01 par value, 100,000 shares authorized; 78,757 and 77,694 shares issued and outstanding at January 31, 2009 and October 31, 2008, respectively | 788 | 777 |
| Additional paid-in capital | 610,431 | 603,579 |
| (Accumulated deficit) retained earnings | (32,113) | 18,275 |

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| | | |
|--|------------|--------------|
| Accumulated other comprehensive loss | (26,763) | (7,513) |
| Total stockholders' equity | 552,343 | 615,118 |
| Total liabilities and stockholders' equity | \$ 900,749 | \$ 1,083,352 |

See accompanying Notes.

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

| | Three months ended January 31, | |
|--------------------------------------|-----------------------------------|-------------|
| | 2009 | 2008 |
| Net revenue | \$ 256,810 | \$ 240,442 |
| Cost of goods sold | 200,902 | 186,008 |
| Gross profit | 55,908 | 54,434 |
| Selling and marketing | 40,774 | 33,729 |
| General and administrative | 39,748 | 33,083 |
| Research and development | 20,943 | 15,810 |
| Depreciation and amortization | 5,108 | 6,409 |
| Total operating expenses | 106,573 | 89,031 |
| Loss from operations | (50,665) | (34,597) |
| Interest and other income, net | 2,349 | 1,367 |
| Loss before income taxes | (48,316) | (33,230) |
| Provision for income taxes | 2,072 | 4,767 |
| Net loss | \$ (50,388) | \$ (37,997) |
| Net loss per share: | | |
| Basic and diluted | \$ (0.66) | \$ (0.52) |
| Weighted average shares outstanding: | | |
| Basic and diluted | 76,102 | 73,148 |

See accompanying Notes.

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TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in thousands)

| | Three months ended January 31, | |
|--|-----------------------------------|-------------|
| | 2009 | 2008 |
| Operating activities: | | |
| Net loss | \$ (50,388) | \$ (37,997) |
| Adjustments to reconcile net loss to net cash used for operating activities: | | |
| Amortization and impairment of software development costs and licenses | 20,092 | 18,581 |
| Depreciation and amortization of long-lived assets | 5,108 | 6,409 |
| Amortization and impairment of intellectual property | 390 | 351 |
| Stock-based compensation | 6,182 | 6,073 |
| Deferred income taxes | (177) | (107) |
| Foreign currency transaction gain and other | (3,737) | (1,387) |
| Changes in assets and liabilities, net of effect from purchases of businesses: | | |
| Accounts receivable | 97,138 | 42,420 |
| Inventory | 28,263 | 16,844 |
| Software development costs and licenses | (31,613) | (34,023) |
| Prepaid expenses, other current and other non-current assets | (6,957) | 17,551 |
| Accounts payable, accrued expenses, deferred revenue, income taxes payable and other liabilities | (121,110) | (74,080) |
| Total adjustments | (6,421) | (1,368) |
| Net cash used for operating activities | (56,809) | (39,365) |
| Investing activities: | | |
| Purchase of fixed assets | (2,198) | (1,370) |
| Purchases of businesses, net of cash acquired | | (151) |
| Net cash used for investing activities | (2,198) | (1,521) |
| Financing activities: | | |
| Proceeds from exercise of options | 4 | 937 |
| Net borrowings on line of credit | | 18,000 |
| Payment of debt issuance costs | | (979) |
| Net cash provided by financing activities | 4 | 17,958 |
| Effects of exchange rates on cash and cash equivalents | (3,438) | (441) |
| Net decrease in cash and cash equivalents | (62,441) | (23,369) |
| Cash and cash equivalents, beginning of year | 280,277 | 77,757 |
| Cash and cash equivalents, end of period | \$ 217,836 | \$ 54,388 |

See accompanying Notes.

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TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
Notes to Unaudited Condensed 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) is a leading global publisher, developer and distributor of interactive entertainment software, hardware and accessories. Our publishing segment, which consists of Rockstar Games, 2K Games, 2K Sports and 2K Play, develops, markets and publishes software titles for the following leading gaming and entertainment hardware platforms:

| | | |
|--|-------------------------------|------------------------------|
| Sony PLAYSTATION®3 PlayStation®2 PSP® (PlayStation®Portable) | Microsoft Xbox 360® | Nintendo Wii DS |
|--|-------------------------------|------------------------------|

We also develop and publish software titles for the PC. Our distribution segment, which primarily includes our Jack of All Games subsidiary, distributes our products as well as third party software, hardware and accessories to retail outlets primarily in North America.

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of the Company and reflect all normal and recurring adjustments necessary for fair presentation of our financial position, results of operations and cash flows. Inter-company accounts and transactions have been eliminated. The preparation of these condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in these condensed consolidated financial statements and accompanying notes. We adhere to the same accounting policies in preparation of interim financial statements. As permitted under generally accepted accounting principles, interim accounting for certain expenses, including income taxes, are based on full year assumptions when appropriate. Actual results could differ materially from those estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), although we believe that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements and accompanying notes should be read in conjunction with our annual consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K for the year ended October 31, 2008.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation for comparative purposes.

Earnings (Loss) Per Share

Basic earnings (loss) per share ("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, which includes shares of common stock

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issuable upon the exercise of stock options and restricted stock outstanding during the same period. The computation for diluted number of shares excludes those unexercised stock options and unvested restricted stock which are antidilutive. For the three months ended January 31, 2009 and 2008, all common stock equivalents were excluded from our computation of diluted weighted average shares outstanding because their effect would have been antidilutive due to the net loss for those periods. The number of common stock equivalents excluded was approximately 8,318,000 and 7,561,000 for the three months ended January 31, 2009 and 2008, respectively. For the three months ended January 31, 2009, we issued approximately 1,082,000 shares of common stock in connection with employee stock option exercises and restricted stock awards and canceled 19,000 shares of unvested restricted stock awards.

Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which provides guidance on how to measure assets and liabilities recorded at fair value. SFAS 157 does not expand the use of fair value to any new circumstances, but does require additional disclosure in annual and quarterly reports. We adopted SFAS 157 and its related amendments for financial assets and liabilities as of November 1, 2008 (see Note 3) and it did not have a material impact on our financial position or results of operations. SFAS 157 is effective for non-financial assets and liabilities for us beginning November 1, 2009. We have evaluated the non-financial assets and liabilities portion of the standard and expect that it will have no significant impact on our financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 expands the use of fair value accounting but does not affect existing standards, which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure certain financial assets and financial liabilities, on an instrument-by-instrument basis. If the fair value option is elected, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. The Company adopted this Statement as of November 1, 2008 but has not applied the fair value option to any eligible assets or liabilities as such. There was no impact to our financial condition or results of operations from the adoption of this Statement.

