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## **FORM 10-Q**

**TAKE TWO INTERACTIVE SOFTWARE INC - TTWO**

**Filed: September 10, 2007 (period: July 31, 2007)**

Quarterly report which provides a continuing view of a company's financial position

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

**FORM 10-Q**

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

For the quarterly period ended July 31, 2007

OR

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

For the transition period from                      to

Commission file number 0-29230

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

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

**10012**  
(Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

As of September 6, 2007, there were 74,039,503 shares of the Registrant's Common Stock outstanding.

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(All other items in this report are inapplicable)

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

	July 31, 2007 (Unaudited)	October 31, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 61,625	\$ 132,480
Accounts receivable, net of allowances of \$66,371 and \$91,509 at July 31, 2007 and October 31, 2006, respectively	100,427	143,199
Inventory, net	75,790	95,520
Software development costs and licenses	126,750	85,207
Prepaid taxes and taxes receivable	39,146	60,407
Prepaid expenses and other	32,223	28,060
<b>Total current assets</b>	<b>435,961</b>	<b>544,873</b>
Fixed assets, net	46,223	47,496
Software development costs and licenses, net of current portion	33,088	31,354
Goodwill	193,091	187,681
Other intangibles, net	33,409	43,248
Other assets	16,541	14,154
<b>Total assets</b>	<b>\$ 758,313</b>	<b>\$ 868,806</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 93,305	\$ 123,947
Accrued expenses and other current liabilities	134,567	128,282
Deferred revenue	12,605	11,317
<b>Total current liabilities</b>	<b>240,477</b>	<b>263,546</b>
Deferred revenue	50,000	50,000
Line of credit	11,000	—
Other long-term liabilities	4,310	4,868
<b>Total liabilities</b>	<b>305,787</b>	<b>318,414</b>
Commitments and contingencies		
Stockholders' Equity:		
Common Stock, \$.01 par value, 100,000 shares authorized; 73,987 and 72,745 shares issued and outstanding at July 31, 2007 and October 31, 2006, respectively	740	727
Additional paid-in capital	505,293	482,104
Retained earnings (accumulated deficit)	(70,684)	60,659
Accumulated other comprehensive income	17,177	6,902
<b>Total stockholders' equity</b>	<b>452,526</b>	<b>550,392</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 758,313</b>	<b>\$ 868,806</b>

*See accompanying Notes.*

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

	Three months ended July 31,		Nine months ended July 31,	
	2007	2006	2007	2006
Net revenue	\$ 206,415	\$ 241,181	\$ 689,191	\$ 771,284
Cost of goods sold	168,279	184,055	532,086	640,719
Gross profit	38,136	57,126	157,105	130,565
Selling and marketing	35,223	27,585	98,406	101,423
General and administrative	34,703	44,260	113,788	116,276
Research and development	11,210	17,406	37,296	51,212
Business reorganization and related	7,100	—	16,062	—
Impairment of long-lived assets	—	8,529	—	14,778
Depreciation and amortization	7,006	6,290	20,743	19,778
Total operating expenses	95,242	104,070	286,295	303,467
Loss from operations	(57,106)	(46,944)	(129,190)	(172,902)
Interest income and other, net	748	1,199	2,632	1,456
Loss before income taxes	(56,358)	(45,745)	(126,558)	(171,446)
Provision (benefit) for income taxes	2,188	45,634	4,785	(572)
Net loss	\$ (58,546)	\$ (91,379)	\$ (131,343)	\$ (170,874)
Basic and diluted loss per share	\$ (0.81)	\$ (1.29)	\$ (1.83)	\$ (2.41)
Basic and diluted weighted average shares outstanding	72,075	71,095	71,714	70,954

See accompanying Notes.

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

	Nine months ended July 31,	
	2007	2006
<b>Operating activities:</b>		
Net loss	\$ (131,343)	\$ (170,874)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Amortization and write-off of software development costs, licenses and intellectual property	88,806	129,317
Depreciation and amortization of long-lived assets	20,743	19,778
Impairment of long-lived assets	—	14,778
Stock-based compensation	10,346	14,419
Provision (benefit) for deferred income taxes	(159)	19,540
Provision for price concessions, sales allowances and doubtful accounts	79,145	127,017
Foreign currency transaction gain and other	(805)	(1,031)
Changes in assets and liabilities, net of effect from purchases of businesses:		
Accounts receivable	(30,872)	(25,351)
Inventory	19,730	53,006
Software development costs and licenses	(117,447)	(108,717)
Prepaid expenses, other current and other non-current assets	16,652	(35,955)
Accounts payable, accrued expenses, deferred revenue and other liabilities	(27,551)	48,435
Total adjustments	58,588	255,236
Net cash (used for) provided by operating activities	(72,755)	84,362
<b>Investing activities:</b>		
Purchase of fixed assets	(16,629)	(18,600)
Payments for purchases of businesses, net of cash acquired	(982)	(191)
Net cash used for investing activities	(17,611)	(18,791)
<b>Financing activities:</b>		
Proceeds from exercise of options	5,501	2,787
Borrowings on line of credit	11,000	—
Payment of debt issuance costs	(1,764)	—
Excess tax benefit on exercise of stock options	—	163
Net cash provided by financing activities	14,737	2,950
Effects of exchange rates on cash and cash equivalents	4,774	3,414
Net (decrease) increase in cash and cash equivalents	(70,855)	71,935
Cash and cash equivalents, beginning of year	132,480	107,195
Cash and cash equivalents, end of period	\$ 61,625	\$ 179,130

See accompanying Notes.

**TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**(Dollars in thousands, except share and per share amounts)**

**1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

Take-Two Interactive Software, Inc. (“the Company”, “we”, “us”, or similar pronouns) is a leading global publisher, developer and distributor of interactive entertainment software, hardware and accessories. Our publishing segment, which consists of Rockstar Games, 2K Games, 2K Sports and 2K Play, develops, markets and publishes software titles for the following leading gaming and entertainment hardware platforms:

Sony	Microsoft	Nintendo
PLAYSTATION®3	Xbox 360™	Wii™
PlayStation®2	Xbox®	DS™
PSP® (PlayStation®Portable)		Game Boy® Advance

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

**Basis of Presentation**

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

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”), although we believe that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements and accompanying notes should be read in conjunction with our annual consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K for the year ended October 31, 2006.

**Reclassifications**

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

**Earnings Per Share**

Basic earnings per share (“EPS”) is computed by dividing the net income applicable to common stockholders for the period by the weighted average number of common shares outstanding during the same period. Diluted EPS is computed by dividing the net income applicable to common stockholders for the period by the weighted average number of common stock and common stock equivalents, which include common shares issuable upon the exercise of stock options, restricted stock and warrants

outstanding during the same period. For the three and nine months ended July 31, 2007 and 2006, common stock equivalents are excluded from our computation of diluted weighted average shares outstanding because their effect is antidilutive. The number of common stock equivalents excluded was approximately 6,024,000 for the three and nine months ended July 31, 2007 and 7,776,000 for the three and nine months ended July 31, 2006. For the three and nine months ended July 31, 2007, we issued 498,000 and 1,387,000, respectively, of shares of common stock in connection with stock option exercises and restricted stock awards.

### **Recently Issued Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, *Fair Value Measurements* (“SFAS 157”), which clarifies the definition of fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurement. SFAS 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 will be effective for us on November 1, 2008. We are currently assessing whether the adoption of SFAS 157 will have an impact on our financial statements.

In September 2006, the SEC released Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (“SAB 108”). SAB 108 provides interpretive guidance on the SEC’s views on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provisions of SAB 108 will be effective for us on November 1, 2007. We are currently evaluating the impact of applying SAB 108 but do not believe that its application will have a material effect on our financial position, cash flows, or results of operations.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109* (“FIN 48”), to create a single model to address the accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 will be effective for us beginning November 1, 2007. The cumulative-effect of adopting FIN 48 will be recorded to opening retained earnings. Management is currently evaluating what effect, if any, the adoption of FIN 48 will have on our consolidated financial statements.

## **2. BUSINESS REORGANIZATION AND RELATED CHARGES**

### ***Management Change***

At our Annual Stockholders’ Meeting held on March 29, 2007 (the “Annual Meeting”), our stockholders elected to our Board of Directors (the “Board”) five new directors and one incumbent director (the “Alternative Slate”), rather than the six incumbent directors nominated and recommended by our incumbent Board. Immediately following the Annual Meeting, the newly elected Board removed our former President and Chief Executive Officer (“CEO”) and elected a new Chairman and CEO and one additional incumbent director. Our former Chief Financial Officer (“CFO”) resigned shortly thereafter. In April 2007, we entered into separation agreements with our former CEO and CFO.

