



TAKE-TWO INTERACTIVE SOFTWARE, INC.
2019 ANNUAL REPORT

T2

Generated significant cash flow and ended the fiscal year with

\$1.57 BILLION

in cash and short-term investments

Delivered total Net Bookings of

\$2.93 BILLION

47% year-over-year increase

RED DEAD REDEMPTION II

24 MILLION

 units sold-in to date

Tied with *Grand Theft Auto V* as the highest-rated game on PlayStation 4 and Xbox One with 97 Metacritic score

Net Bookings from recurrent consumer spending grew

20%

to a new record and accounted for

39%

of total Net Bookings

grand theft auto V

One of the most critically-acclaimed and commercially successful video games of all time with nearly

110 MILLION

 units sold-in to date

Digitally-delivered Net Bookings grew

33%

and accounted for

62%

of total Net Bookings

3,400

Employees working in game development and 19 studios around the world

Sold-in over 9 million units and expect lifetime Net Bookings to be the highest ever for a 2K sports title

NBA 2K19

DEAR SHAREHOLDERS,

Fiscal 2019 was a stellar year for Take-Two, highlighted by record Net Bookings, which exceeded our outlook at the start of the year, driven by the record-breaking launch of *Red Dead Redemption 2*, the outstanding performance of *NBA 2K*, and better-than-expected results from *Grand Theft Auto Online* and *Grand Theft Auto V*. Net revenue grew 49% to \$2.7 billion, Net Bookings grew 47% to \$2.9 billion, and we generated significant earnings growth. We deployed \$362.4 million to repurchase 3.72 million shares of our common stock and, as of March 31, 2019, we had over \$1.57 billion in cash and short-term investments. Today, our enterprise is a global leader in the interactive entertainment industry and a significantly higher-margin business than at any time in our history.

OUR KEY ACHIEVEMENTS

- **We delivered record digitally-delivered net revenue and Net Bookings.** Digitally-delivered net revenue grew 49% to \$1.68 billion and digitally-delivered Net Bookings grew 33% to \$1.80 billion.
- **We generated record net revenue and Net Bookings from recurrent consumer spending.** Recurrent consumer spending accounted for 40% of total net revenue and 39% of total Net Bookings.
- **We released *Red Dead Redemption 2* to mass critical and commercial success.** A testament to Rockstar Games' unparalleled ability to create the highest-quality entertainment experiences, *Red Dead Redemption 2* **received near-perfect critical reviews and multiple game of the year awards.** The title remains **tied with *Grand Theft Auto V* as the highest-rated game on PlayStation 4 and Xbox One, with a 97 Metacritic score.** According to The NPD Group, based on combined physical and digital sales in the U.S., *Red Dead Redemption 2* was **the best-selling game of 2018.** To date, ***Red Dead Redemption 2* has sold-in more than 24 million units worldwide.** In support of the title, Rockstar Games launched ***Red Dead Online*** – a new multiplayer experience within *Red Dead Redemption 2*'s enormous and vibrant open world. The title exited the Beta period on May 14, 2019, including a major content drop. We believe ***Red Dead Online* is poised for success and Rockstar Games will release many more updates in the future.**
- Nearly six years after their launch, ***Grand Theft Auto V* and *Grand Theft Auto Online* continued to be significant contributors to our results. *Grand Theft Auto V* has sold-in almost 110 million units,** cementing further its standing as the “*must-have*” title of the current console generation. Rockstar Games' flagship titles continue to drive exceptional engagement and results. ***Grand Theft Auto V* and *Red Dead Redemption 2*, including their online games, had almost 90 million unique player accounts in fiscal 2019 alone.** Life to date, **more than 200 million unique player accounts have registered in Rockstar Games' Social Club platform** as having played these games. Rockstar Games will continue to support both immersive online worlds with innovative content to keep players engaged and drive growth over time.

- We released ***NBA 2K19***, which **is on pace to generate the highest Net Bookings ever for a 2K sports title**. Our industry-leading basketball series continues to expand its audience and underscores that ***NBA 2K* remains the perennial favorite among both basketball and pop-culture fans**. To date, ***NBA 2K19* has sold-in more than 9 million units**. During fiscal 2019, **recurrent consumer spending on *NBA 2K* grew 45% to a new record** and became the single-largest contributor to that part of our business. Over the past year, we have seen a **substantial increase in engagement with *NBA 2K*, including average games played for *NBA 2K19* outperforming its predecessor by over 20%**.
- **We announced, together with The National Basketball Association (NBA) and National Basketball Players Association (NBPA), a significant, multiyear global partnership extension**. The agreement expands upon the success of the *NBA 2K* series that has sold-in over 90 million units worldwide.
- **We successfully launched *WWE 2K19***, which has been enhanced by an array of downloadable add-on content, including a Season Pass. The WWE brand continues to expand worldwide, and we believe there remains a substantial long-term opportunity to grow our *WWE 2K* series by leveraging further the development expertise of 2K and Visual Concepts.
- **We bolstered our sports portfolio with the releases of *NBA 2K Playgrounds 2* and *The Golf Club 2019 Featuring PGA TOUR***. We will continue to explore opportunities to complement our offerings in this category.
- **We announced that video game industry veteran Michael Condrey joined 2K as President of the label's new game development studio based in Silicon Valley**. Condrey is best known for co-founding Sledgehammer Games and leading development for the renowned *Call of Duty* franchise, including *Call of Duty: Modern Warfare 3*. Condrey also served as Chief Operating Officer and Director at Visceral Games, which established the popular *Dead Space* franchise. In his new role with 2K, **Condrey will build and lead a new development team to work on an unannounced project**.
- **Social Point remained a meaningful contributor to our results through its two biggest mobile titles, *Dragon City* and *Monster Legends***. During fiscal 2019, our Barcelona-based studio **launched *Tasty Town*, a new game within the popular restaurant category**. Social Point is working hard on its exciting development pipeline, including more than 10 new games, and is focused on driving growth and expanding its audience.
- During fiscal 2019, **we repurchased 3.72 million shares of Take-Two common stock for \$362.4 million**.

SUCCESSFUL GROWTH STRATEGY

Take-Two's strategy is to develop the highest-quality, most compelling interactive entertainment franchises in the business, and deliver them on every platform around the world that is relevant to our audience. Complementing our core business with offerings that drive ongoing engagement with and recurrent consumer spending (including virtual currency, in-game purchases and add-on content) on our titles after their initial purchase is an important, high-margin growth opportunity and, therefore, a key strategic priority of our organization. We now support virtually all of our new releases with innovative offerings designed to achieve this objective. Recurrent consumer spending also helps to strengthen our results between front-line releases while providing long-term value to our consumers and extends the lives of our products.

World-class creative teams: Creativity and innovation remain the core tenets of our organization, and are the lifeblood for our ongoing success. We have over 3,400 employees working in game development in 19 studios around the world, including some of the most talented visionaries in the business. We provide them with the resources and time that they need to create groundbreaking entertainment experiences. We support and encourage our creative teams to pursue their passions, which we believe results in them delivering the best products. Whether expanding beloved franchises, launching new intellectual property or providing innovative ways for audiences to remain captivated and engaged, we have an unwavering commitment to producing the highest-quality entertainment experiences.

Diverse portfolio of industry-leading intellectual property: Take-Two is a financially strong, global interactive entertainment enterprise with numerous successful franchises encompassing a variety of genres. Our diverse portfolio of intellectual property includes 11 series with at least one five-million unit selling release, and more than 60 individual, multi-million unit selling titles.

Capitalizing on growth of digital distribution: During fiscal 2019, we continued to capitalize on our industry's ongoing transition towards digital distribution, and delivered both record digitally-delivered net revenue and Net Bookings, including our highest-ever from recurrent consumer spending. In addition to virtual currency for *NBA 2K*, *Grand Theft Auto Online* and *Red Dead Redemption*, recurrent consumer spending was enhanced by a variety of offerings. These included free-to-play games led by Social Point's mobile titles, *WWE SuperCard*, which grew over 13% year-over-year net of platform fees and has now been downloaded more than 19 million times, and *NBA 2K Online* in China, which grew 74% driven by the launch of *NBA 2K Online 2* and remains the #1 online PC sports game in China with 45 million registered users. In addition, add-on content was a meaningful contributor to recurrent consumer spending, led by offerings for *Sid Meier's Civilization*, *XCOM 2* and *WWE 2K 19*. Our results also benefited from ongoing growth in full-game downloads, with more than 38% of units for current-generation consoles and over 95% of units for PC delivered digitally. Moreover, 50% of our catalog sales for old-generation consoles are being delivered through digital download. Over the long-term, we expect the trend towards digital distribution to continue.

Actively investing in emerging opportunities: Interactive entertainment is one of today's most dynamic and popular art forms. We are investing heavily in opportunities to expand our creative teams and grow our scale; increase our presence in mobile; and explore emerging distribution channels and business models, such as streaming, subscription and free-to-play. We will continue to focus on delivering the highest-quality interactive entertainment, and to seek new and innovative ways both to enhance players' experience with our games and drive long-term engagement. The execution of this strategy will provide value to our customers and generate growth and profits over the long-term.

- **Mobile** - Our acquisition of Social Point expanded our presence in the free-to-play mobile market, which is the largest and fastest-growing segment within our industry. We believe that Social Point is a perfect complement to our business because it produces high-quality entertainment that can attract and retain a loyal, highly-engaged player base and deliver sustainable results. Social Point has a number of exciting titles planned for launch in the coming years, and we continue to view mobile games as an important long-term growth opportunity for Take-Two.

- **eSports** – We are very pleased with the ongoing progress of the *NBA 2K League* – our joint-venture with the NBA that marked the first competitive gaming league jointly owned by a major professional sports league. The *NBA 2K League* had its inaugural season starting in May 2018, and in April 2019, it kicked off its second season with 21 teams participating, up from 17 during the prior year. The *League* has been steadily building its portfolio of high-profile partnerships and sponsorships, including AT&T, Champion Athleticwear, Dell and Intel. In addition, YouTube joined Twitch as a livestream partner for all of the games of the second season. We are very excited about the continued success and growth of the *League*, which has the long-term potential to enhance engagement, and to be a driver of profits for our Company.
- **Geographic Expansion** – Asia represents an important long-term growth opportunity for our organization. During fiscal 2019, Asia represented approximately 7% of our Net Bookings. In addition to *NBA 2K Online* and *NBA 2K Online 2*, we are planning to expand our successful partnership with Tencent through the release of *Kerbal Space Program* on Tencent’s WeGame distribution platform as a premium PC game. We are excited about Tencent’s WeGame platform and the opportunity to grow our business in China.

Innovative marketing and global distribution: Creating groundbreaking entertainment experiences is only part of our formula for success. Our marketing teams execute well-coordinated global campaigns that leverage nearly every form of media – from traditional to social – to turn our product launches into tent pole events. We also work in lockstep with our key retail partners, both brick-and-mortar and online, to create promotions that drive consumers to the point of sale. Our global distribution network ensures that our products are available to consumers throughout the world, both physically and digitally – wherever and whenever they desire.

Sound financial foundation: With \$1.57 billion in cash and short-term investments as of March 31, 2019, Take-Two has ample capital to pursue a variety of investment opportunities. We are very excited about our growth potential over the long-term, and our strong cash position and outlook give us the flexibility both to invest in organic growth opportunities, as well as potential studio or IP acquisitions, and strategic partnerships. We also have the ability to return capital to shareholders, including through opportunistic share repurchases.

EXCITING LINEUP OF NEW RELEASES

We expect fiscal 2020 to be another strong year for Take-Two:

- On August 27, Private Division will release *Ancestors: The Humankind Odyssey*, the debut title from Panache Digital Games, the independent development studio co-founded in 2014 by Patrice Désilets, the original creative director of the *Assassin’s Creed* franchise. In *Ancestors: The Humankind Odyssey*, players are challenged to survive and evolve in the harsh yet beautiful land of Africa spanning from ten million to two million years ago. The title will launch initially on PC and be available for the PlayStation 4 and Xbox One in December 2019.

- On September 6, the next annual offering of *NBA 2K*, the series that has defined basketball culture for over two decades, will return and feature six-time NBA All-Star, three-time All-NBA First Team, three-time NBA All-Defensive Team and 2012 Olympic gold medalist Anthony Davis on the cover. 2K will feature three-time NBA Champion, 13-time NBA All-Star, 2008 Olympic gold medalist and 2006 NBA Finals MVP Dwyane Wade on the cover of the *NBA 2K20 Legend Edition*. As always, the team at Visual Concepts promises to deliver their trademark array of exciting new features and innovations that keep players coming back year after year. At launch, *NBA 2K20* will be available for PlayStation 4, Xbox One, Nintendo Switch and PC. The title also will be available for Google Stadia when the platform launches in November 2019.
- On September 13, 2K and Gearbox Software will release *Borderlands 3*, the next installment in the critically acclaimed shooter-looter series, for PlayStation 4, Xbox One and Windows PC. *Borderlands 3* is a hilarious, story-driven, non-stop galactic thrill-ride, filled with colorful characters, epic enemies and, literally, billions of guns. The franchise, which combines the exhilarating action of a first-person shooter with the rich progression and loot systems of a role-playing game, has sold-in more than 43 million units worldwide to date. *Borderlands 2* has sold-in 20 million units to date and, more than six years after release, still draws in over one million Unique Monthly Users. The title will be available for Google Stadia when the platform launches in November 2019.
- On October 11, 2K's popular WWE series will be back with *WWE 2K20*, taking gamers into the action-packed squared circle with several franchise firsts alongside streamlined gameplay and a variety of popular modes on the PlayStation 4, Xbox One and PC. Current Raw® Women's Champion Becky Lynch® and WWE Superstar Roman Reigns™ will serve as the game's cover Superstars and ambassadors for its worldwide marketing campaign – “*Step Inside*” – which invites players to enter the world of WWE Superstars and face a variety of new and exciting challenges in the virtual ring.
- On October 25, Private Division will release *The Outer Worlds*. Developed by Obsidian Entertainment, *The Outer Worlds* marks the reunion of Tim Cain and Leonard Boyarsky, the original creators of *Fallout*, who are introducing an entirely new single-player sci-fi RPG experience. Launching on PlayStation 4, Xbox One and PC, *The Outer Worlds* is a dark and witty player-driven story set in a colony at the farthest reaches of the galaxy. As the cold, firm grasp of corporate bureaucracy starts to unravel due to one unknown visitor – you – the character that you decide to become – will determine how the story unfolds.
- Throughout fiscal year 2020, we will continue to support our titles with innovative post-launch content that drives engagement and recurrent consumer spending, including many more updates for *Red Dead Online* and *Grand Theft Auto Online*. In addition, Social Point and 2K will continue to broaden our offerings for mobile devices.

Looking ahead, we have the strongest development pipeline in our history, including sequels from our biggest franchises as well as new IP. Importantly, fiscal 2020 will be a year of significant investment in R&D that should enable us to scale further our long-term release slate.

OUR FUTURE

As we close one of our best years to date and look to the horizon, we are extremely proud that Take-Two remains the home for our industry's most creative and passionate talent. Their vision and ability to captivate and engage audiences around the world – across an array of platforms and offerings – both redefines the possibilities of interactive entertainment and forms the foundation for our continued success.

This is an incredibly exciting time for our industry, with new technologies that enable our teams to advance interactive entertainment, emerging distribution and business models that expand our audience, and the proliferation of communities that participate in or watch connected play. Take-Two is exceedingly well-positioned – creatively, strategically and financially – to capitalize on its vast opportunities and to continue to deliver value to our customers and returns for our shareholders over the long-term.

We would like to thank our colleagues for delivering an outstanding year for our Company. To our shareholders, we want to express our appreciation for your continued support.

Sincerely,



A handwritten signature in black ink, appearing to read "Strauss Zelnick". The signature is fluid and cursive.

Strauss Zelnick
Chairman and Chief Executive Officer



A handwritten signature in black ink, appearing to read "Karl Slatoff". The signature is bold and stylized.

Karl Slatoff
President

July 12, 2019

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended March 31, 2019

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 001-34003

TAKE-TWO INTERACTIVE SOFTWARE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

**110 West 44th Street
New York, New York**
(Address of principal executive offices)

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

10036
(Zip Code)

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

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

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

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

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately \$15,537,179,720.

As of May 2, 2019, there were 112,541,501 shares of the Registrant's Common Stock outstanding, net of treasury stock.

Documents Incorporated by Reference:

Portions of the registrant's definitive proxy statement for the 2019 Annual Meeting of Stockholders are incorporated by reference into Part III herein.

INDEX

	<u>PAGE</u>
PART I	
Item 1. Business	1
Item 1A. Risk Factors	7
Item 1B. Unresolved Staff Comments	21
Item 2. Properties	21
Item 3. Legal Proceedings	22
Item 4. Mine Safety Disclosures	22
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	23
Item 6. Selected Financial Data	25
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	26
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	42
Item 8. Financial Statements and Supplementary Data	43
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	43
Item 9A. Controls and Procedures	43
Item 9B. Other Information	44
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	45
Item 11. Executive Compensation	45
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	45
Item 13. Certain Relationships and Related Transactions, and Director Independence	45
Item 14. Principal Accounting Fees and Services	45
PART IV	
Item 15. Exhibits, Financial Statement Schedules	46
Item 16. Form 10-K Summary	52
Index to Financial Statements	53
Signatures	96

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

The statements contained herein which are not historical facts are considered forward-looking statements under federal securities laws and may be identified by words such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "potential," "predicts," "projects," "seeks," "should," "will," or words of similar meaning and include, but are not limited to, statements regarding the outlook for the Take-Two Interactive Software, Inc.'s ("Take-Two," the "Company," "we," "us," or similar pronouns) future business and financial performance. Such forward-looking statements are based on the current beliefs of our management as well as assumptions made by and information currently available to them, which are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict. Actual outcomes and results may vary materially from these forward-looking statements based on a variety of risks and uncertainties including, but not limited to, those discussed under the heading "Risk Factors" included in Part I, Item 1A herein. All forward-looking statements are qualified by these cautionary statements and speak only as of the date they are made. The Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business

General

We are a leading developer, publisher and marketer of interactive entertainment for consumers around the globe. We develop and publish products principally through our two wholly-owned labels Rockstar Games and 2K, as well as our Private Division label and Social Point, a leading developer of mobile games. Our products are currently designed for console gaming systems such as the Sony Computer Entertainment, Inc. ("Sony") PlayStation®4 ("PS4"), Microsoft Corporation ("Microsoft") Xbox One® ("Xbox One"), the Nintendo Switch, and personal computers ("PC"), including smartphones and tablets. We deliver our products through physical retail, digital download, online platforms, and cloud streaming services.

We were incorporated under the laws of the State of Delaware in 1993 and are headquartered in New York, New York with approximately 4,894 employees globally. Our website address is www.take2games.com. We make all of our filings with the Securities and Exchange Commission ("SEC") available free of charge on our website under the caption "Corporate—SEC Filings." Included in these filings are our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, which are available as soon as reasonably practicable after we electronically file or furnish such materials with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

Our website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

The SEC maintains a website that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including the Company) file electronically with the SEC. The SEC's website is www.sec.gov.

Strategy

Overview. We endeavor to be the most creative, innovative and efficient company in our industry. Our core strategy is to capitalize on the popularity of video games by developing and publishing high-quality interactive entertainment experiences across a range of genres. We focus on building compelling entertainment franchises by publishing a select number of titles for which we can create sequels and incremental revenue opportunities through virtual currency, add-on content, and in-game purchases. Most of our intellectual property is internally owned and developed, which we believe best positions us financially and competitively. We have established a portfolio of proprietary software content for the major hardware platforms in a wide range of genres, including action, adventure, family/casual, racing, role-playing, shooter, sports and strategy, which we distribute worldwide. We believe that our commitment to creativity and innovation is a distinguishing strength, enabling us to differentiate our products in the marketplace by combining advanced technology with compelling storylines and characters that provide unique gameplay experiences for consumers. We have created, acquired or licensed a group of highly recognizable brands to match the broad consumer demographics that we serve, ranging from adults to children and game enthusiasts to casual gamers. Another cornerstone of our strategy is to support the success of our products in the marketplace through innovative marketing programs and global distribution on platforms and through channels that are relevant to our target audience.

Support World-Class Creative Teams. Creativity and innovation remain the core tenets of our organization, and are the lifeblood of our ongoing success. We have 3,784 employees working in game development in studios around the world - including some of the most well-known names in the business. The creative teams at our labels, Rockstar Games and 2K, are renowned for their consistent ability to deliver games that set new benchmarks for excellence. In addition, our Social Point studio further enhances our development capabilities with a track record of producing multiple hits in the free-to-play mobile sector. Whether expanding our portfolio of franchises, launching new intellectual property, or providing innovative ways for audiences

to remain captivated and engaged, we prioritize producing the highest quality entertainment experiences. We support our teams by focusing on talent retention and acquisition, and our label structure enables us to target distinct market segments and opportunities.

Focus on Core Strength of Producing Select, High Quality Titles. We focus on publishing a select number of high-quality titles based on internally-owned and developed intellectual properties. We currently own the intellectual property rights to 26 proprietary brands. In addition, we will selectively develop titles based on licensed properties, including sports, and also publish externally developed titles.

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

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

Leverage Emerging Technologies, Platforms, and Distribution Channels, Including Digitally Delivered Content. Interactive entertainment played online and on mobile platforms, including tablets and smartphones, represents exciting opportunities to enhance our growth and profitability. In addition, the interactive entertainment software industry is delivering a growing amount of content for traditional platforms through digital download. We provide a variety of digitally delivered products and offerings, which typically have a higher gross margin than physically delivered products. Virtually all of our titles that are available through retailers as packaged goods products are also available through direct digital download (from websites we own and third-party websites). We aim to drive ongoing engagement and incremental revenue from recurrent consumer spending on our titles through virtual currency, add-on content, and in-game purchases. We also publish an expanding variety of titles for tablets and smartphones, which are delivered to consumers through digital download. We will continue to invest in emerging opportunities in mobile and online gameplay, particularly for our wholly-owned franchises, as well as downloadable content and microtransactions that enable gamers to pay to download additional content to enhance their game playing experience.

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

Our Businesses

Our revenue is primarily derived from the sale of internally developed software titles and software titles developed by third parties. Operating margins are dependent in part upon our ability to release new, commercially successful software products and to manage effectively their development and marketing costs. We have internal development studios located in Australia, Canada, China, Czech Republic, Hungary, India, Spain, the United Kingdom, and the United States. As of March 31, 2019, we had a research and development staff of 3,784 employees with the technical capabilities to develop software titles for all major consoles, PCs, and mobile platforms in multiple languages and territories.

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

We continue to engage in evolving business models such as online gaming, virtual currency, add-on content, and in-game purchases, and we expect to continue to generate incremental revenue opportunities from these opportunities.

Rockstar Games. Software titles published by our Rockstar Games label are primarily internally developed. We expect Rockstar Games, our wholly-owned publisher of the *Grand Theft Auto*, *Max Payne*, *Midnight Club*, *Red Dead Redemption*, and other popular franchises, to continue to be a leader in the action / adventure product category and to create groundbreaking entertainment by leveraging our existing titles as well as by developing new brands. We believe that Rockstar has established a uniquely original, popular cultural phenomenon with its *Grand Theft Auto* series, which is the interactive entertainment industry's most iconic and critically acclaimed brand and has sold-in over 290 million units. The latest installment, *Grand Theft Auto V*, has sold-in over 105 million units worldwide and includes access to *Grand Theft Auto Online*. On October 26, 2018, Rockstar Games launched *Red Dead Redemption 2*, which has been a critical and commercial success that set numerous entertainment industry records. Rockstar Games is also well known for developing brands in other genres, including the *LA Noire*, *Bully*, and *Manhunt* franchises. Rockstar Games continues to expand on our established franchises by developing sequels, offering downloadable episodes, content, and virtual currency, and releasing titles for smartphones and tablets.

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

Private Division. Our Private Division label is dedicated to bringing titles from top independent developers to market. Private Division has announced that it will publish three upcoming titles based on new IP from renowned industry creative talent, including *The Outer Worlds* and *Ancestors: The Humankind Odyssey*, both of which are planned for release in calendar 2019. Additionally, Private Division is the publisher of *Kerbal Space Program*.

Social Point. Social Point develops and publishes popular free-to-play mobile games that deliver high quality, deeply-engaging entertainment experiences, including its two most successful games, *Dragon City* and *Monster Legends*. In addition, Social Point has a robust development pipeline with a number of exciting games planned for launch in the coming years.

We are continuing to execute on our growth initiatives in Asia, where our strategy is to broaden the distribution of our existing products and establish an online gaming presence, especially in China and South Korea. 2K has secured a multi-year license from the NBA to develop an online version of our NBA simulation game in China, Taiwan, South Korea and Southeast Asia. *NBA 2K Online*, our free-to-play NBA simulation game, which was co-developed by 2K and Tencent, is the top online PC sports game in China with over 45 million registered users. On August 2, 2018, 2K and Tencent commercially launched *NBA 2K Online 2* in China. The title is based on the console edition of *NBA 2K* and includes an array of new features.

In February 2017, we expanded our relationship with the NBA through the creation of the NBA 2K League. Launched in May 2018, this groundbreaking competitive gaming league is jointly owned by us and the NBA and consists of teams operated by actual NBA franchises. The NBA 2K League follows a professional sports league format: the inaugural season included head-to-head competition throughout a regular season, followed by a bracketed playoff system and a finals match-up that was held in August 2018. The NBA 2K League began its second season on April 2, 2019.

Intellectual Property

Our business is highly dependent on the creation, acquisition, licensing and protection of intellectual property. The intellectual property rights we have created or acquired for our internally-owned portfolio of brands include *BioShock*, *Bully*, *Carnival Games*, *Dragon City*, *Grand Theft Auto*, *Kerbal Space Program*, *L.A. Noire*, *Mafia*, *Manhunt*, *Max Payne*, *Midnight Club*, *Monster Legends*, *Red Dead*, *Sid Meier's Civilization*, and *XCOM*. We believe that content ownership facilitates our internal product development efforts and maximizes profit potential. We attempt to protect our software and production techniques under copyright, patent, trademark and trade secret laws as well as through contractual restrictions on disclosure, copying and distribution.

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

Manufacturing

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

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

Our software titles typically carry a 90-day limited warranty.

Arrangements with Platform Manufacturers

We have entered into license agreements with Sony and Microsoft to develop and publish software in Asia, Australia, Europe, North America, and certain Latin American, Middle Eastern, and African countries. We are not required to obtain any licenses from hardware manufacturers to develop titles for the PC.

Sony. Effective March 23, 2017, we entered into a PlayStation Global Developer and Publisher Agreement with Sony Computer Entertainment, Inc. and certain of its affiliates, pursuant to which Sony granted us the right and license to develop, publish, have manufactured, market, advertise, distribute and sell PlayStation compatible products for all PlayStation systems, including the PS4. The agreement requires us to submit products to Sony for approval and for us to make royalty payments to Sony based on the number of units manufactured or revenue from downloaded content. In addition, products for PlayStation systems are required to be manufactured by Sony approved manufacturers.

The term of the agreement expires on March 31, 2020, with automatic one-year renewal terms thereafter. Sony may terminate the agreement for any or no reason upon thirty days' notice. The agreement may also be terminated by Sony immediately in the event of a breach by us or our bankruptcy or insolvency. Upon expiration or termination of the agreement, we have certain rights to sell off existing inventories.

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

The term of the Xbox One license agreement expires on March 31, 2020 and the term of the Xbox 360 license agreement expires on March 31, 2020, each agreement with automatic one-year renewal terms thereafter. The Xbox One and Xbox 360 license agreements may be terminated by Microsoft immediately in the event of a breach by us, and the Xbox One licensee agreement may also be terminated by Microsoft immediately in the event of our bankruptcy or insolvency. Upon expiration or termination of the Xbox One and Xbox 360 license agreements, we have certain rights to sell off existing inventories.

Sales

We sell software titles both physically and digitally in the United States, EMEA, Canada, Latin America, and Asia Pacific through direct relationships with large retail customers and third-party distributors. Our top customers include, among others, GameStop Corporation, Microsoft, Sony, Steam, and Wal-Mart. We have sales operations in Australia, Canada, France, Germany, Japan, the Netherlands, New Zealand, Singapore, South Korea, Spain, Taiwan, the United Kingdom, and the United States.

We are dependent on a limited number of customers that account for a significant portion of our sales. Sales to our five largest customers during the fiscal year ended March 31, 2019 accounted for 70.1% of our net revenue, with Sony, Microsoft, and Gamestop each accounting for more than 10.0% of our net revenue during the fiscal year ended March 31, 2019.

We also distribute our titles, add-on content, and in-game purchases through direct digital download via the Internet to consoles and PCs, including smartphones and tablets. We view digital distribution as an important growth opportunity for our industry and Company; however, we expect that packaged goods and traditional retailers will continue to be a significant channel for the sale of our products for the foreseeable future.

Marketing

Our marketing and promotional efforts are intended to maximize consumer interest in our titles, promote brand name recognition of our franchises, assist retailers and properly position, package and merchandise our titles. From time to time, we also receive marketing support from hardware manufacturers in connection with their own promotional efforts.

We market titles by:

- Implementing public relations campaigns, using print and online advertising, television, radio spots and outdoor advertising. We believe that we label and market our products in accordance with the applicable principles and

guidelines of the Entertainment Software Rating Board, or the ESRB, an independent self-regulatory body that assigns ratings and enforces advertising guidelines for the interactive software industry.

- Satisfying certain shelf life and sales requirements under our agreements with hardware manufacturers in order to qualify for Sony's Greatest Hits Programs and Microsoft's Platinum Hits Program. In connection with these programs, we receive manufacturing discounts from Sony and Microsoft.
- Stimulating continued sales by reducing the wholesale prices of our products to retailers at various times during the life of a product. Price protection may occur at any time in a product's life cycle, but typically occurs three to nine months after a product's initial launch. In certain international markets, we also provide volume rebates to stimulate continued product sales. Price protection, sales returns and other allowances amounted to \$81.7 million, \$59.7 million and \$127.7 million during the fiscal years ended March 31, 2019, 2018 and 2017, respectively.
- Employing various other marketing methods designed to promote consumer awareness, including social media, in-store promotions and point-of-purchase displays, direct mail, co-operative advertising, attendance at trade shows as well as product sampling through demonstration software distributed via the Internet or the digital online services.

As of March 31, 2019, we had a sales and marketing staff of 510 people.

Product Procurement

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

Competition

In our business, we compete with:

- Companies that range in size and cost structure from very small with limited resources to very large with greater financial, marketing and technical personnel and other resources than ours, including Activision Blizzard, Inc., Electronic Arts Inc., and Ubisoft Entertainment S.A.
- Sony and Microsoft for the sale of interactive entertainment software. Each of these competitors is a large developer and marketer of software for their own platforms and has the financial resources to withstand significant price competition and to implement extensive advertising campaigns.
- Other software, hardware, entertainment and media for limited retail shelf space and promotional resources. The competition is intense among an increasing number of newly introduced entertainment software titles and hardware for adequate levels of shelf space and promotional support.
- Other forms of entertainment such as motion pictures, television and audio, social networking, online computer programs, mobile games, and other forms of entertainment, which may be less expensive or provide other advantages to consumers.

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

Trends and Factors Affecting our Business

Product Release Schedule. Our financial results are affected by the timing of our product releases and the commercial success of those titles. Our *Grand Theft Auto* products in particular have historically accounted for a substantial portion of our revenue. Sales of our *Grand Theft Auto* products generated 25.7% of our net revenue for the fiscal year ended March 31, 2019. In October 2018, we released *Red Dead Redemption 2*. Sales of *Red Dead Redemption* products generated 32.1% of our net revenue for the fiscal year ended March 31, 2019. The timing of our *Grand Theft Auto* or *Red Dead Redemption* product releases may affect our financial performance on a quarterly and annual basis.

Economic Environment and Retailer Performance. We continue to monitor economic conditions that may unfavorably affect our businesses, such as deteriorating consumer demand, pricing pressure on our products, credit quality of our receivables, and foreign currency exchange rates. Our business is dependent upon a limited number of customers who account for a significant portion of our revenue. Our five largest customers accounted for 70.1%, 70.7% and 65.5% of net revenue during the fiscal years ended March 31, 2019, 2018 and 2017, respectively. As of March 31, 2019 and 2018, five customers comprised 66.6% and 65.4%

of our gross accounts receivable, respectively, with our significant customers (those that individually comprised more than 10% of our gross accounts receivable balance) accounting for 55.8% and 53.2% of such balance at March 31, 2019 and 2018, respectively. We had two customers who accounted for 40.1% and 15.7% of our gross accounts receivable as of March 31, 2019 and two customers who accounted for 37.7% and 15.5% of our gross accounts receivable as of March 31, 2018. We did not have any additional customers that exceeded 10% of our gross accounts receivable as of March 31, 2019 and 2018. The economic environment has affected our customers in the past and may do so in the future. Bankruptcies or consolidations of our large retail customers could seriously hurt our business, due to uncollectible accounts receivables and the concentration of purchasing power among the remaining large retailers. Certain of our large customers sell used copies of our games, which may negatively affect our business by reducing demand for new copies of our games. While the downloadable content that we now offer for certain of our titles may serve to reduce used game sales, we expect used game sales to continue to adversely affect our business.

Hardware Platforms. We derive most of our revenue from the sale of products made for video game consoles manufactured by third parties, such as Sony's PS4 and Microsoft's Xbox One, which comprised 83.7% of our net revenue by product platform for the fiscal year ended March 31, 2019. The success of our business is dependent upon the consumer acceptance of these platforms and the continued growth in the installed base of these platforms. When new hardware platforms are introduced, demand for software based on older platforms typically declines, which may negatively affect our business during the market transition to the new consoles. We continually monitor console hardware sales. We manage our product delivery on each current and future platform in a manner we believe to be most effective to maximize our revenue opportunities and achieve the desired return on our investments in product development. Accordingly, our strategy is to focus our development efforts on a select number of the highest quality titles for these platforms, while also expanding our offerings for emerging platforms such as tablets, smartphones and online games.

Online Content and Digital Distribution. The interactive entertainment software industry is delivering a growing amount of content through digital online delivery methods. We provide a variety of online delivered products and offerings. Virtually all of our titles that are available through retailers as packaged goods products are also available through direct digital download (from websites we own and others owned by third parties). In addition, we aim to drive ongoing engagement and incremental revenue from recurrent consumer spending on our titles through virtual currency, add-on content, and in-game purchases. We also publish an expanding variety of titles for tablets and smartphones, which are delivered to consumers through digital download. Note 2 to the Consolidated Financial Statements, "Revenue from Contracts with Customers," discloses that net revenue from digital online channels comprised 63.0% of our net revenue by distribution channel for the fiscal year ended March 31, 2019. We expect online delivery of games and game offerings to become an increasing part of our business over the long-term.