In June 2007, the FASB ratified the Emerging Issues Task Force's ("EITF") consensus conclusion on EITF 07-03, *Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development*. EITF 07-03 addresses the diversity which exists with respect to the accounting for the non-refundable portion of a payment made by a research and development entity for future research and development activities. Under this conclusion, an entity is required to defer and capitalize non-refundable advance payments made for research and development activities until the related goods are delivered or the related services are performed. EITF 07-03 is effective for interim or annual reporting periods in fiscal years beginning after December 15, 2007 (November 1, 2008 for the Company), and requires prospective application for new contracts entered into after the effective date. The adoption of EITF 07-03 did not have a material effect on our consolidated financial position, cash flows or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"). This Statement provides greater consistency in the accounting and financial reporting of business combinations. It requires the acquiring entity 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. SFAS 141(R) is effective for all fiscal years beginning after December 15, 2008 (November 1, 2009 for the Company) and interim periods within those years, with earlier adoption prohibited. We are evaluating the impact that the adoption of SFAS 141(R) will have on our consolidated financial position, cash flows or results of operations.

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In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP FAS 142-3"). FSP FAS 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142, *Goodwill and Other Intangible Assets*. This guidance for determining the useful life of a recognized intangible asset applies prospectively to intangible assets acquired individually or with a group of other assets in either an asset acquisition or business combination. FSP FAS 142-3 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008 (November 1, 2009 for the Company), and early adoption is prohibited. We do not expect that the adoption of FSP FAS 142-3 will have a material effect on our consolidated financial position, cash flows or results of operations.

In June 2008, the FASB issued Staff Position EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ("FSP EITF 03-6-1"), which is effective for financial statements issued for fiscal years beginning after December 15, 2008 (November 1, 2009 for the Company). FSP EITF 03-6-1 clarifies that share-based payment awards that entitle holders to receive nonforfeitable dividends before they vest will be considered participating securities and included in the basic earnings per share calculation. We are still evaluating the impact of adopting FSP EITF 03-6-1 on our results of operations.

In October 2008, the FASB issued FASB Staff Position (FSP) FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, which clarifies how companies should apply the fair value measurement methodologies of SFAS 157 to financial assets whose markets are illiquid or inactive. Under this FSP, companies may use their own assumptions about future cash flows and risk-adjusted discount rates when relevant observable inputs are either unavailable or based solely on transaction prices that reflect forced liquidations or distressed sales. We adopted this FSP as of November 1, 2008. There was no impact to our financial condition or results of operations from the adoption of this FSP.

2. MANAGEMENT AGREEMENT

In March 2007, we began operating under a management services agreement with ZelnickMedia (the "Management Agreement"), 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 have 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. The Management Agreement expires in October 2012 and provides for an annual management fee of \$2,500 (\$750 for periods prior to the amendment that was effective as of April 1, 2008) and a maximum bonus of \$2,500 per fiscal year (\$750 for periods prior to the amendment that was effective as of April 1, 2008) 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 \$875 and \$446 for the three months ended January 31, 2009 and 2008, respectively.

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 impacts compensation expense or benefit recognized from period to period. For the three months ended January 31, 2009 and 2008, we recorded \$1,201 and \$2,058, respectively, of stock-based compensation related to this option grant. In addition, 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 restricted stock that vest over a four year period through 2012, provided that the price of our

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common stock outperforms 75% of the companies in the NASDAQ Industrial Index. For the three months ended January 31, 2009, we recorded \$392 of stock-based compensation related to these grants of restricted stock. No stock-based compensation expense was recorded in connection with this agreement for the three months ended January 31, 2008.

3. FAIR VALUE MEASUREMENTS

As of November 1, 2008, we adopted SFAS 157 for financial assets and liabilities. SFAS No. 157 establishes 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 financial assets and liabilities that are measured at fair value on a recurring basis (which, for purposes of SFAS No. 157, means they are so 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.

| | January 31, 2009 | Quoted prices in active markets for identical assets (level 1) | Significant other observable inputs (level 2) | Significant unobservable inputs (level 3) |
|--------------------|---------------------|--|---|--|
| Money market funds | \$ 114,076 | \$ 114,076 | \$ | \$ |
| Bank time deposits | 16,247 | 16,247 | | |

4. COMPREHENSIVE LOSS

Components of comprehensive loss are as follows:

| | Three months ended January 31, | |
|---|-----------------------------------|-------------|
| | 2009 | 2008 |
| Net loss | \$ (50,388) | \$ (37,997) |
| Foreign currency translation adjustment | (19,250) | (6,249) |
| Comprehensive loss | \$ (69,638) | \$ (44,246) |

5. INVENTORY

Inventory balances by category are as follows:

| | January 31, 2009 | October 31, 2008 |
|--------------------|---------------------|---------------------|
| Finished products | \$ 70,279 | \$ 96,139 |
| Parts and supplies | 5,693 | 8,096 |
| Inventory | \$ 75,972 | \$ 104,235 |

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Estimated product returns included in inventory at January 31, 2009 and October 31, 2008 are \$9,903 and \$9,394, respectively.

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

| | January 31, 2009 | | October 31, 2008 | |
|--|------------------|-------------|------------------|-------------|
| | Current | Non-current | Current | Non-current |
| Software development costs, internally developed | \$ 96,208 | \$ 22,530 | \$ 72,381 | \$ 39,508 |
| Software development costs, externally developed | 18,848 | 42,366 | 37,422 | 20,495 |
| Licenses | 1,656 | 1,849 | 3,633 | 1,988 |
| Software development costs and licenses | \$ 116,712 | \$ 66,745 | \$ 113,436 | \$ 61,991 |

Software development costs and licenses as of January 31, 2009 and October 31, 2008 include \$160,642 and \$136,687, respectively, related to titles that have not been released.

7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

| | January 31, 2009 | October 31, 2008 |
|------------------------------------|---------------------|---------------------|
| Software development costs | \$ 37,573 | \$ 39,803 |
| Compensation and benefits | 15,620 | 40,293 |
| Income tax payable | 13,668 | 13,263 |
| Licenses | 12,905 | 13,594 |
| Marketing and promotions | 9,572 | 7,430 |
| Professional fees | 7,907 | 7,618 |
| Rent and deferred rent obligations | 6,296 | 6,732 |
| Other | 27,138 | 24,356 |
| Total | \$ 130,679 | \$ 153,089 |

8. CREDIT AGREEMENT

In July 2007, we entered into a credit agreement with Wells Fargo (the "Credit Agreement"). The Credit Agreement 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 (8.00% at January 31, 2009), or (b) 3.25% to 3.75% above the LIBOR Rate with a minimum 4.00% LIBOR Rate (7.25% at January 31, 2009), with the margin rate subject to the achievement of certain average liquidity levels. We are also required to pay an annual fee on the unused available balance, ranging from 0.25% to 0.75% based on amounts borrowed.