We entered into a management agreement with ZelnickMedia Corporation (“ZelnickMedia”) on March 30, 2007. ZelnickMedia has agreed to provide financial and management consulting services to us and our Board for an initial term through October 31, 2011. During the term of the agreement, ZelnickMedia will receive an annual management fee of \$750 and a bonus of up to \$750 per fiscal year based on achieving and exceeding a budgeted earnings level. Also pursuant to the management agreement,



we issued 2,009,075 stock options to ZelnickMedia at an exercise price of \$14.74 per share, in August 2007. No stock-based compensation expense was recorded in connection with this agreement for the three or nine months ended July 31, 2007.

Our newly elected Chairman and CEO are principals of ZelnickMedia and the cost for their services to us is covered by our management agreement with ZelnickMedia. Except for health benefits provided to our CEO and reimbursement of expenses, our newly elected Chairman and CEO are not directly compensated by the Company.

Prior to our Annual Meeting, we explored the possibility of presenting alternatives to our stockholders, including the possible sale of the Company, other than the Company's proposals set forth in its Proxy Statement for the Annual Meeting and the Alternative Slate proposed by a group of the Company's stockholders, and as a result incurred substantial professional fees, including approximately \$2,000 for investment banking services and approximately \$1,010 for reimbursement of certain expenses incurred by ZelnickMedia, a related party to the Company.

### **Reorganization and related charges**

We initiated a business reorganization plan in the second quarter of 2007, which includes initiatives to consolidate functions in central locations. As a result, we have incurred employee termination, relocation, and lease termination costs. In addition, we incurred severance and professional fees related to our former management team. In total, we expect to record approximately \$25 million of business reorganization and related costs through the remainder of our fiscal year ending October 31, 2007 and into fiscal year 2008. These charges consist of approximately \$15 million of restructuring costs related to our cost savings initiatives and approximately \$10 million of expenses related to our management and board changes. For the three and nine months ended July 31, 2007, we recorded business reorganization and related charges as follows:

	Three months ended July 31, 2007	Nine months ended July 31, 2007
Employee termination costs	\$ 4,391	\$ 9,578
Lease termination and relocation costs	2,215	2,215
Professional fees and other	494	4,269
<b>Total business reorganization and related</b>	<b>\$ 7,100</b>	<b>\$ 16,062</b>

The following table summarizes activity in accrued business reorganization costs:

	Costs incurred through July 31, 2007	Utilization through July 31, 2007		Accrual as of July 31, 2007(a)
		Non-cash	Cash	
Employee termination costs	\$ 9,578	\$ (2,065)	\$ (6,681)	\$ 832
Lease termination and relocation costs	2,215	—	(2,150)	65
Professional fees and other	4,269	—	(3,874)	395
<b>Total business reorganization and related</b>	<b>\$ 16,062</b>	<b>\$ (2,065)</b>	<b>\$ (12,705)</b>	<b>\$ 1,292</b>

(a) Included in accrued expenses and other current liabilities

### 3. COMPREHENSIVE LOSS

Components of comprehensive loss are as follows:

	Three months ended July 31,		Nine months ended July 31,	
	2007	2006	2007	2006
Net loss	\$ (58,546)	\$ (91,379)	\$ (131,343)	\$ (170,874)
Foreign currency translation adjustment	3,465	891	10,275	5,246
Comprehensive loss	\$ (55,081)	\$ (90,488)	\$ (121,068)	\$ (165,628)

### 4. INVENTORY, NET

Inventory balances by category are as follows:

	July 31, 2007	October 31, 2006
Finished products, net	\$ 71,088	\$ 88,337
Parts and supplies, net	4,702	7,183
Inventory, net	\$ 75,790	\$ 95,520

Estimated product returns included in inventory at July 31, 2007 and October 31, 2006 are \$6,378 and \$8,603, respectively.

### 5. SOFTWARE DEVELOPMENT COSTS AND LICENSES

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

	July 31, 2007		October 31, 2006	
	Current	Non-current	Current	Non-current
Software development costs, internally developed	\$ 117,425	\$ 7,371	\$ 58,517	\$ 17,783
Software development costs, externally developed	6,035	21,617	20,731	11,764
Licenses	3,290	4,100	5,959	1,807
Software development costs and licenses	\$ 126,750	\$ 33,088	\$ 85,207	\$ 31,354

Amortization and write-off of software development costs and licenses for the three and nine months ended July 31, 2007 and 2006 was \$38,531 and \$81,528, respectively, and \$33,444 and \$120,888, respectively.

Software development costs and licenses as of July 31, 2007 and October 31, 2006 include \$141,871 and \$91,248, respectively, related to titles that have not been released.

## 6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	July 31, 2007	October 31, 2006
Software development costs	\$ 28,623	\$ 43,724
Compensation and benefits	24,937	19,055
Licenses	24,018	13,723
Accrued taxes	19,027	19,872
Rent and deferred rent obligations	10,050	7,234
Professional fees	9,566	8,399
Deferred consideration for acquisitions	5,813	2,000
Marketing and promotions	4,653	5,042
Other	7,880	9,233
<b>Total</b>	<b>\$ 134,567</b>	<b>\$ 128,282</b>

## 7. CREDIT AGREEMENT

On July 3, 2007, we entered into a credit agreement with Wells Fargo Foothill, Inc. (the "Credit Agreement"), which provides for a revolving credit facility in an amount equal to the lesser of (a) the aggregate principal amount of \$100,000 (one-hundred million) or (b) the borrowing base (the "Credit Facility"). The borrowing base consists of the sum of 85% of eligible accounts receivable (net of certain reserves), plus 65% of eligible inventory (net of certain reserves), plus \$25,000. The Credit Facility is secured by substantially all of our U.S. based assets and the equity of our domestically incorporated subsidiaries. Revolving loans under the Credit Agreement will bear interest at our election of (a) 0.50% to 1.00% above a certain base rate (9.25% at July 31, 2007), or (b) 1.75% to 2.25% above the LIBOR Rate (7.61% at July 31, 2007), with the margin rate subject to the achievement of certain average liquidity levels. We are also required to pay a fee of 0.375% of the unused balance of the Credit Facility. The Credit Facility matures on July 3, 2012. As of July 31, 2007, we borrowed \$11,000 and had \$89,000 available for borrowings under the line of credit.

The Credit Agreement also allows for the issuance of letters of credit in an aggregate amount of up to \$25,000. Any letters of credit outstanding reduce availability under the revolving line of credit. We are required to pay a fee of 0.825% per annum multiplied by the unused portion of the outstanding letter of credit. We had no letters of credit outstanding at July 31, 2007.

The Credit Agreement substantially limits the Company and its domestic 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 their respective properties; make investments; or pay dividends or make distributions (each subject to certain limitations). In addition, the Credit Agreement provides for certain events of default such as nonpayment of principal and interest, breaches of representations and warranties, noncompliance with covenants, acts of insolvency, default on indebtedness held by third parties and default on certain material contracts (subject to certain limitations and cure periods). Beginning in November 2007, the Credit Agreement also contains a requirement that we maintain an interest coverage ratio of more than one to one for the trailing twelve month period, if the liquidity of our domestic operations falls below \$30,000 (including available borrowings under the credit facility), based on a 30-day average. As of July 31, 2007, the Company is in compliance with all covenants and requirements outlined in the Credit Agreement.

Debt issuance costs capitalized in connection with the Credit Agreement totaled \$1,764 and are being amortized over the five year term of the Credit Facility. Amortization related to these costs is included in interest expense in the condensed consolidated statements of operations.

In May 2006, our European subsidiary renewed its Credit Facility agreement with Lloyds TSB Bank plc (“Lloyds”) under which Lloyds agreed to make available net borrowings of up to £13,100 (approximately \$26,500 at July 31, 2007). The Credit Facility is primarily secured by the Company’s international cash and accounts receivable balances. Advances under the Credit Facility bear interest at the rate of 1.25% per annum over the bank’s base rate, and are guaranteed by the Company. Available borrowings under the agreement are reduced by the amount of outstanding guarantees. The Credit Facility expired on July 31, 2007, however Lloyds has continued to extend us credit on a temporary basis under an informal agreement. The Company had no outstanding borrowings under this facility as of July 31, 2007.

## 8. LEGAL AND OTHER PROCEEDINGS

Various lawsuits, claims, proceedings and investigations are pending involving us and certain of our subsidiaries. In accordance with SFAS No. 5, *Accounting for Contingencies*, we record accruals for such contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated.