International Operations

International sales are a significant part of our business. For the fiscal years ended March 31, 2019, 2018 and 2017, 46.5%, 41.3% and 43.9%, respectively, of our net revenue was earned outside the United States. We are continuing to execute on our growth initiatives in Asia, where our strategy is to broaden the distribution of our existing products and expand our online gaming presence, especially in China and South Korea. We are subject to risks inherent in foreign trade, including increased credit risks, tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays and international political, regulatory and economic developments, all of which can have a significant effect on our operating results. See Notes 1 and 19 to the Consolidated Financial Statements.

Segment and Geographic Information

See Notes 1, 2, and 9 to the Consolidated Financial Statements.

Employees

As of March 31, 2019, we had 4,894 full-time employees, of which 2,597 were employed outside of the United States. None of our regular employees is subject to collective bargaining agreements. We consider our relations with employees to be satisfactory.

Item 1A. Risk Factors

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

Risks relating to our business

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

Grand Theft Auto and certain of our other titles, such as Red Dead Redemption or NBA 2K, are "hit" products and have historically accounted for a substantial portion of our revenue. Grand Theft Auto products contributed 25.7% of our net revenue for the fiscal year ended March 31, 2019 and the five best-selling franchises (including Grand Theft Auto), which may change year over year, in the aggregate accounted for 91.8% of our net revenue for the fiscal year ended March 31, 2019. If we fail to continue to develop and sell new commercially successful "hit" titles or sequels to such "hit" titles or experience any delays in product releases or disruptions following the commercial release of our "hit" titles or their sequels, our revenue and profits may decrease substantially and we may incur losses. In addition, competition in our industry is intense and a relatively small number of hit titles account for a large portion of total revenue in our industry. Hit products offered by our competitors may take a larger share of consumer spending than we anticipate, which could cause revenue generated from our products to fall below our expectations. If our competitors develop more successful products or services at lower price points or based on payment models perceived as offering better value, or if we do not continue to develop consistently high quality and well-received products and services, our revenue and profitability may decline. In addition, both the online and mobile games marketplaces are characterized by frequent product introductions, relatively low barriers to entry, and new and evolving business methods, technologies and platforms for development. Widespread consumer adoption of these new platforms for games and other technological advances in and/or new business or payment models in online or mobile game offerings could negatively affect our sales of console and traditional PC products before we have an opportunity to develop profitable businesses in such markets.

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

We depend on our internal development studios and third-party software developers to develop new interactive entertainment software within anticipated release schedules and cost projections. The development cycle for new titles generally ranges from 12 months for annual sports releases, to multiple years for certain of our top-selling titles. Therefore, our development costs can be substantial. If we or our third party developers experience unanticipated development delays, financial difficulties or additional costs, we may not be able to release titles according to our schedule and at budgeted costs. There can be no assurance that our products will be sufficiently successful so that we can recoup these costs or make a profit on these products.

Additionally, in order to stay competitive, our internal development studios must anticipate and adapt to rapid technological changes affecting software development. Any inability to respond to technological advances and implement new technologies could render our products obsolete or less marketable. Further, the failure to pursue the development of new technology, platforms, or business models that obtain meaningful commercial success in a timely manner may negatively affect our business, resulting in increased production costs and more strenuous competition.

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

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

Our business is subject to our ability to develop commercially successful products for the current video game platforms.

We derive most of our revenue from the sale of products made for video game platforms manufactured by third parties, such as Sony's PS4 and Microsoft's Xbox One, which comprised 83.7% of our net revenue by product platform for the fiscal year ended March 31, 2019. The success of our business is subject to the continued popularity of these platforms and our ability to develop commercially successful products for these platforms.

We may experience declines or fluctuations in the recurring portion of our business.

Our business model includes revenue that we deem recurring in nature, such as revenue from our annualized titles and associated services, and ongoing mobile businesses. While we have been able to forecast the revenue from these areas of our business with greater certainty than for new offerings, we cannot provide assurances that consumers will purchase these games and services on a consistent basis. Furthermore, we may cease to offer games and services that we previously had deemed to be recurring in nature. Consumer purchases of our games and services may decline or fluctuate as a result of a number of factors, including their level of satisfaction with our games and services, our ability to improve and innovate our annualized titles, our ability to adapt our games and services to new platforms, outages and disruptions of online services, the games and services offered by our competitors, our marketing and advertising efforts or declines in consumer activity generally as a result of economic downturns, among others. Any decline or fluctuation in the recurring portion of our business may have a negative impact on our financial and operating results.

Connectivity issues could affect our ability to sell and provide online services for our products and could affect our profitability.

We rely upon third-party digital delivery platforms, such as Microsoft's Xbox Live, PlayStation Network, Steam and other third-party service providers, to provide connectivity from the consumer to our digital products and our online services. Connectivity issues could prevent customers from accessing this content and our ability to successfully market and sell our products could be adversely affected. In addition, we could experience similar issues related to services we host on our internal servers. Such issues also could affect our ability to provide online services and could have a material adverse effect on our business, financial condition and operating results.

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

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

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

The laws and regulations concerning data privacy and certain other aspects of our business are continually evolving. Failure to comply with these laws and regulations could harm our business.

We are subject to certain privacy and data protection laws, including those in the United States ("U.S."). Certain activities related to processing the personal data of European Union ("E.U.") individuals are conducted by our United Kingdom ("U.K.")-based data controller or our local entities in the E.U. The U.S. Children's Online Privacy Protection Act also regulates the collection, use, and disclosure of personal information from children under 13 years of age. Failure to comply with privacy laws, data protection

laws, or age restrictions may increase our costs, subject us to expensive and distracting government investigations, and result in substantial fines.

Privacy and data protection laws are rapidly changing and likely will continue to do so for the foreseeable future, which could have an impact on our approach to operating and marketing our games. For example, the E.U. General Data Protection Regulation ("GDPR") became effective on May 25, 2018, replacing Data Protection Directive 95/46/EC. GDPR applies to us because we receive and process the personal data of individuals in the E.U., and we maintain certain local entities in the E.U. responsible for processing personal data. GDPR contains significant penalties for non-compliance. Countries in the E.U. are still enacting national laws that correspond to certain portions of the GDPR. In the U.S., the State of California enacted the California Consumer Privacy Act ("CCPA") on June 28, 2018. The CCPA will become effective on January 1, 2020 and will apply to processing of personal data of California residents. However, several proposed amendments to the CCPA are still being considered by the California legislature. The U.S. government, including the Federal Trade Commission and the Department of Commerce, also continue to review the need for greater or different regulation over the collection of personal information and information about consumer behavior on the Internet and on mobile devices. Various government and consumer agencies worldwide have also called for new regulation and changes in industry practices.

Player use of our games is subject to our privacy policy, end user license agreements ("EULA"), and terms of service. If we fail to comply with our posted privacy policy, EULA, or terms of service, or if we fail to comply with existing privacy-related or data protection laws and regulations, it could result in proceedings or litigation against us by governmental authorities or others, which could result in fines or judgments against us, damage our reputation, affect our financial condition and harm our business. If regulators, the media, or consumers raise any concerns about our privacy and data protection or consumer protection practices, even if unfounded, this could also result in fines or judgments against us, damage our reputation, negatively affect our financial condition, and damage our business.

It is possible that a number of laws and regulations may be adopted or construed to apply to us in the U.S. and elsewhere that could restrict the interactive entertainment industry, including player privacy, advertising, taxation, content suitability, copyright, distribution and antitrust. Furthermore, the growth and development of electronic commerce and virtual goods may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies such as ours conducting business through digital sales. Any such changes would require us to devote legal and other resources to address such regulation. For example, existing laws or new laws regarding the regulation of currency, banking institutions and unclaimed property may be interpreted to cover virtual currency or virtual goods. If that were to occur we may be required to seek licenses, authorizations or approvals from relevant regulators, the granting of which may be dependent on us meeting certain capital and other requirements and we may be subject to additional regulation and oversight, all of which could significantly increase our operating costs. Changes in current laws or regulations or the imposition of new laws and regulations in the U.S. or elsewhere regarding these activities may lessen the growth of the interactive entertainment industry and impair our business, financial condition, and operating results.

Although we have structured and operate our skill tournaments with applicable laws in mind, including any applicable laws relating to gambling, and believe that playing these games does not constitute gambling, our skill tournaments could in the future become subject to gambling-related rules and regulations and expose us to civil and criminal penalties. We also sometimes offer consumers of our online and casual games various types of contests and promotional opportunities. We are subject to laws in a number of jurisdictions concerning the operation and offering of such activities and games, many of which are still evolving and could be interpreted in ways that could harm our business. Further, some of our online games and other services include random digital item mechanics, which may become subject to regulations in various jurisdictions. If these were to occur, we might be required to seek licenses, authorizations, or approvals from relevant regulators, the granting of which may be dependent on us meeting certain capital and other requirements, and we may be subject to additional regulation and oversight, such as reporting to regulators, all of which could significantly increase our operating costs. Changes in current laws or regulations or the imposition of new laws and regulations in the U.S., Europe, or elsewhere regarding these activities may lessen the growth of casual game services and impair our business. Also, existing laws or new laws regarding the marketing of in-game or in-app purchases, regulation of currency, banking institutions, unclaimed property, or money laundering may be interpreted to cover virtual currency or goods.

Security breaches involving the source code for our products or other sensitive and proprietary information could adversely affect our business.

We securely store the source code for our interactive entertainment software products as it is created. A breach, whether physical, electronic or otherwise, of the systems on which such source code and other sensitive data are stored could lead to damage or piracy of our software. In addition, certain parties with whom we do business are given access to our sensitive and proprietary information in order to provide services and support our team. These third parties may misappropriate our information and engage in unauthorized use of it. If we are subject to data security breaches, we may have a loss in sales or increased costs arising from the restoration or implementation of additional security measures which could materially and adversely affect our business, financial condition and operating results. Any theft and/or unauthorized use or publication of our trade secrets and other confidential business information as a result of such an event could adversely affect our competitive position, reputation, brand, and future sales of our

products. Our business could be subject to significant disruption, and we could suffer monetary and other losses and reputational harm, in the event of such incidents and claims.

We rely on complex information technology systems and networks to operate our business. Any significant system or network disruption could have a negative impact on our business.

We rely on the efficient and uninterrupted operation of complex information technology systems and networks, some of which are within Take-Two and some of which are managed and/or hosted by third-party providers. All information technology systems and networks are potentially vulnerable to damage or interruption from a variety of sources, including but not limited to cyber-attacks, computer viruses, malicious software, security breach, energy blackouts, natural disasters, terrorism, war and telecommunication failures. We may also face sophisticated attacks, referred to as advanced persistent threats, which are cyber-attacks aimed at compromising our intellectual property and other commercially-sensitive information, such as the source code and game assets for our software or confidential customer or employee information, which remain undetected for prolonged periods of time. Information technology system or network failure or security breach could negatively affect our business continuity, operations and financial results. These risks extend to the networks and e-commerce sites of console platform providers and other partners who sell and host our content online. Along with our partners, we have expended, and expect to continue to expend, financial and operational resources to implement certain systems, processes and technologies to guard against cyber risks and to help protect our data and systems. However, the techniques used to exploit, disable, damage, disrupt or gain access to our networks, our products and services, supporting technological infrastructure, intellectual property and other assets change frequently, continue to evolve in sophistication and volume, and often are not detected for long periods of time. Our systems, processes and technologies, and the systems, processes and technologies of our business partners or our third-party service providers, may not be adequate against all eventualities. In addition, the costs to respond to, mitigate, and/or notify affected parties of cyber-attacks and other security vulnerabilities are significant. Any failure to prevent or mitigate security breaches or cyber risks, or detect or respond adequately to a security breach or cyber risk, could result in a loss of anticipated revenue, interruptions to our products and services, cause us to incur significant remediation and notification costs, degrade the user experience, cause consumers to lose confidence in our products and services and significant legal and financial costs.

Successful exploitation of our systems can have other negative effects upon the products, services and user experience we offer. In particular, the virtual economies that we have established in many of our games are subject to abuse, exploitation and other forms of fraudulent activity that can negatively affect our business. Virtual economies involve the use of virtual currency and/or virtual assets that can be used or redeemed by a player within a particular game or service. The abuse or exploitation of our virtual economies include the illegitimate generation and sale of virtual items in black markets. These kinds of activities and the steps that we take to address these issues may result in a loss of anticipated revenue, interfere with players' enjoyment of a balanced game environment and cause reputational harm.

Our efforts to expand into new products and services may subject us to additional risks.

In recent years, we have invested in emerging opportunities in interactive entertainment played on mobile platforms, including tablets and smartphones, and online platforms, including social networks. We have also grown our product offerings that are available through digital download, including virtual currency, through our existing franchises such as *Grand Theft Auto* and *NBA 2K* as well as through product offerings by Social Point and other mobile product offerings. We are actively investing to capitalize on these trends in order to diversify our product mix, reduce our operating risks, and increase our revenue. There are risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. There is no assurance that we will be able to attract a sufficiently large number of customers or recover costs incurred for developing and marketing any of these new products or services. For example, we may offer games that do not attract sufficient purchases of virtual currency, which may cause our investments into this product space, such as through our acquisition of Social Point, to fail to realize the expected benefits. External factors, such as competitive alternatives and shifting market preferences, may also have an impact on the successful implementation of any new products or services. Failure to successfully manage these risks in the development and implementation of new products or services could have a material adverse effect on our business, financial condition and operating results.

We depend on our key management and product development personnel.

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

The loss of the services of our executive officers, ZelnickMedia, our key Rockstar employees or other key creative personnel could significantly harm our business. In addition, if one or more key employees were to join a competitor or form a

competing company, we may lose additional personnel, experience material interruptions in product development, delays in bringing products to market and difficulties in our relationships with licensors, suppliers and customers, which would significantly harm our business. Failure to continue to attract and retain other qualified management and creative personnel could adversely affect our business and prospects.

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

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

Changes in our tax rates or exposure to additional tax liabilities could adversely affect our earnings and financial condition.

On December 22, 2017, the U.S. enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (herein referred to as the "Act"). The Act made broad and complex changes to the U.S. tax code that could materially affect us. The Act reduced the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018 and required companies to pay a one-time transition tax on the previously untaxed earnings of certain foreign subsidiaries. In addition, the Act made other changes that may affect us, including but not limited to (1) a Base Erosion Anti-abuse Tax ("BEAT"), which is a new minimum tax, (2) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries, (3) a new provision that taxes global intangible low-taxed income ("GILTI"), (4) the repeal of the domestic production activity deduction, and (5) other base broadening provisions.

We have completed accounting for the income tax effects of the Act. See Note 15 - Income Tax to our Consolidated Financial Statements for further information. We are continuing to evaluate the impact of the Act on us. It is possible that these changes could have an adverse impact on our effective tax rate, tax payments, financial condition, or results of operations. The new tax law is complex and additional interpretive guidance may be issued that could affect the interpretations and assumptions we have made, as well as actions we may take as a result of the Act.

We are a multinational corporation with operations in the U.S. and various other jurisdictions around the world. Accordingly, we are subject to tax in the U.S. and in various other jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes, and, in the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are required to estimate future taxes. Although we currently believe our tax estimates are reasonable, the estimation process is inherently uncertain, and such estimates are not binding on tax authorities. Further, our effective tax rate could be adversely affected by a variety of factors, including changes in the business, the mix of earnings in countries with differing statutory tax rates, changes in tax elections, and changes in applicable tax laws. Additionally, tax determinations are regularly subject to audit by tax authorities, and developments in those audits could adversely affect our income tax provision. Should the ultimate tax liability exceed estimates, our income tax provision and net income or loss could be materially affected.

In addition, numerous countries are evaluating their existing tax laws due in part to recommendations made by the Organization for Economic Co-operation and Development's ("OECD's") Base Erosion and Profit Shifting ("BEPS") project. Although we cannot predict whether, or in what form, any legislation based on such proposals may be adopted by the countries in which we do business, future tax reform based on such proposals may increase the amount of taxes we pay and adversely affect our operating results and cash flows.

Historically, we recorded a valuation allowance against most of our U.S. deferred tax assets. In the current fiscal year, we released our valuation allowance on certain U.S. deferred tax assets as a result of a determination that it was more-likely-than-not that such deferred tax assets would be realized. Our determination took into account the successful launch of *Red Dead*

Redemption 2 during the year along with our recent positive trend of earnings. We will continue to evaluate our ability to realize our U.S. deferred tax assets. If future evidence suggests that any changes are required to reflect the amount of our U.S. deferred tax asset that is more-likely-than-not to be realized, we will adjust our valuation allowance as needed in the appropriate period.

On June 21, 2018, the U.S. Supreme Court issued its decision in *South Dakota v. Wayfair*, which overturned previous case law that precluded states from requiring retailers to collect and remit sales tax on sales made to in-state customers unless the retailer had a physical presence in the state. Although this case is limited to sales tax collection obligations, we continue to monitor the potential impact of this decision on our state income tax footprint.

The ultimate amount of tax payable in a given financial statement period may be materially affected by sudden or unforeseen changes in tax laws, changes in the mix and level of earnings by taxing jurisdictions, or changes to existing accounting rules or regulations. For example, on July 24, 2018, the Ninth Circuit Court of Appeals issued an opinion in *Altera Corp. v. Commissioner* requiring related parties in an intercompany cost-sharing arrangement to share expenses related to stock compensation. On August 7, 2018, the opinion was withdrawn to allow time for a reconstituted panel to confer. We will continue to monitor ongoing developments and the final opinion could have a material impact on our Consolidated Financial Statements.

We earn a significant amount of our operating income and continue to hold a significant portion of our cash outside the U.S. Our current intention is to reinvest indefinitely earnings of our foreign subsidiaries, and therefore we have not recorded any tax liabilities associated with the repatriation of foreign earnings.

We are also required to pay taxes other than income taxes, such as payroll, sales, use, value-added, net worth, property, and goods and services taxes, in both the U.S. and foreign jurisdictions. We are regularly under examination by tax authorities with respect to these non-income taxes. There can be no assurance that the outcomes from these examinations, changes in our business or changes in applicable tax law or interpretations will not have an adverse effect on our net income or loss and financial condition.

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

We have experienced and may continue to experience wide fluctuations in quarterly operating results. The release of a "hit" title typically leads to a high level of sales during the first few months after introduction followed by a rapid decline in sales. In addition, the interactive entertainment industry is highly seasonal, with sales typically higher during the fourth calendar quarter, due primarily to increased demand for games during the holiday season. Demand for and sales of titles in our *NBA 2K* series are also seasonal in that they are typically released just prior to the start of the NBA season. If a key event or sports season to which our product release schedule is tied were to be delayed or canceled, our sales might also suffer disproportionately. Our failure or inability to produce "hit" titles or introduce products on a timely basis to meet seasonal fluctuations in demand could adversely affect our business, financial condition and operating results. The uncertainties associated with software development, manufacturing lead times, production delays and the approval process for products by hardware manufacturers and other licensors make it difficult to predict the quarter in which our products will ship and therefore may cause us to fail to meet financial expectations.

Price protection granted to our customers and returns of our published titles by our customers may adversely affect our operating results.

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

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 increase their sales of used video games, it could negatively affect our sales of new video games and have an adverse influence on our business, financial condition and operating results.

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

A substantial portion of our product sales are made to a limited number of customers. Sales to our five largest customers during the fiscal year ended March 31, 2019 accounted for 70.1% of our net revenue, with Sony, Microsoft, and Gamestop each

accounting for more than 10.0% of our net revenue during the fiscal year ended March 31, 2019. Our sales are made primarily pursuant to purchase orders without long-term agreements or other commitments, and our customers may terminate their relationship with us at any time. Certain of our customers may decline to carry products containing mature content. The loss of our relationships with principal customers or a decline in sales to principal customers, including as a result of a product being rated "AO" (age 18 and over) could materially adversely affect our business, financial condition and operating results. In addition, if our customers are subject to pricing pressures due to deteriorating demand for our products, competitive pressure, or otherwise, such customers may pass those pricing pressures through to us, which could materially adversely affect our business, financial condition and operating results.

Furthermore, our customers may also be placed into bankruptcy, become insolvent or be liquidated due to economic downturns, global contractions of credit or for other factors. Bankruptcies or consolidations of certain large retail customers could seriously hurt our business, including as a result of uncollectible accounts receivable from such customers and the concentration of purchasing power among remaining large retailers. In addition, our results of operations may be adversely affected if certain of our customers who purchase on credit terms are no longer eligible to purchase on such terms due to their financial distress, which may reduce the quantity of products they demand from us.

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

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

The interactive entertainment software industry is highly competitive.

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

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

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

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

The increasing importance of digital sales to our business exposes us to the risks of that business model, including greater competition.

The proportion of our revenues derived from digital content delivery, as compared to traditional retail sales, may continue to increase. The increased importance of digital content delivery in our industry increases our potential competition, as the minimum capital needed to produce and publish a digitally delivered game is significantly less than that needed to produce and publish one that is purchased through retail distribution and is played on a game console. This will also require us to dedicate capital to developing and implementing alternative marketing strategies, which we may not do successfully. If either occurs, we may be

unable to effectively market and distribute our products, which could materially adversely affect our business, financial condition and operating results. In addition, a continuing shift to digital delivery could result in a deprioritization of our products by traditional retailers. The increasing importance of digital sales to our business could also result in increasing issues with our digital distribution process, including difficulties our distributors have with collecting from consumers and any associated rebates we would owe.

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

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

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

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

We rely on a limited number of channel partners some of whom influence the fee structures for online distribution of our games on their platforms.

We rely on a limited number of channel partners, some of whom have retained the right to change the fee structures for online distribution of both paid content and free content (including patches and corrections) that we license to them for distribution on their platforms. Such channel partners' ability to set or influence royalty rates may increase costs, which could negatively affect our operating margins. We may be unable to distribute our content in a cost-effective or profitable manner through such distribution channel, which could adversely affect our business, financial condition and operating results.

Outside of fee arrangements, our agreements with our channel partners sometimes give them significant control over other aspects of the distribution of our products and services that we develop for their platform. If our channel partners establish terms that restrict our offerings through their channels, or significantly affect the financial terms on which these products or services are offered to our customers, we may be unable to distribute our product offerings through them or be forced to do so on a materially worse financial or business terms.

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

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

We use open source software in connection with certain of our games and services, which may pose particular risks to our proprietary software, products, and services in a manner that could have a negative impact on our business.

We use open source software in connection with certain of our games and the services we offer. Some open source software licenses require users who distribute open source software as part of their software to publicly disclose all or part of the source

code to such software or make available any derivative works of the open source code on unfavorable terms or at no cost. The terms of various open source licenses have not been interpreted by courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our use of the open source software. Were it determined that our use was not in compliance with a particular license, we may be required to release our proprietary source code, pay damages for breach of contract, re-engineer our games, discontinue distribution in the event re-engineering cannot be accomplished on a timely basis or take other remedial action that may divert resources away from our game development efforts, any of which could harm our business.

We depend on servers and Internet bandwidth to operate our games and digital services with online features. If we were to lose server capacity or lack sufficient Internet bandwidth for any reason, our business could suffer.

We rely on data servers, including those owned or controlled by third parties, to enable our customers to download our games and other downloadable content, and to operate our online games and other products with online functionality. Events such as limited hardware failure, any broad-based catastrophic server malfunction, a significant intrusion by hackers that circumvents security measures, or a failure of disaster recovery services would likely interrupt the functionality of our games with online services and could result in a loss of sales for games and related services. An extended interruption of service could materially adversely affect our business, financial condition and operating results.

We expect a significant portion of our games to be on-line enabled in the future, and therefore we must project our future server needs and make advance purchases of servers or server capacity to accommodate expected business demands. If we underestimate the amount of server capacity our business requires or if our business were to grow more quickly than expected, our consumers may experience service problems, such as slow or interrupted gaming access. Insufficient server capacity may result in decreased sales, a loss of our consumer base and adverse consequences to our reputation. Conversely, if we overestimate the amount of server capacity required by our business, we may incur additional operating costs.

Because of the potential importance of our online business to our revenues and results of operations, our ability to access adequate Internet bandwidth and online computational resources to support our business is critical. If the price of either such resource increases, we may not be able to increase our prices or subscriber levels to compensate for such costs, which could materially adversely affect our business, financial condition and operating results.

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

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

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

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

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

Retailers may decline to sell interactive entertainment software containing what they judge to be graphic violence or sexually explicit material or other content that they deem inappropriate for their businesses. If retailers decline to sell our products based upon their opinion that they contain objectionable themes, graphic violence or sexually explicit material or other generally objectionable content, or if any of our previously "M" rated series products are rated "AO," we might be required to significantly change or discontinue particular titles or series, which in the case of our best-selling *Grand Theft Auto* titles could seriously affect our business. Consumer advocacy groups have opposed sales of interactive entertainment software containing objectionable themes, violence or sexual material or other objectionable content by pressing for legislation in these areas and by engaging in public demonstrations and media campaigns. Additionally, although lawsuits seeking damages for injuries allegedly suffered by third parties as a result of video games have generally been unsuccessful in the courts, claims of this kind have been asserted against us from time to time and may be asserted and be successful in the future. An increase in the number of lawsuits filed by the families of victims of violence may trigger supplemental governmental scrutiny, damage our reputation, and negatively affect the sale of our products. Further, in 2018, gaming disorder was listed in a version of the World Health Organization's International Classification of Diseases, and some countries have introduced legislation attempting to address this issue. Moreover, the public dialogue concerning interactive entertainment may have an adverse impact on our reputation and our customer's willingness to purchase our products.

Our results of operations or reputation may be harmed as a result of offensive consumer-created content.

We are subject to risks associated with the collaborative online features in our games which allow consumers to post narrative comments, in real time, that are visible to other consumers. From time to time, objectionable and offensive consumer content may be posted to a gaming or other site with online chat features or game forums which allow consumers to post comments. We may be subject to lawsuits, governmental regulation or restrictions, and consumer backlash (including decreased sales and harmed reputation), as a result of consumers posting offensive content. We may also be subject to consumer backlash from comments made in response to postings we make on social media sites such as Facebook, YouTube and Twitter.

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

Sales in international markets, primarily in Europe, have accounted for a significant portion of our net revenue. For the fiscal year ended March 31, 2019, 46.5% of our net revenue was earned outside the U.S. We are continuing to execute on our growth initiatives in Asia, where our strategy is to broaden the distribution of our existing products and expand our online gaming presence, especially in China and South Korea. We are subject to risks inherent in foreign trade, including increased credit risks, tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays, and international political, regulatory and economic developments, all of which can have a significant influence on our operating results. Many of our international sales are made in local currencies, which could fluctuate against the dollar. While we may use forward exchange contracts to a limited extent to seek to mitigate foreign currency risk, our operating results could be adversely affected by unfavorable foreign currency fluctuations.

We face risks from our international operations.

We are subject to certain risks because of our international operations, particularly as we continue to grow our business and presence in Asia, Latin America and other parts of the world. Changes to and compliance with a variety of foreign laws and regulations may increase our cost of doing business and our inability or failure to obtain required approvals could harm our international and domestic sales. Trade legislation in either the U.S. or other countries, such as a change in the current tariff structures, import/export compliance laws or other trade laws or policies, could adversely affect our ability to sell or to distribute in international markets.

The current U.S. administration has voiced concerns about imports from countries potentially engaging in unfair trade practices, increased tariffs on certain goods imported into the U.S. from those countries, including China and other countries to which we sell products, and raised the possibility of imposing significant additional tariff increases. The announcement of tariffs and proposed tariffs on imported products by the U.S. has triggered actions from certain foreign governments, including China, and may trigger additional actions by those and other foreign governments that could have a negative impact on our business. Further, the enforcement of regulations relating to mobile and other games with an online element in China remains uncertain, and further changes, either in the regulation or their enforcement could have a negative impact on our business in China. In order to operate in China, all games must have regulatory approval. A decision by the Chinese government to revoke its approval for any of our games or to decline to approve any products we desire to sell in China in the future could have a negative impact on our business.

We incur additional legal compliance costs associated with our international operations and could become subject to legal penalties in foreign countries if we do not comply with local laws and regulations which may be substantially different from those

in the U.S. In many foreign countries, particularly in those with developing economies, it may be common to engage in business practices that are prohibited by U.S. laws and regulations, such as the Foreign Corrupt Practices Act, and by local laws, such as laws prohibiting corrupt payments to government officials. Although we implement policies and procedures designed to ensure compliance with these laws, there can be no assurance that all of our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, including those based in or from countries where practices which violate such laws may be customary, will not take actions in violation of our policies. Any such violation, even if prohibited by our policies, could have a material adverse effect on our business.

On June 23, 2016, the U.K. held a referendum in which voters approved an exit from the E.U., commonly referred to as “Brexit.” On March 29, 2017, the U.K. notified the European Council, in accordance with Article 50 of the Treaty on European Union, of the U.K.’s intention to withdraw from the E.U. As a result, the British government has been negotiating the terms of the U.K.’s future relationship with the E.U. A substantial amount of uncertainty remains regarding the outcome of the ongoing negotiations. We continue to assess and monitor the risks our business is likely to face as a result of Brexit. We are preparing to mitigate those risks with operational and commercial changes to the extent possible and warranted. However, the legal and regulatory landscape remains uncertain, and we have no assurance that such preparations will enable us to avoid a material adverse impact on our business from Brexit.

The effects of Brexit will depend on any agreements the U.K. makes to retain access to the E.U. markets either during a transitional period or more permanently. The measures could potentially disrupt the markets we serve and may cause us to lose customers, distributors and employees. If the U.K. loses access to the single E.U. market and the global trade deals negotiated by the E.U., it could have a detrimental impact on our U.K. growth. Such a decline could also make our doing business in Europe more difficult, which could negatively affect sales to consumers of our products. Without access to the single E.U. market, it may be more challenging and costly to distribute our products in Europe. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace and replicate. If there are changes to U.K. immigration policy as a result of Brexit, this could affect our employees and their ability to move freely between the E.U. member states for work related matters.

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

We develop proprietary software and have obtained the rights to publish and distribute software developed by third-parties. We attempt to protect our software and production techniques under patent, copyright, trademark and trade secret laws as well as through contractual restrictions on disclosure, copying and distribution. Nonetheless, our software is susceptible to piracy and unauthorized copying, and third parties may potentially exploit or misappropriate our intellectual property and proprietary information, causing significant reputational damage. Unauthorized third parties, for example, may be able to copy or to reverse engineer our software to obtain and use programming or production techniques that we regard as proprietary. Well organized piracy operations have also proliferated in recent years, resulting in the ability to download pirated copies of our software over the Internet. Although we attempt to incorporate protective measures into our software, piracy of our products could negatively affect our future profitability. In addition, "cheating" programs or other unauthorized software tools and modifications that enable consumers to cheat in games harm the experience of players who play fairly and could negatively impact the volume of microtransactions or purchases of downloadable content. Also, vulnerabilities in the design of our applications and of the platforms upon which they run could be discovered after their release. This may lead to lost revenues from paying consumers or increased cost of developing technological measures to respond to these, either of which could negatively affect our business.

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

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

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

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

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

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

- retaining key employees and maintaining the key business and customer relationships of the businesses we acquire;
- cultural challenges associated with integrating employees from an acquired company or business into our organization;
- the possibility that the combined company would not achieve the expected benefits, including any anticipated operating and product synergies, of the acquisition as quickly as anticipated or that the costs of, or operational difficulties arising from, an acquisition would be greater than anticipated;
- significant acquisition-related accounting adjustments, particularly relating to an acquired company's deferred revenue, that may cause reported revenue and profits of the combined company to be lower than the sum of their stand-alone revenue and profits;
- significant accounting charges resulting from the completion and integration of a sizable acquisition and increased capital expenditures, including potential impairment charges incurred to write down the carrying amount of intangible assets generated as a result of an acquisition;
- the possibility that significant acquisitions, when not managed cautiously, may result in the over-extension of our existing operating infrastructures, internal controls and information technology systems;
- the possibility that we will not discover important facts during due diligence that could have a material adverse effect on the value of the businesses we acquire, including the possibility that a change of control of a company we acquire triggers a termination of contractual or intellectual property rights important to the operation of its business;
- the need to integrate an acquired company's accounting, management information, human resource and other administrative systems to permit effective management and timely reporting, and the need to implement or remediate controls, procedures and policies appropriate for a public company in an acquired company that, prior to the acquisition, lacked these controls, procedures and policies;
- litigation or other claims in connection with, or inheritance of claims or litigation risks as a result of, an acquisition, including claims from terminated employees, customers or other third-parties; and
- to the extent that we engage in strategic transactions outside of the U.S., we face additional risks, including risks related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries.

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

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

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

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

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

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

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

Change in government regulations relating to the Internet could have a negative impact on our business.

We rely on our consumers' access to significant levels of Internet bandwidth for the sale and digital delivery of our content and the functionality of our games with online features. Changes in laws or regulations that adversely affect the growth, popularity or use of the Internet, including laws affecting "net neutrality," could decrease the demand for our products and services or increase our cost of doing business. Although certain jurisdictions have implemented laws and regulations intended to prevent Internet service providers from discriminating against particular types of legal traffic on their networks, other jurisdictions may lack such laws and regulations or repeal existing laws or regulations. For example, on December 14, 2017, the Federal Communications Commission voted to repeal net neutrality regulations in the U.S. Given uncertainty around these rules, including changing interpretations, amendments, or repeal, coupled with the potentially significant political and economic power of local Internet service providers and the relatively significant level of Internet bandwidth access our products and services require, we could experience discriminatory or anti-competitive practices that could impede our growth, cause us to incur additional expenses, or otherwise negatively affect our business.

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

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

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

Our reported financial results are affected by the accounting policies promulgated by the SEC and national accounting standards bodies and the methods, estimates, and judgments that we use in applying our accounting policies. For example, standards regarding revenue recognition have and could further significantly affect the way we account for revenue related to our products and services. We expect that an increasing number of our games will be supported with material post-release activities, such as content updates and online-enabled features, and we could therefore be required to recognize more of the related revenues for those games over a period of time rather than at the time of sale. Further, as we increase our downloadable content and add new features to our online services, user playing patterns can affect our estimate of the service period may change and we could be required to recognize revenues, and defer related costs, over a shorter or longer period of time than we initially allocated. As we enhance, expand and diversify our business and product offerings, the application of existing or future financial accounting standards, particularly those relating to the way we account for revenue, could have a significant adverse effect on our reported results although not necessarily on our cash flows.

We are subject to risks related to corporate and social responsibility and reputation.

Many factors influence our reputation including the perception held by our customers, business partners and other key stakeholders. Our business faces increasing scrutiny related to environmental, social and governance activities. We risk damage to our reputation if we fail to act responsibly in a number of areas, such as diversity and inclusion, environmental stewardship, supply chain management, climate change, workplace conduct, human rights and philanthropy. Any harm to our reputation could impact employee engagement and retention and the willingness of customers and our partners to do business with us, which could have a material adverse effect on our business, results of operations and cash flows.