We had borrowings outstanding of \$70,000 at January 31, 2009 and October 31, 2008 and had \$58,440 and \$28,964 available for borrowings, respectively. We had \$11,560 of letters of credit outstanding at January 31, 2009 and October 31, 2008 and were in compliance with all covenants and requirements in the Credit Agreement. We recorded \$1,796 and \$779 of interest expense and fees related to the Credit Agreement for the periods ended January 31, 2009 and 2008, respectively.

9. 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 and in our Form 10-K and 10-Q for the periods

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ended October 31, 2008 and January 31, 2009, respectively. 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. In July 2005, we received four complaints for purported class actions, which were consolidated in the U.S. District Court for the Southern District of New York (the "SDNY"). The plaintiffs, alleged purchasers of our *Grand Theft Auto: San Andreas* game, assert 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. The complaints seek unspecified damages, declarations of various violations of law and litigation costs. In January 2006, the City Attorney for the City of Los Angeles filed a complaint in the Superior Court of California, alleging violations of California law on substantially the same basis as the consumer class action; we removed the LA City Attorney lawsuit to federal court, and it was consolidated with the consumer class action. In December 2007, the SDNY court preliminarily approved a settlement of the consumer class action. In July 2008, however, the SDNY Court refused 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 have applied for permission to appeal the SDNY Court's decision; that application is pending. We express no opinion as to the likelihood of permission to appeal being granted or the outcome of any such appeal, and, should the consumer class action or the related LA City Attorney action return to an active litigation posture, we will continue to defend those cases vigorously.

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 U.S. District Court for the Southern District of New York. The actions were consolidated, and in April 2007 the lead plaintiff 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. He 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. We express no opinion as to the outcome of the complaint and will continue to defend this case 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 U.S. District Court for the Southern District of New York against us, as nominal defendant, and certain of our directors and certain former officers and directors. 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 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

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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 the remaining claims, which are related to the proxy statements, would entitle the putative class to monetary damages. We intend to continue to vigorously defend against the remainder of the plaintiff's claims.

Derivative Action Option Backdating. In July and August 2006, shareholders Richard Lasky and Raeda Karadsheh filed purported derivative actions in the U.S. District Court for the Southern District of New York 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. The parties are awaiting a decision by the Court.

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. In April 2006, the plaintiffs amended the complaint to add a claim for civil conspiracy. Our motion to dismiss that claim is pending. At our request, the Court held an evidentiary hearing on October 30, 2008 to consider the exclusion of certain expert testimony and a second hearing was held on December 18, 2008. There currently is no scheduling order in effect. We believe that the claims are without merit and that this action is similar to lawsuits brought and uniformly dismissed by courts in other jurisdictions.

Stockholder Actions. In March 2008, Patrick Solomon, a stockholder, filed a purported class action complaint in the Court of Chancery of the State of Delaware against us and certain of our officers and directors. The plaintiff contends that the defendants breached their fiduciary duties by, among other things, allegedly refusing to explore premium offers by Electronic Arts Inc. to acquire all of the Company's outstanding shares of common stock, enacting a bylaw amendment allegedly designed to entrench the current board by preventing stockholders from nominating and electing alternative directors, agreeing to an amendment to a management agreement with ZelnickMedia and issuing a proxy statement for the 2008 annual meeting of stockholders that allegedly contained misleading and incomplete information. The complaint seeks preliminary and permanent injunctive relief, rescissory and other equitable relief and damages. After certain voluntary actions were taken by the Company, the plaintiff agreed to withdraw his motion for preliminary injunctive relief, and the annual meeting went forward without difficulty (and without any stockholders nominating directors or proposing

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business). On December 19, 2008, the plaintiff filed a supplement to his complaint. The supplement repeats his prior allegations and also alleges the stockholder vote on the amendment of the Company's Incentive Stock Plan and the amendment to the management agreement with ZelnickMedia and the grant of stock thereunder was invalid. On February 17, 2009, the Company filed its motion to dismiss all claims in both pleadings. On March 4, 2009, the plaintiff filed a motion to file a second supplement to his complaint. The second supplement contains additional allegations of breaches of fiduciary duties by the directors, and misleading and incomplete disclosure with respect to the proxy statement for the 2009 annual meeting of stockholders. The second supplement also seeks to enjoin the vote on the 2009 Stock Incentive Plan at the 2009 annual meeting of stockholders and a declaration that such Plan is invalid and void. We believe all of the claims described above lack merit, and intend to defend vigorously against them.

In April 2008, St. Clair Shores General Employees Retirement System, a stockholder, filed a purported derivative action on behalf of the Company in the Court of Chancery of the State of Delaware against our directors and ZelnickMedia. The allegations are essentially the same as those in the original Solomon complaint, above, with an additional complaint about the "poison pill" adopted by our board in March 2008, and an additional claim against ZelnickMedia for aiding and abetting the directors' alleged breach of fiduciary duty. Because the action was duplicative, the plaintiff agreed to stay all proceedings in the case in favor of the Solomon case. We believe the claims lack merit, and intend to defend vigorously against them. Also in April 2008, Michael Maulano, an alleged stockholder, filed a purported class action in New York Supreme Court, New York County, against us and our directors.

We intend to vigorously defend all of the above matters and, with respect to the derivative actions, we have been advised that the individual defendants will vigorously defend such actions. However, we cannot predict the outcome of these matters and, if determined adversely to us, such matters, either individually or in the aggregate, could result in the imposition of significant judgments, fines, penalties and/or injunctive relief, which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Grand Jury Subpoenas. In 2006, we received grand jury subpoenas issued by the District Attorney of the County of New York requesting production of documents covering various periods beginning on January 1, 1997, including those relating to, among other things: the so-called "Hot Coffee" scenes in *Grand Theft Auto: San Andreas*; the work of our Board of Directors, all board committees and the Special Litigation Committee; certain acquisitions entered into by us; billing and payment records relating to PricewaterhouseCoopers LLP and the termination of PricewaterhouseCoopers LLP as our auditors; communications to financial analysts and stockholders about acquisitions and financial results; compensation and human resources documents of certain of our directors and employees and former directors and employees; stock-based compensation; the SEC's July 2006 inquiry; legal services performed for employees; corporate credit card and expense records of certain individuals; the SEC bar of our former Chief Executive Officer, Ryan Brant; the resolution to amend our Incentive Stock Plan; and ethics, securities, and conflict of interest policies and questionnaires. Over time, the District Attorney's investigation focused on options backdating. We have fully cooperated and provided the documents and information called for by the subpoenas.