### *Legal Proceedings*

In July 2005, we received four complaints for purported class actions. Two of the four complaints were filed in the United States District Court for the Southern District of New York, one was filed in the United States District Court, Eastern District of Pennsylvania, and one was filed in the Circuit Court in St. Clair County, Illinois. The plaintiffs, alleged purchasers of the Company’s *Grand Theft Auto: San Andreas* game, assert that we engaged in consumer deception, false advertising and breached an implied warranty of merchantability and were unjustly enriched as a result of our alleged failure to disclose that *Grand Theft Auto: San Andreas* contained “hidden” content, which resulted in the game receiving a Mature 17+ (“M”) rating from the Entertainment Software Rating Board (“ESRB”) rather than an Adults Only 18+ (“AO”) rating. The complaints seek unspecified damages, declarations of various violations of law and litigation costs. In January 2006, the City of Los Angeles filed a complaint against us in the Superior Court of the State of California alleging violations of California law on substantially the same basis.

The state court actions were removed to federal court (a motion to remand filed by the City of Los Angeles is pending) and the Judicial Panel on Multidistrict Litigation transferred all the cases to the U.S. District Court for the Southern District of New York, which consolidated them under the caption *In re Grand Theft Auto Video Game Consumer Litigation (No. II), 06-MD-1739 (SWK)(MHD)*. The plaintiffs have filed a motion seeking certification of a nationwide class, which motion is pending. The parties have engaged in settlement discussion.

In February and March 2006, an aggregate of four purported class action complaints were filed against us, our former Chief Executive Officer, our former Chief Financial Officer, our former Global Chief Operating Officer, and four of our former directors in the United States District Court for the Southern District of New York (the “New York Actions”). A fourth complaint brought in Michigan was voluntarily dismissed. The complaints allege that we violated Sections 10(b), 20(a) and Rule 10b-5 of the Securities Exchange Act of 1934 (“Exchange Act”) by making or causing us to make untrue statements or failing to disclose in certain press releases and SEC periodic reports that, among other things, *Grand Theft Auto: San Andreas* contained “hidden” content which should have resulted in the game receiving an “AO” rating from the ESRB rather than an “M” rating. The plaintiffs seek to recover unspecified damages and their costs. In July 2006, the court appointed a lead plaintiff. In September 2006, the lead plaintiff filed a consolidated amended complaint which included claims regarding *Grand Theft Auto: San Andreas* as well as claims relating to the backdating of stock options. This complaint was filed against us, our former Chief Executive Officer, our former Chief Financial Officer, our former Chairman of the Board, and two officers of our Rockstar Games subsidiary. On April 16, 2007, the lead plaintiff filed a second amended complaint which included additional allegations based on an investigation conducted by the Special Litigation

Committee of the Board of Directors, currently comprised of Strauss Zelnick, John Levy and Grover Brown (the “Special Litigation Committee”), of options backdating and the Company’s restatement of financial statements relating to options backdating. This complaint was filed against us, our former Chief Executive Officer, our former Chief Financial Officer, our former Chairman of the Board, two of our directors and one former director, our Rockstar Games subsidiary, and one officer and one former officer of Rockstar Games. The Company filed a motion to dismiss on June 25, 2007. In January 2006, the St. Clair Shores General Employees Retirement System filed a purported class and derivative action complaint in the Southern District of New York against us, as nominal defendant, and certain of our directors and certain former officers and directors. The factual allegations in this action are similar to the allegations contained in the New York Actions. The plaintiff asserts that certain defendants breached their fiduciary duty by selling their stock while in possession of certain material non-public information and that we violated Section 14(a) and Rule 14a-9 of the Exchange Act by failing to disclose material facts in our 2003, 2004 and 2005 proxy statements in which we solicited approval to increase share availability under our 2002 Stock Option Plan. The plaintiff seeks the return of all profits from the alleged insider trading conducted by the individual defendants who sold Company stock, unspecified compensatory damages with interest and their costs in the action. In October 2006, the Court issued an order granting our motion to stay this complaint, pending an investigation by the Special Litigation Committee, for a period of 150 days. On January 17, 2007, the plaintiffs moved for an order granting limited relief from the Court’s October 4, 2006 stay of the proceedings in order to file an Amended Derivative and Class Action Complaint. On February 22, 2007, counsel for the Special Litigation Committee advised the Court that the Special Litigation Committee had completed its investigation and rendered a report. On March 23, 2007, counsel for the Special Litigation Committee moved to dismiss the complaint based on, among other things, its conclusion that “future pursuit of this action is not in the best interests of Take-Two or its shareholders.” The plaintiff subsequently conducted discovery concerning the Special Litigation Committee’s motion to dismiss. On August 24, 2007, plaintiff filed an Amended Derivative and Class Action Complaint. The Amended Derivative and Class Action Complaint alleges among other things that defendants breached their fiduciary duties in connection with the issuance of proxy statements in 2001, 2002, 2003, 2004 and 2005.

In July 2006, Richard Lasky filed a purported derivative action complaint in the Southern District of New York against us, as nominal defendant, and certain of our directors and certain former officers and directors. The complaint alleges violations of federal and state law, including breaches of fiduciary duties, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment and further alleges that defendants breached their fiduciary duties in connection with the granting of stock options between January 1997 and the present. The complaint seeks unspecified damages against all of the individual defendants, reimbursement from certain of the defendants of bonuses or other incentive or equity based compensation paid to them by the Company during our fiscal year ended October 31, 2003, equitable and other relief relating to the proceeds from certain of the defendants’ alleged improper trading activity in Company stock, adoption of certain corporate governance proposals and recovery of litigation costs.

In August 2006, a shareholder derivative complaint was filed by Raeda Karadsheh in the United States District Court of the Southern District of New York against us, as nominal defendant, and certain of our current and former officers and directors. The Karadsheh Complaint asserts claims related to the Company’s stock option granting practices. The Lasky and Karadsheh actions were consolidated in November 2006. The plaintiffs filed a consolidated complaint on January 22, 2007, which focuses exclusively on our historical stock option granting practices. These matters have been referred to the Special Litigation Committee. On September 7, 2007, the Special Litigation Committee moved to dismiss certain parties from the litigation and further moved that any claims against the remaining parties be assigned to the Company for disposition by the Company’s management and board of directors.

In February 2005, the personal representatives of the Estates of Arnold Strickland, James Crump and Ace Mealer brought an action in the Circuit Court of Fayette County, Alabama against the Company, Sony Computer Entertainment America Inc. (“SCEA”), Sony Corporation of America (“SCA”), Wal-Mart, GameStop and Devin Moore, alleging under Alabama’s manufacturers’ liability and wrongful death statutes, that our video games designed, manufactured, marketed and/or supplied to Mr. Moore resulted in “copycat violence” that caused the death of Messrs. Strickland, Crump and Mealer. The suit seeks damages (including punitive damages) against all of the defendants in excess of \$600 million. Our motion to dismiss the action was denied and we moved to dismiss for lack of personal jurisdiction (which motion is pending before the Alabama Supreme Court). In April 2006, the plaintiffs amended the complaint to add a claim for civil conspiracy; the Company moved to dismiss that claim and the motion is pending. Under the most recent Amended Scheduling Order, all fact and expert discovery was to have been completed by June 15, 2007, with a mediation on November 8, 2007 and trial, if necessary, to commence no earlier than January 18, 2008. Due to issues that arose in expert discovery, however, the Amended Scheduling Order was suspended. We expect the trial court to issue a further amended scheduling order within the next two months, extending all such deadlines by at least 90 to 120 days from the date of issuance of a new Scheduling Order. The Company believes that the claims are without merit and that this action is similar to lawsuits brought and uniformly dismissed by courts in other jurisdictions.

In September 2006, personal representatives of the estate of Delbert and Tyrone Posey and Marilea Schmid brought an action against us, Sony and Cody Posey in the Second Judicial District Court of Bernalillo County, New Mexico, alleging that *Grand Theft Auto: Vice City* resulted in “copycat” violence that caused the deaths of the above named individuals in violation of New Mexico’s product liability statute. The suit seeks damages (including punitive damages) against all of the defendants in excess of \$600 million. SCEA and SCA have tendered their defense and requested indemnification from us, and we have accepted such tender. We received copies of the Complaint and Summonses in December 2006, and we moved to dismiss the Complaint on January 19, 2007. We have filed motions to dismiss for failure to state a claim, as well as a motion to dismiss for lack of personal jurisdiction. The motions are currently pending. The plaintiffs have requested jurisdictional discovery. The Court has scheduled a hearing on the motions for September 13, 2007, though the Plaintiffs’ counsel has requested a continuance. The Company believes that the claims are without merit and that this action is similar to lawsuits brought and uniformly dismissed by courts in other jurisdictions.