Risks relating to our common stock

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

Additional issuances or sales of equity securities by us would dilute the ownership of our existing stockholders and could adversely affect the market price of our common stock.

We may issue equity or equity-based securities in the future in connection with acquisitions or strategic transactions, to adjust our ratio of debt to equity, including through repayment of outstanding debt, to fund expansion of our operations or for other purposes. To the extent we issue additional equity securities, the percentage ownership of our existing stockholders would be reduced. The sale of substantial amounts of our common stock could adversely affect its price. The sale or the availability for sale of a large number of shares of our common stock in the public market could cause the price of our common stock to decline.

There is no guarantee that we will do additional share repurchases in the future.

The share repurchase program authorized by the Board of Directors, which authorized the repurchase of up to 14.2 million shares of our common stock and had 3.8 million shares available for repurchase as of the date of this filing, does not obligate us to make any purchases at any specific time or situation. Discontinuing repurchases could adversely affect the price of our common stock. The program may be suspended or discontinued at any time for any reason.

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

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

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

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

We are a Delaware corporation, and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of us, even if a change in control would be beneficial to our existing stockholders. Our Board of Directors has the power, without stockholder approval, to adopt a stockholder rights plan and/or to designate the terms of one or more series of preferred stock and issue shares of preferred stock. The ability of our Board of Directors to create and issue a new series of preferred stock and certain provisions of Delaware law, our certificate of incorporation and bylaws could impede a merger, takeover or other business combination involving us or discourage a potential acquirer from making a tender offer for our common stock, which, under certain circumstances, could reduce the market price of our common stock and the value of any outstanding notes.

Our ability to use net operating loss and tax credit carryforwards to reduce future years' taxes could be substantially limited under Internal Revenue Code Sections 382 and 383 if we experience an ownership change as defined in the Internal Revenue Code Section 382.

Section 382 of the Internal Revenue Code contains rules that limit the ability of a company to use its net operating loss and tax credit carryforwards in years after an ownership change, which is generally defined as any change in ownership of more than 50% of its stock over a three-year testing period. These rules generally operate by focusing on ownership changes among stockholders owning directly or indirectly 5% or more of the stock of a company and/or any change in ownership arising from a new issuance of stock by the company. If, as a result of future transactions involving our common stock, including purchases or sales of stock by 5% stockholders, we undergo cumulative ownership changes which exceed 50% over the testing period, our ability to use our net operating loss and tax credit carryforwards would be subject to additional limitations under Sections 382 and 383.

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

Our inability to fully utilize any net operating losses or tax credit carryforwards to reduce tax liability in the future could have a material and negative affect on our future financial position and results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal executive offices are located at 110 West 44th Street (also known as 1133 Avenue of the Americas), New York, New York, in approximately 76,000 square feet of space under a lease expiring in December 2032.

We also lease approximately 64,000 square feet of space under a lease expiring in March 2023 at 622 Broadway, New York, New York.

Take-Two Interactive Software Europe Ltd, our wholly-owned subsidiary, leases 12,500 square feet of office space in Windsor, United Kingdom, which expires in January 2022. Rockstar North, our wholly-owned subsidiary, leases 72,000 square feet of office space in Edinburgh, Scotland, which expires in June 2024.

2K corporate offices and two development studios occupy approximately 123,000 square feet of leased office space in Novato, California. The lease expires in June 2023 with respect to approximately 59,000 square feet and July 2025 with respect to approximately 64,000 square feet.

In addition, our other subsidiaries lease office space in Sydney, Australia; Oakville, Canada; Chengdu and Shanghai, China; Brno, Czech Republic; Paris, France; Munich, Germany; Budapest, Hungary; Bangalore, India; Tokyo, Japan; Breda, Netherlands; Auckland, New Zealand; Singapore; Seoul, South Korea; Madrid and Barcelona, Spain; Lucerne, Switzerland; Taipei, Taiwan; Brighton, London, Lincoln, Leeds, and Oxford, United Kingdom; and, in the United States, Carlsbad, Petaluma, and Moorpark, California; Sparks, Maryland; Andover and Westwood, Massachusetts; Las Vegas, Nevada; Bethpage and New York, New York; and Kirkland, Washington.

For information regarding our lease commitments, see Note 14 to the Consolidated Financial Statements.

Item 3. Legal Proceedings

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

On February 7, 2019, all of the previously disclosed lawsuits, claims, and counterclaims that had been pending since April 2016 with Mr. Leslie Benzies, the former president of one of our subsidiaries, were resolved.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Holders

Our common stock trades on the NASDAQ Global Select Market under the symbol "TTWO." The number of record holders of our common stock was 55 as of May 10, 2019.

Dividend Policy

We have never declared or paid cash dividends. We currently anticipate that all future earnings will be retained to finance the growth of our business and we do not expect to declare or pay any cash dividends in the foreseeable future. The payment of dividends in the future is within the discretion of our Board of Directors and will depend upon future earnings, capital requirements and other relevant factors. Our New Credit Agreement requires us to meet certain incurrence tests prior to paying a dividend. See "Liquidity and Capital Resources" under Item 7 for additional information on our New Credit Agreement.

Securities Authorized for Issuance under Equity Compensation Plans

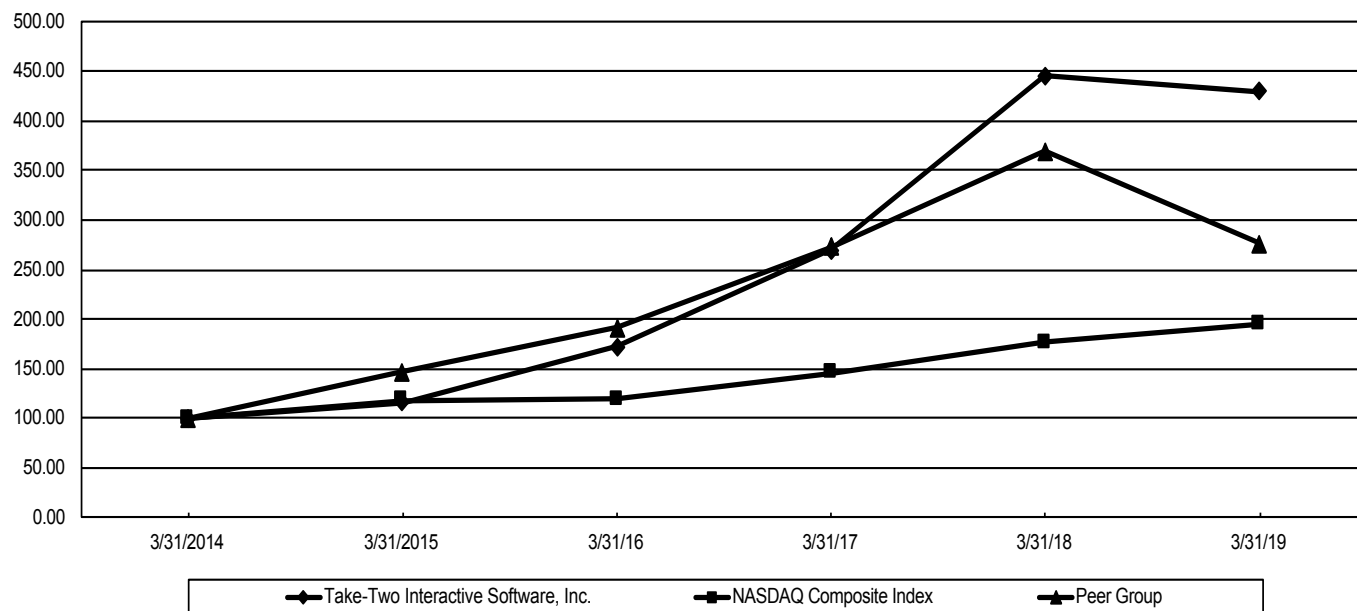
The table setting forth this information is included in Part III—Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Stock Performance Graph

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of the Company under the Exchange Act or the Securities Act of 1933.

The following line graph compares, from March 31, 2014 through March 31, 2019, the cumulative total stockholder return on our common stock with the cumulative total return on the stocks comprising the NASDAQ Composite Index and the stocks comprising a peer group index consisting of Activision Blizzard, Inc. and Electronic Arts Inc. The comparison assumes \$100 was invested on March 31, 2014 in our common stock and in each of the following indices and assumes reinvestment of all cash dividends, if any, paid on such securities. We have not paid any cash dividends and, therefore, our cumulative total return calculation is based solely upon stock price appreciation and not upon reinvestment of cash dividends. Historical stock price is not necessarily indicative of future stock price performance.

Comparison of 5 Year Cumulative Total Return*
Among Take-Two Interactive Software, Inc., the NASDAQ Composite Index and a Peer Group
March 2019



* \$100 invested on March 31, 2014 in stock or index - including reinvestment of dividends.

	March 31,					
	2014	2015	2016	2017	2018	2019
Take-Two Interactive Software, Inc.	\$ 100.00	\$ 116.10	\$ 171.77	\$ 270.27	\$ 445.87	\$ 430.32
NASDAQ Composite Index	100.00	118.12	118.77	145.94	176.24	194.97
Peer Group	100.00	146.81	191.27	272.47	369.88	276.19

Issuer Purchases of Equity Securities

Share Repurchase Program—Our Board of Directors has authorized the repurchase of up to 14,217,683 shares of our common stock. Under this program, we may purchase shares from time to time through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. Repurchases are subject to the availability of stock, prevailing market conditions, the trading price of the stock, our financial performance and other conditions. The program does not require us to repurchase shares and may be suspended or discontinued at any time for any reason.

During the fiscal years ended March 31, 2019, 2018, and 2017 we repurchased 3,715,642, 1,512,557, and 0 shares of our common stock in the open market, respectively, for \$362.4 million, \$154.8 million, and \$0.0 million, respectively, including commissions, as part of the program. As of March 31, 2019, we had repurchased a total of 10,399,529 shares of our common stock under the program, and 3,818,154 shares of our common stock remained available for repurchase under the share repurchase program. All of the repurchased shares are classified as Treasury stock in our Consolidated Balance Sheets.

Summary Table—The table below details the share repurchases that were made by us during the three months ended March 31, 2019:

Period	Shares purchased	Average price per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the repurchase program
January 1 - 31, 2019	—	—	—	4,937
February 1 - 28, 2019	1,119	\$ 89.53	1,119	3,818
March 1 - 31, 2019	—	\$ —	—	3,818

Item 6. Selected Financial Data

The following Selected Financial Data should be read in conjunction with our Consolidated Financial Statements and related Notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report on Form 10-K. (in thousands, except per share data)

STATEMENT OF OPERATIONS DATA:	Fiscal Year Ended March 31,				
	2019 ⁽¹⁾	2018	2017	2016	2015
Net revenue	\$ 2,668,394	\$ 1,792,892	\$ 1,779,748	\$ 1,413,698	\$ 1,082,938
Gross profit	1,144,750	894,581	756,789	599,825	288,071
Net income (loss)	\$ 333,837	\$ 173,533	\$ 67,303	\$ (8,302)	\$ (279,470)
Earnings per share:					
Basic:					
Earnings (loss) per share:	\$ 2.95	\$ 1.57	\$ 0.73	\$ (0.10)	\$ (3.48)
Diluted:					
Earnings (loss) per share:	\$ 2.90	\$ 1.54	\$ 0.72	\$ (0.10)	\$ (3.48)
BALANCE SHEET DATA:	As of March 31,				
	2019	2018	2017	2016	2015 ⁽²⁾
Total assets	\$ 4,243,065	\$ 3,737,841	\$ 3,149,154	\$ 2,590,277	\$ 2,228,073
Long-term debt	—	8,068	251,929	497,935	473,030

(1) During fiscal 2019, we adopted Accounting Standards Update 2014-09, "Revenue from Contracts with Customers (Topic 606)," using a modified retrospective method. Therefore, prior periods were not restated.

(2) During fiscal 2016, we retrospectively adopted Accounting Standards Update 2015-03, "Simplifying the Presentation of Debt Issuance Costs," and as a result previously reported Total assets and Long-term debt have both decreased from previously reported amounts by \$3,027 as of March 31, 2015, to reflect the deduction of debt issuance costs from the carrying amount of the related debt liability.

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

Overview

Our Business

We are a leading developer, publisher and marketer of interactive entertainment for consumers around the globe. Our products are currently designed for console gaming systems, such as Sony's PS4 and Microsoft's Xbox One, and PC, including smartphones and tablets. We deliver our products through physical retail, digital download, online platforms and cloud streaming services.

We endeavor to be the most creative, innovative and efficient company in our industry. Our core strategy is to capitalize on the popularity of video games by developing and publishing high-quality interactive entertainment experiences across a range of genres. We focus on building compelling entertainment franchises by publishing a select number of titles for which we can create sequels and incremental revenue opportunities through virtual currency, add-on content, and in-game purchases. Most of our intellectual property is internally owned and developed, which we believe best positions us financially and competitively. We have established a portfolio of proprietary software content for the major hardware platforms in a wide range of genres, including action, adventure, family/casual, racing, role-playing, shooter, sports and strategy, which we distribute worldwide. We believe that our commitment to creativity and innovation is a distinguishing strength, enabling us to differentiate our products in the marketplace by combining advanced technology with compelling storylines and characters that provide unique gameplay experiences for consumers. We have created, acquired or licensed a group of highly recognizable brands to match the broad consumer demographics that we serve, ranging from adults to children and game enthusiasts to casual gamers. Another cornerstone of our strategy is to support the success of our products in the marketplace through innovative marketing programs and global distribution on platforms and through channels that are relevant to our target audience.

Our revenue is primarily derived from the sale of internally developed software titles and software titles developed by third parties. Operating margins are dependent in part upon our ability to release new, commercially successful software products and to manage effectively their development and marketing costs. We have internal development studios located in Australia, Canada, China, Czech Republic, Hungary, India, Spain, South Korea, the United Kingdom, and the United States.

Software titles published by our Rockstar Games label are primarily internally developed. We expect Rockstar Games, our wholly-owned publisher of the *Grand Theft Auto*, *Max Payne*, *Midnight Club*, *Red Dead Redemption*, and other popular franchises, to continue to be a leader in the action / adventure product category and to create groundbreaking entertainment by leveraging our existing titles as well as by developing new brands. We believe that Rockstar Games has established a uniquely original, popular cultural phenomenon with its *Grand Theft Auto* series, which is the interactive entertainment industry's most iconic and critically acclaimed brand and has sold-in over 290 million units. The latest installment, *Grand Theft Auto V*, has sold-in over 105 million units worldwide and includes access to *Grand Theft Auto Online*. On October 26, 2018, Rockstar Games launched *Red Dead Redemption 2*, which has been a critical and commercial success that set numerous entertainment industry records. Rockstar Games is also well known for developing brands in other genres, including the *L.A. Noire*, *Bully* and *Manhunt* franchises. Rockstar Games continues to expand on our established franchises by developing sequels, offering downloadable episodes, content and virtual currency, and releasing titles for smartphones and tablets.

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

Our Private Division label is dedicated to bringing titles from top independent developers to market. Private Division will publish three upcoming titles based on new IP from renowned industry creative talent, including *The Outer Worlds* and *Ancestors: The Humankind Odyssey*, both of which are planned for release in calendar 2019. Additionally, Private Division is the publisher of *Kerbal Space Program*, which we acquired in May 2017.

Social Point develops and publishes popular free-to-play mobile games that deliver high quality, deeply-engaging entertainment experiences, including its two most successful games, *Dragon City* and *Monster Legends*. In addition, Social Point has a robust development pipeline with a number of exciting games planned for launch in the coming years.

We are continuing to execute on our growth initiatives in Asia, where our strategy is to broaden the distribution of our existing products and expand our online gaming presence, especially in China and South Korea. 2K has secured a multi-year license from the NBA to develop an online version of the NBA simulation game in China, Taiwan, South Korea, and Southeast Asia. *NBA 2K Online*, our free-to-play NBA simulation game, which was co-developed by 2K and Tencent, is the top online PC

sports game in China with over 45 million registered users. On August 2, 2018, 2K and Tencent commercially launched *NBA 2K Online 2* in China. The title is based on the console edition of NBA 2K and includes an array of new features.

In February 2017, we expanded our relationship with the NBA through the creation of the NBA 2K League. Launched in May 2018, this groundbreaking competitive gaming league is jointly owned by us and the NBA and consists of teams operated by actual NBA franchises. The NBA 2K League follows a professional sports league format: the inaugural season included head-to-head competition throughout a regular season, followed by a bracketed playoff system and a finals match-up that was held in August 2018. The NBA 2K League began its second season on April 2, 2019.

Trends and Factors Affecting our Business

Product Release Schedule. Our financial results are affected by the timing of our product releases and the commercial success of those titles. Our *Grand Theft Auto* products in particular have historically accounted for a significant portion of our revenue. Sales of *Grand Theft Auto* products generated 25.7% of our net revenue for the fiscal year ended March 31, 2019. In October 2018, we released *Red Dead Redemption 2*. Sales of *Red Dead Redemption* products generated 32.1% of our net revenue for the fiscal year ended March 31, 2019. The timing of our *Grand Theft Auto* or *Red Dead Redemption* product releases may affect our financial performance on a quarterly and annual basis.

Economic Environment and Retailer Performance. We continue to monitor economic conditions that may unfavorably affect our businesses, such as deteriorating consumer demand, pricing pressure on our products, credit quality of our receivables, and foreign currency exchange rates. Our business is dependent upon a limited number of customers that account for a significant portion of our revenue. Our five largest customers accounted for 70.1%, 70.7% and 65.5% of net revenue during the fiscal years ended March 31, 2019, 2018 and 2017, respectively. As of March 31, 2019 and 2018, five customers comprised 66.6% and 65.4% of our gross accounts receivable, respectively, with our significant customers (those that individually comprised more than 10% of our gross accounts receivable balance) accounting for 55.8% and 53.2% of such balance at March 31, 2019 and 2018, respectively. We had two customers who accounted for 40.1% and 15.7% of our gross accounts receivable as of March 31, 2019 and two customers who accounted for 37.7% and 15.5% of our gross accounts receivable as of March 31, 2018. We did not have any additional customers that exceeded 10% of our gross accounts receivable as of March 31, 2019 and 2018. The economic environment has affected our customers in the past, and may do so in the future. Bankruptcies or consolidations of our large retail customers could seriously hurt our business, due to uncollectible accounts receivables and the concentration of purchasing power among the remaining large retailers. Certain of our large customers sell used copies of our games, which may negatively affect our business by reducing demand for new copies of our games. While the downloadable content that we now offer for certain of our titles may serve to reduce used game sales, we expect used game sales to continue to adversely affect our business.

Hardware Platforms. We derive most of our revenue from the sale of products made for video game consoles manufactured by third parties, such as Sony's PS4 and Microsoft's Xbox One, which comprised 83.7% of our net revenue by product platform for the fiscal year ended March 31, 2019. 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 used on older platforms typically declines, which may negatively affect our business during the market transition to the new consoles. We continually monitor console hardware sales. We manage our product delivery on each current and future platform in a manner we believe to be most effective to maximize our revenue opportunities and achieve the desired return on our investments in product development. Accordingly, our strategy is to focus our development efforts on a select number of the highest quality titles for these platforms, while also expanding our offerings for emerging platforms such as tablets, smartphones and online games.

Online Content and Digital Distribution. The interactive entertainment software industry is delivering a growing amount of content through digital online delivery methods. We provide a variety of online delivered products and offerings. Virtually all of our titles that are available through retailers as packaged goods products are also available through direct digital download (from websites we own and others owned by third parties) as well as a larger selection of our catalog titles. In addition, we aim to drive ongoing engagement and incremental revenue from recurrent consumer spending on our titles through virtual currency, add-on content, and in-game purchases. We also publish an expanding variety of titles for tablets and smartphones, which are delivered to consumers through digital download. Our "Results of Operations," discloses that net revenue from digital online channels comprised 63.0% of our net revenue for the fiscal year ended March 31, 2019. We expect online delivery of games and game offerings to continue to grow and to become an increasing part of our business over the long-term.

Product Releases

We released the following key titles in fiscal year 2019:

Title	Publishing Label	Internal or External Development	Platform(s)	Date Released
<i>Grand Theft Auto V Premium Online Edition</i>	Rockstar Games	Internal	PS4, Xbox One, PC	April 20, 2018
<i>The Golf Club 2019 Featuring PGA TOUR (Digital)</i>	2K	External	PS4, Xbox One, PC	August 27, 2018
<i>NBA 2K Online 2</i>	2K	External	Tencent (China only)	August 2, 2018
<i>NBA 2K19 20th Anniversary Edition</i>	2K	Internal	PS4, Xbox One, Nintendo Switch, PC	September 7, 2018
<i>NBA 2K19 Standard Edition</i>	2K	Internal	PS4, Xbox One, Nintendo Switch, PC	September 11, 2018
<i>WWE 2K19 Woooo! Deluxe Edition</i>	2K	Internal/External	PS4, Xbox One, PC	October 5, 2018
<i>WWE 2K19</i>	2K	Internal/External	PS4, Xbox One, PC	October 9, 2018
<i>NBA 2K Playgrounds 2</i>	2K	External	PS4, Xbox One, Nintendo Switch, PC	October 16, 2018
<i>Red Dead Redemption 2</i>	Rockstar Games	Internal	PS4, Xbox One	October 26, 2018
<i>Carnival Games</i>	2K	Internal	PS4, Xbox One, Nintendo Switch	November 6, 2018
<i>The Golf Club 2019 Featuring PGA TOUR (Physical)</i>	2K	External	PS4, Xbox One, PC	November 13, 2018 (North America) November 16, 2018 (International)
<i>Sid Meier's Civilization VI</i>	2K	External	Nintendo Switch	November 16, 2018
<i>Red Dead Online Beta</i>	Rockstar Games	Internal	PS4, Xbox One	November 27, 2018
<i>Sid Meier's Civilization VI: Gathering Storm</i>	2K	Internal	PC	February 14, 2019
<i>Borderlands: Game of the Year Edition</i>	2K	Internal/External	PS4, Xbox One, PC	April 3, 2019

Product Pipeline

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

Title	Publishing Label	Internal or External Development	Platform(s)	Expected Release Date
<i>Borderlands 3</i>	2K/Gearbox Software	Internal/External	PS4, Xbox One, PC	September 13, 2019
<i>NBA 2K20</i>	2K	Internal	TBA	TBA
<i>WWE 2K20</i>	2K	Internal	TBA	TBA
<i>Ancestors: The Humankind Odyssey</i>	Private Division	External	PS4, Xbox One, PC (digital only)	2019 (fiscal 2020)
<i>The Outer Worlds</i>	Private Division	External	PS4, Xbox One, PC	2019 (fiscal 2020)

Fiscal 2019 Financial Summary

On April 1, 2018, we adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and related amendments (the "New Revenue Accounting Standard") using the modified retrospective method. Therefore, no prior amounts have been restated in our tables and discussion below. Refer to Note 1 to our Consolidated Financial Statements for our accounting policy disclosure for revenue recognition. In general, the adoption of Topic 606 results in a more accelerated revenue pattern, due primarily to (i) the elimination of the requirement for vendor-specific objective evidence ("VSOE") of fair value when allocating between multiple performance obligations and (ii) the change of our estimated service period to a user life. However, the impact on a given period may differ from this general trend. In October 2018, we released *Red Dead Redemption 2*. The acceleration of revenue for this title was material and is the primary component of the significant increases in certain of our operating results as a result of the adoption of Topic 606 throughout the discussion in our "Results of Operations" below. See Notes 1 and 2 to our Consolidated Financial Statements for further information.

Our Net revenue for fiscal year ended March 31, 2019 was led by titles from a variety of our top franchises, primarily *Red Dead Redemption 2*, *Grand Theft Auto*, *NBA 2K*, and *WWE 2K*. Our Net revenue increased to \$2,668.4 million, an increase

of \$875.5 million or 48.8% compared to the fiscal year ended March 31, 2018. This increase included a \$741.2 million increase in Net revenue as a result of the adoption of Topic 606, as described above. The remaining increase was driven by sales of the titles described above.

During the fiscal year ended March 31, 2019, we recognized a tax benefit of \$107.1 million from a reduction in our valuation allowance on certain U.S. deferred tax assets as a result of a determination that it was more-likely-than-not that such deferred tax assets would be realized. Our determination took into account the successful launch of *Red Dead Redemption 2* during the current fiscal year along with our recent positive trend of earnings.

For the fiscal year ended March 31, 2019, our Net income was \$333.8 million, as compared to Net income of \$173.5 million in the prior year. Diluted earnings per share for the fiscal year ended March 31, 2019 was \$2.90, as compared to Diluted income per share of \$1.54 for the fiscal year ended March 31, 2018. Our operating income for the fiscal year ended March 31, 2019 increased compared to the operating income for fiscal year ended March 31, 2018, due primarily to higher Gross profit due primarily to higher revenue as a result of the adoption of Topic 606 as described above and the successful launch *Red Dead Redemption 2*, partially offset by higher Operating expenses primarily due to higher Selling and marketing expense for titles released during the current fiscal year.

At March 31, 2019, we had \$1,392.0 million of Cash and Cash equivalents and Restricted cash, compared to 1,246.4 million at March 31, 2018. The increase in Cash and cash equivalents and Restricted cash from March 31, 2018 was due primarily to Net cash provided by operating activities from sales, primarily of *Red Dead Redemption 2*, partially offset by investments in software development and licenses as well as royalty payments. These net increases were offset by Net cash used in financing activities, which was primarily related to repurchases of common stock under our share repurchase program and tax payments related to net share settlements of our restricted stock, and to a lesser extent Net cash used in investing activities, which was primarily related to bank time deposits and purchases of fixed assets.

Critical Accounting Policies and Estimates

Our most critical accounting policies, which are those that require significant judgment, include revenue recognition; price protection and allowances for returns; capitalization and recognition of software development costs and licenses; fair value estimates including valuation of goodwill, intangible assets, and long-lived assets; valuation and recognition of stock-based compensation; and income taxes. See Note 1 - Basis of Presentation and Significant Accounting Policies in the Notes to our Consolidated Financial Statements in this Annual Report on Form 10-K.

Recently Adopted and Recently Issued Accounting Pronouncements

See Note 1 - Basis of Presentation and Significant Accounting Policies.

Operating Metric

Net Bookings

We monitor Net Bookings as a key operating metric in evaluating the performance of our business. Net Bookings is defined as the net amount of products and services sold digitally or sold-in physically during the period and includes licensing fees, merchandise, in-game advertising, strategy guides, and publisher incentives. Net Bookings were as follows:

	Fiscal Year Ended March 31,			
	2019	2018	Increase/(decrease)	Increase/(decrease) %
Net Bookings	\$ 2,928,724	\$ 1,990,602	\$ 938,122	47.1%

For the fiscal year ended March 31, 2019, Net Bookings increased by \$938.1 million as compared to the prior year period due primarily to *Red Dead Redemption 2*, which released in October 2018, and our *NBA 2K* franchise, partially offset by a decrease from *Grand Theft Auto V* and *Grand Theft Auto Online*.

Results of Operations

The following table sets forth, for the periods indicated, our statements of operations, net revenue by geographic region, net revenue by platform and net revenue by distribution channel:

	Fiscal Year Ended March 31,					
	2019		2018		2017	
Net revenue	\$ 2,668,394	100.0 %	\$ 1,792,892	100.0 %	\$ 1,779,748	100.0 %
Cost of goods sold	1,523,644	57.1 %	898,311	50.1 %	1,022,959	57.5 %
Gross profit	1,144,750	42.9 %	894,581	49.9 %	756,789	42.5 %
Selling and marketing	391,400	14.7 %	256,092	14.3 %	285,453	16.0 %
General and administrative	281,234	10.5 %	247,828	13.8 %	211,409	11.9 %
Research and development	230,170	8.6 %	196,373	11.0 %	137,915	7.8 %
Depreciation and amortization	40,232	1.5 %	43,969	2.5 %	30,707	1.7 %
Business reorganization	(4,958)	(0.2)%	14,742	0.8 %	—	— %
Total operating expenses	938,078	35.2 %	759,004	42.3 %	665,484	37.4 %
Income from operations	206,672	7.7 %	135,577	7.6 %	91,305	5.1 %
Interest and other, net	26,113	1.0 %	1,048	0.1 %	(15,690)	(0.9)%
Gain on long-term investments, net	—	— %	—	— %	1,350	0.1 %
Income before income taxes	232,785	8.7 %	136,625	7.6 %	76,965	4.3 %
(Benefit from) provision for income taxes	(101,052)	(3.8)%	(36,908)	(2.1)%	9,662	0.5 %
Net income	\$ 333,837	12.5 %	\$ 173,533	9.7 %	\$ 67,303	3.8 %

	Fiscal Year Ended March 31,					
	2019		2018		2017	
Net revenue by geographic region:						
United States	\$ 1,426,906	53.5%	\$ 1,052,313	58.7%	\$ 999,128	56.1%
International	1,241,488	46.5%	740,579	41.3%	780,620	43.9%
Net revenue by platform:						
Console	\$ 2,233,861	83.7%	\$ 1,463,306	81.6%	1,440,724	81.0%
PC and other	434,533	16.3%	329,586	18.4%	339,024	19.0%
Net revenue by distribution channel:						
Digital online	\$ 1,681,609	63.0%	\$ 1,130,946	63.1%	921,734	51.8%
Physical retail and other	986,785	37.0%	661,946	36.9%	858,014	48.2%
Net revenue by content:						
Full game and other	\$ 1,597,478	59.9%	\$ 1,046,176	58.4%	\$ 1,320,890	74.2%
Recurrent consumer spending	1,070,916	40.1%	746,716	41.6%	458,858	25.8%

Fiscal Years ended March 31, 2019 and 2018

(thousands of dollars)	2019	% of net revenue	2018	% of net revenue	Increase/ (decrease)	% Increase/ (decrease)
Net revenue	\$ 2,668,394	100.0%	\$ 1,792,892	100.0%	\$ 875,502	48.8%
Internal royalties	610,804	22.9%	383,020	21.4%	227,784	59.5%
Product costs	322,148	12.1%	203,301	11.3%	118,847	58.5%
Software development costs and royalties ⁽¹⁾	449,198	16.8%	191,400	10.7%	257,798	134.7%
Licenses	141,494	5.3%	120,590	6.7%	20,904	17.3%
Cost of goods sold	1,523,644	57.1%	898,311	50.1%	625,333	69.6%
Gross profit	\$ 1,144,750	42.9%	\$ 894,581	49.9%	\$ 250,169	28.0%

(1) Includes \$149,075 and \$24,610 of stock-based compensation expense in 2019 and 2018, respectively.

In general, the adoption of Topic 606 results in a more accelerated revenue pattern, due primarily to (i) the elimination of the requirement for vendor-specific objective evidence ("VSOE") of fair value when allocating between multiple performance obligations and (ii) the change of our estimated service period to a user life. However, the impact on a given period may differ from this general trend. In October 2018, we released *Red Dead Redemption 2*. The acceleration of revenue for this title due to the adoption of Topic 606 was material and is the primary component of the significant increases as a result of the adoption of Topic 606 throughout the discussion below. See Note 1 and Note 2 to our Consolidated Financial Statements for further information.

For the fiscal year ended March 31, 2019, net revenue increased by \$875.5 million, as compared to the prior year. This increase included a \$741.2 million increase in net revenue as a result of the adoption of Topic 606, as described above. The remaining increase was due to (i) an increase of \$129.6 million in net revenue from *Red Dead Redemption 2*, (ii) an increase of \$53.4 million in net revenue from *Grand Theft Auto Online*, and (iii) an increase of \$43.9 million in net revenue from our *NBA 2K* franchise. These increases were partially offset by (i) a decrease of \$51.5 million in net revenue from *Grand Theft Auto V*, (ii) a decrease of \$27.8 million in net revenue from our *WWE 2K* franchise and (ii) a decrease of \$18.0 million in net revenue from *L.A. Noire*.

Net revenue from console games increased by \$770.6 million and accounted for 83.7% of our total net revenue in the fiscal year ended March 31, 2019, as compared to 81.6% in the prior year. The increase in net revenue from console games included a \$658.8 million increase in net revenue as a result of the adoption of Topic 606, as described above. The remaining increase was due to an increase in net revenue from *Red Dead Redemption 2*, *Grand Theft Auto Online*, and our *NBA 2K* franchise. These increases were partially offset by a decrease in net revenue from *Grand Theft Auto V* and our *WWE 2K* franchise. Net revenue from PC and other increased by \$104.9 million as compared to the prior year and decreased as a percentage of net revenue to 16.3% compared to 18.4% in the prior year. The increase in net revenue from PC and other included an \$82.4 million increase in net revenue as the result of the adoption of Topic 606, as described above. The remaining increase was due to an increase in net revenue from *Grand Theft Auto Online*, *Red Dead Redemption 2* merchandise, our *Civilization* franchise, *Monster Legends*, our *NBA 2K* franchise, and *L.A. Noire*. These increases were partially offset by a decrease in net revenue from *XCOM 2* and *Grand Theft Auto V*.

Net revenue from digital online channels increased by \$550.7 million and accounted for 63.0% of our total net revenue for the fiscal year ended March 31, 2019, as compared to 63.1% in the prior year. The increase in net revenue from digital online channels included a \$353.2 million increase in net revenue as a result of the adoption of Topic 606, as described above. The remaining increase was due to an increase in net revenue from our *NBA 2K* franchise, *Grand Theft Auto Online*, and *Red Dead Redemption 2*, partially offset by a decrease in net revenue from *XCOM 2*. Net revenue from physical retail and other channels increased by \$324.8 million and accounted for 37.0% of our total net revenue for the fiscal year ended March 31, 2019, as compared to 36.9% for the prior year. The increase in net revenue from physical retail and other channels included a \$388.1 million increase in net revenue as a result of the adoption of Topic 606, as described above. Offsetting this increase was a net decrease due to a decrease in net revenue from *Grand Theft Auto V*, our *NBA 2K* franchise, our *WWE 2K* franchise, and *L.A. Noire*, partially offset by an increase in net revenue from *Red Dead Redemption 2*.

Net revenue from recurrent consumer spending on our titles through virtual currency, add-on content, and in-game purchases increased by \$324.2 million and accounted for 40.1% of net revenue for the fiscal year ended March 31, 2019, as compared to 41.6% for the prior year. The increase in net revenue from recurrent consumer spending included a \$164.4 million increase in net revenue as a result of the adoption of Topic 606, as described above. The remaining increase was due to an increase in net revenue from our *NBA 2K* franchise, *Grand Theft Auto Online*, our *Civilization* franchise, and *Red Dead Redemption 2*, partially offset by a decrease in net revenue from *Mafia III*. Net revenue from full game and other increased by \$551.3 million and accounted for 59.9% of net revenue for the fiscal year ended March 31, 2019, as compared to 58.4% for the prior year. The increase in net revenue from full game and other included a \$576.9 million increase in net revenue as a result of the adoption of Topic 606, as described above. Offsetting this increase was a net decrease due to a decrease in net revenue from *Grand Theft Auto V*, our *NBA 2K* franchise, our *WWE 2K* franchise, *L.A. Noire*, and *Mafia III*, partially offset by an increase in net revenue from *Red Dead Redemption 2*.