SEC Investigation. In July 2006, we received notice from the SEC that it was conducting an informal non-public investigation of certain stock option grants made from January 1997 to 2006 and in April 2007 we received notice from the SEC that it was conducting a formal investigation of such stock option grants. As a result of the Special Litigation Committee's internal review of our option grants, in February 2007 we restated our financial statements for prior periods in our Annual Report on Form 10-K for the fiscal year ended October 31, 2006. In August 2007, we received a "Wells" notice from the Staff of the Division of Enforcement of the SEC informing us of its intention to request authority to file charges, and to seek a civil monetary penalty in connection with its investigation. We submitted a response to the Staff's notice in September 2007, urging that no charges should be brought against us. We have continued to cooperate with the Staff and we continue to expect to resolve this investigation by means of a settlement rather than a contested litigation of charges.

Table of Contents**10. SEGMENT AND GEOGRAPHIC INFORMATION**

We are a publisher and distributor of interactive entertainment software games designed for personal computers, video game consoles and handheld platforms. Revenue earned by our publishing segment is primarily derived from the sale of internally developed software titles and software titles developed on our behalf by third parties. Revenue earned by our distribution segment is derived from the sale of third party software titles, accessories and hardware.

Our Chief Executive Officer is our chief operating decision maker ("CODM"). We are centrally managed and the CODM primarily uses consolidated financial information supplemented by sales information by product category, major product title and platform for making operational decisions and assessing financial performance.

Our CODM is presented with financial information that contains information that separately identifies our publishing and distribution operations, including gross margin information. Accordingly, we consider our publishing and distribution businesses to be distinct reportable segments.

Our operating segments do not record inter-segment revenue and therefore none has been reported. We do not allocate operating expenses, interest and other income, interest expense or income taxes to operating segments. Our accounting policies for segment reporting are the same as for the Company as a whole.

Information about our reportable segments is as follows:

| | Three months ended January 31, | |
|--------------------------|-----------------------------------|-------------------|
| | 2009 | 2008 |
| Net revenue: | | |
| Publishing | \$ 149,186 | \$ 122,419 |
| Distribution | 107,624 | 118,023 |
| Total net revenue | \$ 256,810 | \$ 240,442 |

| | Three months ended January 31, | |
|---------------------------|-----------------------------------|------------------|
| | 2009 | 2008 |
| Gross profit: | | |
| Publishing | \$ 46,603 | \$ 42,172 |
| Distribution | 9,305 | 12,262 |
| Total gross profit | \$ 55,908 | \$ 54,434 |

| | January 31, 2009 | | | October 31, 2008 | | |
|--------------------------|------------------|--------------|-----------|------------------|--------------|------------|
| | Publishing | Distribution | Total | Publishing | Distribution | Total |
| Accounts receivable, net | \$ 37,124 | \$ 23,196 | \$ 60,320 | \$ 115,921 | \$ 41,537 | \$ 157,458 |
| Inventory | 24,483 | \$ 51,489 | 75,972 | 38,446 | 65,789 | 104,235 |
| Total assets | 784,474 | \$ 116,275 | 900,749 | 933,802 | 149,550 | 1,083,352 |

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

| Net revenue by geographic region: | Three months ended January 31, | |
|--|---|-------------------|
| | 2009 | 2008 |
| United States | \$ 180,910 | \$ 189,227 |
| Canada | 12,963 | 13,582 |
| North America | 193,873 | 202,809 |
| United Kingdom | 14,983 | 7,408 |
| Continental Europe | 38,373 | 21,417 |
| Asia Pacific and other | 9,581 | 8,808 |
| Total net revenue | \$ 256,810 | \$ 240,442 |

Net revenue by product platform for our reportable segments is as follows:

| Net revenue by product platform: | Three months ended January 31, | |
|---|---|-------------------|
| | 2009 | 2008 |
| Publishing: | | |
| PC | \$ 35,520 | \$ 12,423 |
| Nintendo Wii | 28,708 | 23,310 |
| Microsoft Xbox 360 | 27,209 | 25,700 |
| Sony PLAYSTATION 3 | 23,103 | 10,178 |
| Sony PlayStation 2 | 14,042 | 30,714 |
| Sony PSP | 12,289 | 15,489 |
| Nintendo handheld devices | 7,563 | 3,236 |
| Other | 752 | 1,369 |
| Total publishing | 149,186 | 122,419 |
| Distribution: | | |
| Hardware and peripherals | 40,600 | 53,168 |
| Software: | | |
| Nintendo Wii | 20,942 | 11,000 |
| Nintendo handheld devices | 13,577 | 15,947 |
| PC | 13,080 | 12,367 |
| Microsoft Xbox 360 | 8,318 | 6,433 |
| Sony PlayStation 2 | 5,608 | 10,772 |
| Sony PLAYSTATION 3 | 3,683 | 3,381 |
| Sony PSP | 1,331 | 1,429 |
| Other | 485 | 3,526 |
| Total distribution | 107,624 | 118,023 |
| Total net revenue | \$ 256,810 | \$ 240,442 |

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

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements made in reliance upon the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The statements contained herein which are not historical facts are considered forward-looking statements under federal securities laws and may be identified by words such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "potential," "predicts," "projects," "seeks," "will," or words of similar meaning and include, but are not limited to, statements regarding the outlook for the Company's future business and financial performance. Such forward-looking statements are based on the current beliefs of our management as well as assumptions made by and information currently available to them, which are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Actual outcomes and results may vary materially from these forward-looking statements based on a variety of risks and uncertainties including those contained in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2008, in the section entitled "Risk Factors," and the Company's other periodic filings with the SEC. All forward-looking statements are qualified by these cautionary statements and 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.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is provided in addition to the accompanying condensed consolidated financial statements and footnotes to assist readers in understanding our results of operations, financial condition and cash flows. The following discussion should be read in conjunction with the MD&A included in our annual consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K for the year ended October 31, 2008.

Overview

Our Business

We are a global publisher, developer and distributor of interactive entertainment software, hardware and accessories. Our publishing segment consists of our Rockstar Games, 2K Games, 2K Sports and 2K Play publishing labels. We develop, market and publish software titles for the leading 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; and for the PC and Games for Windows®. The installed base for the prior generation of console 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. Our distribution segment, which primarily consists of our Jack of All Games subsidiary, distributes our products as well as software, hardware and accessories produced by others to retail outlets in North America.

We endeavor to be the most creative, innovative and efficient company in our industry. Our strategy is to capitalize on the growth of 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

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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 story lines 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 in our publishing segment is primarily derived from the sale of internally developed software titles and software titles developed on our behalf by third parties. 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 the United States, Canada, the United Kingdom, Czech Republic, Australia and China.