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

#### *Other Matters*

We have received grand jury subpoenas issued by the District Attorney of the County of New York requesting production of documents covering various periods beginning on January 1, 1997, including those relating to, among other things: the so-called “Hot Coffee” scenes in *Grand Theft Auto: San Andreas*; the work of our Board of Directors, all Board Committees, and the Special Litigation Committee; certain acquisitions entered into by us; billing and payment records relating to PricewaterhouseCoopers LLC (“PWC”) and the termination of PWC as the Company’s auditors; communications to financial analysts and stockholders about acquisitions and financial results; compensation and human resources documents of certain of the Company’s directors and employees and former directors and employees; stock-based compensation; the SEC’s July 2006 inquiry; legal services performed for employees; corporate credit card and expense records of certain individuals; the SEC bar of the our former Chief Executive Officer, Ryan Brant; the resolution to amend our Incentive Stock Plan; and ethics, securities, and conflict of

interest policies and questionnaires. We have fully cooperated and provided the documents and information called for by the subpoenas.

In July 2006, we received notice from the SEC that it was conducting an informal non-public investigation of certain stock option grants made from January 1997 to present and in April 2007 we received notice from the SEC that it was conducting a formal investigation of such stock option grants. As a result of the Special Litigation Committee's internal review of our option grants, in February 2007 we restated our financial statements for prior periods in our Annual Report on Form 10-K for the year ended October 31, 2006. On August 9, 2007, we received a "Wells" call from the Staff of the Division of Enforcement (the "Staff") of the SEC during which the Staff informed us that it intends to seek authority from the SEC to file charges in connection with its investigation, and that it also intends to seek authority from the SEC to seek a civil monetary penalty. The Staff informed us that we could make a submission to the SEC and the Staff that we thought appropriate (a "Wells" submission). The Staff informed the Company that it would consider the content of the Wells submission and provide the submission to the SEC before the SEC ultimately makes a decision on whether to charge or penalize the Company. We continue to cooperate with the Staff and continue to expect to resolve this investigation by means of a settlement rather than a contested litigation of charges, and believe that the "Wells" call represents a significant step forward towards that resolution.

The Company has been in contact with and has received requests for information from taxing authorities for records relating to the grant and exercise of options and tax deductions taken by the Company from October 2000 to October 2004.

In connection with its investigation, the Special Litigation Committee determined that certain stock options issued by the Company to certain members of our Board of Directors ("Independent Directors"), were improperly dated. As a result, and in connection with our remedial measures, we entered into an agreement (the "Agreement") with each of the relevant Independent Directors whereby the Independent Directors agreed to remit to the Company any after-tax gains that they realized as a result of the improper grant dates. In the event that certain grants remained unexercised, we re-priced such stock options to reflect an appropriate price for which such stock options should have been deemed granted. The Agreement was entered into voluntarily by the Company and the Independent Directors, none of whom served on the Special Litigation Committee. In addition, the Company has subsequently entered into similar agreements with certain former members of management who received improperly dated stock options.

We are also involved in other routine litigation in the ordinary course of business, which in our opinion will not have a material adverse effect on our financial condition, cash flows or results of operations.

## **9. SEGMENT AND GEOGRAPHIC INFORMATION**

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

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

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

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

Information about our reportable segments is as follows:

Net revenue:	Three months ended July 31,		Nine months ended July 31,	
	2007	2006	2007	2006
Publishing	\$ 156,837	\$ 192,149	\$ 472,756	\$ 550,497
Distribution	49,578	49,032	216,435	220,787
<b>Total net revenue</b>	<b>\$ 206,415</b>	<b>\$ 241,181</b>	<b>\$ 689,191</b>	<b>\$ 771,284</b>

Gross profit:	Three months ended July 31,		Nine months ended July 31,	
	2007	2006	2007	2006
Publishing	\$ 34,214	\$ 50,648	\$ 138,586	\$ 109,870
Distribution	3,922	6,478	18,519	20,695
<b>Total gross profit</b>	<b>\$ 38,136</b>	<b>\$ 57,126</b>	<b>\$ 157,105</b>	<b>\$ 130,565</b>

	July 31, 2007			October 31, 2006		
	Publishing	Distribution	Total	Publishing	Distribution	Total
Accounts receivable, net	\$ 79,311	\$ 21,116	\$ 100,427	\$ 109,974	\$ 33,225	\$ 143,199
Inventory, net	28,958	46,832	75,790	35,068	60,452	95,520
Total assets	632,841	125,472	758,313	710,467	158,339	868,806

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

Net revenue by geographic region:	Three months ended July 31,		Nine months ended July 31,	
	2007	2006	2007	2006
United States	\$ 146,013	\$ 140,710	\$ 481,416	\$ 470,532
Canada	14,833	14,256	42,547	66,013
North America	160,846	154,966	523,963	536,545
United Kingdom	11,412	15,589	44,968	54,625
Continental Europe	24,883	58,740	90,460	152,395
Asia Pacific and other	9,274	11,886	29,800	27,719
<b>Total net revenue</b>	<b>\$ 206,415</b>	<b>\$ 241,181</b>	<b>\$ 689,191</b>	<b>\$ 771,284</b>



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

Net revenue by product platform:	Three months ended July 31,		Nine months ended July 31,	
	2007	2006	2007	2006
<b>Publishing:</b>				
Microsoft Xbox 360	\$ 53,018	\$ 45,525	\$ 109,271	\$ 139,995
Sony PlayStation 3	30,875	—	57,066	—
Sony PlayStation 2 and PlayStation	28,738	75,461	146,516	162,637
PC	12,753	37,560	50,755	98,512
Sony PSP	10,668	11,607	60,591	79,753
Nintendo Wii	10,164	—	10,164	—
Nintendo handheld devices	4,204	1,843	8,526	9,685
Peripherals and other	4,323	4,176	17,202	19,192
Microsoft Xbox	2,058	13,507	12,268	36,395
Nintendo GameCube	36	2,470	397	4,328
<b>Total publishing</b>	<b>156,837</b>	<b>192,149</b>	<b>472,756</b>	<b>550,497</b>
<b>Distribution:</b>				
Hardware and peripherals	22,824	27,014	90,062	87,446
Software:				
PC	8,783	12,045	32,588	40,037
Nintendo handheld devices	5,031	4,234	35,971	37,252
Sony PlayStation 2 and PlayStation	4,959	2,285	27,682	28,505
Microsoft Xbox 360	2,595	545	8,751	4,241
Nintendo Wii	2,287	—	6,478	—
Nintendo GameCube	974	834	3,883	7,847
Sony PSP	805	846	3,309	4,353
Microsoft Xbox	751	1,229	5,453	11,106
Sony PlayStation 3	569	—	2,258	—
<b>Total distribution</b>	<b>49,578</b>	<b>49,032</b>	<b>216,435</b>	<b>220,787</b>
<b>Total net revenue</b>	<b>\$ 206,415</b>	<b>\$ 241,181</b>	<b>\$ 689,191</b>	<b>\$ 771,284</b>

## 10. SUBSEQUENT EVENT

In September 2007, we sold substantially all of the assets of our wholly owned Joytech video game accessories subsidiary, formerly part of our publishing segment, to Mad Catz Interactive, Inc. for approximately \$3,033 in cash, subject to an adjustment for final inventory balances and delivery of certain fixed assets. We do not expect this transaction to have a material impact on our results of operations or financial condition.

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

Our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is provided in addition to the accompanying condensed consolidated financial statements and footnotes to assist readers in understanding our results of operations, financial condition and cash flows. The following discussion should be read in conjunction with the MD&A included in our annual consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K for the year ended October 31, 2006.

### Overview

We are a global publisher, developer and distributor of interactive entertainment software, hardware and accessories. Our publishing segment consists of our Rockstar Games, 2K Games, 2K Sports and 2K Play publishing labels. We develop, market and publish software titles for the leading gaming and entertainment hardware platforms including Sony's PLAYSTATION®3 ("PS3") and PlayStation®2 ("PS2") computer entertainment systems; Sony's PSP® (PlayStation®Portable) ("PSP") system; Microsoft's Xbox 360™ ("Xbox 360") and Xbox® ("Xbox") video game and entertainment systems; Nintendo's Wii™ ("Wii"), GameCube™, DS™ ("DS") and Game Boy® Advance ("GBA"); and for the PC. The installed base for the prior generation of console platforms including PS2, Xbox and GameCube ("previous generation platforms") is substantial, and the release of the Xbox 360 platform in fiscal 2006 and the releases of the PS3 and Wii platforms in fiscal 2007 ("next generation platforms") will further expand the video game software market. The extent and timing of the increase in the installed base of the next generation platforms will significantly impact our business and profitability. Our plan is to diversify and continue to expand the number of titles released on the next generation platforms while continuing to market titles developed for previous generation platforms as long as economically attractive given their significant installed base.