Gross profit as a percentage of net revenue for the fiscal year ended March 31, 2019 was 42.9%, as compared to 49.9% in the prior year. The adoption of Topic 606 resulted in a 6.1% increase in gross profit percentage. The remaining percentage decrease was due to higher internal royalties as a percentage of net revenue due to the timing of when royalties are earned and to a lesser extent higher software development costs as a percentage of net revenue due to the timing of our releases.

Net revenue earned outside of the United States increased by \$500.9 million and accounted for 46.5% of our total net revenue in the fiscal year ended March 31, 2019, as compared to 41.3% in the prior year. The increase in net revenue earned outside the United States included a \$438.0 million increase as a result of the adoption of Topic 606, as described above. The remaining increase was due to an increase in net revenue from *Red Dead Redemption 2*, *Grand Theft Auto Online*, and our *NBA 2K* franchise, partially offset by a decrease in net revenue from *Grand Theft Auto V*. Changes in foreign currency exchange rates

decreased net revenue and gross profit by \$10.0 million and \$5.7 million, respectively, in the fiscal year ended March 31, 2019 as compared to the prior year.

Operating Expenses

<u>(thousands of dollars)</u>	<u>2019</u>	<u>% of net revenue</u>	<u>2018</u>	<u>% of net revenue</u>	<u>Increase/ (decrease)</u>	<u>% Increase/ (decrease)</u>
Selling and marketing	\$ 391,400	14.7 %	\$ 256,092	14.3%	\$ 135,308	52.8 %
General and administrative	281,234	10.5 %	247,828	13.8%	33,406	13.5 %
Research and development	230,170	8.6 %	196,373	11.0%	33,797	17.2 %
Depreciation and amortization	40,232	1.5 %	43,969	2.5%	(3,737)	(8.5)%
Business reorganization	(4,958)	(0.2)%	14,742	0.8%	(19,700)	(133.6)%
Total operating expenses	\$ 938,078	35.2 %	\$ 759,004	42.3%	\$ 179,074	23.6 %

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

	<u>2019</u>	<u>2018</u>
Selling and marketing	\$ 23,685	\$ 13,258
General and administrative	\$ 51,903	\$ 58,037
Research and development	\$ 23,037	\$ 18,020
Business reorganization	—	2,424

Foreign currency exchange rates decreased total operating expenses by \$5.1 million in the fiscal year ended March 31, 2019 as compared to the prior year.

Selling and marketing

Selling and marketing expenses increased by \$135.3 million in the fiscal year ended March 31, 2019 as compared to the prior year, due primarily to \$108.5 million in higher advertising expenses. Advertising expenses were higher in the current year due primarily to the release of *Red Dead Redemption 2* in October 2018, our *NBA 2K* franchise, and *Grand Theft Auto Online*. The remaining increase is due to higher personnel expenses, primarily due to increased headcount.

General and administrative

General and administrative expenses increased by \$33.4 million for the fiscal year ended March 31, 2019, as compared to the prior year, due primarily to (i) increases in personnel expenses due to additional headcount, (ii) a reduction of expense in the prior period related to updating the fair value of contingent consideration from our acquisition of Social Point, (iii) increases in IT related expenses for cloud-based services, and (iv) increases in rent expense. These increases were partially offset by a decrease in stock compensation expense, related primarily to share based awards granted under our management agreement with ZelnickMedia, and insurance recoveries.

General and administrative expenses for the fiscal years ended March 31, 2019 and 2018 include occupancy expense (primarily rent, utilities and office expenses) of \$22.0 million and \$18.2 million, respectively, related to our development studios.

Research and development

Research and development expenses increased by \$33.8 million for the fiscal year ended March 31, 2019, as compared to the prior year, due primarily to increased personnel expense due to (i) increased headcount and (ii) higher stock-based compensation as well as an increase in production and development expenses for titles for which technological feasibility has not been established.

Depreciation and amortization

Depreciation and amortization expenses decreased by \$3.7 million for the fiscal year ended March 31, 2019, as compared to the prior year, due primarily to the recognition of a \$11.3 million impairment charge in September 2017, as a result of our decision not to proceed with further development of a certain in-process research and development ("IPR&D") intangible asset from our acquisition of Social Point. The decrease was partially offset by an increase in depreciation expense due primarily to the move to our new corporate headquarters in December 2017 and an increase in IT infrastructure costs.

Business Reorganization

During the fiscal year ended March 31, 2019, business reorganization expense decreased \$19.7 million as a result of a benefit due to updating estimates for and completing our 2016 Plan as well as costs related to our 2018 Plan in the prior year period with significantly decreased costs in the current year period. Although we may record additional expense or benefit in future periods to true-up estimates, we do not expect to incur additional reorganization costs in connection with these reorganizations. See Note 20 - Business Reorganization to our Consolidated Financial Statements.

Interest and other, net

(thousands of dollars)	2019	% of net revenue	2018	% of net revenue	Increase/ (decrease)	% Increase/ (decrease)
Interest income	\$ 38,019	1.4 %	\$ 21,264	1.2 %	\$ 16,755	78.8 %
Interest expense	(8,032)	(0.3)%	(22,269)	(1.2)%	14,237	(63.9)%
Foreign currency exchange (loss) gain	(505)	— %	(3,038)	(0.2)%	2,533	(83.4)%
Other	(3,369)	(0.1)%	5,091	0.3 %	(8,460)	(166.2)%
Interest and other, net	\$ 26,113	1.0 %	\$ 1,048	0.1 %	\$ 25,065	2,391.7 %

Interest and other, net was \$26.1 million for the fiscal year ended March 31, 2019, as compared to \$1.0 million for the fiscal year ended March 31, 2018. The increase was due primarily to a \$16.8 million increase in interest income due primarily to the size of, nature of, and return on our investment portfolio and a \$14.2 million decrease in interest expense primarily as a result of the settlement of our 1.00% Convertible Notes due 2018 ("Convertible Notes"), which matured July 1, 2018. The net increase was partially offset by gains in the prior period on the early conversion of our Convertible Notes, with no corresponding gains in the current period.

Provision/Benefit from income taxes

We recognized a tax benefit of \$107.1 million from a reduction in our valuation allowance on certain U.S. deferred tax assets as a result of a determination that it was more-likely-than-not that such deferred tax assets would be realized. Our determination took into account the successful launch of *Red Dead Redemption 2* during the year along with our recent positive trend of earnings.

On December 22, 2017, the U.S. enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (herein referred to as the "Act"). The Act made broad and complex changes to the U.S. tax code. The Act reduced the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018 and required companies to pay a one-time transition tax on the previously untaxed earnings of certain foreign subsidiaries. In addition, the Act made other changes, including, but not limited to, (1) a Base Erosion Anti-abuse Tax ("BEAT"), which is a new minimum tax, (2) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries, (3) a new provision that taxes global intangible low-taxed income ("GILTI"), (4) the repeal of the domestic production activity deduction, and (5) other base broadening provisions.

The SEC issued Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Acts* ("SAB 118"), which provides guidance on accounting for the Act's impact. SAB 118 provides a measurement period, which should not extend beyond one year from the Act enactment date, during which a company acting in good faith may complete the accounting for the impact of the Act under ASC 740. In accordance with SAB 118, the income tax effects of the Act must be reflected in the reporting period in which the accounting under ASC Topic 740 is complete. We completed the accounting and recorded a decrease to income tax expense of \$4.6 million to adjust the provisional estimates related to the one-time transition tax on the previously untaxed earnings of certain foreign subsidiaries as a result of the Act. The impact of the Act differs from these estimates due to changes in interpretations and assumptions we have made, guidance that was issued, and actions taken as a result of the Act.

The Act subjects a U.S. shareholder to current tax on GILTI earned by foreign subsidiaries. The FASB Staff Q&A Topic No. 5, *Accounting for Global Intangible Low-Taxed Income*, states that an entity can make an accounting policy election either to recognize deferred taxes for temporary differences that are expected to reverse as GILTI in future years or provide for the tax expense related to GILTI resulting from those items in the year the tax is incurred. We have elected to recognize the resulting tax on GILTI as an expense in the period incurred.

Our income tax benefit was \$101.1 million for the fiscal year ended March 31, 2019 as compared to \$36.9 million for the fiscal year ended March 31, 2018.

When compared to the statutory rate of 21.0%, the effective tax rate of (43.4)% for the fiscal year ended March 31, 2019 was primarily due to a \$107.1 million tax benefit from changes in valuation allowance, a benefit of \$35.0 million for tax credits,

\$13.3 million from excess tax benefits from employee stock compensation, and \$9.0 million from our geographic mix of earnings, partially offset by tax expense from other immaterial items, which include the impact of the Act.

When compared to the statutory rate of 31.6%, the effective tax rate of (27.0)% for the fiscal year ended March 31, 2018 was primarily due to \$53.2 million from excess tax benefits from employee stock compensation as a component of the benefit from income taxes (previously excess tax benefit and tax deficiencies were recognized in additional paid-in-capital), a benefit of \$22.6 million for tax credits anticipated to be utilized, a benefit of \$15.1 million from changes in unrecognized tax benefits primarily due to expiration of statute of limitations, and a benefit of \$7.9 million from our geographic mix of earnings, partially offset by provisional amounts recorded as a result of the Act and \$10.4 million for changes in our valuation allowance.

The effective tax rate in the current year was lower compared to the prior year primarily due to a lower U.S. statutory rate, increased tax benefits from changes in valuation allowance, increased tax benefits from tax credits, reduced tax expense from the one-time transition tax, partially offset by reduced benefits from excess tax benefits related to employee stock compensation and changes in unrecognized tax benefits.

We anticipate that additional excess tax benefits from employee stock compensation and tax credits could have a significant impact on our effective tax rate in future periods.

The accounting for share-based compensation will increase or decrease our effective tax rate based upon the difference between our share-based compensation expense and the deductions taken on our tax return, which depends upon the stock price at the time of employee award vesting. Since we recognize excess tax benefits on a discrete basis, we anticipate that our effective tax rate will vary from quarter to quarter depending on our stock price in each period.

On June 21, 2018, the U.S. Supreme Court issued its decision in *South Dakota v. Wayfair*, which overturned previous case law that precluded states from requiring retailers to collect sales tax on sales made to in-state customers unless the retailer had physical presence in the state. Although this case is limited to sales tax collection obligations, we continue to monitor the potential impact of this decision on our state income tax footprint.

The ultimate amount of tax payable in a given financial statement period may be materially affected by sudden or unforeseen changes in tax laws, changes in the mix and level of earnings by taxing jurisdictions, or changes to existing accounting rules or regulations. For example, on July 24, 2018, the Ninth Circuit Court of Appeals issued an opinion in *Altera Corp. v. Commissioner* requiring related parties in an intercompany cost-sharing arrangement to share expenses related to stock compensation. On August 7, 2018, the opinion was withdrawn to allow time for a reconstituted panel to confer. We will continue to monitor ongoing developments and the final opinion could have a material impact on our Consolidated Financial Statements.

As of March 31, 2019, we had gross unrecognized tax benefits, including interest and penalties, of \$139.0 million, of which \$23.9 million would affect our effective tax rate if realized. For the fiscal year ended March 31, 2019, gross unrecognized tax benefits increased by \$10.5 million.

We are no longer subject to audit for U.S. federal income tax returns for periods prior to our fiscal year ended March 31, 2016 and state income tax returns for periods prior to the fiscal year ended March 31, 2014. With few exceptions, we are no longer subject to income tax examinations in non-U.S. jurisdictions for years prior to fiscal year ended March 31, 2013. Certain U.S. state and foreign taxing authorities are currently examining our income tax returns for the fiscal years ended March 31, 2014 through March 31, 2017.

We are regularly audited by domestic and foreign taxing authorities. We believe that our tax positions comply with applicable tax law and that we have adequately provided for reasonably foreseeable tax assessments. It is possible that settlement of audits or the expiration of the statute of limitations may impact our effective tax rate in future periods.

Net income and earnings per share

For the fiscal year ended March 31, 2019, our net income was \$333.8 million, as compared to \$173.5 million in the prior year. Diluted earnings per share for the fiscal year ended March 31, 2019 was \$2.90, as compared to \$1.54 for the fiscal year ended March 31, 2018. Diluted weighted average shares outstanding of 115.2 million were 2.4 million higher compared to the prior fiscal year due primarily to the settlement on conversion of our 1.00% Convertible Notes with shares of our common stock using the stated conversion rate and, to a lesser extent, normal stock compensation activity including grants and forfeitures, offset by share repurchases. See Note 1 - Basis of Presentation and Significant Accounting Policies and Note 13 - Earnings Per Share to the Consolidated Financial Statements for additional information.

Fiscal Years Ended March 31, 2018 and 2017

(thousands of dollars)	2018	% of net revenue	2017	% of net revenue	Increase/ (decrease)	% Increase/ (decrease)
Net revenue	\$ 1,792,892	100.0%	\$1,779,748	100.0%	\$ 13,144	0.7 %
Internal royalties	383,020	21.4%	330,782	18.6%	52,238	15.8 %
Product costs	203,301	11.3%	255,914	14.4%	(52,613)	(20.6)%
Software development costs and royalties ⁽¹⁾	191,400	10.7%	335,675	18.9%	(144,275)	(43.0)%
Licenses	120,590	6.7%	100,588	5.6%	20,002	19.9 %
Cost of goods sold	898,311	50.1%	1,022,959	57.5%	(124,648)	(12.2)%
Gross profit	\$ 894,581	49.9%	\$ 756,789	42.5%	\$ 137,792	18.2 %

(1) Includes \$24,610 and \$21,056 of stock-based compensation expense in 2018 and 2017, respectively.

For the fiscal year ended March 31, 2018, net revenue increased by \$13.1 million, as compared to the prior year. This increase was due primarily to an increase of \$159.4 million in net revenue from our *NBA 2K* franchise, partially offset by a decrease of \$134.9 million in net revenue from *Mafia III*, which released in October 2016. Net revenue from our *Grand Theft Auto* franchise increased \$32.0 million as compared to the prior year. This increase was due primarily to an increase of \$114.9 million in net revenue from *Grand Theft Auto Online*, partially offset by a decrease of \$78.0 million from *Grand Theft Auto V*.

Net revenue from console games increased by \$22.6 million and accounted for 81.6% of our total net revenue in the fiscal year ended March 31, 2018, as compared to 81.0% in the prior year. The increase in net revenue from console games was due primarily to higher net revenue from our *NBA 2K* franchise, partially offset by lower net revenue from *Mafia III*, which released in October 2016. Net revenue from PC and other decreased by \$9.4 million as compared to the prior year and decreased as a percentage of net revenue to 18.4% compared to 19.0% in the prior year. The decrease in net revenue from PC and other was due primarily to lower net revenue from *Civilization VI*, which released on the PC in the prior year, partially offset by higher net revenue from Social Point titles for which we had only two months of net revenue in the prior year as it was acquired in January 2017.

Net revenue from digital online channels increased by \$209.2 million and accounted for 63.1% of our total net revenue for the fiscal year ended March 31, 2018, as compared to 51.8% in the prior year. The increase in net revenue from digital online channels was due primarily to higher revenue related to our *NBA 2K* franchise and *Grand Theft Auto Online*, partially offset by lower net revenue from *Civilization VI* and *Grand Theft Auto V*. Net revenue from physical retail and other channels decreased by \$196.1 million and accounted for 36.9% of our total net revenue for the fiscal year ended March 31, 2018, as compared to 48.2% for the prior year. The decrease in net revenue from physical retail and other channels was due primarily to lower net revenue from *Mafia III*, *Grand Theft Auto V*, and *BioShock: The Collection*, which released in September 2016, partially offset by higher net revenue from *L.A. Noire* due to releases on PS4, Xbox One, Switch, and HTC Vive.

Net revenue from recurrent consumer spending on our titles through virtual currency, add-on content, and microtransactions increased by \$287.9 million and accounted for 41.6% of net revenue for the fiscal year ended March 31, 2018, as compared to 25.8% for the prior year. The increase in recurrent consumer spending was due primarily to higher virtual currency net revenue from *Grand Theft Auto Online*, our *NBA 2K* franchise, and Social Point titles with only two months of net revenue in the prior year as it was acquired in January 2017.

Gross profit as a percentage of net revenue for the fiscal year ended March 31, 2018 was 49.9%, as compared to 42.5% in the prior year. The percentage increase was due primarily to lower software development costs as a percentage of net revenue due to *Mafia III* and *Civilization VI* releasing in the prior year, as well as lower product costs as a percentage of net revenue due to the decrease in net revenue from physical retail sales. The increase was offset by higher internal royalties as a percentage of net revenue due to the timing of when royalties are earned and to a lesser extent higher stock-based compensation costs as a percentage of net revenue.

Net revenue earned outside of the United States decreased by \$40.0 million and accounted for 41.3% of our total net revenue in the fiscal year ended March 31, 2018, as compared to 43.9%. The decrease in net revenue was due primarily to a decrease in net revenue from *Mafia III*, partially offset by higher net revenue from our *NBA 2K* franchise. Changes in foreign currency exchange rates increased net revenue and gross profit by \$9.8 million and \$6.7 million, respectively, in the fiscal year ended March 31, 2018 as compared to the prior year.

Operating Expenses

(thousands of dollars)	2018	% of net revenue	2017	% of net revenue	Increase/ (decrease)	% Increase/ (decrease)
Selling and marketing	\$ 256,092	14.3%	\$ 285,453	16.0%	\$ (29,361)	(10.3)%
General and administrative	247,828	13.8%	211,409	11.9%	36,419	17.2 %
Research and development	196,373	11.0%	137,915	7.8%	58,458	42.4 %
Depreciation and amortization	43,969	2.5%	30,707	1.7%	13,262	43.2 %
Business reorganization	14,742	0.8%	—	—%	14,742	100.0 %
Total operating expenses	\$ 759,004	42.3%	\$ 665,484	37.4%	\$ 93,520	14.1 %

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

	2018	2017
Selling and marketing	\$ 13,258	\$ 9,963
General and administrative	\$ 58,037	\$ 42,908
Research and development	\$ 18,020	\$ 7,952
Business reorganization	\$ 2,424	\$ —

Foreign currency exchange rates increased total operating expenses by \$8.4 million in the fiscal year ended March 31, 2018 as compared to the prior year.

Selling and marketing

Selling and marketing expenses decreased by \$29.4 million in the fiscal year ended March 31, 2018 as compared to the prior year, due primarily to \$44.2 million in lower advertising expenses. Advertising expenses were lower in the current year due primarily to the releases of *Mafia III* and *Civilization VI* in October 2016 and *Battleborn* in May 2016, partially offset by higher marketing in the current year period for *Grand Theft Auto Online* and *Red Dead Redemption 2*. The decrease was partially offset by higher personnel expenses, primarily due to higher incentive compensation expense.

General and administrative

General and administrative expenses increased by \$36.4 million for the fiscal year ended March 31, 2018, as compared to the prior year, due primarily to (i) increases in personnel expenses, including stock and incentive compensation expense, due to additional headcount, including our acquisition of Social Point, (ii) increases in professional fees, related primarily to our management agreement with ZelnickMedia as a result of the increase in our share price, (iii) increases in IT related expenses from the purchase of computer hardware and software, and (iv) increases in rent expense due to new locations, including our new corporate headquarters in New York and for Social Point, as well as increased rent in other locations. This overall increase was partially offset primarily by a \$6.5 million reduction of expense related to reversing a contingent consideration liability recognized in connection with the Social Point acquisition as we determined that the fair value of this contingent consideration was \$0 based on the lower probability of Social Point achieving certain performance measures in the 24-month period following the acquisition.

General and administrative expenses for the fiscal years ended March 31, 2018 and 2017 include occupancy expense (primarily rent, utilities and office expenses) of \$18.2 million and \$15.8 million, respectively, related to our development studios.

Research and development

Research and development expenses increased by \$58.5 million for the fiscal year ended March 31, 2018, as compared to the prior year, due primarily to increased personnel expense due to (i) increased headcount, including our acquisition of Social Point, and (ii) higher stock-based compensation. These increases were partially offset by lower production expenses for titles that have not reached technological feasibility.

Depreciation and amortization

Depreciation and amortization expenses increased by \$13.3 million for the fiscal year ended March 31, 2018, as compared to the prior year, due primarily to the recognition of a \$11.3 million impairment charge as a result of our decision not to proceed with further development of a certain in-process research and development ("IPR&D") intangible asset from our acquisition of Social Point.

Business Reorganization

During the fiscal year ended March 31, 2018, we announced and initiated actions to implement a strategic reorganization at one of our labels. In connection with this initiative we incurred business reorganization expenses of \$14.7 million for the fiscal year ended March 31, 2018, due primarily to employee separation costs with no corresponding costs in the prior year. Although we may record additional expense or benefit in future periods to true-up estimates, we do not expect to incur additional reorganization costs in connection with this reorganization. See Note 20 - Business Reorganization.

Interest and other, net

(thousands of dollars)	2018	% of net revenue	2017	% of net revenue	(Increase)/ decrease	% Increase/ (decrease)
Interest expense, net	\$ (1,005)	(0.1)%	\$ (21,700)	(1.2)%	\$ 20,695	(95.4)%
Foreign currency exchange (loss) gain	(3,038)	(0.2)%	4,990	0.3 %	(8,028)	(160.9)%
Other	5,091	0.3 %	1,020	0.1 %	4,071	399.1 %
Interest and other, net	\$ 1,048	0.1 %	\$ (15,690)	(0.9)%	\$ 16,738	(106.7)%

Interest and other, net was income of \$1.0 million for the fiscal year ended March 31, 2018, as compared to an expense of \$15.7 million for the fiscal year ended March 31, 2017. The increase was due primarily to a \$20.7 million decrease in interest expense as a result of the settlement of our 1.75% Convertible Notes in December 2016 and higher gains on early conversions of our 1.00% Convertible Notes as well as higher interest income due to the nature of our investments and the rise of interest rates, partially offset by foreign exchange transaction losses for the fiscal year ended March 31, 2018 as compared to foreign exchange transaction gains in the prior year.

Provision/Benefit from income taxes

On December 22, 2017, the U.S. enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (herein referred to as the "Act"). The Act makes broad and complex changes to the U.S. tax code that could materially affect us. The Act reduces the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018 and requires companies to pay a one-time transition tax on the previously untaxed earnings of certain foreign subsidiaries. In addition, the Act makes other changes that may affect us, beginning April 1, 2018. These changes include but are not limited to (1) a Base Erosion Anti-abuse Tax (BEAT), which is a new minimum tax, (2) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries, (3) a new provision that taxes global intangible low-taxed income (GILTI), (4) the repeal of the domestic production activity deduction, and (5) other base broadening provisions.

The FASB Staff Q&A, Topic 740, No. 5, *Accounting for Global Intangible Low-Taxed Income*, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. Given the complexity of the GILTI provisions, the Company is still evaluating the effects of the GILTI provisions and has not yet determined its accounting policy. As of March 31, 2018, the Company is still evaluating the GILTI provisions and analysis of future taxable income that is subject to GILTI and therefore is unable to make a reasonable estimate and has not reflected any adjustments related to GILTI in the Consolidated Financial Statements.

We recorded an estimated increase to income tax expense of \$18.1 million related to the one-time transition tax on the previously untaxed earnings of certain foreign subsidiaries as a result of the Act. The estimated increase was a result of a transition tax of \$26.6 million, offset by increased benefits from domestic production deductions and tax credits. In addition, as a result of the decrease in the U.S. federal corporate income tax rate from 35% to 21%, we recorded a decrease to net deferred tax assets of \$47.7 million and a corresponding decrease to the valuation allowance of \$39.8 million after taking into account a portion of the deferred tax liability from indefinite lived intangibles as a source of income against deferred tax assets, resulting in a tax benefit of \$7.9 million. The re-measurement of the deferred tax liability relating to indefinite lived intangibles, due to the rate change, resulted in a tax benefit of \$6.2 million.

We are currently evaluating the potential impact of the Act, and the amounts recorded represent provisional estimates for certain identified income tax effects for which the accounting is incomplete but a reasonable estimate can be determined, in accordance with Staff Accounting Bulletin No. 118 (SAB 118). Further analysis is required to review historical practices used to calculate the untaxed earnings of certain foreign subsidiaries and additional time to evaluate the complexities of the new tax law along with additional interpretative guidance that may be issued. The impact of the Act may differ from these estimates, possibly materially, due to changes in interpretations and assumptions we have made, guidance that may be issued, and actions we may take as a result of the Act. We expect to continue to analyze the Act and its impact and expect to record any adjustments to provisional estimates no later than the third quarter of fiscal 2019.

Our income tax benefit was \$36.9 million for the fiscal year ended March 31, 2018 as compared to income tax expense of \$9.7 million for the fiscal year ended March 31, 2017.

When compared to the statutory rate of 31.6%, the effective tax rate of (27.0)% for the fiscal year ended March 31, 2018 was primarily due to \$53.2 million from excess tax benefits from employee stock compensation as a component of the benefit from income taxes (previously excess tax benefit and tax deficiencies were recognized in additional paid-in-capital), a benefit of \$22.6 million for tax credits anticipated to be utilized, a benefit of \$15.1 million from changes in unrecognized tax benefits primarily due to expiration of statute of limitations, and a benefit of \$7.9 million from our geographic mix of earnings, partially offset by provisional amounts recorded as a result of the Act and \$10.4 million for changes in our valuation allowance.

The effective tax rate in the current year was lower compared to the prior year primarily due to \$53.2 million from excess tax benefits related to employee stock compensation reflected as a component of the benefit from income taxes in the current year, an increased benefit from changes in unrecognized tax benefits of \$17.3 million primarily due to expiration of statute of limitations, and \$11.0 million of increased tax benefits due to mix of earnings, partially offset by a reduced benefit from tax credits of \$12.7 million and provisional amounts recorded as a result of the Act.

We anticipate that additional excess tax benefits from employee stock compensation, tax credits, changes in valuation allowance, and changes as a result of the Act may arise in future periods, which could have a significant impact on our effective tax rate.

The accounting for share-based compensation will increase or decrease our effective tax rate based upon the difference between our share-based compensation expense and the deductions taken on our tax return, which depends upon the stock price at the time of employee award vesting. Since we recognize excess tax benefits on a discrete basis, we anticipate that our effective tax rate will vary from quarter to quarter depending on our stock price in each period.

As of March 31, 2018, we had gross unrecognized tax benefits, including interest and penalties, of \$128.5 million, of which \$22.8 million would affect our effective tax rate if realized. For the fiscal year ended March 31, 2018, gross unrecognized tax benefits increased by \$8.3 million.

We are no longer subject to audit for U.S. federal income tax returns for periods prior to our fiscal year ended March 31, 2016 and state income tax returns for periods prior to the fiscal year ended March 31, 2013. With few exceptions, we are no longer subject to income tax examinations in non-U.S. jurisdictions for years prior to fiscal year ended March 31, 2012. Certain U.S. state and foreign taxing authorities are currently examining our income tax returns for the fiscal years ended March 31, 2012 through March 31, 2016.

We are regularly audited by domestic and foreign taxing authorities. We believe that our tax positions comply with applicable tax law and that we have adequately provided for reasonably foreseeable tax assessments. It is possible that settlement of audits or the expiration of the statute of limitations may impact our effective tax rate in future periods.

Net income and earnings per share

For the fiscal year ended March 31, 2018, our net income was \$173.5 million, as compared to \$67.3 million in the prior year. Diluted earnings per share for the fiscal year ended March 31, 2018 was \$1.54, as compared to \$0.72 for the fiscal year ended March 31, 2017. Basic weighted average shares outstanding of 110.1 million were 19.9 million higher compared to the prior fiscal year due primarily to the settlement on conversion of our 1.75% Convertible Notes and our 1.00% Convertible Notes with shares of our common stock using the stated conversion rate and, to a lesser extent the vesting of restricted stock awards. See Note 1 - Basis of Presentation and Significant Accounting Policies and Note 13 - Earnings Per Share for additional information.

Liquidity and Capital Resources

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

Short-term Investments

As of March 31, 2019, we had \$744.5 million of short-term investments, which are highly-liquid in nature and represent an investment of cash that is available for current operations. From time to time, we may purchase additional short-term investments depending on future market conditions and liquidity needs.

New Credit Agreement

On February 8, 2019, we entered into an unsecured Credit Agreement (the “New Credit Agreement”). The New Credit Agreement replaced our existing Credit Agreement, which was terminated on the same day. The New Credit Agreement runs through February 8, 2024. The New Credit Agreement provides for an unsecured five-year revolving credit facility with commitments of \$200,000, including sublimits for (i) the issuance of letters of credit in an aggregate face amount of up to \$25,000 and (ii) borrowings and letters of credit denominated in Pounds Sterling, Euros and Canadian Dollars in an aggregate principal amount of up to \$25,000. In addition, the New Credit Agreement contains uncommitted incremental capacity permitting the incurrence of up to an additional \$250,000 in term loans or revolving credit facilities. Loans under the New Credit Agreement will bear interest at a margin of (a) 0.125% to 0.750% above a certain base rate (5.50% at March 31, 2019), or (b) 1.125% to 1.750% above LIBOR (approximately 2.49% at March 31, 2019), which margins are determined by reference to our consolidated total net leverage ratio.

As of March 31, 2019, there was \$198.3 million available to borrow under the New Credit Agreement and we had \$1.7 million of letters of credit outstanding. At March 31, 2019, we had no outstanding borrowings under the Credit Agreement.

The New Credit Agreement also includes, among other terms and conditions, maximum leverage ratio, minimum cash reserves and, in certain circumstances, minimum interest coverage ratio financial covenants, as well as limitations on the Company’s and each of its subsidiaries’ ability to: create, incur, assume or be liable for indebtedness; dispose of assets outside the ordinary course; acquire, merge or consolidate with or into another person or entity; create, incur or allow any lien on any of its property; make investments; or pay dividends or make distributions, in each case subject to certain exceptions. In addition, the New Credit Agreement provides for certain events of default such as nonpayment of principal and interest when due thereunder, breaches of representations and warranties, noncompliance with covenants, acts of insolvency and default on indebtedness held by third parties (subject to certain limitations and cure periods).

1.00% Convertible Notes Due 2018

On June 18, 2013, we issued \$250.0 million aggregate principal amount of 1.00% Convertible Notes due 2018. The Convertible Notes were issued at 98.5% of par value for proceeds of \$283.2 million, which included a \$37.5 million overallotment option that was exercised. Interest on the Convertible Notes was payable semi-annually in arrears on July 1st and January 1st of each year, commencing on January 1, 2014. The Convertible Notes matured on July 1, 2018.

Financial Condition

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

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

A majority of our trade receivables are derived from sales to major retailers and distributors. Our five largest customers accounted for 70.1%, 70.7%, and 65.5% of net revenue during the fiscal years ended March 31, 2019, 2018, and 2017, respectively. As of March 31, 2019 and 2018, five customers accounted for 66.6% and 65.4% of our gross accounts receivable, respectively. Customers that individually accounted for more than 10% of our gross accounts receivable balance comprised 55.8% and 53.2% of such balances at March 31, 2019 and 2018, respectively. We had two customers who accounted for 40.1% and 15.7% of our gross accounts receivable as of March 31, 2019 and two customers who accounted for 37.7%, and 15.5% of our gross accounts receivable as of March 31, 2018. We did not have any additional customers that exceeded 10% of our gross accounts receivable as of March 31, 2019 and 2018. Based upon performing ongoing credit evaluations, maintaining trade credit insurance on a majority of our customers and our past collection experience, we believe that the receivable balances from these largest customers do not represent a significant credit risk, although we actively monitor each customer's credit worthiness and economic conditions that may affect our customers' business and access to capital. We are monitoring the current global economic conditions, including credit markets and other factors as it relates to our customers in order to manage the risk of uncollectible accounts receivable.

We believe our current cash, short-term investments and projected cash flow from operations, along with availability under our New Credit Agreement will provide us with sufficient liquidity to satisfy our cash requirements for working capital, capital expenditures, and commitments on both a short-term and long-term basis.

As of March 31, 2019, the amount of cash and cash equivalents held outside of the U.S. by our foreign subsidiaries was \$292.7 million. These balances are dispersed across various locations around the world. We believe that such dispersion meets

the business and liquidity needs of our foreign affiliates. In addition, we expect to have the ability to generate sufficient cash domestically to support ongoing operations for the foreseeable future.

On December 22, 2017, the U.S. enacted comprehensive tax legislation commonly referred to as the "Tax Cuts and Jobs Act" (herein referred to as the "Act"). The Act made broad and complex changes to the U.S. tax code, which could materially affect us. The Act included a number of provisions, including international provisions, which generally establish a territorial-style system for taxing foreign income of domestic multinational corporations. Our current intention is to reinvest indefinitely earnings of our foreign subsidiaries, and therefore we have not recorded any tax liabilities associated with the repatriation of foreign earnings.

Our Board of Directors has authorized the repurchase of up to 14.2 million shares of our common stock. Under this program, we may purchase shares from time to time through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. Repurchases are subject to the availability of stock, prevailing market conditions, the trading price of the stock, our financial performance and other conditions. The program does not require us to repurchase shares and may be suspended or discontinued at any time for any reason. During the fiscal years ended March 31, 2019, 2018, and 2017, we repurchased 3.7 million, 1.5 million, and 0.0 million shares of our common stock, respectively, in the open market for \$362.4 million, \$154.8 million, and \$0.0 million, respectively, including commissions as part of the program. As of March 31, 2019, we had repurchased a total of 10.4 million shares of our common stock under the program, and 3.8 million shares of our common stock remained available for repurchase under the share repurchase program.

Our changes in cash flows were as follows:

(thousands of dollars)	Fiscal Year Ended March 31,		
	2019	2018	2017
Net cash provided by operating activities	\$ 843,515	\$ 493,527	\$ 407,903
Net cash used in investing activities	(223,576)	(271,827)	(129,030)
Net cash used in financing activities	(463,685)	(281,467)	(49,772)
Effects of foreign currency exchange rates on cash, cash equivalents, and restricted cash	(10,639)	24,924	(7,798)
Net change in cash, cash equivalents, and restricted cash	\$ 145,615	\$ (34,843)	\$ 221,303

At March 31, 2019, we had 1,392.0 million of Cash, cash equivalents, and Restricted cash, compared to 1,246.4 million at March 31, 2018. The increase in Cash, cash equivalents, and Restricted cash from March 31, 2018 was due primarily to Net cash provided by operating activities from sales, primarily of *Red Dead Redemption 2*, partially offset by investments in software development and licenses as well as royalty payments. These net increases were offset by Net cash used in financing activities, which was primarily related to repurchases of common stock under our share repurchase program and tax payments related to net share settlements of our restricted stock, and to a lesser extent Net cash used in investing activities, which was primarily related to bank time deposits and purchases of fixed assets.