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 by leveraging our existing titles as well as developing new brands. Rockstar is also well known for developing brands in other genres, including the *Bully*, *Manhunt*, *Max Payne* and *Red Dead Revolver* 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. Externally developed titles have included *The Darkness* and *The Elder Scrolls IV: Oblivion*. Our 2K Sports series, which includes *Major League Baseball 2K*, *NBA 2K* and *NHL 2K*, provides more consistent annual revenue streams than our Rockstar Games and 2K Games' businesses because we publish them on an annual 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. Since its formation, our 2K Sports label has secured major sports league licenses including long-term, third party exclusive licensing relationships with Major League Baseball Properties, the Major League Baseball Players Association and Major League Baseball Advanced Media. Our 2K Play label focuses on developing and publishing titles for the growing market of casual and family-friendly games. 2K Play titles are developed by third party developers and internal development studios. Internally developed titles include *Carnival Games* and the *Deal or No Deal* series. 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* and *Go, Diego, Go!* We expect family-oriented gaming to be an important component of our industry in the future. Furthermore, we have expansion initiatives in the rapidly growing Asia Pacific markets, where our strategy is to broaden the distribution of our existing products, develop a presence in Japan, and establish an online gaming presence, especially in China and Korea.

Our distribution segment, which is primarily comprised of our Jack of All Games subsidiary, distributes our products as well as third party software, hardware and accessories to retail outlets primarily in North America. Revenue in our distribution segment is derived from the sale of third party software titles, accessories and hardware in North America. Operating margins in our distribution business depend in large part on the mix of software and hardware sales, with software sales generally yielding higher margins than hardware. We have focused on improving margins in our distribution business. In September 2008, we sold certain assets of our distribution segment pertaining to the warehouse management, processing and value-added service operations of our distribution facility to Ditan Distribution LLC ("Ditan"), a logistics management solutions provider. In addition, we agreed to outsource the pick, pack, ship and warehousing functions for our publishing and distribution businesses to Ditan. This has allowed Jack of All Games to better focus on purchasing, sales and service for their customers.

Table of Contents***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. 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 during fiscal 2009. 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 reduces demand for new copies of our games. We have begun to offer downloadable content for certain of our titles which requires 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. 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.

First Quarter 2009 Releases

We released the following key titles in the first quarter of fiscal year 2009:

| <i>Title</i> | <i>Publishing Label</i> | <i>Internal or External Development</i> | <i>Platform(s)</i> | <i>Date Released</i> |
|----------------------------------|-------------------------|---|-----------------------------------|----------------------|
| <i>MLB® Superstars</i> | 2K Sports | External | Wii | November 11, 2008 |
| <i>Grand Theft Auto IV</i> | Rockstar Games | Internal | PC | December 2, 2008 |
| <i>MLB® Front Office Manager</i> | 2K Sports | External | PS3, Xbox 360, Games for Windows® | January 27, 2009 |

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Product Pipeline

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

| <i>Title</i> | <i>Publishing Label</i> | <i>Internal or External Development</i> | <i>Platform(s)</i> | <i>Expected/Actual Release</i> |
|---|-------------------------|---|-----------------------------------|--------------------------------|
| <i>Grand Theft Auto IV: The Lost and Damned</i> | Rockstar Games | Internal | Xbox 360 | February 17, 2009 |
| <i>Major League Baseball® 2K9</i> | 2K Sports | Internal | Multiple platforms | March 3, 2009 |
| <i>MLB® 2K9 Fantasy All-Stars</i> | 2K Sports | External | DS | March 3, 2009 |
| <i>Grand Theft Auto: Chinatown Wars</i> | Rockstar Games | Internal | DS | March 17, 2009 |
| <i>Don King Boxing</i> | 2K Sports | Internal | Wii, DS | March 31, 2009 |
| <i>Beaterator</i> | Rockstar Games | Internal | TBA | Fiscal year 2009 |
| <i>BioShock® 2</i> | 2K Games | Internal | TBA | Fiscal year 2009 |
| <i>Borderlands</i> | 2K Games | External | PS3, Xbox 360, Games for Windows® | Fiscal year 2009 |
| <i>Grand Theft Auto IV Second Episode</i> | Rockstar Games | Internal | Xbox 360 | Fiscal year 2009 |
| <i>Mafia II</i> | 2K Games | Internal | PS3, Xbox 360, Games for Windows® | Fiscal year 2009 |
| <i>Major League Baseball® 2K9</i> | 2K Sports | Internal | PSP | Fiscal year 2009 |
| <i>Midnight Club: Los Angeles</i> | Rockstar Games | Internal | PS3, Xbox 360 | Fiscal year 2009 |
| <i>Downloadable Content South Central Premium Upgrade</i> | | | | |
| <i>NBA® 2K10</i> | 2K Sports | Internal | Multiple platforms | Fiscal year 2009 |
| <i>NHL® 2K10</i> | 2K Sports | Internal | Multiple platforms | Fiscal year 2009 |
| <i>Red Dead Redemption</i> | Rockstar Games | Internal | PS3, Xbox 360 | Fiscal year 2009 |
| <i>The BIGS 2</i> | 2K Sports | External | Multiple platforms | Fiscal year 2009 |

Critical Accounting Policies and Estimates

Our most critical accounting policies, which are those that require significant judgment, include: revenue recognition; allowances for returns, price concessions and other allowances; capitalization and recognition of software development costs and licenses; valuation of goodwill and long-lived assets; valuation and recognition of stock-based compensation; and income taxes. In-depth descriptions of these can be found in our Annual Report on Form 10-K for the fiscal year ended October 31, 2008.

Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which provides guidance on how to measure assets and liabilities recorded at fair value. SFAS 157 does not expand the use of fair value to any new circumstances, but does require additional disclosure in annual and quarterly reports. We adopted SFAS 157 and its related amendments for financial assets and liabilities as of November 1, 2008 (See Note 3 to the Condensed Consolidated Financial Statements) and it did not have a material impact on our financial position or results of operations. SFAS 157 is effective for non-financial assets and liabilities for us beginning November 1, 2009. We have evaluated the non-financial assets and liabilities portion of the standard and expect that it will have no significant impact on our financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 expands the use of fair value accounting but does not affect existing standards, which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure certain financial assets and financial liabilities, on an instrument-by-instrument basis. If the fair value option is elected, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. The Company adopted this Statement as of November 1, 2008 but has not applied the fair value option to any eligible assets or liabilities as such. There was no impact to our financial condition or results of operations from the adoption of this Statement.