Our strategy is to capitalize on the growth of the interactive entertainment market, particularly the expanding demographics of video game players, and focus on creating premium quality games and successful franchises for which we can create sequels. We have established a portfolio of successful proprietary software content for the major hardware platforms in a wide range of genres including action, adventure, strategy, role-playing, sports, racing, music, party and puzzle. We have created, licensed and acquired a group of highly recognizable brands to match the variety of consumer demographics we aspire to serve, ranging from children to adults and casual gamers to hard-core game enthusiasts. We expect Rockstar Games, the publisher of our *Grand Theft Auto* and *Midnight Club* franchises, to continue to be a leader in the action product category by leveraging our existing titles as well as developing new brands. We also expect 2K Games, developer of the *Civilization* series and the critically acclaimed *BioShock*, which was released in August 2007, to continue to develop new and successful franchises in the future. Our 2K Sports series, which includes *Major League Baseball 2K*, *NBA 2K*, *NHL 2K* and *College Hoops 2K*, provides more consistent year over year revenue streams because we publish them on an annual basis.

Revenue in our publishing segment is primarily derived from the sale of internally developed software titles, software titles developed on our behalf by third parties and the sale of video game accessories and peripherals. Operating margins in our publishing business are dependent in part upon our ability to continually release new, commercially successful products and to manage costs associated with business acquisitions and software product development. Although software development costs as well as the development cycle for next generation platforms have increased compared to previous generation platforms, the impact is partially offset by the higher selling prices on next generation software. We develop most of our frontline products internally, and we own major intellectual properties, which we believe best positions us financially and competitively. Operating margins associated with our externally developed titles, or titles for which we do not own the intellectual property, are generally lower because they require us to acquire licenses and provide minimum development guarantees. We continue to develop new revenue streams as they evolve, including higher margin sources such as in-game advertising,

downloadable episodic content and micro-transactions, which we expect will become more significant to our business over time.

Our distribution segment, which includes our Jack of All Games subsidiary, distributes our products as well as third-party software, hardware and accessories to retail outlets primarily in North America. Revenue in our distribution segment is derived from the sale of third-party software titles, accessories and hardware. Operating margins in our distribution business are dependent in part on the mix of software and hardware sales. Software product sales generally yield higher margins than hardware product sales.

### Third Quarter Releases

We released the following key titles in the third quarter of fiscal year 2007:

Title	Publishing Label	Internal or External Development	Platforms	Date Released
<i>Fantastic Four™: Rise of the Silver Surfer</i>	2K Games	Internal	Xbox 360, PS3	June 15, 2007
<i>Fantastic Four™: Rise of the Silver Surfer</i>	2K Games	External	Wii, PS2, DS	June 15, 2007
<i>The Darkness™</i>	2K Games	External	Xbox 360, PS3	June 26, 2007
<i>The BIGS™</i>	2K Sports	Internal	Xbox 360, PS3, Wii, PS2, PSP	June 26, 2007
<i>All-Pro Football 2K8</i>	2K Sports	Internal	Xbox 360, PS3	July 17, 2007

### Product Pipeline

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

Title	Publishing Label	Internal or External Development	Platforms	Actual / Expected Release (Fiscal Period)
<i>BioShock</i>	2K Games	Internal	Xbox 360, Games for Windows®	August 21, 2007
<i>Carnival Games™</i>	Global Star Software	Internal	Wii	August 28, 2007
<i>Rockstar Games presents Table Tennis</i>	Rockstar Games	Internal	Wii	Fourth quarter 2007
<i>Elder Scrolls IV®: Oblivion™ Game of the Year Edition(GotY)</i>	2K Games	External	Xbox 360, PC	Fourth quarter 2007
<i>NHL® 2K8</i>	2K Sports	Internal	Xbox 360, PS3, PS2	Fourth quarter 2007
<i>NBA® 2K8</i>	2K Sports	Internal	Xbox 360, PS3, PS2	Fourth quarter 2007
<i>MLB® Power Pros</i>	2K Sports	External	Wii, PS2	Fourth quarter 2007
<i>Manhunt 2</i>	Rockstar Games	Internal	Wii, PS2, PSP	Fourth quarter 2007
<i>Bully: Scholarship Edition</i>	Rockstar Games	Internal	Xbox 360, Wii	Fiscal year 2008
<i>College Hoops 2K8</i>	2K Sports	Internal	Xbox 360, PS3, PS2	Fiscal year 2008
<i>Midnight Club: Los Angeles</i>	Rockstar Games	Internal	Xbox 360, PS3	Fiscal year 2008
<i>Major League Baseball® 2K8</i>	2K Sports	Internal	Multiple platforms	Fiscal year 2008
<i>Top Spin Tennis</i>	2K Sports	Internal	Wii	Fiscal year 2008
<i>Sid Meier's Civilization® Revolution™</i>	2K Games	Internal	Xbox 360, PS3, DS, Wii	Fiscal year 2008
<i>Grand Theft Auto IV</i>	Rockstar Games	Internal	Xbox 360, PS3	Fiscal year 2008
<i>Top Spin 3</i>	2K Sports	Internal	Xbox 360, PS3	Fiscal year 2008
<i>Grand Theft Auto IV episodic content</i>	Rockstar Games	Internal	Xbox 360	Fiscal year 2008
<i>NBA® 2K9</i>	2K Sports	Internal	Multiple platforms	Fiscal year 2008
<i>NHL® 2K9</i>	2K Sports	Internal	Multiple platforms	Fiscal year 2008

### Management Reorganization

During the second quarter of 2007, our stockholders elected five new directors to our Board of Directors (the "Board") and one incumbent director rather than the six incumbent directors nominated for election by the incumbent Board. The newly elected Board elected a new Chairman, Chief Executive Officer of the

Company and one additional incumbent director, and on March 30, 2007, we entered into an agreement with ZelnickMedia Corporation (“ZelnickMedia”) for executive management services. The Board and ZelnickMedia immediately began to implement a plan to restructure our executive management team, which included entering into separation agreements with our former Chief Executive Officer and Chief Financial Officer.

ZelnickMedia agreed to provide financial and management consulting services to us and our Board for an initial term through October 31, 2011. In consideration for their services, we agreed to pay ZelnickMedia an annual management fee of \$0.8 million and a bonus of up to \$0.8 million per fiscal year based on achieving and exceeding a budgeted earnings level. We also agreed to grant to ZelnickMedia options to purchase approximately 2.5% of our outstanding common stock on a fully diluted basis, and issue shares of restricted stock, provided that our closing stock price was above \$16 on the measurement date. As of July 31, 2007, no stock-based compensation had been granted to ZelnickMedia and no stock-based compensation expense has been recorded in connection with this agreement for the three or nine months then ended. On August 27, 2007, we issued 2,009,075 options at an exercise price of \$14.74 per share and no restricted stock in connection with this agreement.

Our newly elected Chairman and CEO are principals of ZelnickMedia and the cost for their services to us is covered by our management agreement with ZelnickMedia. Except for health benefits provided to our CEO and reimbursement of expenses, our newly elected Chairman and CEO are not compensated by the Company. We have recorded approximately \$1.0 million of professional fees in the second quarter of 2007 to reimburse certain expenses incurred by ZelnickMedia, a related party to the Company.

In the second quarter of 2007, we began to implement a business reorganization plan. The priorities and progress of such plan are as follows:

1. We have taken the following measures to review and optimize our management and organizational structure:
  - We restructured our international operations to consolidate and align the marketing, sales and operational functions according to business discipline rather than geography to create a more efficient and responsive international organization.
  - We realigned label and studio administrative functions to report to their respective departments at the corporate level, thereby ensuring increased control and accountability.
  - We are in the process of consolidating the management, marketing and business development operations of the 2K Games and 2K Sports labels on the West Coast of the United States to improve access to resources, work more closely with the sports development teams, and provide a centralized organization to increase efficiency and better support the growth of these labels. We expect this to be completed in the fourth quarter of 2007.
  - We consolidated our third-party PC distribution into our North American sales operations.

We expect these action plans to reduce fixed overhead by approximately \$25 million on an annualized basis by the end of fiscal 2008. In order to achieve such annualized cost savings, we expect to incur approximately \$25 million of business reorganization and related charges, excluding any asset impairments, through fiscal year 2008. These charges consist of approximately \$15 million of restructuring costs related to our cost savings initiatives and approximately \$10 million of expenses related to our management and board changes. Through July 31, 2007, approximately \$16 million of these charges have been incurred, primarily consisting of severance, office closing costs and professional fees.