Contractual Obligations and Commitments

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

- *Software Development and Licensing:* We make payments to third-party software developers that include contractual payments to developers under several software development agreements that expire at various times through March 2025. Our aggregate outstanding software development commitments assume satisfactory performance by third-party software developers. We also have licensing commitments that primarily consist of obligations to holders of intellectual property rights for use of their trademarks, copyrights, technology or other intellectual property rights in the development of our products.
- *Marketing:* We have certain minimum marketing support commitments where we commit to spend specified amounts related to marketing our products. Marketing commitments expire at various times through September 2024.
- *Operating Leases:* Our offices are occupied under non-cancelable operating leases expiring at various times through December 2032. We also lease certain furniture, equipment and automobiles under non-cancelable leases expiring through June 2023. Some of the leases have fixed rent increases and also include inducements to enter into the lease. The effect of such amounts are deferred and recognized on a straight-line basis over the related lease term.
- *Purchase obligations:* These obligations are primarily related to agreements to purchase services that are enforceable and legally binding on us that specifies all significant terms, including fixed, minimum or variable pricing provisions; and the approximate timing of the transactions, expiring at various times through March 2024.

A summary of annual minimum contractual obligations and commitments as of March 31, 2019 is as follows (in thousands of dollars):

Fiscal Year Ending March 31,	Software Development and Licensing	Marketing	Operating Leases	Purchase Obligations	Total
2020	\$ 183,309	\$ 52,953	\$ 28,365	\$ 23,707	\$ 288,334
2021	120,008	28,830	27,882	9,559	186,279
2022	114,734	28,661	26,272	5,063	174,730
2023	56,884	78,100	23,787	623	159,394
2024	51,792	24,600	16,474	484	93,350
Thereafter	55,792	49,200	82,570	—	187,562
Total	\$ 582,519	\$ 262,344	\$ 205,350	\$ 39,436	\$ 1,089,649

Income Taxes: At March 31, 2019, we had recorded a liability for gross unrecognized tax benefits, including interest and penalties, of \$23.9 million, for which we are unable to make a reasonable and reliable estimate of the period in which these liabilities will be settled with the respective tax authorities; therefore, these liabilities have not been included in the contractual obligations table.

Legal and Other Proceedings: We are, or may become, subject to demands and claims (including intellectual property claims) and are involved in routine litigation in the ordinary course of business which we do not believe to be material to our business or financial statements. We have appropriately accrued amounts related to certain of these claims and legal and other proceedings. While it is reasonably possible that a loss may be incurred in excess of the amounts accrued in our financial statements, we believe that such losses, unless otherwise disclosed, would not be material.

On February 7, 2019, all of the previously disclosed lawsuits, claims, and counterclaims that had been pending since April 2016 with Mr. Leslie Benzies, the former president of one of our subsidiaries, were resolved.

Off-Balance Sheet Arrangements

As of March 31, 2019 and 2018, we did not have any material relationships with unconsolidated entities or financial parties, such as entities often referred to as structured finance or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

International Operations

Net revenue earned outside of the United States is principally generated by our operations in Europe, Asia, Australia, Canada and Latin America. For the fiscal years ended March 31, 2019, 2018 and 2017, 46.5%, 41.3% and 43.9%, respectively, of our net revenue was earned outside the United States. We are subject to risks inherent in foreign trade, including increased credit risks, tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays and international political, regulatory and economic developments, all of which can have a significant effect on our operating results.

Fluctuations in Quarterly Operating Results and Seasonality

We have experienced fluctuations in quarterly and annual operating results as a result of the timing of the introduction of new titles; variations in sales of titles developed for particular platforms; market acceptance of our titles; development and promotional expenses relating to the introduction of new titles; sequels or enhancements of existing titles; projected and actual changes in platforms; the timing and success of title introductions by our competitors; product returns; changes in pricing policies by us and our competitors; the 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 products are also seasonal, with peak shipments typically occurring in the fourth calendar quarter as a result of increased demand for products during the holiday season. For certain of our software products with multiple element revenue arrangements, we defer the recognition of our net revenue over an estimated service period which generally ranges from 9 to 15 months. As a result, the quarter in which we generate the highest net sales volume may be different from the quarter in which we recognize the highest amount of net revenue. Quarterly comparisons of operating results are not necessarily indicative of future operating results.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

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

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

As of March 31, 2019, we had \$744.5 million of short-term investments, which included \$356.8 million of available-for-sale securities. The available-for-sale securities were recorded at fair market value with unrealized gains or losses resulting from changes in fair value reported as a separate component of accumulated other comprehensive income (loss), net of tax, in stockholders' equity. We also had \$826.5 million of cash and cash equivalents that are comprised primarily of money market funds and bank-time deposits. We determined that, based on the composition of our investment portfolio, there was no material interest rate risk exposure to our Consolidated Financial Statements or liquidity as of March 31, 2019.

Historically, fluctuations in interest rates have not had a significant effect on our operating results. Under our New Credit Agreement, loans will bear interest at a rate of (a) 0.250% to 0.750% above a certain base rate (5.50% at March 31, 2019) or (b) 1.125% to 1.750% above LIBOR (approximately 2.49% at March 31, 2019), which rates are determined by reference to our consolidated total net leverage ratio. Changes in market rates may affect our future interest expense if there is an outstanding balance on our line of credit. At March 31, 2019, there were no outstanding borrowings under our New Credit Agreement.

Foreign Currency Exchange Rate Risk

We transact business in foreign currencies and are exposed to risks resulting from fluctuations in foreign currency exchange rates. Accounts relating to foreign operations are translated into United States dollars using prevailing exchange rates at the relevant period end. Translation adjustments are included as a separate component of stockholders' equity on our Consolidated Balance Sheets. For the fiscal years ended March 31, 2019 and 2018, our foreign currency translation adjustment was a loss of \$28.8 million and a gain of \$43.4 million, respectively. We recognized a foreign currency exchange transaction loss of \$0.5 million, a loss of \$3.0 million, and a gain of \$5.0 million for the fiscal years ended March 31, 2019, 2018, and 2017, respectively, in Interest and other, net in our Consolidated Statements of Operations.

Balance Sheet Hedging Activities

We use foreign currency forward contracts to mitigate foreign currency exchange rate risk associated with non-functional currency denominated cash balances and inter-company funding loans, non-functional currency denominated accounts receivable and non-functional currency denominated accounts payable. These transactions are not designated as hedging instruments and are accounted for as derivatives whereby the fair value of the contracts is reported as either assets or liabilities on our Consolidated Balance Sheets, and gains and losses resulting from changes in the fair value are reported in interest and other, net, in our Consolidated Statements of Operations. We do not enter into derivative financial contracts for speculative or trading purposes. At March 31, 2019, we had \$116.6 million of forward contracts outstanding to buy foreign currencies in exchange for U.S. dollars and \$87.8 million of forward contracts outstanding to sell foreign currencies in exchange for U.S. dollars all of which have maturities of less than one year. At March 31, 2018, we had \$4.4 million of forward contracts outstanding to buy foreign currencies in exchange for U.S. dollars and \$67.6 million of forward contracts outstanding to sell foreign currencies in exchange for U.S. dollars all of which have maturities of less than one year. For the fiscal years ended March 31, 2019, 2018 and 2017, we recorded a gain of \$16.8 million, a loss of \$19.5 million, and a gain of \$7.2 million, respectively, related to foreign currency forward contracts in Interest and other, net on the Consolidated Statements of Operations. As of March 31, 2019 and 2018, the fair value of these outstanding forward contracts were losses of \$0.4 million and \$0.0 million, respectively, and is included in accrued and other current liabilities. The fair value of these outstanding forward contracts is estimated based on the prevailing exchange rates of the various hedged currencies as of the end of the period.

Our hedging programs are designed to reduce, but do not entirely eliminate, the effect of currency exchange rate movements. We believe the counterparties to these foreign currency forward contracts are credit-worthy multinational commercial banks and that the risk of counterparty nonperformance is not material. Notwithstanding our efforts to mitigate some foreign

currency exchange rate risks, there can be no assurance that our hedging activities will adequately protect us against the risks associated with foreign currency fluctuations. For the fiscal year ended March 31, 2019, 46.5% of our 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 revenue by 4.7%, while a hypothetical 10% decrease in the value of the U.S. dollar against all currencies would increase revenue by 4.7%. In the opinion of management, a substantial portion of this fluctuation would be offset by cost of goods sold and operating expenses incurred in local currency.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data appear in a separate section of this report following Part IV. We provide details of our valuation and qualifying accounts in Note 21 - Supplementary Financial Information to the Consolidated Financial Statements. All schedules have been omitted since the information required to be submitted has been included on the Consolidated Financial Statements or notes thereto or has been omitted as not applicable or not required.

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

None.

Item 9A. Controls and Procedures

Definition and Limitations of Disclosure Controls and Procedures

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

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

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures at March 31, 2019, the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer concluded that, at March 31, 2019, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized, and reported on a timely basis, and (ii) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 framework ("COSO"). Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of March 31, 2019.

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2019, which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference to the sections entitled "Proposal 1—Election of Directors" and "Executive Compensation—Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive Proxy Statement (the "Proxy Statement") for the Annual Meeting of Stockholders to be held in 2019. We intend to file the Proxy Statement within 120 days after the end of the fiscal year (i.e. on or before July 29, 2019). Our Code of Business Conduct and Ethics applicable to our directors and all employees, including senior financial officers, is available on our website at www.take2games.com. If we make any amendment to our Code of Business Conduct and Ethics that is required to be disclosed pursuant to the Exchange Act, we will make such disclosures on our website.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the section entitled "Executive Compensation" in our Proxy Statement.

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

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

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

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

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference to the section entitled "Independent Auditor Fee Information" in our Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this Report:

- (i) Financial Statements. See Index to Financial Statements on page 53 of this Report.
- (ii) Financial Statement Schedule. See Note 21 to the Consolidated Financial Statements.
- (iii) Index to Exhibits:

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	Filing Date	Exhibit	Filed Herewith
2.1	Share Sale and Purchase Agreement, dated January 31, 2017, by and among Take-Two Interactive Software, Inc., Take-Two Invest Espana, S.L., Andres Bou Ortiz, Horacio Martos Borja, Marc Canaleta Caupena, Voladuras Hinojo, S.L., Nauta Tech Invest III, S.C.R., S.A., Bilbao Vizcaya Holding, S.A., La Banque Postale Innovation 11 FCPI, Capital Croissance 4, Objectif Innovation Patrimoine 4 FCPI, Strategie PME 2011 FCPI, Iinvest Patrimoine FCPI, Allianz Eco Innovation 3 FCPI, Objectif Innovation 5 FCPI, Iinvest Crossance FCPI, SG Innovation 2011 FCPI, Allianz Eco Innovation 2 FCPI, Objectif Innovation 4 FCPI, Iinvest Flexible 2016 FCPI, Capital Croissance 5 FCPI, Objectif Innovation Patrimoine 5 FCPI, Iinvest Patrimoine 2 FCPI, Objectif Innovation Patrimoine 6 FCPI, Iinvest Patrimoine 3 FCPI, Greylock Israel Investment Vehicle in Social Point, LTD, and HCPESP, S.a.r.l. †	8-K	2/3/2017	2.1	
3.1	Restated Certificate of Incorporation	10-K	2/12/2004	3.1	
3.1.1	Certificate of Amendment of Restated Certificate of Incorporation, dated April 30, 1998	10-K	2/12/2004	3.1.2	
3.1.2	Certificate of Amendment of Restated Certificate of Incorporation, dated November 17, 2003	10-K	2/12/2004	3.1.3	
3.1.3	Certificate of Amendment of Restated Certificate of Incorporation, dated April 23, 2009	8-K	4/23/2009	3.1	
3.1.4	Certificate of Amendment of Restated Certificate of Incorporation, dated September 21, 2012	8-K	9/24/2012	3.1	
3.2	Certificate of Designation of Series A Preferred Stock, dated March 11, 1998	10-K	2/12/2004	3.1.1	
3.3	Certificate of Designation of Series B Preferred Stock, dated March 26, 2008	8-A12B	3/26/2008	4.2	
3.4	Amended and Restated Bylaws of Take-Two Interactive Software, Inc., effective as of September 15, 2017	8-K	9/18/2017	3.1	
10.1	Take-Two Interactive Software, Inc. Change in Control Employee Severance Plan ⁺	8-K	3/7/2008	10.1	
10.2	Amended and Restated Take-Two Interactive Software, Inc. 2009 Stock Incentive Plan, effective as of July 21, 2016 ⁺	14A	7/28/2016	Annex A	

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Filing Date	Exhibit	
10.3	Form of Employee Restricted Stock Agreement ⁺	10-Q	6/5/2009	10.2	
10.4	Form of Non-Employee Director Restricted Stock Agreement ⁺	10-Q	6/5/2009	10.3	
10.5	Form of Employee Restricted Unit Agreement ⁺	10-Q	8/1/2012	10.1	
10.6	Form of Employee Restricted Unit Agreement ⁺	10-Q	10/30/2013	10.1	
10.7	Form of Employee Global Restricted Unit Agreement ⁺	10-Q	10/30/2013	10.2	
10.8	Form of Employee Restricted Unit Agreement ⁺	10-Q	10/30/2013	10.3	
10.9	Form of Employee Global Restricted Unit Agreement ⁺	10-Q	10/30/2013	10.4	
10.10	Form of Employee Global Restricted Unit Agreement Pursuant to the Take-Two Interactive Software, Inc. 2009 Stock Incentive Plan ⁺	10-Q	10/30/2013	10.5	
10.11	Take-Two Interactive Software, Inc. 2017 Stock Incentive Plan, effective as of September 15, 2017 ⁺	14A	7/27/2017	Annex B	
10.12	Take-Two Interactive Software, Inc. 2017 Stock Incentive Plan Qualified RSU Sub-Plan for France, effective as of September 15, 2017 ⁺	14A	7/27/2017	Annex C	
10.13	Take-Two Interactive Software, Inc. 2017 Second Amended and Restated Global Employee Stock Purchase Plan, effective as of March 28, 2019 ⁺				X
10.14	Form of Global Restricted Stock Unit Agreement Pursuant to the Take-Two Interactive Software, Inc. 2017 Stock Incentive Plan ⁺	10-Q	11/8/2017	10.4	
10.15	Form of Global Restricted Stock Performance Unit Agreement Pursuant to the Take-Two Interactive Software, Inc. 2017 Stock Incentive Plan ⁺	10-Q	11/8/2017	10.5	
10.16	Form of Non-Employee Director Restricted Stock Agreement Pursuant to the Take-Two Interactive Software Inc. 2017 Stock Incentive Plan ⁺	10-Q	11/8/2017	10.6	
10.17	Form of Non-Employee Director Stock Grant Agreement Pursuant to the Take-Two Interactive Software Inc. 2017 Stock Incentive Plan ⁺	10-Q	11/8/2017	10.7	
10.18	Employment Agreement, dated May 12, 2010, between the Company and Lainie Goldstein ⁺	8-K	5/14/2010	10.1	
10.19	First Amendment to Employment Agreement, dated October 25, 2010, between the Company and Lainie Goldstein ⁺	8-K	10/25/2010	10.1	
10.20	Second Amendment to Employment Agreement, dated August 27, 2012, between the Company and Lainie Goldstein ⁺	10-Q	10/31/2012	10.6	
10.21	Third Amendment to Employment Agreement dated May 7, 2018, between the Company and Lainie Goldstein ⁺	10-Q	8/3/2018	10.2	

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Filing Date	Exhibit	
10.22	Employment Agreement, dated February 14, 2008, by and between the Company and Karl Slatoff ⁺	8-K	2/15/2008	10.3	
10.23	Employment Agreement dated January 28, 2015 between the Company and Daniel Emerson ⁺	10-Q	2/6/2015	10.1	
10.24	Management Agreement, dated as of March 10, 2014, by and between the Company and ZelnickMedia Corporation ⁺	8-K	3/10/2014	10.1	
10.25	Restricted Unit Agreement, dated as of May 20, 2015, by and between the Company and ZelnickMedia Corporation ⁺	S-3 ASR	5/20/2015	10.2	
10.26	Amended and Restated Restricted Unit Agreement Pursuant to the Take-Two Interactive Software, Inc. 2009 Incentive Stock Plan, dated as of June 30, 2015 ⁺	10-Q	8/10/2015	10.1	
10.27	Amendment to the Restricted Stock Unit Agreement, dated as of March 31, 2016, by and between Take-Two Interactive Software, Inc. and ZelnickMedia Corporation ⁺	10-K	5/19/2016	10.50	
10.28	Restricted Unit Agreement, dated as of May 20, 2016, by and between Take-Two Interactive Software, Inc. and ZelnickMedia Corporation ⁺	S-3 ASR	5/20/2016	10.2	
10.29	Amendment to Amended and Restated Restricted Unit Agreement Pursuant to the Take Two Interactive Software, Inc. 2009 Incentive Stock Plan, dated as of February 7, 2017 ⁺	10-Q	2/8/2017	10.3	
10.30	Restricted Unit Agreement, dated as of May 25, 2017, by and between Take-Two Interactive Software, Inc. and ZelnickMedia Corporation ⁺	S-3 ASR	5/25/2017	10.2	
10.31	Amendment to Amended and Restated Restricted Unit Agreement Pursuant to the Take-Two Interactive Software, Inc. 2009 Incentive Stock Plan, dated as of December 15, 2017 ⁺	10-Q	2/8/2018	10.4	
10.32	Management Agreement, dated as of November 17, 2017, by and between the Company and ZelnickMedia Corporation ⁺	8-K	11/22/2017	10.1	
10.33	Restricted Unit Agreement, dated as of April 13, 2018, by and between Take-Two Interactive Software, Inc. and ZelnickMedia Corporation ⁺	S-3 ASR	4/13/2018	10.2	
10.34	Restricted Unit Agreement, dated as of April 15, 2019, by and between Take-Two Interactive Software, Inc. and ZelnickMedia Corporation ⁺	S-3 ASR	4/15/2019	10.2	

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Filing Date	Exhibit	
10.35	Credit Agreement, dated as of February 8, 2019, by and among Take-Two Interactive Software, Inc., the lender parties thereto, Wells Fargo Bank, National Association, as administrative agent for the Lenders, Wells Fargo Securities, LLC and JP Morgan Chase Bank, N.A., as joint lead arrangers and joint bookrunners, and JPMorgan Chase Bank, N.A. as syndication agent				X
10.36	Xbox 360 Publisher License Agreement dated November 17, 2005, between Microsoft Licensing, GP and the Company*	10-Q	11/8/2011	10.3	
10.37	Amendment to Xbox 360 Publisher License Agreement, dated December 4, 2008, between Microsoft Licensing, GP and the Company*	10-Q	6/5/2009	10.1	
10.38	Amendment to the Xbox 360 Publisher License Agreement, dated November 22, 2011, between the Company and Microsoft Licensing, GP*	10-Q	2/3/2012	10.1	
10.39	Amendment to the Xbox 360 Publisher License Agreement, dated December 11, 2012, between the Company and Microsoft Licensing, GP*	10-Q	2/6/2013	10.2	
10.40	Amendment to the Xbox 360 Publisher License Agreement, dated November 13, 2013, between the Company and Microsoft Licensing, GP*	10-Q	2/4/2014	10.2	
10.41	Amendment to the Xbox 360 Publisher License Agreement, dated September 30, 2014, between Microsoft Corporation and the Company*	10-Q	10/30/2014	10.1	
10.42	Amendment to the Xbox 360 Publisher License Agreement, signed on December 21, 2017, between Microsoft Corporation and the Company*	10-Q	2/8/2018	10.2	
10.43	Xbox One Publisher License Agreement dated October 31, 2013, between Microsoft Licensing, GP and the Company*	10-Q	2/4/2014	10.1	
10.44	Amendment to the Xbox One Publisher License Agreement, dated May 7, 2014, between Microsoft Licensing, GP and the Company*	10-Q	8/6/2014	10.1	
10.45	Amendment to the Xbox One Publisher License Agreement, dated January 30, 2015, between Microsoft Corporation and the Company*	10-K	5/19/2016	10.48	
10.46	Amendment No. 3 to the Xbox One Publisher License Agreement, dated August 13, 2015, between Microsoft Corporation and the Company*	10-K	5/19/2016	10.49	
10.47	Amendment No. 4 to the Xbox One Publisher License Agreement, dated December 15, 2016, between Microsoft Corporation and the Company*	10-Q/A	5/23/2017	10.2	
10.48	Amendment No. 5 to the Xbox One Publisher License Agreement, signed on January 10, 2018, between Microsoft Corporation and the Company*	10-K	5/17/2018	10.55	

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Filing Date	Exhibit	
10.49	PlayStation Global Developer and Publisher Agreement, dated as of March 23, 2017, between the Company and certain of its affiliates and Sony Interactive Entertainment, Inc., Sony Interactive Entertainment America LLC, and Sony Interactive Entertainment Europe Ltd.**	10-K	5/24/2017	10.48	
10.50	Lease Agreement between the Company and Moklam Enterprises, Inc. dated July 1, 2002	10-Q	9/16/2002	10.2	
10.51	Sixth Lease Modification Agreement, dated January 18, 2012, between the Company and Moklam Enterprises, Inc.	10-K	5/23/2012	10.45	
10.52	Seventh Lease Modification Agreement, dated April 8, 2014, between the Company and Moklam Enterprises, Inc.	10-K	5/14/2014	10.39	
10.53	Eighth Lease Modification Agreement, dated as of January 6, 2015, by and between Take-Two Interactive Software, Inc. and Moklam Enterprises, Inc.	10-K	5/19/2016	10.47	
10.54	Ninth Lease Modification Agreement, dated as of December 15, 2015, by and between Take-Two Interactive Software, Inc. and Moklam Enterprises, Inc.	10-Q	2/4/2016	10.1	
10.55	Lease Agreement, dated as of December 12, 2016, by and between Take-Two Interactive Software, Inc. and DOLP 1133 Properties II LLC for a premises with entrances at 1133 Avenue of the Americas and 110 West 44th Street, New York, New York 10036	10-Q	2/8/2017	10.1	
10.56	First Amendment to Lease, dated as of July 25, 2018 by and between Take-Two Interactive Software, Inc. and DOLP 1133 Properties II LLC	10-Q	11/8/2018	10.1	
10.57	Registration Rights Agreement, dated January 31, 2017, by and among Take-Two Interactive Software, Inc, Andres Bou Ortiz, Horacio Martos Borja, Marc Canaleta Caupena, Voladuras Hinojo, S.L., Nauta Tech Invest III, S.C.R., S.A., Bilbao Vizcaya Holding, S.A., La Banque Postale Innovation 11 FCPI, Capital Croissance 4, Objectif Innovation Patrimoine 4 FCPI, Strategie PME 2011 FCPI, Idinvest Patrimoine FCPI, Allianz Eco Innovation 3 FCPI, Objectif Innovation 5 FCPI, Idinvest Crossance FCPI, SG Innovation 2011 FCPI, Allianz Eco Innovation 2 FCPI, Objectif Innovation 4 FCPI, Idinvest Flexible 2016 FCPI, Capital Croissance 5 FCPI, Objectif Innovation Patrimoine 5 FCPI, Idinvest Patrimoine 2 FCPI, Objectif Innovation Patrimoine 6 FCPI, Idinvest Patrimoine 3 FCPI, Greylock Israel Investment Vehicle in Social Point, LTD, and HCPESP, S.a.r.l.	8-K	2/3/2017	10.1	

Exhibit Number	Exhibit Description	Importance by Reference			Filed Herewith
		Form	Filing Date	Exhibit	
21.1	Subsidiaries of the Company				X
23.1	Consent of Ernst & Young LLP				X
31.1	Chief Executive Officer Certification Pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Chief Financial Officer Certification Pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.INS	XBRL Instance Document.				X
101.SCH	XBRL Taxonomy Extension Schema Document.				X
101.CAL	XBRL Taxonomy Calculation Linkbase Document.				X
101.LAB	XBRL Taxonomy Label Linkbase Document.				X
101.PRE	XBRL Taxonomy Presentation Linkbase Document.				X
101.DEF	XBRL Taxonomy Extension Definition Document.				X

† Schedules omitted pursuant to item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally a copy of any omitted schedule to the SEC upon its request.

+ Represents a management contract or compensatory plan or arrangement.

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

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

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at March 31, 2019 and 2018, (ii) Consolidated Statements of Operations for the fiscal years ended March 31, 2019, 2018 and 2017, (iii) Consolidated Statements of Comprehensive Income for the fiscal years ended March 31, 2019, 2018 and 2017, (iv) Consolidated Statements of Cash Flows for the fiscal years ended March 31, 2019, 2018 and 2017, (v) Consolidated Statements of Stockholders' Equity for the fiscal years ended March 31, 2019, 2018 and 2017; and (vi) Notes to the Consolidated Financial Statements.

Item 16. Form 10-K Summary

Not applicable.

TAKE-TWO INTERACTIVE SOFTWARE, INC.
FISCAL YEAR ENDED MARCH 31, 2019

INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
Reports of Independent Registered Public Accounting Firm	54
Consolidated Balance Sheets—At March 31, 2019 and 2018	56
Consolidated Statements of Operations—For the fiscal years ended March 31, 2019, 2018 and 2017	57
Consolidated Statements of Comprehensive Income—For the fiscal years ended March 31, 2019, 2018 and 2017	58
Consolidated Statements of Cash Flows—For the fiscal years ended March 31, 2019, 2018 and 2017	59
Consolidated Statements of Stockholders' Equity—For the fiscal years ended March 31, 2019, 2018 and 2017	60
Notes to the Consolidated Financial Statements	61

(All other items in this report are inapplicable)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Take-Two Interactive Software, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Take-Two Interactive Software, Inc. (the Company) as of March 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, cash flows and stockholders' equity for each of the three years in the period ended March 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at March 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated May 13, 2019 expressed an unqualified opinion thereon.

Adoption of ASU No. 2014-09

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for revenue recognition effective April 1, 2018 due to the adoption of Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), and the related amendments.

Adoption of ASU No. 2016-09

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation effective April 1, 2017 due to the adoption of ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2006.

New York, New York
May 13, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Take-Two Interactive Software, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Take-Two Interactive Software, Inc.'s (the Company) internal control over financial reporting as of March 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of March 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, cash flows and stockholders' equity for each of the three years in the period ended March 31, 2019, and the related notes and our report dated May 13, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP

New York, New York
May 13, 2019

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

	March 31,	
	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 826,525	\$ 808,973
Short-term investments	744,485	615,406
Restricted cash	565,461	437,398
Accounts receivable, net of allowances of \$995 and \$54,290 at March 31, 2019 and 2018, respectively	395,729	247,649
Inventory	28,200	15,162
Software development costs and licenses	28,880	33,284
Deferred cost of goods sold	51,867	117,851
Prepaid expenses and other	186,688	133,454
Total current assets	2,827,835	2,409,177
Fixed assets, net	127,882	102,478
Software development costs and licenses, net of current portion	603,436	639,369
Deferred cost of goods sold, net of current portion	1,028	26,719
Goodwill	381,717	399,530
Other intangibles, net	73,115	103,681
Deferred tax assets	134,732	4,930
Other assets	93,320	51,957
Total assets	\$ 4,243,065	\$ 3,737,841
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 72,797	\$ 35,029
Accrued expenses and other current liabilities	1,035,695	914,748
Deferred revenue	843,302	777,152
Total current liabilities	1,951,794	1,726,929
Long-term debt	—	8,068
Non-current deferred revenue	21,058	355,589
Other long-term liabilities	229,633	158,285
Total liabilities	2,202,485	2,248,871
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value, 5,000 shares authorized: no shares issued and outstanding at March 31, 2019 and 2018	—	—
Common stock, \$.01 par value, 200,000 shares authorized; 134,602 and 132,743 shares issued and 112,181 and 114,038 outstanding at March 31, 2019 and 2018, respectively	1,346	1,327
Additional paid-in capital	2,019,369	1,888,039
Treasury stock, at cost; 22,421 and 18,705 common shares at March 31, 2019 and 2018, respectively	(820,572)	(458,180)
Retained earnings	877,626	73,516
Accumulated other comprehensive loss	(37,189)	(15,732)
Total stockholders' equity	2,040,580	1,488,970
Total liabilities and stockholders' equity	\$ 4,243,065	\$ 3,737,841

See accompanying Notes.

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

	Fiscal Year Ended March 31,		
	2019	2018	2017
Net revenue	\$ 2,668,394	\$ 1,792,892	\$ 1,779,748
Cost of goods sold	1,523,644	898,311	1,022,959
Gross profit	1,144,750	894,581	756,789
Selling and marketing	391,400	256,092	285,453
General and administrative	281,234	247,828	211,409
Research and development	230,170	196,373	137,915
Depreciation and amortization	40,232	43,969	30,707
Business reorganization	(4,958)	14,742	—
Total operating expenses	938,078	759,004	665,484
Income from operations	206,672	135,577	91,305
Interest and other, net	26,113	1,048	(15,690)
Gain on long-term investments, net	—	—	1,350
Income before income taxes	232,785	136,625	76,965
(Benefit from) provision for income taxes	(101,052)	(36,908)	9,662
Net income	\$ 333,837	\$ 173,533	\$ 67,303
Earnings per share:			
Basic earnings per share	\$ 2.95	\$ 1.57	\$ 0.73
Diluted earnings per share	\$ 2.90	\$ 1.54	\$ 0.72

See accompanying Notes.

TAKE-TWO INTERACTIVE SOFTWARE, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	March 31,		
	2019	2018	2017
Net income	\$ 333,837	\$ 173,533	\$ 67,303
Other comprehensive income (loss):			
Foreign currency translation adjustment	(28,803)	43,379	(9,086)
Cash flow hedges:			
Change in unrealized gains	763	(8,153)	—
Reclassification to earnings	3,726	—	—
Tax effect on effective cash flow hedges	417	(2,038)	—
Change in fair value of cash flow hedges	4,906	(10,191)	—
Available-for-sale securities:			
Net unrealized gain (loss), net of taxes	2,440	(1,778)	(169)
Reclassification to earnings for realized net loss, net of taxes	—	—	9
Change in fair value of available-for-sale securities	2,440	(1,778)	(160)
Other comprehensive income (loss)	(21,457)	31,410	(9,246)
Comprehensive income	\$ 312,380	\$ 204,943	\$ 58,057

See accompanying Notes.

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

	Fiscal Year Ended March 31,		
	2019	2018 (as Adjusted) (1)	2017 (as Adjusted) (1)
Operating activities:			
Net income	\$ 333,837	\$ 173,533	\$ 67,303
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization and impairment of software development costs and licenses	201,221	77,887	221,911
Stock-based compensation	247,700	116,349	81,879
Amortization of intellectual property	23,879	34,830	6,738
Depreciation	39,726	32,202	30,707
Amortization of discount on Convertible Notes	91	15,662	21,222
Impairment of in-process research and development	—	11,257	—
Amortization of debt issuance costs	809	578	1,227
Deferred income taxes	110,603	(32,523)	3,020
Gain on long-term investments, net	—	—	(1,350)
Gain on redemption of Convertible Notes	—	(4,900)	—
Other, net	(225)	6,375	(3,410)
Changes in assets and liabilities:			
Accounts receivable	(98,075)	(26,998)	(41,956)
Inventory	(14,403)	3,917	(4,942)
Software development costs and licenses	(206,831)	(225,269)	(252,951)
Prepaid expenses, other current and other non-current assets	(275,800)	(74,544)	(22,155)
Deferred revenue	304,713	198,397	126,285
Deferred cost of goods sold	(24,882)	(11,959)	(14,969)
Accounts payable, accrued expenses and other liabilities	201,152	198,733	189,344
Net cash provided by operating activities	843,515	493,527	407,903
Investing activities:			
Change in bank time deposits	(171,057)	(40,918)	89,076
Proceeds from available-for-sale securities	325,133	241,012	155,936
Purchases of available-for-sale securities	(282,534)	(369,998)	(221,671)
Purchases of fixed assets	(66,969)	(61,557)	(21,167)
Proceeds from sale of long-term investment	—	—	1,350
Purchase of long-term investments	—	(5,000)	(1,885)
Business acquisitions, net of cash acquired	(28,149)	(9,401)	(130,669)
Asset acquisition	—	(25,965)	—
Net cash used in investing activities	(223,576)	(271,827)	(129,030)
Financing activities:			
Tax payment related to net share settlements on restricted stock awards	(101,293)	(112,884)	(51,762)
Repurchase of common stock	(362,392)	(154,792)	—
Excess tax benefit from stock-based compensation	—	—	1,990
Other	—	(13,791)	—
Net cash used in financing activities	(463,685)	(281,467)	(49,772)
Effects of foreign currency exchange rates on cash, cash equivalents, and restricted cash	(10,639)	24,924	(7,798)
Net change in cash, cash equivalents, and restricted cash	145,615	(34,843)	221,303
Cash, cash equivalents, and restricted cash, beginning of year	1,246,371	1,281,214	1,059,911
Cash, cash equivalents, and restricted cash, end of year	\$ 1,391,986	\$ 1,246,371	\$ 1,281,214
Supplemental data:			
Interest paid	\$ 5,265	\$ 4,121	\$ 7,628
Income taxes paid (refunded)	\$ 19,280	\$ 8,790	\$ 6,648

(1) Prior period amounts have been adjusted retrospectively to reflect the adoption of ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Refer to Note 1 for further discussion.

See accompanying Notes.