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In June 2007, the FASB ratified the Emerging Issues Task Force's ("EITF") consensus conclusion on EITF 07-03, *Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development*. EITF 07-03 addresses the diversity which exists with respect to the accounting for the non-refundable portion of a payment made by a research and development entity for future research and development activities. Under this conclusion, an entity is required to defer and capitalize non-refundable advance payments made for research and development activities until the related goods are delivered or the related services are performed. EITF 07-03 is effective for interim or annual reporting periods in fiscal years beginning after December 15, 2007 (November 1, 2008 for the Company), and requires prospective application for new contracts entered into after the effective date. The adoption of EITF 07-03 did not have a material effect on our consolidated financial position, cash flows or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"). This Statement provides greater consistency in the accounting and financial reporting of business combinations. It requires the acquiring entity 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. SFAS 141(R) is effective for all fiscal years beginning after December 15, 2008 (November 1, 2009 for the Company) and interim periods within those years, with earlier adoption prohibited. We are evaluating the impact that the adoption of SFAS 141(R) will have on our consolidated financial position, cash flows or results of operations.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP FAS 142-3"). FSP FAS 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142, *Goodwill and Other Intangible Assets*. This guidance for determining the useful life of a recognized intangible asset applies prospectively to intangible assets acquired individually or with a group of other assets in either an asset acquisition or business combination. FSP FAS 142-3 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008 (November 1, 2009 for the Company), and early adoption is prohibited. We do not expect that the adoption of FSP FAS 142-3 will have a material effect on our consolidated financial position, cash flows or results of operations.

In June 2008, the FASB issued Staff Position EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ("FSP EITF 03-6-1"), which is effective for financial statements issued for fiscal years beginning after December 15, 2008 (November 1, 2009 for the Company). FSP EITF 03-6-1 clarifies that share-based payment awards that entitle holders to receive nonforfeitable dividends before they vest will be considered participating securities and included in the basic earnings per share calculation. We are still evaluating the impact of adopting FSP EITF 03-6-1 on our results of operations.

In October 2008, the FASB issued FASB Staff Position (FSP) FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, which clarifies how companies should apply the fair value measurement methodologies of SFAS 157 to financial assets whose markets are illiquid or inactive. Under this FSP, companies may use their own assumptions about future cash flows and risk-adjusted discount rates when relevant observable inputs are either unavailable or based solely on transaction prices that reflect forced liquidations or distressed sales. We adopted this FSP as of November 1, 2008. There was no impact to our financial condition or results of operations from the adoption of this FSP.

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Consolidated operating results, net revenue by geographic region and publishing revenue by platform as a percent of revenue are as follows:

| | Three months ended January 31, | |
|--|---|-------------|
| | 2009 | 2008 |
| Net revenue: | | |
| Publishing | 58.1% | 50.9% |
| Distribution | 41.9% | 49.1% |
| Net revenue | 100.0% | 100.0% |
| Cost of goods sold | 78.2% | 77.4% |
| Gross profit | 21.8% | 22.6% |
| Selling and marketing | 15.9% | 14.0% |
| General and administrative | 15.5% | 13.8% |
| Research and development | 8.2% | 6.6% |
| Business reorganization and related | 0.0% | 0.0% |
| Depreciation and amortization | 2.0% | 2.7% |
| Total operating expenses | 41.5% | 37.0% |
| Loss from operations | (19.7)% | (14.4)% |
| Interest and other income, net | 0.9% | 0.6% |
| Loss before income taxes | (18.8)% | (13.8)% |
| Provision for income taxes | 0.8% | 2.0% |
| Net loss | (19.6)% | (15.8)% |
| Net revenue by geographic region: | | |
| United States and Canada | 75.5% | 84.3% |
| Europe, Asia Pacific and Other | 24.5% | 15.7% |
| Publishing revenue by platform: | | |
| Console | 62.4% | 74.2% |
| PC | 23.8% | 10.1% |
| Handheld | 13.3% | 15.3% |
| Accessories | 0.5% | 0.4% |

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Three Months ended January 31, 2009 compared to January 31, 2008

Publishing

| (thousands of dollars) | 2009 | % | 2008 | % | Increase/ (decrease) | % Increase/ (decrease) |
|---|------------------|--------------|------------------|--------------|-------------------------|------------------------------|
| Net revenue | \$ 149,186 | 100.0% | \$ 122,419 | 100.0% | \$ 26,767 | 21.9% |
| Product costs | 51,627 | 34.6% | 42,391 | 34.6% | 9,236 | 21.8% |
| Software development costs and royalties ⁽¹⁾ | 23,302 | 15.6% | 22,713 | 18.6% | 589 | 2.6% |
| Internal royalties | 20,472 | 13.7% | 6,145 | 5.0% | 14,327 | 233.1% |
| Licenses | 7,182 | 4.8% | 8,998 | 7.4% | (1,816) | (20.2)% |
| Cost of goods sold | 102,583 | 68.8% | 80,247 | 65.6% | 22,336 | 27.8% |
| Gross profit | \$ 46,603 | 31.2% | \$ 42,172 | 34.4% | \$ 4,431 | 10.5% |

(1)

Includes \$1,172 and \$746 of stock-based compensation expense in 2009 and 2008, respectively.

Net revenue increased \$26.8 million for the three months ended January 31, 2009 as compared to the same period in 2008, primarily due to an increase of \$31.7 million in sales from our *Grand Theft Auto* franchise following the release of *Grand Theft Auto IV* for the PS3 and Xbox 360 in April 2008 and for the PC in December 2008, as well as an increase of \$13.0 million in sales from our *Midnight Club* franchise due to the release of *Midnight Club: Los Angeles* in October 2008. Sales of *Carnival Games*, our second largest revenue generator for the three months ended January 31, 2009, remained relatively flat compared to the same period of the prior year. This was partially offset by a decrease of \$19.8 million in sales from titles released in the fourth quarter of 2007 and the first quarter of 2008 including: *BioShock*, *College Hoops 2K8* and *The Elder Scrolls IV: Oblivion*.

Net revenue on current generation platforms accounted for approximately 53.0% of our total net publishing revenue in the first quarter of 2009 compared to 48.3% for the same period in 2008. PS3 software sales grew \$12.9 million (127.0%) fueled by sales of *Grand Theft Auto IV*, *Midnight Club: Los Angeles* and *NBA 2K9*. PC software sales increased \$23.1 million (185.9%) due primarily to the December 2008 release of *Grand Theft Auto IV*. Sales on the prior generation platforms continued to decline primarily due to a decrease of \$16.9 million (53.6%) on PS2, related to decreased sales of prior versions of *Grand Theft Auto* and various sports titles. We expect volume on prior generation platforms to continue to decline as a result of the continuing hardware transition to the current generation hardware platforms and have therefore reduced the number of titles in development for these older platforms. We 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 from the same period of the prior year primarily due to higher internal royalty expense in 2009 based on the December 2008 release of *Grand Theft Auto IV* on the PC and continuing *Grand Theft Auto IV* console sales. Additionally, we offered greater price concessions in the 2009 period, primarily due to the economic slowdown and increased pressure to lower prices on certain titles.