2. We continue to assess our business units and develop strategic alternatives for any business that is determined to be non-core. We are committed to restructuring and supporting these operations until we can arrive at terms that make economic sense. In September 2007, we completed the sale

of our Joytech accessories business to Mad Catz Interactive, Inc. for approximately \$3 million in cash, subject to certain purchase price adjustments.

3. We continue to seek ways to maximize the value of our critical external relationships such as those with hardware and intellectual property licensors.
4. We established a disciplined approval process for software titles and develop only those with adequate market potential in order to improve the competitiveness and profitability of our titles. In the third quarter of 2007, we formalized a product investment review committee consisting of our Chairman, CEO, and CFO and the senior management of our publishing labels and sales force. The committee will meet on a periodic basis throughout software development cycles and review development budgets, milestones, sales scenarios, expected return on investment analysis, and launch plans. The committee will also conduct retrospective reviews to assess performance versus projections.
5. We are aggressively pursuing resolution on our outstanding legal and regulatory matters. We remain in contact with the regulatory agencies to assure them of our continued cooperation.

### **Critical Accounting Policies and Estimates**

Our most critical accounting policies, which are those that require significant judgment, include: valuation of goodwill, long-lived assets and stock-based compensation; allowances for returns and price concessions; capitalization and recognition of software development costs and licenses; revenue recognition; and income taxes. In-depth descriptions of these can be found in our Annual Report on Form 10-K for the fiscal year ended October 31, 2006 (the "2006 Form 10-K"). Although there have been no material changes in the accounting policies that we disclosed in our 2006 Form 10-K, we are reiterating our policy on software development costs to provide expanded disclosure about how we determine technological feasibility for our products.

#### ***Software Development Costs***

We utilize both internal development teams and third-party software developers to develop the titles we publish.

We capitalize internal software development costs (including stock-based compensation, specifically identifiable employee payroll expense and incentive compensation costs related to the completion and release of titles), third-party production and other content costs, subsequent to establishing technological feasibility of a software title. Technological feasibility of a product includes the completion of both technical design documentation and game design documentation. Amortization of such capitalized costs is recorded on a title-by-title basis in cost of goods sold (software development costs) using (1) the proportion of current year revenues to the total revenues expected to be recorded over the life of the title or (2) the straight-line method over the remaining estimated useful life of the title, whichever is greater.

We have established an internal royalty program that allows certain of our employees to participate in the success of software titles that they assist in developing. Royalties earned by employees under this program are recorded to cost of goods sold as they are incurred.

We frequently enter into agreements with third-party developers that require us to make advance payments for game development and production services. In exchange for our advance payments, we receive the exclusive publishing and distribution rights to the finished game title as well as, in some cases, the underlying intellectual property rights. Such agreements allow us to fully recover the advance payments to the developers at an agreed royalty rate earned on the subsequent retail sales of such software, net of any agreed costs. We capitalize all advance payments to developers as software development. On a product-by-product basis, we reduce software development costs and record a corresponding amount of research and development expense for any costs incurred by third-party developers prior to establishing

technological feasibility of a product. We typically enter into agreements with third-party developers after completing the technical design documentation for our products and therefore record the design costs leading up to a signed developer contract as research and development expense. We also generally contract with third party developers that have proven technology and experience in the genre of the software being developed, which often allows for the establishment of technological feasibility early in the development cycle. In instances where 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.

We capitalize advance payments as software development costs subsequent to establishing technological feasibility of a software title and amortize them, on a title-by-title basis, as royalties in cost of goods sold. Royalty amortization is recorded using (1) the proportion of current year revenues to the total revenues expected to be recorded over the life of the title or (2) the contractual, revenue based royalty rate defined in the respective agreement, whichever is greater. At each balance sheet date, we evaluate the recoverability of advanced development payments and any other unrecognized minimum commitments that have not been paid. To the extent that advance payments are deemed unrecoverable, they are charged to cost of goods sold in the period in which such determination is made.

At each balance sheet date, or earlier if an indicator of impairment exists, we evaluate the recoverability of capitalized software costs using an undiscounted future cash flow analysis, and charge any amounts that are deemed unrecoverable to cost of goods sold. We use various measures to estimate future revenues for our software titles, including past performance of similar titles and orders for titles prior to their release. For sequels, the performance of predecessor titles is also taken into consideration.

### **Recently Issued Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, *Fair Value Measurements* (“SFAS 157”), which clarifies the definition of fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurement. SFAS 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 will be effective for us on November 1, 2008. We are currently assessing whether the adoption of SFAS 157 will have an impact on our financial statements.

In September 2006, the SEC released Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (“SAB 108”). SAB 108 provides interpretive guidance on the SEC’s views on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provisions of SAB 108 will be effective for us on November 1, 2007. We are currently evaluating the impact of applying SAB 108 but do not believe that its application will have a material effect on our financial position, cash flows, or results of operations.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109* (“FIN 48”), to create a single model to address the accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 will be effective for us beginning November 1, 2007. The cumulative-effect of adopting FIN 48 will be recorded to opening retained earnings. Management is currently evaluating what effect, if any, the adoption of FIN 48 will have on our consolidated financial statements.

## Results of Operations

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

	Three months ended July 31,		Nine months ended July 31,	
	2007	2006	2007	2006
Net revenue:				
Publishing	76.0%	79.7%	68.6%	71.4%
Distribution	24.0%	20.3%	31.4%	28.6%
Net revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	81.5%	76.3%	77.2%	83.1%
Gross profit	18.5%	23.7%	22.8%	16.9%
Selling and marketing	17.1%	11.4%	14.3%	13.1%
General and administrative	16.8%	18.4%	16.5%	15.1%
Research and development	5.4%	7.2%	5.4%	6.6%
Business reorganization and related	3.4%	0.0%	2.3%	0.0%
Impairment of long-lived assets	0.0%	3.5%	0.0%	1.9%
Depreciation and amortization	3.4%	2.6%	3.0%	2.6%
Total operating expenses	46.1%	43.2%	41.5%	39.3%
Loss from operations	(27.7)%	(19.5)%	(18.7)%	(22.4)%
Interest income and other, net	0.4%	0.5%	0.4%	0.2%
Loss before income taxes	(27.3)%	(19.0)%	(18.4)%	(22.2)%
Income taxes	1.1%	18.9%	0.7%	(0.1)%
Net loss	(28.4)%	(37.9)%	(19.1)%	(22.2)%
<b>Net revenue by geographic region:</b>				
United States and Canada	77.9%	64.3%	76.0%	69.6%
Europe, Asia-Pacific and Other	22.1%	35.7%	24.0%	30.4%
<b>Publishing revenue by platform:</b>				
Console	79.6%	71.2%	71.0%	62.3%
PC	8.1%	19.6%	10.7%	17.9%
Handheld	9.5%	7.0%	14.6%	16.3%
Accessories	2.8%	2.2%	3.7%	3.5%

### Three Months ended July 31, 2007 compared to July 31, 2006

#### Publishing

(thousands of dollars)	2007	%	2006	%	Increase/ (decrease)	% Increase/ (decrease)
Net revenue	\$ 156,837	100.0%	\$ 192,149	100.0%	\$ (35,312)	(18.4)%
Product costs	61,802	39.4%	72,691	37.8%	(10,889)	(15.0)%
Software development costs and royalties	40,600	25.9%	44,417	23.1%	(3,817)	(8.6)%
Internal royalties	3,536	2.3%	10,313	5.4%	(6,777)	(65.7)%
Licenses	16,685	10.6%	14,080	7.3%	2,605	18.5%
Cost of goods sold	122,623	78.2%	141,501	73.6%	(18,878)	(13.3)%
<b>Gross profit</b>	<b>\$ 34,214</b>	<b>21.8%</b>	<b>\$ 50,648</b>	<b>26.4%</b>	<b>\$ (16,434)</b>	<b>(32.4)%</b>

Our decrease in net revenue primarily reflects the strong prior year sales of titles from our *Grand Theft Auto* franchise, led by *Grand Theft Auto: Liberty City Stories* for PS2, which was released in June 2006. Total *Grand Theft Auto* titles were \$50.0 million higher in the 2006 period. In addition, net revenue from *Elder Scrolls IV: Oblivion*, *Midnight Club 3: DUB Edition*, and our *Civilization* series decreased \$20.7 million compared to the prior period. Partially offsetting the decrease in net revenue were sales of *The Darkness*, *Fantastic Four: Rise of the Silver Surfer*, *The BIGS* and *All-Pro Football 2K8*, all of which are new titles released in the third quarter of 2007. Net revenue from the titles released in the third quarter of 2007 were \$44.5 million higher compared to those released in the third quarter of 2006 (excluding *Grand Theft Auto: Liberty City Stories* for PS2), which were *Prey*, *The Da Vinci Code*, and *Rockstar Games presents Table Tennis*.