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

	Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balance, March 31, 2016	103,765	\$ 1,038	\$ 1,088,628	(17,192)	\$ (303,388)	\$ (166,997)	\$ (37,896)	\$ 581,385
Net income	—	—	—	—	—	67,303	—	67,303
Change in cumulative foreign currency translation adjustment	—	—	—	—	—	—	(9,086)	(9,086)
Net unrealized gain on available-for-sale securities, net of taxes	—	—	—	—	—	—	(160)	(160)
Stock-based compensation	—	—	88,378	—	—	—	—	88,378
Tax benefit associated with stock awards	—	—	1,990	—	—	—	—	1,990
Issuance of restricted stock, net of forfeitures and cancellations	1,738	17	(17)	—	—	—	—	—
Settlement of 1.75% Convertible Notes Due 2016	13,094	131	249,866	—	—	—	—	249,997
Conversion of 1.00% Convertible Notes Due 2018	899	9	18,332	—	—	—	—	18,341
Issuance of shares related to Social Point acquisition	1,480	15	57,327	—	—	—	—	57,342
Net share settlement of restricted stock awards	(1,163)	(12)	(51,750)	—	—	—	—	(51,762)
Balance, March 31, 2017	119,813	1,198	1,452,754	(17,192)	(303,388)	(99,694)	(47,142)	1,003,728
Net income	—	—	—	—	—	173,533	—	173,533
Change in cumulative foreign currency translation adjustment	—	—	—	—	—	—	43,379	43,379
Net unrealized gain on available-for-sale securities, net of taxes	—	—	—	—	—	—	(1,778)	(1,778)
Change in unrealized gains on cash flow hedge, net	—	—	—	—	—	—	(10,191)	(10,191)
Stock-based compensation	—	—	293,214	—	—	—	—	293,214
Repurchased common stock	—	—	—	(1,513)	(154,792)	—	—	(154,792)
Issuance of restricted stock, net of forfeitures and cancellations	2,151	21	(21)	—	—	—	—	—
Conversion of 1.00% Convertible Notes Due 2018	12,082	121	254,963	—	—	—	—	255,084
Net share settlement of restricted stock awards	(1,303)	(13)	(112,871)	—	—	—	—	(112,884)
Adoption of ASU 2016-09	—	—	—	—	—	(323)	—	(323)
Balance, March 31, 2018	132,743	1,327	1,888,039	(18,705)	(458,180)	73,516	(15,732)	1,488,970
Net income	—	—	—	—	—	333,837	—	333,837
Change in cumulative foreign currency translation adjustment	—	—	—	—	—	—	(33,456)	(33,456)
Net unrealized gain on available-for-sale securities, net of taxes	—	—	—	—	—	—	2,440	2,440
Change in unrealized gains on cash flow hedge, net	—	—	—	—	—	—	4,906	4,906
Stock-based compensation	—	—	219,460	—	—	—	—	219,460
Issuance of restricted stock, net of forfeitures and cancellations	2,345	23	(23)	—	—	—	—	—
Repurchased common stock	—	—	—	(3,716)	(362,392)	—	—	(362,392)
Conversion of 1.00% Convertible Notes Due 2018	377	4	8,108	—	—	—	—	8,112
Net share settlement of restricted stock awards	(920)	(9)	(101,284)	—	—	—	—	(101,293)
Impact from adoption of New Revenue Accounting Standard (Note 2)	—	—	—	—	—	470,273	4,653	474,926
Employee share purchase plan settlement	57	1	5,069	—	—	—	—	5,070
Balance, March 31, 2019	134,602	\$ 1,346	\$ 2,019,369	(22,421)	\$ (820,572)	\$ 877,626	\$ (37,189)	\$ 2,040,580

See accompanying Notes.

TAKE-TWO INTERACTIVE SOFTWARE, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation

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

Reclassifications

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of net revenue and expenses during the reporting periods. Our most significant estimates and assumptions relate to revenue recognition (see Note 2 - Revenue from Contracts with Customers), the recoverability and amortization of software development costs and prepaid royalties, licenses, and intangible assets, the realization of deferred income taxes, the valuation of stock-based compensation, and assumptions used in our goodwill impairment tests. These estimates generally involve complex issues and require us to make judgments, involve analysis of historical and the prediction of future trends, and are subject to change from period to period. Actual amounts could differ significantly from these estimates. We consider transactions or events that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosures.

Segments

We have one operating and reportable segment. Our operations involve similar products and customers worldwide. Revenue earned is primarily derived from the sale of software titles, which are internally developed and developed by third parties. Our Chief Executive Officer, who is our Chief Operating Decision Maker ("CODM"), manages our operations on a consolidated basis--supplemented by sales information by product category, major product title, and platform--for the purpose of evaluating performance and allocating resources. Financial information about our one segment and geographic areas is included in Note 2 - Revenue from Contracts with Customers and Note 9 - Fixed Assets, Net.

Concentration of Credit Risk and Accounts Receivable

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

If the financial condition and operations of our customers deteriorate, our risk of collection could increase substantially. A majority of our trade receivables are derived from sales to major retailers and distributors. Our five largest customers accounted for 70.1% 70.7% and 65.5% of net revenue during the fiscal years ended March 31, 2019, 2018 and 2017, respectively. One customer accounted for 31.3%, 30.2% and 26.3% of net revenue during the fiscal years ended March 31, 2019, 2018, and 2017, respectively. A second customer accounted for 18.1%, 17.6%, and 14.2% of net revenue during the fiscal years ended March 31, 2019, 2018, and 2017 respectively. A third customer accounted for 10.5% of net revenue during the fiscal year ended March 31, 2019. As of March 31, 2019 and 2018, five customers accounted for 66.6% and 65.4% of our gross accounts receivable, respectively. Customers that individually accounted for more than 10% of our gross accounts receivable balance comprised 55.8% and 53.2% of such balances at March 31, 2019 and 2018, respectively. We had two customers who accounted for 40.1% and 15.7% of our gross accounts receivable as of March 31, 2019 and two customers who accounted for 37.7% and 15.5% of our gross accounts receivable as of March 31, 2018. We did not have any additional customers that exceeded 10% of our gross accounts receivable

as of March 31, 2019 and 2018. Based upon performing ongoing credit evaluations, maintaining trade credit insurance on a majority of our customers and our past collection experience, we believe that the receivable balances from these largest customers do not represent a significant credit risk.

Cash and Cash Equivalents

We consider all highly liquid instruments purchased with original maturities of three months or less to be cash equivalents. Our restricted cash balance is primarily related to a dedicated account limited to the payment of certain internal royalty obligations.

Short-term Investments

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

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

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

Inventory

Inventory consists of materials, including manufacturing royalties paid to console manufacturers, and is stated at the lower of weighted average cost or net realizable value. Estimated product returns are included in the inventory balance at their cost. We regularly review inventory quantities on-hand and in the retail channels and record an inventory provision for excess or obsolete inventory based on the future expected demand for our products. Significant changes in demand for our products would affect management's estimates in establishing our inventory provision. We write down inventory based on excess or obsolete inventories determined primarily by future anticipated demand for our products. Inventory write-downs are measured as the difference between the cost of the inventory and market value, based upon assumptions about future demand that are inherently difficult to assess.

Software Development Costs and Licenses

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

We capitalize internal software development costs (including specifically identifiable employee stock-based compensation, payroll expense, and incentive compensation costs related to the completion and release of titles, as well as third-party production and other content costs), subsequent to establishing technological feasibility of a software title. Technological feasibility of a product includes the completion of both technical design documentation and game design documentation. Significant management judgments are made in the assessment of when technological feasibility is established. For products where proven technology exists, this may occur early in the development cycle. Technological feasibility is evaluated on a product-by-product basis.

We enter into agreements with third-party developers that require us to make payments for game development and production services. In exchange for our payments, we receive the exclusive publishing and distribution rights to the finished game title as well as, in some cases, the underlying intellectual property rights. Such agreements typically allow us to fully recover these payments to the developers at an agreed upon royalty rate earned on the subsequent sales of such software, net of any agreed upon costs. Prior to establishing technological feasibility of a product, we record any costs incurred by third-party developers as research and development expenses. Subsequent to establishing technological feasibility of a product, we capitalize all development

and production service payments to third-party developers as software development costs and licenses. We typically enter into agreements with third-party developers after completing the technical design documentation for our products and therefore record the design costs leading up to a signed development contract as research and development expense. When we contract with third-party developers, we generally select those that have proven technology and experience in the genre of the software being developed, which often allows for the establishment of technological feasibility early in the development cycle. In instances where the documentation of the design and technology are not in place prior to an executed contract, we monitor the software development process and require our third-party developers to adhere to the same technological feasibility standards that apply to our internally developed products.

Licenses consist of payments and guarantees made to holders of intellectual property rights for use of their trademarks, copyrights or other intellectual property rights in the development of our products. Agreements with license holders generally provide for guaranteed minimum payments for use of their intellectual property. Certain licenses, especially those related to our sports products, extend over multi-year periods and encompass multiple game titles. In addition to guaranteed minimum payments, these licenses frequently contain provisions that could require us to pay royalties to the license holder based on pre-agreed unit sales thresholds.

Amortization of capitalized software development costs and licenses commences when a product is available for general release and is recorded on a title-by-title basis in cost of goods sold. For capitalized software development costs, annual amortization is calculated using (1) the proportion of current year revenue to the total revenue expected to be recorded over the life of the title or (2) the straight-line method over the remaining estimated life of the title, whichever is greater. For capitalized licenses, amortization is calculated as a ratio of (1) current period revenue to the total revenue expected to be recorded over the remaining estimated life of the title or (2) the contractual royalty rate based on actual net product sales as defined in the licensing agreement, whichever is greater. Amortization periods for our software products generally range from 12 to 36 months.

We evaluate the future recoverability of capitalized software development costs and licenses on a quarterly basis. Recoverability is primarily assessed based on the title's actual performance. For products that are scheduled to be released in the future, recoverability is evaluated based on the expected performance of the specific products to which the cost or license relates. We use a number of criteria in evaluating expected product performance, including historical performance of comparable products developed with comparable technology, market performance of comparable titles, orders for the product prior to its release, general market conditions, and past performance of the franchise. When we determine that capitalized cost of the title is unlikely to be recovered by product sales, an impairment of software development and license capitalized costs is charged to cost of goods sold in the period in which such determination is made.

We have profit and unit sales based internal royalty programs that allow selected employees to participate in the success of software titles that they assist in developing. Royalties earned under this program are recorded as a component of Cost of goods sold in the period earned. Amounts earned and not yet paid are reflected within the software development royalties component of Accrued expenses and other current liabilities on our Consolidated Balance Sheets.

Fixed Assets, net

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

Goodwill and Intangible Assets

Goodwill is the excess of purchase price paid over identified intangible and tangible net assets of acquired companies. Intangible assets consist of intellectual property, developed game technology, analytics technology, user base, trade names, and in-process research and development. Certain intangible assets acquired in a business combination are recognized as assets apart from goodwill.

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

We test our goodwill for impairment annually, or more frequently if events and circumstances indicate the fair value of a reporting unit may be below its carrying amount. A reporting unit is defined as an operating segment or one level below an operating segment. We have determined that we operate in two reporting units, which are components of our operating segment. In the evaluation of goodwill for impairment, we have the option to first perform a qualitative assessment to determine if the fair value of a reporting unit is more likely than not (i.e., a likelihood of more than 50%) less than the carrying value before performing a quantitative impairment test.

When a qualitative assessment is not used, or if the qualitative assessment is not conclusive, a quantitative impairment analysis for goodwill is performed at the reporting unit level. The quantitative goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying value exceeds the fair value, an impairment charge is recognized equal to the difference between the carrying value of the reporting unit and its fair value, considering the related income tax effect of any goodwill deductible for tax purposes.

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

Consistent with prior years, we performed our annual impairment assessment process for goodwill in August 2018 and did not record any goodwill impairments. During the fiscal quarter ended March 31, 2019, we changed the measurement date for performing our annual goodwill impairment test from the beginning of August to the beginning of March. As a result, we performed an additional impairment test for our goodwill as of March 1, 2019 which did not result in any impairment of our goodwill. This voluntary change in accounting principle, applied prospectively, is preferable as it aligns the annual goodwill impairment test date more closely with our internal budgeting process and did not delay, accelerate, or avoid an impairment of our goodwill. Retrospective application to prior periods is impracticable as we are unable to objectively determine, without the use of hindsight, the assumptions that would be used in those earlier periods.

Based on our annual impairment assessment process for goodwill, no impairments were recorded during the fiscal years ended March 31, 2019, 2018, or 2017.

Long-lived Assets

We review all long-lived assets for impairment whenever events or changes in circumstances indicate that the related carrying amount of an asset or asset group may not be recoverable. We compare the carrying amount of the asset to the estimated undiscounted future cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds estimated expected undiscounted future cash flows, we record an impairment charge for the difference between the carrying amount of the asset and its fair value. The estimated fair value is generally measured by discounting expected future cash flows using our incremental borrowing rate or fair value, if available. As of March 31, 2019, no indicators of impairment existed.

Derivatives and Hedging

We transact business in various foreign currencies and have significant sales and purchase transactions denominated in foreign currencies, subjecting us to foreign currency exchange rate risk. From time to time, we carry out transactions involving foreign currency exchange derivative financial instruments. The transactions are designed to hedge our exposure in currency exchange rate movements. We recognize derivative instruments as either assets or liabilities on our Consolidated Balance Sheets and we measure those instruments at fair value. The changes in fair value of derivatives that are not designated as hedges are recognized currently in earnings as interest and other, net in our Consolidated Statements of Operations. If a derivative meets the definition of a cash flow hedge and is so designated, the effective portion of changes in the fair value of the derivative are recognized, as a component of other comprehensive income (loss) while the ineffective portion of the changes in fair value is recorded currently in earnings as interest and other, net in our Consolidated Statements of Operations. Amounts included in Accumulated other comprehensive income (loss) for cash flow hedges are reclassified into earnings in the same period that the hedged item is recognized in Cost of goods sold, Research and development expenses, or Interest and other, net, as appropriate.

Income Taxes

We record a tax provision for the anticipated tax consequences of the reported results of operations. Our provision for income taxes is computed using the asset and liability method, under which deferred income taxes are recognized for differences between the financial statement and tax bases of assets and liabilities at currently enacted statutory tax rates for the years in which

the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment.

Valuation allowances are established when we determine that it is more likely than not that such deferred tax assets will not be realized. We do not record income tax expense related to foreign withholding taxes or United States income taxes that may become payable upon the repatriation of undistributed earnings of foreign subsidiaries, as such earnings are expected to be reinvested indefinitely outside of the United States.

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

The Act subjects a U.S. shareholder to current tax on GILTI earned by foreign subsidiaries. The FASB Staff Q&A Topic No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election either to recognize deferred taxes for temporary differences that are expected to reverse as GILTI in future years or provide for the tax expense related to GILTI resulting from those items in the year the tax is incurred. We have elected to recognize the resulting tax on GILTI as an expense in the period incurred.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. On April 1, 2018, we adopted the new accounting standard and related amendments (the “New Revenue Accounting Standard”) using the modified retrospective method. Refer to the Recently Adopted Accounting Pronouncements section below for the impact of adoption on our Consolidated Financial Statements. Refer to Note 1 to our Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018 for our revenue recognition accounting policy as it relates to revenue transactions prior to April 1, 2018.

We derive revenue primarily from the sale of our interactive entertainment content, principally for console gaming systems such as the Sony Computer Entertainment, Inc. (“Sony”) PlayStation®4 (“PS4”) and Microsoft Corporation (“Microsoft”) Xbox One® (“Xbox One”), and personal computers (“PC”), including smartphones and tablets. Our interactive entertainment content consists of full game software products that may contain offline gameplay, online gameplay, or a combination of offline and online gameplay. We may also sell separate downloadable add-on content to supplement our full game software products. Certain of our software products provide customers with the option to acquire virtual currency or make in-game purchases.

We determine revenue recognition by:

- identifying the contract, or contracts, with the customer;
- identifying the performance obligations in the contract;
- determining the transaction price;
- allocating the transaction price to performance obligations in the contract; and
- recognizing revenue when, or as, we satisfy performance obligations by transferring the promised goods or services.

We recognize revenue in the amount that reflects the consideration we expect to receive in exchange for the sales of software products and game related services when control of the promised products and services is transferred to our customers and our performance obligations under the contract have been satisfied. Revenue is recorded net of transaction taxes assessed by governmental authorities such as sales, value-added and other similar taxes.

Our software products are sold as full games, which typically provide access to the main game content, primarily for console and PC. Generally, our full game software products deliver a license of our intellectual property that provides a functional offline gaming experience (i.e., one that does not require an Internet connection to access the main game content or other significant game related services). We recognize revenue related to the license of our intellectual property that provides offline functionality at the time control of the products have been transferred to our customers.

In addition, some of our full game software products that provide a functional offline gaming experience may also include significant game related services delivered over time, such as online functionality that is dependent upon online support services and/or additional free content updates. For full game sales that offer offline functionality and significant game related services we

evaluate whether the license of our intellectual property and the game related services are distinct and separable. This evaluation is performed for each software product sold. If we determine that our software products contain a license of intellectual property separate from the game related services (i.e. multiple performance obligations), we estimate a standalone selling price for each identified performance obligation. We allocate the transaction price to each performance obligation using a relative standalone selling price method (the transaction price is allocated to a performance obligation based on the proportion of the standalone selling price of each performance obligation to the sum of the standalone selling prices for all performance obligations in the contract). For the portion of the transaction price allocable to the license, revenue is recognized when the customer takes control of the product. For the portion of the transaction price allocated to game related services, revenue is recognized ratably over an estimated service period for the related software product. We also defer related product costs and recognize the costs as the revenues are recognized.

Certain of our full game software products are delivered primarily as an online gaming experience with substantially all gameplay requiring online access to our game related services. We recognize revenue for full game software products that are dependent on our game related services over an estimated service period. For our full game online software products, we also defer related product costs and recognize the costs as the revenue is recognized.

In addition to sales of our full game software products, certain of our software products provide customers with the option to acquire virtual currency or make in-game purchases. Revenue from the sale of virtual currency and in-game purchases is deferred and recognized ratably over an estimated service period.

We also sell separate downloadable add-on content to supplement our full game software products. Revenue from the sale of separate downloadable add-on content is evaluated for revenue recognition on the same basis as our full game software products.

Certain software products are sold to customers with a “street date” (the earliest date these products may be sold by these retailers). For the transaction price related to the license for these products that also provide a functional offline gaming experience, we recognize revenue on the later of the street date or the sale date as this is generally when we have transferred control of this performance obligation. For the sale of physical software products, recognition of revenue allocated to game related services does not begin until the product is sold-through by our customer to the end user. We currently estimate sell-through to the end user for all our titles to be approximately two months after we have sold-in the software products to retailers. Determining the estimated sell-through period is subjective and requires significant management judgment and estimates.

In addition, some of our software products are sold as digital downloads. Revenue from digital downloads generally commences when the download is made available to the end user by a third-party digital storefront.

Our payment terms and conditions vary by customer and typically provide net 30 to 60 day terms. In instances where the timing of revenue recognition differs from the timing of invoicing, we do not adjust the promised amount of consideration for the effects of a significant financing component when we expect, at contract inception, that the period between our transfer of a promised product or service to our customer and payment for that product or service will be one year or less.

In certain countries, we use third-party licensees to distribute and host our games in accordance with license agreements, for which the licensees typically pay us a fixed minimum guarantee and sales-based royalties. These arrangements typically include multiple performance obligations, such as an upfront license of intellectual property and rights to future updates. Based on the allocated transaction price, we recognize revenue associated with the minimum guarantee when we transfer control of the upfront license of intellectual property (generally upon commercial launch) and the remaining portion ratably over the contractual term in which we provide the licensee with future update rights. Royalty payments in excess of the minimum guarantee are generally recognized when the licensed product is sold by the licensee.

Contract Balances

We generally record a receivable related to revenue when we have an unconditional right to invoice and receive payment, and we record deferred revenue when cash payments are received or due in advance of satisfying our performance obligations, even if amounts are refundable. Contract assets generally consist of arrangements for which we have recognized revenue to the extent it is probable that significant reversal will not occur but do not have a right to invoice as of the reporting date. Contract assets are recorded within Prepaid expenses and other on our Consolidated Balance Sheet.

Our allowance for doubtful accounts are typically immaterial and, if required, are based on our best estimate of probable losses inherent in our accounts receivable balance.

Deferred revenue is comprised primarily of unsatisfied revenue related to the portion of the transaction price allocable to game related services of our full game software products. These sales are typically invoiced at the beginning of the contract

period, and revenue is recognized ratably over the estimated service period. Deferred revenue may also include amounts related to software products with future street dates.

Refer to Note 2 - Revenue from Contracts with Customers for further information, including changes in deferred revenue during the period.

Principal Agent Considerations

We offer certain software products via third party digital storefronts, such as Microsoft's Xbox Live, Sony's PlayStation Network, Valve's Steam, Apple's App Store, and the Google Play Store. For sales of our software products via third party digital storefronts, we determine whether or not we are acting as the principal in the sale to the end user, which we consider in determining if revenue should be reported based on the gross transaction price to the end user or based on the transaction price net of fees retained by the third-party digital storefront. An entity is the principal if it controls a good or service before it is transferred to the customer. Key indicators that we use in evaluating these sales transactions include, but are not limited to, the following:

- the underlying contract terms and conditions between the various parties to the transaction;
- which party is primarily responsible for fulfilling the promise to provide the specified good or service; and
- which party has discretion in establishing the price for the specified good or service.

Based on our evaluation of the above indicators, for sales arrangements via Microsoft's Xbox Live, Sony's PlayStation Network, and Valve's Steam, we have determined we are not the principal in the sales transaction to the end user and therefore we report revenue based on the consideration received from the digital storefront. For sales arrangements via Apple's App Store and the Google Play Store, we have determined that we are the principal to the end user and thus report revenue on a gross basis and mobile platform fees charged by these digital storefronts are expensed as incurred and reported within Cost of goods sold.

Shipping and Handling

Shipping and handling costs are incurred to move physical software products to customers. We recognize all shipping and handling costs as an expense in Cost of goods sold because we are responsible for delivery of the product to our customers prior to transfer of control to the customer.

Estimated Service Period

For performance obligations satisfied over time, we have determined that the estimated service period is the time period in which an average user plays our software products ("user life") which most faithfully depicts the timing of satisfying our performance obligation. We consider a variety of data points when determining and subsequently reassessing the estimated service period for players of our software products. Primarily, we review the weighted average number of days between players' first and last days played online. We also consider known online trends, the service periods of our previously released software products, and, to the extent publicly available, the service periods of our competitors' software products that are similar in nature to ours. We believe this provides a reasonable depiction of the transfer of our game related services to our customers, as it is the best representation of the period during which our customers play our software products. Determining the estimated service period is subjective and requires significant management judgment and estimates. Future usage patterns may differ from historical usage patterns, and therefore the estimated service period may change in the future. The estimated service periods for players of our current software products are generally between 9 and 15 months depending on the software product.

Revenue Arrangements with Multiple Performance Obligations

Our contracts with customers often include promises to transfer multiple products and services. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together requires significant judgment. For software products in which the software license has offline functionality and benefits from meaningful game related services, which may include online functionality that is dependent on our online support services and/or additional free content updates, we believe we have separate performance obligations for the license of the intellectual property and the game related services. Additionally, because each of our product offerings has unique features and because we do not sell our game related services separately, we typically do not have observable standalone selling prices for each performance obligation. Significant judgment and estimates are also required to determine the standalone selling price for each distinct performance obligation and whether a discount needs to be allocated based on the relative standalone selling price of our products and services.

To estimate the standalone selling price for each performance obligation, we consider, to the extent available, a variety of data points such as past selling prices of the product or other similar products, competitor pricing, and market data. If observable pricing is not available, we use an expected cost-plus margin approach taking into account relevant costs including product development, post-release support, marketing and licensing costs. This evaluation is performed on a product by product basis.

Price Protection and Allowances for Returns

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

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

Revenue is recognized after deducting the estimated price protection and allowances for returns, which are accounted for as variable consideration. Price protection and allowances for returns are considered refund liabilities and are reported within Accrued expenses and other current liabilities on our Consolidated Balance Sheet.

Sales Incentives

We enter into various sales incentive arrangements with our customers, such as rebates, discounts, and cooperative marketing. These incentives are considered adjustments to the transaction price of our software products and are reflected as reductions to revenue. Sales incentives incurred by us for distinct goods or services received, such as the appearance of our products in a customer's national circular ad, are included in Selling and marketing expense if there is a separate identifiable benefit and the benefit's fair value can be established. Otherwise, such sales incentives are reflected as a reduction to revenue and are considered refund liabilities, which are reported within Accrued expenses and other current liabilities in our Consolidated Balance Sheet.

Significant Estimates

Significant management judgment and estimates must be used in connection with many of the determinations described above, such as estimating the fair value allocation to distinct and separable performance obligations, the service period over which to defer recognition of revenue, the time it takes our physical products to sell-through to end users, and the amounts of future price protection and allowance for returns. We believe we can make reliable estimates. However, actual results may differ from initial estimates due to changes in circumstances, market conditions, and assumptions. Adjustments to estimates are recorded in the period in which they become known.

Advertising

We expense advertising costs as incurred. Advertising expense for the fiscal years ended March 31, 2019, 2018 and 2017 amounted to \$249,315, \$140,618 and \$173,947, respectively, and are included in "Selling and marketing expense" in our Consolidated Statements of Operations.

Stock-based Compensation

We have stock-based compensation plans that are broad-based long-term retention programs intended to attract and retain talented employees and align stockholder and employee interests, which allows for awards of restricted stock, restricted stock units and other stock-based awards of our common stock to employees and non-employees. Our plans include time-based, market-based, and performance-based awards of our common stock to employees and non-employees.

We account for stock-based awards under the fair value method of accounting. The fair value of all stock-based compensation is either capitalized and amortized in accordance with our software development cost accounting policy or recognized as expense on a straight-line basis over the full vesting period of the awards for time-based stock awards and on an accelerated attribution method for market-based and performance-based stock awards.

We estimate the fair value of time-based awards using our closing stock price on the date of grant. We estimate the fair value of market-based awards using a Monte Carlo Simulation method, which takes into account assumptions such as the expected volatility of our common stock, the risk-free interest rate based on the contractual term of the award, expected dividend yield, vesting schedule and the probability that the market conditions of the awards will be achieved. For performance-based shares, we do not record expense until the performance criteria are considered probable.

Stock-based compensation expense is recorded net of forfeitures as they occur.

Earnings (loss) per Share ("EPS")

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

Certain of our unvested stock-based awards are considered participating securities since these securities have non-forfeitable rights to dividends or dividend equivalents during the contractual period of the award, and thus require the two-class method of computing EPS. The calculation of EPS for common stock under the two-class method excludes the income attributable to the participating securities from the numerator and excludes the dilutive effect of those awards from the denominator.

We define common stock equivalents as unvested stock-based awards and common stock underlying our Convertible Notes (see Note 12 - Debt) outstanding during the period. Common stock equivalents are measured using the treasury stock method, and common stock equivalents underlying the Convertible Notes are assessed for their effect on diluted EPS using the more dilutive of the treasury stock method or the if-converted method. Under the provisions of the if-converted method, the Convertible Notes are assumed to be converted and included in the denominator of the EPS calculation and the interest expense, net of tax, recorded in connection with the Convertible Notes is added back to the numerator. However, potential common shares are not included in the denominator of the diluted earnings (loss) per share calculation when inclusion of such shares would be anti-dilutive, such as in a period in which a net loss is recorded.

Foreign Currency

The functional currency for our foreign operations is primarily the applicable local currency. Accounts of foreign operations are translated into U.S. dollars using exchange rates for assets and liabilities at the balance sheet date and average prevailing exchange rates for the period for revenue and expense accounts. Adjustments resulting from translation are included in accumulated other comprehensive income (loss). Realized and unrealized transaction gains and losses are included in our Consolidated Statements of Operations in the period in which they occur.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Accumulated other comprehensive income (loss) includes foreign currency translation adjustments, which relate to investments that are permanent in nature and therefore do not require tax adjustments, and the amounts for unrealized gains (losses), net on derivative instruments designated as cash flow hedges, as well as any associated tax impact, and available for sale securities.

Recently Adopted Accounting Pronouncements

Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-15: *Intangibles - Goodwill and Other - Internal-Use Software - (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard is effective for fiscal years beginning December 15, 2019 (April 1, 2020 for the Company), with early adoption permitted. ASU 2018-15 is required to be applied either retrospectively or prospectively to all implementation costs after the date of adoption. We early adopted this update effective July 1, 2018 as the standard aligns with how we are currently accounting for implementation costs incurred in a cloud computing arrangement. The adoption did not have an impact on our Consolidated Financial Statements.

Accounting for Restricted Cash

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU amends the presentation of restricted cash within the statement of cash flows by requiring that restricted cash and restricted cash equivalents be included within cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts. This standard is effective for fiscal years beginning after December 15, 2017 (April 1, 2018 for the Company), including interim periods within those fiscal years.

We adopted the new standard during the first quarter of fiscal 2019 and applied the standard retrospectively for all periods presented. The application of this new standard resulted in a decrease of \$128,063, a decrease of \$99,580, and an increase of \$76,474 of net cash from operating activities on our Consolidated Statements of Cash Flows for the twelve months ended March 31, 2019, 2018, and 2017, respectively.

Accounting for Stock Compensation

In June 2018, the FASB issued ASU 2018-07, *Compensation - Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Accounting*. This guidance aligns the accounting for share-based payment transactions with non-employees to accounting for share-based payment transactions with employees. Companies are required to record a cumulative-effect adjustment (net of tax) to retained earnings as of the beginning of the fiscal year of the adoption. Upon transition, non-employee awards are required to be measured at fair value as of the adoption date. This standard will be effective for fiscal years beginning December 15, 2018 (April 1, 2019 for the Company), including interim periods within those fiscal years. Early adoption is permitted.

We early adopted this update effective April 1, 2018 to simplify the accounting for non-employee stock-based awards so that it is better aligned with the current guidance for employee stock-based awards. The application of this new standard did not have a significant impact to our Consolidated Financial Statements for the fiscal year ended March 31, 2019, as our last re-measurement date for non-employee awards was March 31, 2018. The adoption of this ASU results in a change to our accounting policy for non-employee stock-based awards.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, *Compensation-Stock Compensation*. This new guidance identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows.

We adopted this update effective April 1, 2017. Upon adoption, using the modified retrospective transition method, we recognized previously unrecognized excess tax benefits as a deferred tax asset, which was fully offset by a valuation allowance, resulting in no net impact to retained earnings. Without the valuation allowance, upon adoption, our deferred tax asset would have increased by \$24,594. We elected to apply the change in presentation of excess tax benefits as an operating activity in the Consolidated Statement of Cash Flows prospectively and thus no prior periods were adjusted. We also elected to account for forfeitures as they occur using the modified retrospective transition method, which resulted in a cumulative effect adjustment of \$323 to retained earnings (an increase in the accumulated deficit). During the fiscal year ended March 31, 2019 and 2018, we recognized \$13,340 and \$53,169, respectively, of excess tax benefits on stock-based compensation in our Consolidated Statement of Operations as a result of adopting this update. The other aspects of the new guidance did not have a material effect on our Consolidated Financial Statements.

Accounting for Goodwill

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350)*. This ASU eliminates Step 2 from the goodwill impairment test. Under the new guidance, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. Additionally, this ASU eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019 (April 1, 2020 for the Company), including interim periods within those fiscal years, and are applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We early adopted this update effective April 1, 2018. The adoption did not have an impact on our Consolidated Financial Statements.

Revenue from Contracts with Customers

As noted in our Revenue Recognition accounting policy above, we adopted the New Revenue Accounting Standard effective April 1, 2018.

Impact of Adopting New Revenue Accounting Standard

We elected to apply the New Revenue Accounting Standard only to contracts not completed as of the adoption date. For contracts that were modified before the date of adoption, we elected to reflect the aggregate effect of all modifications when (i) identifying the satisfied and unsatisfied performance obligations, (ii) determining the transaction price, and (iii) allocating the transaction price to the satisfied and unsatisfied performance obligations. We recognized the cumulative effect of initially applying the New Revenue Accounting Standard as an adjustment to the opening balance of retained earnings, net of tax. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The cumulative effect adjustment recorded to our retained earnings was \$470,273, net of tax.

The most significant impacts of adopting the New Revenue Accounting Standard are:

- The elimination of the requirement for vendor-specific objective evidence (“VSOE”) of fair value for software products that offer offline gameplay functionality and benefit from meaningful game related services which may include online functionality that is dependent on our online support services and/or additional free content updates. Under the prior revenue accounting guidance, for software products with multiple deliverables for which we did not have VSOE for our game related service deliverables, we recognized revenue ratably over an estimated service period that was based on game life. Under the New Revenue Accounting Standard, we allocate the sales price and recognize revenue for the offline software upon delivery and the remainder over an estimated service period, which represents a player's typical user life (see below). Upon adoption, this difference in accounting primarily affected revenue recognition from *Grand Theft Auto V* and our *NBA 2K* franchise, where the majority of the sales price was allocated to the offline software and recognized upon transfer of control to our customers, and the remaining amounts allocated to the game related service performance obligation and recognized over the estimated service period.
- For performance obligations that are satisfied over time, we have determined that the estimated service period is the time period in which an average user plays our software products (“user life”) which faithfully depicts the timing of satisfying our performance obligation. Previously, our estimated service period was based on the economic game life.
- Under the New Revenue Accounting Standard, we are able to recognize revenue to the extent it is probable that a significant reversal will not occur even if we do not have a right to invoice as of the reporting date. Contract assets are classified within Prepaid expenses and other on the Consolidated Balance Sheet.
- The classification of allowances for estimated price protection, reserves for returns and other allowances as refund liabilities. Such allowances were previously recorded as contra-Accounts receivable and now are classified within Accrued expenses and other current liabilities on the Consolidated Balance Sheet.

As a result of adopting the New Revenue Accounting Standard the following adjustments were made to our Consolidated Balance Sheet at April 1, 2018, which also reflect the changes related to income tax accounts included in Prepaid expenses and other, Other assets, Accrued expenses and other current liabilities, and Other long-term liabilities:

	March 31, 2018	Adjustments	April 1, 2018
ASSETS			
Accounts receivable, net	\$ 247,649	\$ 53,940	\$ 301,589
Software development costs and licenses	33,284	(11,096)	22,188
Deferred cost of goods sold	117,851	(89,867)	27,984
Prepaid expenses and other	133,454	33,620	167,074
Deferred cost of goods sold, net of current portion	26,719	(25,687)	1,032
Deferred tax assets	4,930	51,430	56,360
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accrued expenses and other current liabilities	\$ 914,748	\$ 69,678	\$ 984,426
Deferred revenue	777,152	(230,144)	547,008
Non-current deferred revenue	355,589	(336,456)	19,133
Other long-term liabilities	158,285	34,336	192,621
Retained earnings	73,516	470,273	543,789
Accumulated other comprehensive loss	(15,732)	4,653	(11,079)

Recently Issued Accounting Pronouncements

Accounting for Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 is effective for fiscal years, and interim periods within those fiscal years, beginning December 15, 2019 (April 1, 2020 for the Company), with early adoption permitted. Certain disclosures in ASU 2018-13 are required to be applied on a retrospective basis and others on a prospective basis. We are currently evaluating the potential impact of adopting this guidance on our Consolidated Financial Statements.

Accounting for Leases

In February 2016, the FASB issued ASU 2016-02, *Leases*. This new guidance requires lessees to recognize a right-of-use asset and a lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of committed lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting. This update is effective for annual periods, and interim periods within those years, beginning after December 15, 2018 (April 1, 2019 for the Company). We will adopt the new guidance using a modified retrospective approach whereby lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented. While we are still evaluating the effect that ASU 2016-02 will have on our Consolidated Balance Sheet, we expect that assets and liabilities will increase materially when operating leases are recorded on our Consolidated Balance Sheets under the new standard. Our current operating lease portfolio primarily includes leases related to real estate. See Note 14 - Commitments and Contingencies for a summary of our undiscounted future minimum lease payments under non-cancellable operating leases as of March 31, 2019.