Revenue earned from licensing our intellectual property to third parties increased \$1.7 million in the first quarter of 2009 primarily due to licensing from our *Grand Theft Auto* franchise. We recognize substantially higher gross profit margins on revenue earned in connection with licensing our products.

Publishing revenue earned outside of North America accounted for approximately \$62.8 million (42.1%) in the first quarter of 2009 compared to \$37.1 million (30.3%) in the 2008 period. The year-over-year increase was primarily attributable to higher sales of *Grand Theft Auto IV* and *Midnight*

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Club: Los Angeles. Foreign exchange rates reduced revenue and gross profit by approximately \$12.3 million and \$1.6 million, respectively, in the first quarter of 2009.

Distribution

| (thousands of dollars) | 2009 | % | 2008 | % | Increase/ (decrease) | % Increase/ (decrease) |
|------------------------|-----------------|-------------|------------------|--------------|-------------------------|------------------------------|
| Net revenue | \$ 107,624 | 100.0% | \$ 118,023 | 100.0% | \$ (10,399) | (8.8)% |
| Cost of goods sold | 98,319 | 91.4% | 105,761 | 89.6% | (7,442) | (7.0)% |
| Gross profit | \$ 9,305 | 8.6% | \$ 12,262 | 10.4% | \$ (2,957) | (24.1)% |

Net revenue decreased \$10.4 million for the three months ended January 31, 2009 as compared to the same period in 2008 primarily due to:

- i. a decrease of \$12.5 million in hardware sales due to our focus on higher margin software products; and
- ii. a decrease of \$6.6 million in sales for prior generation software due to declining consumer spending on titles for the prior generation platforms; partially offset by
- iii. An increase of \$9.9 million in sales of Wii software as consumers continued to shift their spending to this platform with the increasing popularity of casual gaming.

Gross profit margins decreased slightly in 2009 primarily due to the sale of older inventory at lower margins in order to reduce our inventory levels. Foreign currency exchange rates decreased net revenue and gross profit by approximately \$3.1 million and \$0.5 million, respectively, in the first quarter of 2009.

Operating Expenses

| (thousands of dollars) | 2009 | % of net revenue | 2008 | % of net revenue | Increase/ (decrease) | % Increase/ (decrease) |
|---|-------------------|------------------------|------------------|------------------------|-------------------------|------------------------------|
| Selling and marketing | \$ 40,774 | 15.9% | \$ 33,729 | 14.0% | \$ 7,045 | 20.9% |
| General and administrative | 39,748 | 15.5% | 33,083 | 13.8% | 6,665 | 20.1% |
| Research and development | 20,943 | 8.2% | 15,810 | 6.6% | 5,133 | 32.5% |
| Depreciation and amortization | 5,108 | 2.0% | 6,409 | 2.7% | (1,301) | (20.3)% |
| Total operating expenses⁽¹⁾ | \$ 106,573 | 41.5% | \$ 89,031 | 37.0% | \$ 17,542 | 19.7% |

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

| | 2009 | 2008 |
|----------------------------|--------|--------|
| Selling and marketing | \$ 493 | \$ 867 |
| General and administrative | 3,391 | 3,372 |
| Research and development | 1,126 | 1,088 |

As compared to first quarter 2008 the foreign currency exchange rates favorably impacted total operating expenses by approximately \$6.3 million in the first quarter of 2009.

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Selling and marketing

Selling and marketing expenses increased \$7.0 million for the three months ended January 31, 2009 as compared to the same period in 2008 primarily due to:

- i. an increase in advertising expense of \$11.3 million mainly for *Grand Theft Auto IV* and *Midnight Club: Los Angeles*; partially offset by
 - ii. a decrease of \$1.4 million in personnel severance costs incurred for the termination of several key employees in our Europe operations in December 2007; and
 - iii. a decrease of \$3.4 million in personnel and warehouse expenses at our distribution facility offset by approximately \$0.8 million in management fees related to the distribution services agreement that we entered into with Ditan in September 2008.
- The net savings was offset by the distribution fee recorded in cost of goods sold.

General and administrative

General and administrative expenses increased \$6.7 million for the three months ended January 31, 2009 compared to the same period in 2008 primarily due to:

- i. a \$5.5 million increase in legal fees and accrued settlement costs, primarily reflecting estimates to resolve certain ongoing legal and regulatory matters, and expenses related to contract negotiations; and
- ii. an increase of \$1.4 million for bad debt expense mainly for international customers as well as a recovery of bad debt in the quarter ended January 31, 2008.

General and administrative expenses for the three months ended January 31, 2009 and 2008 also includes occupancy expense (primarily rent, utilities and office expenses) of \$2.8 million and \$3.5 million, respectively, related to our development studios.

Research and development

Research and development expenses increased \$5.1 million for the three months ended January 31, 2009 compared to the same period in 2008 primarily due to

- i. an increase in personnel costs as a result of added headcount 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; and
- ii. an increase of \$3.3 million of production expenses.

Provision for income taxes. For the three months ended January 31, 2009, income tax expense was \$2.1 million, compared to income tax expense of \$4.8 million in the first quarter of 2008. The reduction in tax expense was primarily attributable to foreign jurisdictions. We did not record an income tax benefit on our United States pre-tax loss in 2009 and 2008 due to uncertainty regarding the realization of our deferred tax assets, primarily those attributable to net operating loss carryforwards. We increased our valuation allowance by approximately \$12.8 million and \$7.3 million in the three months ended January 31, 2009 and 2008, respectively. Our effective tax rate differed from the federal, state and foreign statutory tax rates primarily due to the recording of valuation allowances.

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

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Net loss and loss per share. For the three months ended January 31, 2009, our net loss was \$50.4 million, compared to \$38.0 million in the same period of 2008. Net loss per share for the three months ended January 31, 2009 was \$0.66 compared to \$0.52 for the three months ended January 31, 2008. Weighted average shares outstanding increased compared to the prior period, mainly due to an increase in the exercise of stock options over the last twelve months and the issuance of 1,496,647 shares of restricted stock in January 2008 in connection with our acquisition of 2K Czech.

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. Historically, we have relied on funds provided by operating activities and short and long-term borrowings to satisfy our working capital needs.