Net revenue earned on next generation platforms accounted for approximately 60.0% of our total net revenue in the third quarter of 2007. Net revenue earned from games published on previous generation platforms decreased 66.3%. Xbox 360 sales increased \$7.5 million or 16.5%, reflecting the increase in the platform's installed base and the additional titles released on the Xbox 360 compared to the prior period. Although consumer demand for the PS3 system has not increased as quickly as anticipated, titles released on the platform accounted for \$30.9 million of our net publishing revenue in the 2007 period. Nintendo's Wii system continues to perform well; Wii software sales accounted for \$10.2 million of our net publishing revenue in the 2007 period. We continue to invest our resources in developing Wii software and expect more titles to be released for this platform in the fourth quarter of 2007 and fiscal 2008. Sales on the PS2 platform decreased \$46.7 million or 61.9%, again reflecting the release of *Grand Theft Auto: Liberty City Stories* in June 2006, and Xbox sales decreased \$11.4 million. We expect sales on the previous generation platforms to continue to decline as a result of the continuing hardware transition and have therefore reduced the number of titles in development for these platforms. We have also continued to reduce pricing on software titles for the PS2 and Xbox platforms as the next generation hardware installed base grows. PC sales decreased \$24.8 million or 66.0% in the 2007 period due to the releases of *Prey* and *The Da Vinci Code* in the 2006 period. The third quarter 2007 releases did not include any PC titles.

Product costs as a percentage of net revenue increased slightly compared to the prior year due to a \$2.8 million write-down of inventory for a title in our European territory. Software development costs were higher as a percentage of net revenue primarily as a result of a \$3.4 million impairment charge in the third quarter of 2007 related to an unreleased title. Licenses were also higher as a percentage of net revenue, reflecting more licensed titles released in the 2007 quarter including *Fantastic Four: Rise of the Silver Surfer*, *All-Pro Football 2K8* and *The Darkness*, compared to fewer licensed title released in the third quarter of 2006 (*The Da Vinci Code*). The increase was partially offset by lower licensing costs as a percentage of net revenue on our baseball titles where we have a greater number of products planned for release than in the prior year. Offsetting the higher software development and license costs were lower internal royalties, reflecting the third quarter 2006 release of *Grand Theft Auto: Liberty City Stories* for the PS2. We did not release any Rockstar titles in the current quarter. We expect gross profit margins to increase in the fourth quarter of 2007 and into fiscal 2008 with the releases of our internally developed, wholly-owned titles such as *BioShock*, *Grand Theft Auto IV* and *Midnight Club: Los Angeles*.

Revenue earned from licensing our intellectual property to third parties increased to \$6.2 million in the third quarter of 2007 from \$2.2 million in the 2006 period, primarily related to our July 2007 release of *Grand Theft Auto: Liberty City Stories* for the PSP and PS2 in Japan. We recognize substantially higher gross profit margins on revenue earned in connection with licensing our products.

Revenue earned outside of North America accounted for approximately \$45.4 million in the third quarter of 2007 compared to \$86.2 million in the 2006 period. The year-over-year decrease was primarily attributable to strong sales of *Grand Theft Auto: Liberty City Stories* for the PSP and PS2 in the prior period. Foreign exchange rates benefited revenue by approximately \$4.1 million in the third quarter of 2007.



## Distribution

(thousands of dollars)	2007	%	2006	%	Increase/ (decrease)	% Increase/ (decrease)
Net revenue	\$ 49,578	100.0%	\$ 49,032	100.0%	\$ 546	1.1%
Cost of goods sold	45,656	92.1%	42,554	86.8%	3,102	7.3%
<b>Gross profit</b>	<b>\$ 3,922</b>	<b>7.9%</b>	<b>\$ 6,478</b>	<b>13.2%</b>	<b>\$ (2,556)</b>	<b>(39.5)%</b>

Net revenue associated with software on next generation platforms increased \$4.9 million, reflecting the increasing availability and introduction of the new platforms. We expect to see further increases in sales for next generation platforms during the fourth quarter and the 2007 holiday season. Software sales on the PS2 system increased \$2.7 million, as titles for this platform continued to be discounted and bundled to make room for next generation software. Offsetting the increase were decreased sales of PC titles of \$3.3 million and decreased hardware sales of \$3.1 million. The decrease in gross profit margin in 2007 mainly reflects reduced sales and margins of PC products.

## Operating Expenses

(thousands of dollars)	2007	% of net revenue	2006	% of net revenue	Increase/ (decrease)	% Increase/ (decrease)
Selling and marketing	\$ 35,223	17.1%	\$ 27,585	11.4%	\$ 7,638	27.7%
General and administrative	34,703	16.8%	44,260	18.4%	(9,557)	(21.6)%
Research and development	11,210	5.4%	17,406	7.2%	(6,196)	(35.6)%
Business reorganization and related	7,100	3.4%	—	0.0%	7,100	N/M
Impairment of long-lived assets	—	0.0%	8,529	3.5%	(8,529)	N/M
Depreciation and amortization	7,006	3.4%	6,290	2.6%	716	11.4%
<b>Total operating expenses(1)</b>	<b>\$ 95,242</b>	<b>46.1%</b>	<b>\$ 104,070</b>	<b>43.2%</b>	<b>\$ (8,828)</b>	<b>(8.5)%</b>

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

Selling and marketing	\$ 260	\$ (282)
General and administrative	344	4,694
Research and development	722	1,347
Business reorganization and related	265	—

Selling and marketing expenses increased due to higher advertising expense in the 2007 period of approximately \$7.9 million, primarily for titles released by our 2K labels which were entirely new franchises including *All-Pro Football 2K8*, *The BIGS* and *The Darkness*. The increase was partially offset by a \$2.4 million reduction of marketing expense related to the annual E3 trade show event as a result of the industry wide downsizing of the event compared to past years.

General and administrative expenses decreased due to lower stock-based compensation expense, which reflects cost savings associated with the departure of our former management team. In addition, the third quarter of 2006 reflects additional stock compensation expense that was recorded as a result of our stock options investigation. We also achieved general and administrative cost savings of approximately \$1.2 million in the three months ended July 31, 2007, resulting from our 2006 studio closures. The 2006 period also includes higher professional fees of \$1.5 million, mainly as a result of our stock options investigation,

\$1.4 million of studio closure costs (severance and lease termination) and \$0.9 million related to the relocation of our international publishing headquarters to Geneva, Switzerland.

General and administrative expenses for the quarters ended July 31, 2007 and 2006 also includes occupancy expense (primarily rent, utilities and office expenses) of \$4.7 million and \$4.6 million, respectively, related to our development studios.

For the three months ended July 31, 2006, we recorded approximately \$1.7 million of severance expense in research and development resulting from studio closures. The 2006 studio closures resulted in a reduced number of development personnel and research and development cost savings of approximately \$1.2 million in the third quarter of 2007. In addition, we realized higher software capitalization rates as a result of increased development work in progress for next generation consoles.

Business reorganization and related expenses include employee termination costs of \$4.4 million, primarily as a result of consolidating our international operations and severance for former management, lease termination costs of \$2.1 million related to our relocation of our 2K headquarters to California and professional fees of \$0.5 million, mainly as a result of consulting fees to our former management team. We expect to continue to incur reorganization expenses through the remainder of 2007 and in fiscal 2008.

In the three months ended July 31, 2006, we recorded an impairment charge of \$8.1 million related to goodwill and fixed assets at our Joytech subsidiary, our manufacturer and distributor of video game accessories, which operates within our publishing segment. The impairment charges reflected a decline in the fair value of Joytech's business resulting from continued competition and a decline in the price and sales volume of current generation accessories due to weaker market conditions and the ongoing transition to next generation hardware platforms. The additional impairment charges of \$0.4 million were due to the write-off of fixed assets related to a development studio closing.

**Provision (benefit) for income taxes.** For the three months ended July 31, 2007, income tax expense was \$2.2 million, primarily attributable to foreign jurisdictions, compared to income tax expense of \$45.6 million in the third quarter of 2006 primarily attributable to the recording of a valuation allowance against deferred tax assets. We did not record an income tax benefit on our pre-tax loss in 2007 and 2006 due to uncertainty regarding the realization of our deferred tax assets, primarily those attributable to net operating loss carryforwards. As a result, we increased our valuation allowance by approximately \$13.5 million and \$59.5 million in the three months ended July 31, 2007 and 2006, respectively. Our effective tax rate differed from the federal, state and foreign statutory rates primarily due to the recording of valuation allowances.