2. REVENUE FROM CONTRACTS WITH CUSTOMERS

Impacts on financial statement line items

Our adoption of the New Revenue Accounting Standard had the following impact on our Consolidated Statement of Operations for the twelve months ended March 31, 2019:

	Amounts as reported	Amounts without adoption of New Revenue Accounting Standard	Increase (decrease) due to adoption of New Revenue Accounting Standard
Net revenue	\$ 2,668,394	\$ 1,927,148	\$ 741,246
Cost of goods sold	1,523,644	1,218,056	305,588
Gross profit	1,144,750	709,092	435,658
Selling and marketing	391,400	391,400	—
General and administrative	281,234	281,234	—
Research and development	230,170	230,170	—
Depreciation and amortization	40,232	40,232	—
Business reorganization	(4,958)	(4,958)	—
Total operating expenses	938,078	938,078	—
Income (loss) from operations	206,672	(228,986)	435,658
Interest and other, net	26,113	28,296	(2,183)
Income (loss) before income taxes	232,785	(200,690)	433,475
(Benefit from) provision for income taxes	(101,052)	(204,782)	103,730
Net income	\$ 333,837	\$ 4,092	\$ 329,745
Earnings per share:			
Basic earnings per share	\$ 2.95	\$ 0.04	\$ 2.91
Diluted earnings per share	\$ 2.90	\$ 0.04	\$ 2.86

Our adoption of the New Revenue Accounting Standard had the following impact on our Consolidated Balance Sheet as of March 31, 2019:

	<u>Amounts as reported</u>	<u>Amounts without adoption of New Revenue Accounting Standard</u>	<u>Increase (decrease) due to adoption of New Revenue Accounting Standard</u>
ASSETS			
Accounts receivable, net	\$ 395,729	\$ 330,448	\$ 65,281
Software development costs and licenses	28,880	39,191	(10,311)
Deferred cost of goods sold	51,867	176,802	(124,935)
Prepaid expenses and other	186,688	195,744	(9,056)
Software development costs and licenses, net of current portion	603,436	777,238	(173,802)
Deferred cost of goods sold, net of current portion	1,028	75,919	(74,891)
Deferred tax assets	134,732	157,741	(23,009)
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accrued expenses and other current liabilities	\$ 1,035,695	\$ 949,347	\$ 86,348
Deferred revenue	843,302	1,445,936	(602,634)
Non-current deferred revenue	21,058	677,148	(656,090)
Other long-term liabilities	229,633	202,721	26,912
Retained earnings	877,626	77,608	800,018
Accumulated other comprehensive loss	(37,189)	(31,912)	(5,277)

Our adoption of the New Revenue Accounting Standard accelerated the revenue recognition of prior period game sales into retained earnings, which resulted in increased cash taxes paid on our Consolidated Statement of Cash Flows for the fiscal year ending March 31, 2019.

Disaggregation of revenue

Product revenue

Product revenue is primarily comprised of the portion of revenue from software products that is recognized when the customer takes control of the product (i.e. upon delivery of the software product).

Service and other revenue

Service and other revenue is primarily comprised of revenue from our software products that include game related services, or separate virtual currency transactions, and in-game purchases, which are recognized over an estimated service period.

Net revenue by product revenue and service and other was as follows:

	<u>Twelve Months Ended March 31, 2019</u>
Net revenue recognized⁽¹⁾:	
Service and other	\$ 1,319,033
Product	1,349,361
<u>Total net revenue</u>	<u>\$ 2,668,394</u>

(1) Disaggregated revenue category added as a result of adoption of ASC 606. As we used the modified retrospective method in adopting ASC 606, no comparative periods are presented.

Full game and other revenue

Full game and other revenue primarily includes the initial sale of full game software products, which may include offline and/or significant game related services.

Recurrent consumer spending revenue

Recurrent consumer spending revenue is generated from ongoing consumer engagement and includes revenue from virtual currency, add-on content, and in-game purchases.

Net revenue by full game and other revenue and recurrent consumer spending was as follows:

	Twelve Months Ended March 31, 2019	
Net revenue recognized⁽¹⁾:		
Full game and other	\$	1,597,478
Recurrent consumer spending		1,070,916
Total net revenue	\$	2,668,394

(1) Disaggregated revenue category added as a result of adoption of ASC 606. As we used the modified retrospective method in adopting ASC 606, no comparative periods are presented.

Geography

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

	Twelve Months Ended March 31,		
	2019	2018⁽¹⁾	2017⁽¹⁾
Net revenue recognized:			
United States	\$ 1,426,906	\$ 1,052,313	\$ 999,128
International	1,241,488	740,579	780,620
Total net revenue	\$ 2,668,394	\$ 1,792,892	\$ 1,779,748

(1) This disaggregated revenue category had previously been disclosed as part of Note 17 - Segment and Geographic Information in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018. Amounts have not been retrospectively adjusted to reflect the adoption of ASC Topic 606.

Platform

Net revenue by platform was as follows:

	Twelve Months Ended March 31,		
	2019	2018 ⁽¹⁾	2017 ⁽¹⁾
Net revenue recognized:			
Console	\$ 2,233,861	\$ 1,463,306	\$ 1,440,724
PC and other	434,533	329,586	339,024
Total net revenue	\$ 2,668,394	\$ 1,792,892	\$ 1,779,748

(1) This disaggregated revenue category had previously been disclosed as part of Note 17 - Segment and Geographic Information in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018. Amounts have not been retrospectively adjusted to reflect the adoption of ASC Topic 606.

Distribution channel

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

	Twelve Months Ended March 31,		
	2019	2018 ⁽¹⁾	2017 ⁽¹⁾
Net revenue recognized:			
Digital online	\$ 1,681,609	\$ 1,130,946	\$ 921,734
Physical retail and other	986,785	661,946	858,014
Total net revenue	\$ 2,668,394	\$ 1,792,892	\$ 1,779,748

(1) This disaggregated revenue category had previously been disclosed as part of Note 17 - Segment and Geographic Information in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018. Amounts have not been retrospectively adjusted to reflect the adoption of ASC Topic 606.

Deferred Revenue

We record deferred revenue when payments are due or received in advance of the fulfillment of our associated performance obligations. The opening balance and ending balance of deferred revenue, including current and non-current balances as of April 1, 2018 and March 31, 2019 were \$566,141 and \$864,360, respectively. For the twelve months ended March 31, 2019, the additions to our deferred revenue balance were primarily due to cash payments received or due in advance of satisfying our performance obligations, while the reductions to our deferred revenue balance were primarily due to the recognition of revenue upon fulfillment of our performance obligations, both of which were in the ordinary course of business.

During the twelve months ended March 31, 2019, \$548,531 of revenue was recognized that was included in the deferred revenue balance at the beginning of the period. As of March 31, 2019, the aggregate amount of contract revenue allocated to unsatisfied performance obligations is \$1,131,714, which includes our deferred revenue balances and amounts to be invoiced and recognized as revenue in future periods. We expect to recognize approximately \$1,047,309 of this balance as revenue over the next 12 months, and the remainder thereafter. This balance does not include an estimate for variable consideration arising from sales-based royalty license revenue in excess of the contractual minimum guarantee.

As of March 31, 2019 and April 1, 2018, our contract asset balances were \$57,643 and \$69,522, respectively.

3. MANAGEMENT AGREEMENT

In March 2014, we entered into an amended management services agreement, (the "2014 Management Agreement") with ZelnickMedia Corporation ("ZelnickMedia") pursuant to which ZelnickMedia provided us with certain management, consulting and executive level services. The 2014 Management Agreement became effective April 1, 2014. The 2014 Management Agreement provided for an annual management fee of \$2,970 over the term of the agreement and a maximum annual bonus opportunity of \$4,752 over the term of the agreement, based on the Company achieving certain performance thresholds. In November 2017, we entered into a new management agreement, (the "2017 Management Agreement"), with ZelnickMedia pursuant to which ZelnickMedia continues to provide financial and management consulting services to the Company through March 31, 2024. The 2017 Management Agreement became effective January 1, 2018 and supersedes and replaces the 2014 Management Agreement,

except as otherwise contemplated by the 2017 Management Agreement. As part of the 2017 Management Agreement, Strauss Zelnick, the President of ZelnickMedia, continues to serve as Executive Chairman and Chief Executive Officer of the Company and Karl Slatoff, a partner of ZelnickMedia, continues to serve as President of the Company. The 2017 Management Agreement provides for an annual management fee of \$3,100 over the term of the agreement and a maximum annual bonus opportunity of \$7,440 over the term of the agreement, based on the Company achieving certain performance thresholds.

In consideration for ZelnickMedia's services, we recorded consulting expense (a component of General and administrative expenses) of \$9,265, \$8,426 and \$7,722 for the fiscal years ended March 31, 2019, 2018 and 2017, respectively.

Pursuant to the 2017 Management Agreement and 2014 Management Agreement, we also issued stock-based awards to ZelnickMedia. During the fiscal years ended March 31, 2019, 2018 and 2017, we recorded \$21,257, \$32,801 and \$29,573, respectively, of stock-based compensation expense for non-employee awards, which is included in General and administrative expenses. See Note 16 - Stock-Based Compensation for a discussion of such awards.

4. FAIR VALUE MEASUREMENTS

The carrying amounts of our financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, approximate fair value because of their short maturities.

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

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Observable inputs other than quoted prices included in Level 1, such as quoted prices for markets that are not active or other inputs that are observable or can be corroborated by observable market data.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

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

	March 31, 2019	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Balance Sheet Classification
Money market funds	\$ 389,936	\$ 389,936	\$ —	\$ —	Cash and cash equivalents
Commercial paper	39,246	—	39,246	—	Cash and cash equivalents
US Treasuries	25,449	25,449	—	—	Cash and cash equivalents
Money market funds	565,461	565,461	—	—	Restricted cash
Bank-time deposits	387,720	387,720	—	—	Short-term investments
Corporate bonds	296,141	—	296,141	—	Short-term investments
US Treasuries	55,634	55,634	—	—	Short-term investments
Commercial paper	4,990	—	4,990	—	Short-term investments
Cross-currency swap	791	—	791	—	Prepaid expenses and other
Private equity	1,823	—	—	1,823	Other assets
Foreign currency forward contracts	(423)	—	(423)	—	Accrued and other current liabilities
Total recurring fair value measurements, net	\$1,766,768	\$ 1,424,200	\$ 340,745	\$ 1,823	

	March 31, 2018	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Balance Sheet Classification
Money market funds	\$ 516,626	\$ 516,626	\$ —	\$ —	Cash and cash equivalents
Bank-time deposits	21	21	—	—	Cash and cash equivalents
Commercial paper	10,796	—	10,796	—	Cash and cash equivalents
Corporate bonds	308,716	—	308,716	—	Short-term investments
US Treasuries	59,725	59,725	—	—	Short-term investments
Commercial paper	25,422	—	25,422	—	Short-term investments
Mutual funds	4,880	—	4,880	—	Short-term investments
Bank-time deposits	216,663	216,663	—	—	Short-term investments
Foreign currency forward contracts	12	—	12	—	Prepaid expenses and other
Foreign currency forward contracts	(43)	—	(43)	—	Accrued and other current liabilities
Cross-currency swap	(15,659)	—	(15,659)	—	Accrued and other current liabilities
Private equity	\$ 1,205	\$ —	\$ —	\$ 1,205	Other assets
Total recurring fair value measurements, net	\$1,128,364	\$ 793,035	\$ 334,124	\$ 1,205	

We did not have any transfers between Level 1 and Level 2 fair value measurements, nor did we have any transfers into or out of Level 3 during the fiscal year ended March 31, 2019.

5. SHORT-TERM INVESTMENTS

Our short-term investments consisted of the following as of March 31, 2019:

	March 31, 2019			
	Cost or Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Short-term investments				
Bank time deposits	\$ 387,720	\$ —	\$ —	\$ 387,720
Available-for-sale securities:				
Corporate bonds	295,526	742	(127)	296,141
US Treasuries	55,656	27	(49)	55,634
Commercial paper	4,990			4,990
Total short-term investments	\$ 743,892	\$ 769	\$ (176)	\$ 744,485

	March 31, 2018			
	Cost or Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Short-term investments				
Bank time deposits	\$ 216,663	\$ —	\$ —	\$ 216,663
Available-for-sale securities:				
Corporate bonds	310,387	16	(1,687)	308,716
US Treasuries	59,970	—	(245)	59,725
Commercial paper	25,422	—	—	25,422
Mutual funds	4,876	16	(12)	4,880
Total short-term investments	\$ 617,318	\$ 32	\$ (1,944)	\$ 615,406

Based on our evaluation of impairment for these investments, we did not consider any of these investments to be other-than-temporarily impaired as of March 31, 2019 or 2018. We do not intend to sell any of our investments with unrealized losses, nor is it more likely than not that we will be required to sell those investments.

The following table summarizes the contracted maturities of our short-term investments at March 31, 2019:

	March 31, 2019	
	Amortized Cost	Fair Value
Short-term investments		
Due in 1 year or less	\$ 629,474	\$ 629,496
Due in 1-2 years	114,418	114,989
Total short-term investments	\$ 743,892	\$ 744,485

6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Our risk management strategy includes the use of derivative financial instruments to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. We do not enter into derivative financial contracts for speculative or trading purposes. We classify cash flows from its derivative transactions as cash flows from operating activities in our Consolidated Statements of Cash Flows.

Foreign currency forward contracts

The following table shows the gross notional amounts of foreign currency forward contracts:

	March 31,	
	2019	2018
Forward contracts to purchase foreign currencies	\$ 116,590	\$ 4,359
Forward contracts to sell foreign currencies	\$ 87,793	\$ 67,580

For the fiscal years ended March 31, 2019, 2018 and 2017, we recorded a gain of \$16,831, a loss of \$19,473, and a gain of \$7,197, respectively, related to foreign currency forward contracts in Interest and other, net on the Consolidated Statements of Operations. Our derivative contracts are foreign currency exchange forward contracts that are not designated as hedging instruments under hedge accounting and are used to reduce the impact of foreign currency on certain balance sheet exposures and certain revenue and expense. These instruments are generally short term in nature, with typical maturities of less than one year, and are subject to fluctuations in foreign exchange rates.

Cross-currency swaps

We entered into a cross-currency swap agreement in August 2017 related to an intercompany loan that has been designated and accounted for as a cash flow hedge of foreign currency exchange risk. The intercompany loan is related to the acquisition of Social Point (See note 23). As of March 31, 2019, the notional amount of the cross-currency swap is \$115,641. This cross-currency swap mitigates the exposure to fluctuations in the U.S. dollar-euro exchange rate related to the intercompany loan. The critical terms of the cross-currency swap agreement correspond to the intercompany loan and both mature at the same time in 2027; as such, there was no ineffectiveness during the period.

Changes in the fair value of this cross-currency swap are recorded in Accumulated other comprehensive income (loss) and offset the change in value of interest and principal payment as a result of changes in foreign exchange rates. Resulting gains or losses from the cross-currency swap are reclassified from Accumulated other comprehensive income (loss) to earnings to offset foreign currency transaction gains and losses recognized on the intercompany loan. We recognize the difference between the U.S. dollar interest payments received from the swap counterparty and the U.S. dollar equivalent of the euro interest payments made to the swap counterparty in Interest and other, net on our Consolidated Statement of Operations. There are no credit-risk related contingent features associated with these swaps.

7. INVENTORY

Inventory balances by category are as follows:

	March 31,	
	2019	2018
Finished products	\$ 24,847	\$ 13,940
Parts and supplies	3,353	1,222
Inventory	\$ 28,200	\$ 15,162

Estimated product returns included in inventory at March 31, 2019 and 2018 were \$491 and \$373, respectively.

8. SOFTWARE DEVELOPMENT COSTS AND LICENSES

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

	March 31,			
	2019		2018	
	Current	Non-current	Current	Non-current
Software development costs, internally developed	\$ 14,809	\$ 434,712	\$ 19,338	\$ 515,761
Software development costs, externally developed	3,655	168,381	4,275	122,270
Licenses	10,416	343	9,671	1,338
Software development costs and licenses	\$ 28,880	\$ 603,436	\$ 33,284	\$ 639,369

Software development costs and licenses, net of current portion as of March 31, 2019 and 2018 included \$378,030 and \$638,055, respectively, related to titles that have not been released.

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

	Fiscal Year Ended March 31,		
	2019	2018	2017
Amortization of software development costs and licenses	\$ 342,870	\$ 101,437	\$ 222,801
Impairment of software development costs and licenses	7,426	1,060	20,166
Less: Portion representing stock-based compensation	(149,075)	(24,610)	(21,056)
Amortization and impairment, net of stock-based compensation	\$ 201,221	\$ 77,887	\$ 221,911

During the twelve months ended March 31, 2019, we recorded \$7,426 of software development impairment charges (a component of Cost of goods sold). The impairment charges relate to a decision not to proceed with further development of certain interactive entertainment software.

9. FIXED ASSETS, NET

Fixed asset balances by category are as follows:

	March 31,	
	2019	2018
Computer equipment	\$ 118,841	\$ 87,926
Leasehold improvements	99,093	88,762
Computer software	52,641	47,702
Furniture and fixtures	16,179	13,933
Office equipment	10,758	8,139
	297,512	246,462
Less: accumulated depreciation	(169,630)	(143,984)
Fixed assets, net	\$ 127,882	\$ 102,478

Depreciation expense related to fixed assets for the fiscal years ended March 31, 2019, 2018 and 2017 was \$39,726, \$32,202 and \$30,629, respectively.

The following represents our fixed assets, net by location:

	March 31,	
	2019	2018
United States	\$ 78,197	\$ 65,476
International	49,685	37,002
Fixed assets, net	<u>\$ 127,882</u>	<u>\$ 102,478</u>

10. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill

The change in our goodwill balance is as follows:

	Total
Balance at March 31, 2017	\$ 359,115
Additions from immaterial acquisition	6,236
Adjustments (see Note 23)	4,245
Currency translation adjustment	\$ 29,934
Balance at March 31, 2018	\$ 399,530
Additions from immaterial acquisition	3,149
Currency translation adjustment	\$ (20,962)
Balance at March 31, 2019	\$ 381,717

Indefinite-lived intangibles

Other intangibles, net, as of March 31, 2018, included in-process research and development ("IPR&D") assets of \$5,226 acquired as part of the Social Point acquisition, which were indefinite-lived intangibles and therefore not subject to amortization until the related games were released or development was abandoned. During the fiscal year ended March 31, 2019, we released *Tasty Town* and reclassified the balance to definite-lived intangibles. As of March 31, 2019, there are no IPR&D assets included in Other intangibles, net. During the fiscal year ended March 31, 2018, as a result of our decision not to proceed with further development of a certain game related IPR&D, we recognized an impairment charge of \$11,257 in Depreciation and amortization expense in our Consolidated Statements of Operations.

Definite-lived intangibles

The following table sets forth the intangible assets that are subject to amortization:

	March 31,						
	2019			2018			Weighted average useful life
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value	
Developed game technology	65,428	(32,975)	32,453	67,133	(23,189)	43,944	4 years
Intellectual property	\$ 26,109	\$ (6,524)	\$ 19,585	\$ 37,431	\$ (13,616)	\$ 23,815	6 years
Analytics technology	31,271	(13,551)	17,720	34,499	(8,050)	26,449	5 years
Branding and trade names	4,422	(1,065)	3,357	4,879	(632)	4,247	9 years
User base	—	—	—	10,454	(10,454)	—	1 year
Total definite-lived intangible assets	<u>\$ 127,230</u>	<u>\$ (54,115)</u>	<u>\$ 73,115</u>	<u>\$ 154,396</u>	<u>\$ (55,941)</u>	<u>\$ 98,455</u>	

During the fiscal year ended March 31, 2018, we acquired intellectual property related to *Kerbal Space Program*, which was treated as an asset acquisition, resulting in a \$21,500 increase in Intellectual property, and a \$4,465 increase in Developed game technology.

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

	Fiscal Year Ended March 31,		
	2019	2018	2017
Cost of goods sold	\$ 16,937	\$ 19,719	\$ 4,252
Selling and marketing	—	8,107	1,497
Research and development	6,436	6,494	989
Depreciation and amortization	506	510	78
Total amortization of intangible assets	\$ 23,879	\$ 34,830	\$ 6,816

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

Fiscal Year Ended March 31,	Amortization
2020	\$ 21,469
2021	20,669
2022	19,371
2023	7,084
2024	3,844

11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of:

	March 31,	
	2019	2018
Software development royalties	\$ 713,201	\$ 600,512
Compensation and benefits	73,695	57,499
Refund Liability	65,853	—
Licenses	56,221	43,261
Marketing and promotions	42,390	19,731
Business reorganization (see Note 20)	—	72,074
Deferred acquisition payments	—	25,000
Other	84,335	96,671
Accrued expenses and other current liabilities	\$ 1,035,695	\$ 914,748

12. DEBT

New Credit Agreement

On February 8, 2019, we entered into an unsecured Credit Agreement (the “New Credit Agreement”). The New Credit Agreement replaced our existing Credit Agreement (see below), which was terminated on the same day. The New Credit Agreement runs through February 8, 2024. The New Credit Agreement provides for an unsecured five-year revolving credit facility with commitments of \$200,000, including sublimits for (i) the issuance of letters of credit in an aggregate face amount of up to \$25,000 and (ii) borrowings and letters of credit denominated in Pounds Sterling, Euros and Canadian Dollars in an aggregate principal amount of up to \$25,000. In addition, the New Credit Agreement contains uncommitted incremental capacity permitting the incurrence of up to an additional \$250,000 in term loans or revolving credit facilities.

Loans under the New Credit Agreement will bear interest at a rate of (a) 0.250% to 0.750% above a certain base rate (5.50% at March 31, 2019) or (b) 1.125% to 1.750% above LIBOR (approximately 2.49% at March 31, 2019), which rates are determined by reference to our consolidated total net leverage ratio. We had no outstanding borrowings at March 31, 2019.

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

	<u>March 31,</u>	
	<u>2019</u>	
Available borrowings	\$	198,336
Outstanding letters of credit	\$	1,664

We recorded interest expense and fees related to the New Credit Agreement of \$372, for the fiscal year ended March 31, 2019. The New Credit Agreement also includes, among other terms and conditions, maximum leverage ratio, minimum cash reserves and, in certain circumstances, minimum interest coverage ratio financial covenants, as well as limitations on us and each of our subsidiaries' ability to: create, incur, assume or be liable for indebtedness; dispose of assets outside the ordinary course; acquire, merge or consolidate with or into another person or entity; create, incur or allow any lien on any of its property; make investments; or pay dividends or make distributions, in each case subject to certain exceptions. In addition, the New Credit Agreement provides for certain events of default such as nonpayment of principal and interest when due thereunder, breaches of representations and warranties, noncompliance with covenants, acts of insolvency and default on indebtedness held by third parties (subject to certain limitations and cure periods).

Credit Agreement

In December 2017, we entered into a Seventh Amendment to our Second Amended and Restated Credit Agreement (as amended, the "Credit Agreement"). The Credit Agreement provided for borrowings of up to \$100,000 which could have been increased by up to \$100,000 pursuant to the terms of the Credit Agreement and which was secured by substantially all of our assets and the equity of our subsidiaries. The Credit Agreement was terminated in connection with our entering into the New Credit Agreement. We had no outstanding borrowings at March 31, 2018.

We recorded interest expense and fees related to the Credit Agreement of \$472, \$441 and \$441, for the fiscal years ended March 31, 2019, 2018, and 2017, respectively.

1.00% Convertible Notes Due 2018

On June 18, 2013, we issued \$250,000 aggregate principal amount of 1.00% Convertible Notes due 2018. The Convertible Notes were issued at 98.5% of par value for proceeds of \$283,188, which included a \$37,500 overallocation option that was exercised. Interest on the Convertible Notes was payable semi-annually in arrears on July 1st and January 1st of each year, commencing on January 1, 2014. The Convertible Notes matured on July 1, 2018.

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

	<u>Fiscal Year Ended March 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash interest expense (coupon interest expense)	\$ 1	\$ 539	\$ 2,784
Non-cash amortization of discount on 1.00% Convertible Notes	91	15,662	14,221
Amortization of debt issuance costs	3	466	453
Total interest expense related to 1.00% Convertible Notes	\$ 95	\$ 16,667	\$ 17,458

13. EARNINGS PER SHARE ("EPS")

The following table sets forth the computation of basic and diluted EPS (in thousands except per share amounts):

	Fiscal Year Ended March 31,		
	2019	2018	2017
Computation of Basic earnings per share:			
Net income	\$ 333,837	\$ 173,533	\$ 67,303
Less: net income allocated to participating securities	—	(159)	(1,275)
Net income for basic earnings per share calculation	<u>\$ 333,837</u>	<u>\$ 173,374</u>	<u>\$ 66,028</u>
Total weighted average shares outstanding—basic	<u>113,176</u>	<u>110,210</u>	<u>91,921</u>
Less: weighted average participating shares outstanding	—	(101)	(1,741)
Weighted average common shares outstanding—basic	<u>113,176</u>	<u>110,109</u>	<u>90,180</u>
Basic earnings per share	<u>\$ 2.95</u>	<u>\$ 1.57</u>	<u>\$ 0.73</u>
Computation of Diluted earnings per share:			
Net income	\$ 333,837	\$ 173,533	\$ 67,303
Less: net income allocated to participating securities	—	(155)	(1,246)
Net income for diluted earnings per share calculation	<u>\$ 333,837</u>	<u>\$ 173,378</u>	<u>\$ 66,057</u>
Weighted average common shares outstanding—basic	<u>113,176</u>	<u>110,109</u>	<u>91,921</u>
Add: dilutive effect of common stock equivalents	<u>2,022</u>	<u>2,755</u>	<u>2,152</u>
Weighted average common shares outstanding—diluted	<u>115,198</u>	<u>112,864</u>	<u>94,073</u>
Less: weighted average participating shares outstanding	—	(101)	(1,741)
Weighted average common shares outstanding- diluted	<u>115,198</u>	<u>112,763</u>	<u>92,332</u>
Diluted earnings per share	<u>\$ 2.90</u>	<u>\$ 1.54</u>	<u>\$ 0.72</u>

Certain of our unvested stock-based awards (including restricted stock units and restricted stock awards) are considered participating securities since these securities have non-forfeitable rights to dividends or dividend equivalents during the contractual period of the award and thus requires the two-class method of computing EPS. As of March 31, 2019, we have no material participating securities.

The calculation of EPS for common stock under the two-class method shown above excludes income attributable to the participating securities from the numerator and excludes the dilutive effect of those awards from the denominator.

We define common stock equivalents as stock-based awards and common stock related to our Convertible Notes (see Note 12 - Debt) outstanding during the period. Common stock equivalents are measured using the treasury stock method, except for the Convertible Notes, which were assessed for their effect on diluted EPS using the more dilutive of the treasury stock method or the if-converted method. Under the provisions of the if-converted method, the Convertible Notes are assumed to be converted and included in the denominator of the EPS calculation and the interest expense, net of tax, recorded in connection with the Convertible Notes is added back to the numerator.

14. COMMITMENTS AND CONTINGENCIES

A summary of annual minimum contractual obligations and commitments as of March 31, 2019 is as follows:

Fiscal Year Ending March 31,	Software Development and Licensing	Marketing	Operating Leases	Purchase Obligations	Total
2020	\$ 183,309	\$ 52,953	\$ 28,365	\$ 23,707	\$ 288,334
2021	120,008	28,830	27,882	9,559	186,279
2022	114,734	28,661	26,272	5,063	174,730
2023	56,884	78,100	23,787	623	159,394
2024	51,792	24,600	16,474	484	93,350
Thereafter	55,792	49,200	82,570	—	187,562
Total	<u>\$ 582,519</u>	<u>\$ 262,344</u>	<u>\$ 205,350</u>	<u>\$ 39,436</u>	<u>\$ 1,089,649</u>

Software Development and Licensing Agreements: We make payments to third-party software developers that include contractual payments to developers under several software development agreements that expire at various times through March 2025. Our aggregate outstanding software development commitments assume satisfactory performance by third-party software developers. We also have licensing commitments that primarily consist of obligations to holders of intellectual property rights for use of their trademarks, copyrights, technology or other intellectual property rights in the development of our products.

Marketing Agreements: We have certain minimum marketing support commitments where we commit to spend specified amounts related to marketing our products. Marketing commitments expire at various times through September 2024 and primarily reflect our agreements with major sports leagues and players' associations.

Operating Leases: Our offices are occupied under non-cancelable operating leases expiring at various times through December 2032. We also lease certain furniture, equipment and automobiles under non-cancelable leases expiring through June 2023. Some of the leases have fixed rent increases and also include inducements to enter into the lease. The effect of such amounts are deferred and recognized on a straight-line basis over the related lease term. Rent expense amounted to \$29,204, \$25,301 and \$19,545 for the fiscal years ended March 31, 2019, 2018 and 2017, respectively.

Purchase obligations: These obligations are primarily related to agreements to purchase services that are enforceable and legally binding on us that specifies all significant terms, including fixed, minimum or variable pricing provisions; and the approximate timing of the transactions, expiring at various times through March 2024.

Employee Savings Plans: For our United States employees we maintain a 401(k) retirement savings plan and trust. Our 401(k) plan is offered to all eligible employees and participants may make voluntary contributions. We also have various pension plans for our non-U.S. employees, some of which are required by local laws, and allow or require Company contributions. Employer contributions under all defined contribution and pension plans during the fiscal years ended March 31, 2019, 2018 and 2017 were \$10,881, \$9,592 and \$8,018, respectively.

Legal and Other Proceedings: We are, or may become, subject to demands and claims (including intellectual property claims) and are involved in routine litigation in the ordinary course of business which we do not believe to be material to our business or financial condition or results of operations. We have appropriately accrued amounts related to certain of these claims and legal and other proceedings. While it is reasonably possible that a loss may be incurred in excess of the amounts accrued in our financial statements, we believe that such losses, unless otherwise disclosed, would not be material.

On February 7, 2019, all of the previously disclosed lawsuits, claims, and counterclaims that had been pending since April 2016 with Mr. Leslie Benzies, the former president of one of our subsidiaries, were resolved. See Note 20 - Business Reorganization.

15. INCOME TAXES

On December 22, 2017, the U.S. enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (herein referred to as the "Act"). The Act made broad and complex changes to the U.S. tax code. The Act reduced the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018 and required companies to pay a one-time transition tax on the previously untaxed earnings of certain foreign subsidiaries. In addition, the Act made other changes, including, but not limited to, (1) a Base Erosion Anti-abuse Tax ("BEAT"), which is a new minimum tax, (2) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries, (3) a new provision that taxes global intangible low-taxed income ("GILTI"), (4) the repeal of the domestic production activity deduction, and (5) other base broadening provisions. As of March 31, 2018, we recognized a tax benefit of \$6,202 due to the re-measurement of the deferred tax liability relating to indefinite lived intangibles as a result of the reduced U.S. federal corporate income tax rate.

The SEC issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which provides guidance on accounting for the Act's impact. SAB 118 provides a measurement period, which should not extend beyond one year from the Act enactment date, during which a company acting in good faith may complete the accounting for the impact of the Act under ASC 740. In accordance with SAB 118, the income tax effects of the Act must be reflected in the reporting period in which the accounting under ASC Topic 740 is complete. As of March 31, 2018, we recorded an estimated increase to income tax expense of \$18,078 related to the one-time transition tax on the previously untaxed earnings of certain foreign subsidiaries as a result of the Act. The estimated increase was a result of transition tax of \$26,649, offset by an increased benefit from domestic production deductions and other tax credits. As of March 31, 2019, we completed the accounting and recorded a decrease to income tax expense of \$4,553 to adjust the provisional estimate related to the one-time transition tax on the previously untaxed earnings of certain foreign subsidiaries as a result of the Act. The impact of the Act differs from these estimates due to changes in interpretations and assumptions we have made, guidance that was issued, and actions taken as a result of the Act.

Components of income before income taxes are as follows:

	Fiscal Year Ended March 31,		
	2019	2018	2017
Domestic	\$ 134,265	\$ 136,239	\$ 86,050
Foreign	98,520	386	(9,085)
Income before income taxes	<u>\$ 232,785</u>	<u>\$ 136,625</u>	<u>\$ 76,965</u>

Provision for (benefit from) current and deferred income taxes consists of the following:

	Fiscal Year Ended March 31,		
	2019	2018	2017
Current:			
U.S. federal	\$ 8,240	\$ (7,327)	\$ 19,271
U.S. state and local	2,857	(1,266)	2,521
Foreign	22,274	4,208	(13,012)
Total current income taxes	<u>33,371</u>	<u>(4,385)</u>	<u>8,780</u>
Deferred:			
U.S. federal	(128,317)	(13,530)	969
U.S. state and local	(9,157)	195	2,395
Foreign	3,051	(19,188)	(2,482)
Total deferred income taxes	<u>(134,423)</u>	<u>(32,523)</u>	<u>882</u>
(Benefit from) Provision for income taxes	<u>\$ (101,052)</u>	<u>\$ (36,908)</u>	<u>\$ 9,662</u>

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

	Fiscal Year Ended March 31,		
	2019	2018	2017
U.S. federal statutory rate	21.0 %	31.6 %	35.0 %
State and local taxes, net of U.S. federal benefit	2.9 %	0.5 %	4.9 %
Foreign tax rate differential ⁽¹⁾	(9.0)%	(6.9)%	(1.4)%
Foreign earnings	5.1 %	1.2 %	5.5 %
Tax credits ⁽²⁾	(15.0)%	(16.5)%	(45.8)%
Excess tax benefits from stock-based compensation ⁽³⁾	(5.7)%	(38.9)%	—
One-time transition tax ⁽⁴⁾	(2.0)%	19.5 %	—
Domestic production deduction	— %	(2.8)%	(2.5)%
Valuation allowance—domestic ⁽⁵⁾	(46.0)%	(0.5)%	10.1 %
Valuation allowance—foreign	— %	(2.5)%	0.1 %
Change in reserves	1.3 %	(11.0)%	2.9 %
Other ⁽⁶⁾	4.0 %	(0.7)%	3.7 %
Effective tax rate	<u>(43.4)%</u>	<u>(27.0)%</u>	<u>12.5 %</u>

(1) The foreign rate differential in relation to foreign earnings, for all periods presented, are primarily driven by changes in the mix of our foreign earnings and the difference in the foreign versus U.S. income tax rate.

(2) Tax benefits were recorded for fiscal years ended March 31, 2019, 2018, and 2017 attributable to certain tax credits related to software development activities.

(3) The accounting for stock based compensation will increase or decrease our effective tax rate based upon the difference between our share-based compensation expense and the deductions taken on our tax return, which depends upon the stock price at the time of employee award vesting.

(4) Represents the true-up related to the provisional estimate recorded in the fiscal year ended March 31, 2018 in accordance with SAB 118 for the one-time transition tax on previously untaxed earnings of certain foreign subsidiaries.