In July 2007, we entered into a credit agreement with Wells Fargo (the "Credit Agreement"). The Credit Agreement 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 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 (8.00% at January 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 January 31, 2009 and October 31, 2008). We are also required to pay an annual 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 January 31, 2009 there were \$70.0 million of borrowings and \$58.4 million was available for additional borrowings. We had \$11.6 million of letters of credit outstanding at January 31, 2009 and were in compliance with all covenants and requirements 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. Effective March 1, 2008, we have purchased 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 49.5% and 45.7% of net revenue for the three months ended January 31, 2009 and 2008, respectively. As of January 31, 2009 and October 31, 2008, amounts due from our five largest customers comprised approximately 63.2% and 39.0% 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 46.7% and 11.8% of such balance at January 31, 2009 and October 31, 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. There were no material agreements requiring known

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cash commitments entered into during the first quarter of 2009 that were not previously reported in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended October 31, 2008.

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 decreased by \$62.4 million for the quarter ended January 31, 2009 as follows:

| (thousands of dollars) | Three months ended January 31, | |
|--|-----------------------------------|-------------|
| | 2009 | 2008 |
| Cash used for operating activities | \$ (56,809) | \$ (39,365) |
| Cash used for investing activities | (2,198) | (1,521) |
| Cash provided by financing activities | 4 | 17,958 |
| Effects of exchange rates on cash and cash equivalents | (3,438) | (441) |
| Net decrease in cash and cash equivalents | \$ (62,441) | \$ (23,369) |

At January 31, 2009 we had \$217.8 million of cash and cash equivalents, compared to \$280.3 million at October 31, 2008. Our decrease in cash and cash equivalents from October 31, 2008 was primarily a result of cash used for operating activities. In the first quarters of 2009 and 2008, our net losses were partially offset by non-cash expenses and a decrease in accounts receivable, reflecting seasonality in our business as we collected on sales from the holiday season. Offsetting the collection of our accounts receivable were decreases in accounts payable and accruals, also reflecting seasonality. In addition, we continued to increase spending on capitalized expenditures for software development costs and licenses. Prepaid expenses and other assets decreased in the 2008 period, mainly as a result of a \$19.5 million income tax refund received.

Cash used for investing activities consisted of purchases of computer equipment and software which did not significantly increase for the first quarter 2009 compared to the prior period.

Cash provided by financing activities reflected an increase in net borrowings in the first quarter 2008 compared to the same period in 2009.

Cash and cash equivalents were negatively impacted by \$3.4 million in 2009 as a result of foreign currency exchange movements primarily due to the impact of the weakening European currencies against the United States dollar.

Off-Balance Sheet Arrangements

As of January 31, 2009 and October 31, 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 arrangements and are not exposed to any financing, liquidity, market, or credit risk that could arise if we had engaged in such relationships.

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

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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 (our fourth and first fiscal quarters) as a result of increased demand for titles during the holiday season. Quarterly comparisons of operating results are not necessarily indicative of future operating results.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are subject to market risks in the ordinary course of our business, primarily risks associated with interest rate and foreign currency fluctuations.

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 (8.00% at January 31, 2009), or (b) 3.25% to 3.75% above the LIBOR rate with a minimum 4.00% LIBOR Rate (7.25% at January 31, 2009), with the margin rate subject to the achievement of certain average liquidity levels. Changes in market rates may impact our future interest expense. For instance, if the borrowing rate on our line of credit were to increase one percentage point (1.0%), our expected annual interest expense would change by approximately \$0.7 million based on our outstanding loan balance as of January 31, 2009. A decrease in the LIBOR rate would not have any impact on interest expense because of the 4.00% minimum LIBOR rate prescribed under our Credit Agreement.

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 quarter end. Translation adjustments are included as a separate component of stockholders' equity. For the three months ended January 31, 2009, our foreign currency translation adjustment loss was approximately \$19.3 million. The foreign exchange transaction gain recognized in interest and other income in our statement of operations for the three months ended January 31, 2009 and 2008 was \$3.9 million and \$1.5 million, respectively.

We use forward foreign exchange contracts as cash flow hedges to offset risks related to foreign currency transactions. These transactions primarily relate to 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.

For the three months ended January 31, 2009, 29.6% of the Company's revenue was generated outside the United States. Using sensitivity analysis, a hypothetical 10% increase in the value of the U.S. dollar against all currencies would decrease revenues by 3.0%, while a hypothetical 10% decrease in the value of the U.S. dollar against all currencies would increase revenues by 3.0%. In the opinion of management, a substantial portion of this fluctuation would be offset by cost of goods sold and expenses incurred in local currency.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the first quarter of 2009, 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.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Various lawsuits, claims, proceedings and investigations are pending involving us and certain of our subsidiaries. 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. Except as noted below, there were no new material legal proceedings or material developments to the pending legal proceedings that have been previously reported in Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended October 31, 2008. In addition to the matters reported in our Annual Report on Form 10-K for the fiscal year ended October 31, 2008, 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.

Stockholder Action. In March 2008, Patrick Solomon, a stockholder, filed a purported class action complaint in the Court of Chancery of the State of Delaware against us and certain of our officers and directors. On December 11, 2008, the plaintiff filed a motion for leave to file a supplement to his complaint. We agreed to permit the supplement to be filed, provided that there would be an agreed-upon schedule for the Company to move to dismiss both the original complaint and the supplement. On December 19, 2008, the plaintiff filed a supplement to his complaint. The supplement repeats his prior allegations and also alleges the stockholder vote on the amendment of the Company's Incentive Stock Plan and the amendment to the management agreement with ZelnickMedia and the grant of stock thereunder was invalid. On February 17, 2009, the Company filed its motion to dismiss all claims in both pleadings. On March 4, 2009, the plaintiff filed a motion to file a second supplement to his complaint. The second supplement contains additional allegations of breaches of fiduciary duties by the directors, and misleading and incomplete disclosure with respect to the proxy statement for the 2009 annual meeting of stockholders. The second supplement also seeks to enjoin the vote on the 2009 Stock Incentive Plan at the 2009 annual meeting of stockholders and a declaration that such Plan is invalid and void. We believe all of the claims described above lack merit, and intend to defend vigorously against them.

Item 1A. Risk Factors

There have been no material changes to the Risk Factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended October 31, 2008 other than the following.

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 when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. 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 results of operations.

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 results of operations.

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Item 6. Exhibits

Exhibits:

- 10.1 Amendment to Xbox 360 Publisher License Agreement, between Microsoft Licensing, GP and the Company*
 - 31.1 Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 31.2 Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 32.1 Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
 - 32.2 Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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*

Portions hereof have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.

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SIGNATURES

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

TAKE-TWO INTERACTIVE SOFTWARE, INC.
(Registrant)

Date: March 11, 2009

By: /s/ BEN FEDER

Ben Feder
Chief Executive Officer
(Principal Executive Officer)

Date: March 11, 2009

By: /s/ LAINIE GOLDSTEIN

Lainie Goldstein
Chief Financial and Accounting Officer
(Principal Financial Officer)