(5) The change in domestic valuation allowance includes a reduction in our valuation allowance on certain U.S. deferred tax assets as a result of a determination that it was more-likely-than-not that such deferred tax assets would be realized in the fiscal year ended March 31, 2019.

(6) Includes the effects from the Act, excluding the SAB 118 true-up relating to the one-time transition tax, which were not material

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

	March 31,	
	2019	2018
Deferred tax assets:		
Accrued compensation expense	\$ 113,517	\$ 94,919
Equity-based compensation	82,720	78,293
Tax credit carryforward	72,408	64,175
Net operating loss carryforward	27,498	35,378
Deferred rent	5,965	5,729
Business reorganization	158	16,369
Deferred Revenue	—	42,426
Sales returns and allowances (including bad debt)	—	575
Other	411	1,145
Total deferred tax assets	302,677	339,009
Less: Valuation allowance	(49,413)	(195,640)
Net deferred tax assets	253,264	143,369
Deferred tax liabilities:		
Capitalized software and depreciation	(101,168)	(118,119)
Intangible amortization	(22,486)	(24,651)
Deferred revenue	(17,100)	—
Convertible debt	—	(13)
Other	(4,690)	(4,534)
Total deferred tax liabilities	(145,444)	(147,317)
Net deferred tax asset / (liability) ⁽¹⁾	107,820	(3,948)

(1) As of March 31, 2019, \$134,732 is included in Deferred tax assets and \$26,912 is included in Other long-term liabilities. As of March 31, 2018, \$3,948 is included in Other long-term liabilities.

We recognized a tax benefit of \$107,132 from a reduction in our valuation allowance on certain U.S. deferred tax assets as a result of a determination that it was more-likely-than-not that such deferred tax assets would be realized. Our determination took into account that successful launch of *Red Dead Redemption 2* during the fiscal 2019 along with our recent positive trend of earnings.

The valuation allowance is primarily attributable to deferred tax assets for which no benefit is provided due to uncertainty with respect to their realization. In the previous year, the net deferred tax liability is primarily the result of deferred tax liabilities related to indefinite lived intangibles, which cannot be used to offset deferred tax assets, as well as deferred tax liabilities related to intangibles as a result of the acquisition of Social Point.

At March 31, 2019, we had domestic net operating loss carryforwards totaling \$47,520 of which \$23,986 will expire in 2022 to 2027, \$15,308 will expire from 2029 to 2032, and \$8,226 will expire in 2038 to 2039. In addition, we had foreign net operating loss carryforwards of \$20,563, of which \$4,494 will expire from 2023 to 2028 and the remainder may be carried forward indefinitely.

At March 31, 2019, we had domestic credit carryforwards totaling \$202,450, of which \$115,008 expire in 2029 to 2039, and the remainder may be carried forward indefinitely.

The total amount of undistributed earnings of foreign subsidiaries was approximately \$410,095 at March 31, 2019 and \$314,800 at March 31, 2018. As of March 31, 2019, it is our intention to reinvest indefinitely undistributed earnings of our foreign subsidiaries. Accordingly, no provision has been made for foreign withholding taxes or U.S. income taxes which may become payable if undistributed earnings of foreign subsidiaries are repatriated. It is not practicable to estimate the tax liability that would arise if these earnings were remitted.

We are regularly audited by domestic and foreign taxing authorities. Audits may result in tax assessments in excess of amounts claimed and the payment of additional taxes. We believe that our tax return positions comply with applicable tax law and that we have adequately provided for reasonably foreseeable assessments of additional taxes. Additionally, we believe that any assessments in excess of the amounts provided for will not have a material adverse effect on the Consolidated Financial Statements.

It is possible that settlement of audits or the expiration of the statute of limitations may have an impact on our effective tax rate in future periods.

We recognize interest and penalties related to uncertain tax positions in the provision for income taxes in our Consolidated Statements of Operations. For the fiscal years ended March 31, 2019, 2018 and 2017, we recognized an increase in interest and penalties of \$232, \$2,363 and \$877, respectively. The gross amount of interest and penalties accrued as of March 31, 2019 and 2018 was \$6,686 and \$6,453, respectively.

As of March 31, 2019, we had gross unrecognized tax benefits, including interest and penalties, of \$139,006, of which \$23,937 would affect our effective tax rate if realized. For the fiscal year ended March 31, 2019, gross unrecognized tax benefits increased by \$10,496.

We are no longer subject to audit for U.S. federal income tax returns for periods prior to our fiscal year ended March 31, 2016 and state income tax returns for periods prior to the fiscal year ended March 31, 2014. With few exceptions, we are no longer subject to income tax examinations in non-U.S. jurisdictions for years prior to our fiscal year ended March 31, 2014. U.S. federal taxing authorities have completed examinations of our income tax returns through the fiscal year ended March 31, 2015.

The timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. Although potential resolution of uncertain tax positions involve multiple tax periods and jurisdictions, it is reasonably possible that a reduction of \$11,117 of unrecognized tax benefits may occur within the next 12 months, some of which, depending on the nature of the settlement or expiration of statutes of limitations, may affect our income tax provision and therefore benefit the resulting effective tax rate. The actual amount could vary significantly depending on the ultimate timing and nature of any settlements.

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

	Fiscal Year Ended March 31,		
	2019	2018	2017
Balance, beginning of period	\$ 122,056	\$ 116,085	\$ 52,799
Additions:			
Current year tax positions	13,281	23,007	65,669
Prior year tax positions	288	7,406	5,086
Reduction of prior year tax positions	(1,700)	(436)	—
Lapse of statute of limitations	(1,605)	(24,006)	(7,469)
Balance, end of period	\$ 132,320	\$ 122,056	\$ 116,085

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

16. STOCK-BASED COMPENSATION

Stock Incentive Plan

In September 2017, our stockholders approved our 2017 Stock Incentive Plan (the "2017 Plan"). The aggregate number of shares issuable under the 2017 Plan is 7,596, subject to adjustment as set forth in the 2017 Plan, and, as of March 31, 2019, there were approximately 5,426 shares available for issuance. The 2017 Plan is administered by the Compensation Committee of the Board of Directors and allows for awards of restricted stock units and other stock-based awards of our common stock to employees and non-employees, including to ZelnickMedia in connection with their contract to provide executive management service to us. Subject to the provisions of the plans, the Board of Directors or any Committee appointed by the Board of Directors, has the authority to determine the individuals to whom the equity awards are to be granted, the number of shares to be covered by each equity award, the vesting period, restrictions, if any, on the equity award and the terms and conditions of the equity award. Upon the vesting of certain stock-based awards, employees have the option to have us withhold shares to satisfy the employee's federal and state tax withholding requirements.

Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense included in our Consolidated Statements of Operations:

	Fiscal Year Ended March 31,		
	2019	2018	2017
Cost of goods sold	\$ 149,075	\$ 24,610	\$ 21,056
Selling and marketing	23,685	13,258	9,963
General and administrative	51,903	58,037	42,908
Research and development	23,037	18,020	7,952
Business reorganization	—	2,424	—
Stock-based compensation expense before income taxes	\$ 247,700	\$ 116,349	\$ 81,879
Income tax benefit	\$ (48,383)	\$ (3,561)	\$ (1,552)
Stock-based compensation expense, net of income tax benefit	\$ 199,317	\$ 112,788	\$ 80,327
Capitalized stock-based compensation expense	\$ 75,725	\$ 90,914	\$ 74,717

During the fiscal year ended March 31, 2019, the forfeiture of awards resulted in the reversal of expense of \$5,784 and amounts capitalized as software development costs of \$17,504. During the fiscal year ended March 31, 2018, the forfeiture of awards resulted in the reversal of expense of \$17,069 and amounts capitalized as software development costs of \$53,779.

As of March 31, 2019, the total future unrecognized compensation cost related to outstanding unvested restricted stock was \$345,858 and will be either recognized as compensation expense over a weighted-average period of approximately 2.9 years or capitalized as software development costs.

For the fiscal years ended March 31, 2019, 2018 and 2017, the weighted average fair values of restricted stock units that vested were \$264,162, \$268,570 and \$137,130, respectively.

Restricted Stock Units

Employee Awards

Time-based restricted stock units granted to employees under our stock-based compensation plans generally vest either annually or quarterly over 3 years from the date of grant. Certain restricted stock units granted to key officers, senior-level employees, or key employees vest based on market conditions, primarily related to the performance of the price of our common stock. Certain restricted stock units granted to key officers, senior-level employees, or key employees vest based on performance conditions, primarily related to performance metrics around certain of our titles.

ZelnickMedia Non-Employee Awards

In connection with the 2014 Management Agreement and the 2017 Management Agreement, we granted restricted stock units to ZelnickMedia (see Note 3 - Management Agreement) as follows:

	Fiscal Year Ended March 31,	
	2019	2018
Time-based	86	66
Market-based ⁽¹⁾	158	122
Performance-based ⁽¹⁾		
New IP	—	21
Major IP	—	20
IP	27	—
Recurrent Consumer Spending ("RCS")	26	—
Total-Performance-based	53	41
Total Restricted Stock Units	297	229

(1) Represents the maximum number of shares eligible to vest.

Time-based restricted stock units granted in fiscal 2019 will vest on April 13, 2020, provided that the 2017 Management Agreement has not been terminated prior to such vesting date, and those granted in fiscal 2018 vested on April 4, 2019.

Market-based restricted stock units granted in fiscal 2019 are eligible to vest on April 13, 2020, provided that the 2017 Management Agreement has not been terminated prior to such vesting date, and those granted in fiscal 2018 vested on April 4, 2019. Market-based restricted stock units are eligible to vest based on our Total Shareholder Return (as defined in the relevant grant agreement) relative to the Total Shareholder Return (as defined in the relevant grant agreement) of the companies that constitute the NASDAQ Composite Index as of the grant date measured over a two-year period. To earn the target number of market-based restricted stock units (which represents 50% of the number of the market-based restricted stock units set forth in the table above), the Company must perform at the 50th percentile, with the maximum number of market-based restricted stock units earned if the Company performs at least at the 75th percentile.

Performance-based restricted stock units granted in fiscal 2019 are eligible to vest on April 13, 2020, provided that the 2017 Management Agreement has not been terminated prior to such vesting date, and those granted in fiscal 2018 vested on April 4, 2019. The performance-based restricted stock units granted in fiscal 2018, of which 50% are tied to "New IP" and 50% to "Major IP" (as defined in the relevant grant agreement), were eligible to vest based on the Company's achievement of certain performance metrics (as defined in the relevant grant agreement) of individual product releases of "New IP" or "Major IP", respectively, measured over a two-year period. The performance-based restricted stock units granted in fiscal 2019, of which 50% are tied to "IP" and 50% to "RCS" (as defined in the relevant grant agreement), are eligible to vest based on the Company's achievement of certain performance metrics (as defined in the relevant grant agreement) of either (a) individual product releases of "IP" or (b) "RCS" measured over a two-year period. The target number of performance-based restricted stock units that may be earned pursuant to these grants is equal to 50% of the grant amounts set forth in the above table (the numbers in the table represent the maximum number of performance-based restricted stock units that may be earned). At the end of each reporting period, we assess the probability of each performance metric and upon determination that certain thresholds are probable, we record expense for the unvested portion of the shares of performance-based restricted stock units. Certain performance metrics have been achieved as of March 31, 2019 for the "Major IP," "IP," and "RCS" performance-based restricted stock units granted in fiscal 2018 and fiscal 2019.

The unvested portion of time-based, market-based and performance-based restricted stock units held by ZelnickMedia as of March 31, 2019 and 2018 were 526 and 602, respectively. During the fiscal year ended March 31, 2019, 340 restricted stock units previously granted to ZelnickMedia vested and 33 restricted stock units were forfeited by ZelnickMedia.

Fair Value of Stock-Based Awards

Time-Based Awards

The estimated value, based on the closing price of our stock on the grant date, of time-based restricted stock units granted to employees during the fiscal years ended March 31, 2019, 2018 and 2017 was \$103.79, \$106.28 and \$49.43 per share, respectively.

For the fiscal years ended March 31, 2019, 2018 and 2017, the estimated value, based on the closing price of our stock on the grant date, of time-based restricted stock awards granted to ZelnickMedia was \$97.19, \$78.53 and \$36.37 per share, respectively.

The following table summarizes the activity in non-vested restricted stock units to employees and ZelnickMedia under our stock-based compensation plans with time-based restricted stock awards presented at 100% of target number of shares that may potentially vest:

	Shares (in thousands)	Weighted Average Fair Value on Grant Date
Non-vested restricted stock units at March 31, 2016	4,444	\$ 22.74
Granted	800	\$ 42.78
Vested	(2,167)	\$ 21.71
Forfeited	(54)	\$ 29.87
Non-vested restricted stock units at March 31, 2017	3,023	\$ 28.65
Granted	3,480	\$ 102.37
Vested	(2,124)	\$ 25.94
Forfeited	(1,053)	\$ 109.73
Non-vested restricted stock units at March 31, 2018	3,326	\$ 81.85
Granted	995	\$ 103.22
Vested	(1,293)	\$ 65.99
Forfeited	(425)	\$ 101.38
Non-vested restricted stock units at March 31, 2019	2,603	\$ 95.35

Market-Based Awards

The following table summarizes the weighted-average assumptions used in the Monte Carlo Simulation to estimate the fair value of market-based awards:

	Fiscal Year Ended March 31,					
	2019		2018		2017	
	Employee Market-Based	Non-Employee Market-Based	Employee Market-Based	Non-Employee Market-Based	Employee Market-Based	Non-Employee Market-Based
Risk-free interest rate	2.6%	2.4%	1.4%	2.1%	0.9%	0.7%
Expected stock price volatility	34.9%	31.4%	28.4%	35.5%	31.2%	30.1%
Expected service period (years)	1.5	1.0	1.5	1.0	1.5	1.0
Dividends	None	None	None	None	None	None

The estimated value of market-based restricted stock awards granted to employees during the fiscal years ended March 31, 2019, 2018, and 2017 was \$150.91, \$141.78, and \$63.60 per share, respectively. For the fiscal years ended March 31, 2019, 2018, and 2017, the estimated value of the market-based restricted stock awards granted to ZelnickMedia was \$119.21, \$185.66, and \$51.92 per share, respectively.

The following table summarizes the activity in non-vested restricted stock units to employees and ZelnickMedia under our stock-based compensation plans with market-based restricted stock awards presented at 100% of target number of shares that may potentially vest:

	Shares (in thousands)	Weighted Average Fair Value on Grant Date
Non-vested restricted stock units at March 31, 2016	1,782	\$ 23.19
Granted	328	\$ 60.06
Vested	(970)	\$ 27.76
Forfeited	(5)	\$ 38.38
Non-vested restricted stock units at March 31, 2017	1,135	\$ 45.05
Granted	614	\$ 81.20
Vested	(1,100)	\$ 33.97
Forfeited	(3)	\$ 55.91
Non-vested restricted stock units at March 31, 2018	646	\$ 79.80
Granted	521	\$ 90.73
Vested	(695)	\$ 52.67
Forfeited	(6)	\$ 101.72
Non-vested restricted stock units at March 31, 2019	466	\$ 123.72

Performance-Based Awards

The estimated value of performance-based restricted stock awards granted to employees during the fiscal year ended March 31, 2019 and 2018 was \$100.29 and \$102.57, respectively. None were granted to employees during the fiscal year ended March 31, 2017. For the fiscal years ended March 31, 2019, 2018, and 2017, the estimated value of the performance-based restricted stock awards granted to ZelnickMedia was \$97.19, \$97.78, and \$59.27 per share, respectively.

The following table summarizes the activity in non-vested restricted stock units to employees and ZelnickMedia under our stock-based compensation plans with performance restricted stock awards presented at 100% of target number of shares that may potentially vest:

	Shares (in thousands)	Weighted Average Fair Value on Grant Date
Non-vested restricted stock units at March 31, 2016	179	\$ 14.45
Granted	33	\$ 36.37
Vested	(83)	\$ 21.92
Forfeited	(28)	\$ 22.35
Non-vested restricted stock units at March 31, 2017	101	\$ 24.64
Granted	3,945	\$ 101.30
Vested	(47)	\$ 27.65
Forfeited	(573)	\$ 104.37
Non-vested restricted stock units at March 31, 2018	3,426	\$ 100.15
Granted	101	\$ 62.99
Vested	(455)	\$ 103.95
Forfeited	(72)	\$ 61.88
Non-vested restricted stock units at March 31, 2019	3,000	\$ 99.37

Employee Stock Purchase Plans

In September 2017, our stockholders approved our 2017 Global Employee Stock Purchase Plan as amended and restated ("ESPP"). The maximum aggregate number of shares of common stock that may be issued under the plan is 9,000, and as of March 31, 2019, there were approximately 8,943 shares available for issuance. The ESPP is administered by the Compensation Committee of the Board of Directors and allows for eligible employees an option to purchase shares of our common stock, which the employee may or may not exercise during an offering period. Eligible employees may authorize payroll deductions of between 1% and 10%

of their compensation to purchase shares of common stock at 85% of the lower of the market price of our common stock on the date of commencement of the applicable offering period or on the last day of each six-month purchase period.

The fair value is determined using the Black-Scholes valuation model. Key assumptions of the Black-Scholes valuation model are the risk-free interest rate, expected volatility, expected term and expected dividends. The risk-free interest rate is based on U.S. Treasury yields in effect at the time of grant for the expected term of the option. Expected volatility is based on a combination of historical stock price volatility and implied volatility of publicly-traded options on our common stock. Expected term is determined based on historical exercise behavior, post-vesting termination patterns, options outstanding and future expected exercise behavior. The following table summarizes the assumptions used in the Black-Scholes valuation model to value our purchase rights for the fiscal year ended March 31, 2019:

	Fiscal Year Ended March 31,
	2019
Risk-free interest rate	2.1% - 2.5%
Expected stock price volatility	39.1% - 40.0%
Expected service period (years)	0.5
Dividends	None

For the fiscal year ended March 31, 2019, our employees purchased 57 shares for \$5,069 with a weighted-average fair value of \$88.66.

17. SHARE REPURCHASE PROGRAM

Our Board of Directors has authorized the repurchase of up to 14,218 shares of our common stock. Under this program, we may purchase shares from time to time through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. Repurchases are subject to the availability of stock, prevailing market conditions, the trading price of the stock, our financial performance and other conditions. The program does not require us to repurchase shares and may be suspended or discontinued at any time for any reason.

During the fiscal years ended March 31, 2019, 2018, and 2017 we repurchased 3,716, 1,513, and 0 shares of our common stock in the open market, respectively, for \$362,429, \$154,808, and \$0, respectively, including commissions of \$37, \$16 and \$0, respectively as part of the program. As of March 31, 2019, we had repurchased a total of 10,400 shares of our common stock under the program, and 3,818 shares of our common stock remained available for repurchase under the share repurchase program.

All of the repurchased shares are classified as Treasury stock in our Consolidated Balance Sheets.

18. INTEREST AND OTHER, NET

	Fiscal Year Ended March 31,		
	2019	2018	2017
Interest income	\$ 38,019	\$ 21,264	\$ 7,869
Interest expense	(8,032)	(22,269)	(29,569)
Foreign currency exchange (loss) gain	(505)	(3,038)	4,990
Other	(3,369)	5,091	1,020
Interest and other, net	<u>\$ 26,113</u>	<u>\$ 1,048</u>	<u>\$ (15,690)</u>

19. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Foreign currency translation adjustments	Unrealized gain (loss) on derivative instruments	Unrealized gain (loss) on cross- currency swap	Unrealized gain (loss) on available- for-sales securities	Total
Balance at March 31, 2017	\$ (47,666)	\$ 600	\$ —	\$ (76)	\$ (47,142)
Other comprehensive income (loss) before reclassifications	43,379	—	(15,659)	(1,778)	25,942
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	7,506	—	7,506
Tax effect on cross-currency swap	—	—	(2,038)	—	(2,038)
Balance at March 31, 2018	\$ (4,287)	\$ 600	\$ (10,191)	\$ (1,854)	\$ (15,732)
Other comprehensive income (loss) before reclassifications	(28,803)	—	763	2,440	(25,600)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	3,726	—	3,726
Tax effect on cross-currency swap	—	—	417	—	417
Balance at March 31, 2019	\$ (33,090)	\$ 600	\$ (5,285)	\$ 586	\$ (37,189)

20. BUSINESS REORGANIZATION

In the first quarter of fiscal 2018, we announced and initiated actions to implement a strategic reorganization at one of our labels (the "2018 Plan"). In the fourth quarter of fiscal 2018, we announced and initiated a second phase of the 2018 plan. In connection with both phases of this initiative, we incurred business reorganization expenses of \$972 and \$14,742 during the fiscal year ended March 31, 2019 and 2018, respectively, due primarily to employee separation costs. Through March 31, 2019, we had paid \$9,502 related to these reorganization activities. As of March 31, 2019, \$0 remained accrued for in Accrued expenses and other current liabilities and \$6,214 in Other non-current liabilities. Although we may record additional expense or benefit in future periods to true-up estimates, we do not expect to incur additional reorganization in connection with the 2018 Plan.

In fiscal 2016, we announced and initiated actions to implement a strategic reorganization at one of our labels (the "2016 Plan"), including reorganizing one development studio and closing two development studios. During fiscal 2016, we incurred business reorganization expenses of \$71,285 due primarily to employee separation costs in connection with this initiative and did not incur expenses in fiscal 2017 or 2018. During fiscal 2019, we recognized a benefit of \$5,930 as a result of updating our estimate of costs to complete the plan. Through March 31, 2019 and 2018, we had paid \$65,355 and \$5,350, respectively, related to these reorganization activities. As of March 31, 2019, the 2016 Plan was completed and no further amounts remain accrued or are expected to be incurred.

21. SUPPLEMENTARY FINANCIAL INFORMATION

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

	Beginning Balance	Additions	Deductions	Other	Ending Balance
Fiscal Year Ended March 31, 2019					
Valuation allowance for deferred income taxes ⁽¹⁾	\$ 195,640	11,850	(107,133)	(50,944)	\$ 49,413
Allowance for doubtful accounts ⁽²⁾	1,247	651	—	(903)	995
Fiscal Year Ended March 31, 2018					
Valuation allowance for deferred income taxes	\$ 184,085	11,555	—	—	\$ 195,640
Price protection, sales returns and other allowances	\$ 65,114	59,674	(74,936)	3,191	\$ 53,043
Allowance for doubtful accounts	1,369	—	(122)	—	1,247
Total accounts receivable allowances	\$ 66,483	\$ 59,674	\$ (75,058)	\$ 3,191	\$ 54,290
Fiscal Year Ended March 31, 2017					
Valuation allowance for deferred income taxes	\$ 170,574	13,511	—	—	\$ 184,085
Price protection, sales returns and other allowances	\$ 45,153	127,744	(100,934)	(6,849)	\$ 65,114
Allowance for doubtful accounts	399	974	(4)	—	1,369
Total accounts receivable allowances	\$ 45,552	\$ 128,718	\$ (100,938)	\$ (6,849)	\$ 66,483

(1) Amount categorized as Other represents a reduction to the valuation allowance included in the cumulative effect of initially applying the New Revenue Accounting Standard as an adjustment to the opening balance of retained earnings, due to revenues that were previously deferred being accelerated to retained earnings, for which a timing difference exists for accounting and tax purposes.

(2) Under the New Revenue Accounting Standard, Price protection, sales returns and other allowances are considered refund liabilities and are reported within Accrued expenses and other current liabilities on our Consolidated Balance Sheet and are no longer considered accounts receivable allowance as they were under ASC 605.

22. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following tables set forth quarterly supplementary data for each of the years in the two-year period ended March 31, 2019:

Fiscal Year Ended March 31, 2019	Quarter			
	First	Second	Third	Fourth
Net revenue	\$ 387,982	\$ 492,667	\$ 1,248,738	\$ 539,007
Gross profit	256,617	257,787	350,254	280,092
Income from operations	70,846	25,986	51,779	58,061
Net income	\$ 71,693	\$ 25,367	\$ 179,948	\$ 56,829
Earnings per share:				
Basic earnings per share	\$ 0.63	\$ 0.22	\$ 1.59	\$ 0.50
Diluted earnings per share	\$ 0.62	\$ 0.22	\$ 1.57	\$ 0.50

Fiscal Year Ended March 31, 2018	Quarter			
	First	Second	Third	Fourth
Net revenue	\$ 418,216	\$ 443,562	\$ 480,840	\$ 450,274
Gross profit	223,647	197,014	212,857	261,063
Income (loss) from operations	50,219	(11,319)	8,852	87,825
Net (loss) income	\$ 60,276	\$ (2,736)	\$ 25,140	\$ 90,853
Earnings (loss) per share:				
Basic earnings (loss) per share	\$ 0.57	\$ (0.03)	\$ 0.22	\$ 0.80
Diluted earnings (loss) per share	\$ 0.56	\$ (0.03)	\$ 0.21	\$ 0.77

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

23. ACQUISITIONS

On January 31, 2017, we completed the acquisition of privately-held Social Point, S.L. (“Social Point”), a Spanish free-to-play mobile game developer, for consideration of \$175,000 in cash and the issuance of 1,480 shares of our common stock, plus contingent earn-out consideration of up to an aggregate of \$25,900 in cash and shares of our common stock. During the fiscal year ended March 31, 2019, we paid the remaining \$25,000 deferred amounts related to this acquisition. The cash portion was funded from our cash on hand. Certain of the shares that were issued to continuing employees are subject to transferability restrictions and forfeiture provisions requiring their continued employment subject to certain exceptions over the three-year period following the closing and are therefore considered share-based compensation over the service period. We acquired Social Point to leverage its strong portfolio of technology, assembled workforce, and existing free-to-play mobile games in order to expand and enhance our game offerings, particularly on mobile platforms.

The acquisition-date fair value of the consideration transferred totaled \$238,736. Of this amount, \$143,566 was recorded as Goodwill, \$111,550 was recorded as Intangible assets, and \$(16,380) was recorded as Tangible assets, net of liabilities assumed from Social Point. Goodwill, which is not deductible for U.S. income tax purposes, represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired, and is primarily attributable to the assembled workforce of the acquired business and expected synergies at the time of the acquisition.

During the fiscal year ended March 31, 2018, we recorded adjustments to finalize the purchase accounting of the Social Point acquisition, which resulted in a net increase in Goodwill of \$4,245 and a corresponding decrease in Tangible net liabilities assumed. The measurement period for the contingent consideration has expired, and we have not made any payments for contingent consideration.

SIGNATURES

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

TAKE-TWO INTERACTIVE SOFTWARE, INC.

By: /s/ STRAUSS ZELNICK

Strauss Zelnick
Chairman and Chief Executive Officer

May 13, 2019

POWER OF ATTORNEY

Each individual whose signature appears below constitutes and appoints Strauss Zelnick and Lainie Goldstein and each of them, his or her true and lawful attorneys-in-fact and agents with full power of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his, her or their substitute or substitutes, may lawfully do or cause to be done or by virtue hereof.

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ STRAUSS ZELNICK</u> Strauss Zelnick	Chairman and Chief Executive Officer (Principal Executive Officer)	May 13, 2019
<u>/s/ LAINIE GOLDSTEIN</u> Lainie Goldstein	Chief Financial Officer (Principal Financial and Accounting Officer)	May 13, 2019
<u>/s/ MICHAEL DORNEMANN</u> Michael Dornemann	Lead Independent Director	May 13, 2019
<u>/s/ J MOSES</u> J Moses	Director	May 13, 2019
<u>/s/ MICHAEL SHERESKY</u> Michael Sheresky	Director	May 13, 2019
<u>/s/ LAVERNE SRINIVASAN</u> LaVerne Srinivasan	Director	May 13, 2019
<u>/s/ SUSAN TOLSON</u> Susan Tolson	Director	May 13, 2019
<u>/s/ PAUL VIERA</u> Paul Viera	Director	May 13, 2019

Subsidiaries of Take-Two Interactive Software, Inc.

<u>Name</u>	<u>Jurisdiction of Incorporation</u>
2K Czech, s.r.o.	Czech Republic
2K Games (Chengdu) Co., Ltd.	China
2K Games (Shanghai) Co., Ltd.	China
2K Games, Inc.	Delaware
2K, Inc.	New York
2K Marin, Inc.	Delaware
2K Play, Inc.	Delaware
2K Games Songs LLC	Delaware
2K Games Sounds LLC	Delaware
2K Games Tunes LLC	Delaware
2K Studios Montreal, Inc.	Quebec
2K Vegas, Inc.	Delaware
2KSports, Inc.	Delaware
A.C.N. 617 406 550 Pty Ltd.	Australia
A.C.N. 633 146 291 Pty Ltd.	Australia
Cat Daddy Games, L.L.C.	Washington
DMA Design Holdings Limited	United Kingdom
Double Take LLC	Delaware
Firaxis Games, Inc.	Delaware
Frog City Software, Inc.	Delaware
Gathering of Developers, Inc.	Texas
Gearhead Entertainment, Inc.	Pennsylvania
Glennco Games, LLC	Delaware
Hangar 13 UK Limited	United Kingdom
Indie Built, Inc.	Delaware
Inventory Management Systems, Inc.	Delaware
Ghost Story Games, LLC	Delaware
Joytech Europe Limited	United Kingdom
Joytech Ltd.	Hong Kong
Kush Games, Inc.	California
Maxcorp Ltd.	Bermuda
Parrot Games, S.L.U.	Spain
Rockstar Events Inc.	New York
Rockstar Games, Inc.	Delaware
Rockstar Games Songs LLC	Delaware
Rockstar Games Sounds LLC	Delaware
Rockstar Games Toronto ULC	British Columbia
Rockstar Games Tunes LLC	Delaware
Rockstar Games Vancouver ULC	British Columbia
Rockstar Interactive India LLP	India
Rockstar International Limited	United Kingdom
Rockstar Leeds Limited	United Kingdom

<u>Name</u>	<u>Jurisdiction of Incorporation</u>
Rockstar Lincoln Limited	United Kingdom
Rockstar London Limited	United Kingdom
Rockstar New England, Inc.	Delaware
Rockstar North Limited	United Kingdom
Rockstar San Diego, Inc.	Virginia
Social Point, K.K.	Japan
Social Point, S.L.	Spain
T2 Developer, Inc.	Delaware
Take 2 Interactive Software Pty. Ltd.	Australia
Take 2 Productions, Inc.	Delaware
Take-Two Asia Pte. Ltd.	Singapore
Take-Two Chile SpA	Chile
Take-Two Contracting, LLC	Delaware
Take-Two Esports Holdings, LLC	Delaware
Take-Two Europe (Holdings) Limited	United Kingdom
Take-Two GB Limited.	United Kingdom
Take-Two Holdings III LLC	Delaware
Take-Two Holdings II LLC	Delaware
Take Two Holdings LLC	Delaware
Take-Two Hong Kong Limited	Hong Kong
Take-Two Interactive Benelux B.V.	Netherlands
Take-Two Interactive Canada Holdings, Inc.	Ontario
Take-Two Interactive Canada, Inc.	Ontario
Take-Two Interactive Espana S.L.	Spain
Take-Two Interactive France SAS	France
Take-Two Interactive GmbH	Germany
Take-Two Interactive Japan G.K.	Japan
Take-Two Interactive Korea Ltd.	South Korea
Take-Two Interactive Software Europe Limited	United Kingdom
Take-Two Interactive Software UK Limited	United Kingdom
Take-Two International B.V.	Netherlands
Take-Two International Holdings L.P.	Cayman Islands
Take-Two Invest Espana, S.L.	Spain
Take-Two Talent, LLC	Delaware
Take-Two UK Holdings Limited	United Kingdom
Take-Two Vegas, LLC	Delaware
Take Two International GmbH	Switzerland
Talonsoft, Inc.	Delaware
Techcorp Ltd.	Hong Kong
Venom Games Limited	United Kingdom
Visual Concepts China Co., Ltd.	China
Visual Concepts Entertainment	California
Visual Concepts Hungary Kft	Hungary
VLM Entertainment Group, Inc.	Delaware
WC Holdco, Inc.	New York

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

Section 302 Certification

I, Strauss Zelnick, certify that:

1. I have reviewed this Annual Report on Form 10-K of Take-Two Interactive Software, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

May 13, 2019

/s/ STRAUSS ZELNICK
Strauss Zelnick
Chairman and Chief Executive Officer

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Section 302 Certification

I, Lainie Goldstein, certify that:

1. I have reviewed this Annual Report on Form 10-K of Take-Two Interactive Software, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

May 13, 2019

/s/ LAINIE GOLDSTEIN
Lainie Goldstein
Chief Financial Officer

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES

**CERTIFICATION PURSUANT TO
18 U. S. C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Take-Two Interactive Software, Inc. (the “Company”) on Form 10-K for the period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Strauss Zelnick, as Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 13, 2019

/s/ STRAUSS ZELNICK
Strauss Zelnick
Chairman and Chief Executive Officer

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES

**CERTIFICATION PURSUANT TO
18 U. S. C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Take-Two Interactive Software, Inc. (the “Company”) on Form 10-K for the period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Lainie Goldstein, as Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 13, 2019

/s/ LAINIE GOLDSTEIN
Lainie Goldstein
Chief Financial Officer

OFFICERS

STRAUSS ZELNICK

Chairman and
Chief Executive Officer

KARL SLATOFF

President

LAINIE GOLDSTEIN

Chief Financial Officer

DANIEL P. EMERSON

Executive Vice President and
Chief Legal Officer

BOARD OF DIRECTORS

STRAUSS ZELNICK

Chairman

MICHAEL DORNEMANN

Lead Independent Director

J MOSES

MICHAEL SHERESKY

LaVERNE SRINIVASAN

SUSAN TOLSON

PAUL VIERA

CORPORATE OFFICES

CORPORATE HEADQUARTERS

Take-Two Interactive Software, Inc.
110 West 44th Street
New York, NY 10036
(646) 536-2842

Take-Two Interactive
Software Europe, Ltd.
Saxon House
2-4 Victoria Street
Windsor, Berkshire SL4 1EN

Take-Two Asia Pte. Ltd.
47 Scotts Road
#11-01 Goldbell Towers
Singapore 228233

PRINCIPAL OPERATING OFFICES

Rockstar Games, Inc.
622 Broadway
New York, NY 10012

2K Games, Inc.
2K Sports, Inc.
10 Hamilton Landing
Novato, CA 94949

CORPORATE INFORMATION

STOCKHOLDER INFORMATION

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, will be furnished without charge upon written request to Investor Relations at the Corporate Headquarters.

INVESTOR RELATIONS

IR@take2games.com

INDEPENDENT AUDITORS

Ernst & Young LLP
5 Times Square
New York, NY 10036

TRANSFER AGENT

American Stock Transfer
& Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219

COMMON STOCK INFORMATION

The Company's common stock is listed on the NASDAQ Global Select Market under the symbol TTWO.

www.take2games.com



TAKE-TWO INTERACTIVE SOFTWARE, INC.

110 West 44th Street
New York, NY 10036
(646) 536-2842

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