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

**Net loss and loss per share.** For the three months ended July 31, 2007, net loss was \$58.5 million, compared to \$91.4 million in the 2006 period. Net loss per share for the three months ended July 31, 2007 was \$0.81 compared to \$1.29 for the three months ended July 31, 2006. Weighted average shares outstanding were relatively flat compared to the prior period and did not have a significant impact on our loss per share.

Nine Months ended July 31, 2007 compared to July 31, 2006

Publishing

(thousands of dollars)	2007	%	2006	%	Increase/ (decrease)	% Increase/ (decrease)
Net revenue	\$ 472,756	100.0%	\$ 550,497	100.0%	\$ (77,741)	(14.1)%
Product costs	179,364	37.9%	206,947	37.6%	(27,583)	(13.3)%
Software development costs and royalties	93,790	19.8%	159,373	29.0%	(65,583)	(41.2)%
Internal royalties	17,890	3.8%	30,556	5.6%	(12,666)	(41.5)%
Licenses	43,126	9.1%	43,751	7.9%	(625)	(1.4)%
Cost of goods sold	334,170	70.7%	440,627	80.0%	(106,457)	(24.2)%
<b>Gross profit</b>	<b>\$ 138,586</b>	<b>29.3%</b>	<b>\$ 109,870</b>	<b>20.0%</b>	<b>\$ 28,716</b>	<b>26.1%</b>

Sales of *The Elder Scrolls IV: Oblivion* for Xbox 360 and PC, which we released in the second quarter of 2006, accounted for approximately \$71.8 million of the decrease in our net revenue in 2007. In addition, sales of titles from our *Grand Theft Auto* franchise were \$51.0 million higher in the 2006 period, as a result of strong sales of *Grand Theft Auto: Liberty City Stories* for PSP and PS2. Partially offsetting the decrease were the strong sales of our sports titles (*Major League Baseball 2K7*, *NBA 2K7*, *NHL 2K7*, and *College Hoops 2K7*), which sold an additional \$24.2 million compared to their respective predecessor titles in the prior year due to additional units and higher average price points for PS3 titles compared to the PS2.

Software sales on the Xbox 360 and PC declined \$30.7 million or 21.9% and \$47.8 million or 48.5%, respectively, again reflecting the strong sales of *The Elder Scrolls IV: Oblivion* in the 2006 period. Although consumer demand for the PS3 system has not increased as quickly as anticipated, these sales accounted for \$57.1 million or 12.1% of our net publishing revenue in the 2007 period. Nintendo's Wii system has sold at a stronger than expected rate in 2007; Wii software sales accounted for \$10.2 million of our net publishing revenue in the 2007 period. We are continuing to invest resources in developing Wii software and expect more titles to be released for this platform in the fourth quarter of 2007 and fiscal 2008. Sales on the PSP system have decreased \$19.2 million, primarily due to the strong sales of *Grand Theft Auto: Liberty City Stories* in the 2006 period. Sales on the PS2 and Xbox system have decreased \$16.1 million and \$24.1 million, respectively, due to the continuing hardware transition and increased availability of the PS3 and Xbox 360. We have also continued to reduce pricing on software titles for the PS2 and Xbox platforms as the next generation hardware installed base grows.

Product costs as a percentage of net revenue remained relatively consistent compared to the prior period. Above average external royalty costs for *The Elder Scrolls IV: Oblivion* and approximately \$18.5 million of impairment charges for unreleased titles contributed to the unusually high software development costs in the 2006 period. In the 2007 period, we were able to realize a significant increase in our gross profit margin of our sports products, particularly *Major League Baseball 2K7*, *NBA 2K7* and *College Hoops 2K7*, which had significantly higher revenues than their predecessor games on a comparable amount of software development costs. Internal royalty expense was also lower as a percentage of net revenue as a result of fewer Rockstar titles being released in the current period. Offsetting the lower software development costs and internal royalties was slightly higher license expense as a percentage of net revenue, as a result of more licensed titles released in the current period including *Fantastic Four: Rise of the Silver Surfer*, *All-Pro Football 2K8*, *Ghost Rider* and *The Darkness* compared to the prior period releases of *The Da Vinci Code*, *Torino 2006* and *24: The Game*. The increase was partially offset by lower licensing costs as a percentage of net revenue for our sports titles, particularly for our baseball titles where we have a greater number of products planned for release than in the prior year. We expect to realize increasing margins toward the end

of fiscal 2007 and into fiscal 2008 with the release of internally developed, wholly-owned titles such as *BioShock*, *Grand Theft Auto IV* and *Midnight Club: Los Angeles*.

Revenue earned from licensing our intellectual property to third parties increased to \$21.4 million in the nine months ended July 31, 2007 from \$8.0 million in 2006, primarily related to our January 2007 release of *Grand Theft Auto: San Andreas* for the PS2 and the July 2007 release of *Grand Theft Auto: Liberty City Stories* for the PSP and PS2 in Japan. We recognize substantially higher gross profit margins on revenue earned in connection with licensing our products.

Revenue earned outside of North America accounted for approximately \$162.3 million in the nine months ended July 31, 2007 compared to \$234.7 million in 2006. The year-over-year decrease was primarily attributable to strong sales of *The Elder Scrolls IV: Oblivion* and *Grand Theft Auto: Liberty City Stories* in the prior period. Foreign exchange rates benefited revenue by approximately \$13.8 million in the nine months ended July 31, 2007.

### **Distribution**

(thousands of dollars)	2007	%	2006	%	Increase/ (decrease)	% Increase/ (decrease)
Net revenue	\$ 216,435	100.0%	\$ 220,787	100.0%	\$ (4,352)	(2.0)%
Cost of goods sold	197,916	91.4%	200,092	90.6%	(2,176)	(1.1)%
<b>Gross profit</b>	<b>\$ 18,519</b>	<b>8.6%</b>	<b>\$ 20,695</b>	<b>9.4%</b>	<b>\$ (2,176)</b>	<b>(10.5)%</b>

Distribution revenue associated with software sales on previous generation platforms decreased \$10.4 million in 2007 as a result of the continued decline in sales volume and average selling price of value and frontline software titles as the gaming industry transitions to next generation platforms. We also continue to see increased competition in the value software market. In addition, we experienced a decline in sales of our PC products of \$7.4 million or 18.6%. The decrease in net revenue was partially offset by an increase in next generation software sales of \$13.2 million, which were sold at higher price points than their predecessor products. We expect to see increases in sales for next generation platforms as the installed base of the hardware continually grows through the transition period. The decrease in gross profit margin in 2007 mainly reflects reduced sales and margins of PC products.

## Operating Expenses

(thousands of dollars)	2007	% of net revenue	2006	% of net revenue	Increase/ (decrease)	% Increase/ (decrease)
Selling and marketing	\$ 98,406	14.3%	\$ 101,423	13.1%	\$ (3,017)	(3.0)%
General and administrative	113,788	16.5%	116,276	15.1%	(2,488)	(2.1)%
Research and development	37,296	5.4%	51,212	6.6%	(13,916)	(27.2)%
Business reorganization and related	16,062	2.3%	—	0.0%	16,062	N/M
Impairment of long-lived assets	—	0.0%	14,778	1.9%	(14,778)	N/M
Depreciation and amortization	20,743	3.0%	19,778	2.6%	965	4.9%
<b>Total operating expenses(1)</b>	<b>\$ 286,295</b>	<b>41.5%</b>	<b>\$ 303,467</b>	<b>39.3%</b>	<b>\$ (17,172)</b>	<b>(5.7)%</b>

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

Selling and marketing	\$ 879	\$ 942
General and administrative	4,424	10,064
Research and development	2,978	3,413
Business reorganization and related	2,065	—

We spent \$2.4 million less in marketing at the annual E3 trade show event in 2007 as a result of the industry wide downsizing of the event compared to past years. In addition, the 2006 period reflects selling and marketing expense related to the Xbox 360 release of *NBA 2K6* and *NHL 2K6* in the first quarter of 2006. We released *NBA 2K7* and *NHL 2K7* for the Xbox 360 in the fourth quarter of 2006 and as a result, the nine months ended July 31, 2007 does not contain a comparable amount of selling and marketing expense.

General and administrative expenses decreased due to lower stock-based compensation expense, which reflects cost savings associated with the departure of our former management team. In addition, the 2006 period reflects additional stock compensation expense that was recorded as a result of our stock options investigation. We also achieved cost savings of approximately \$2.9 million in the nine months ended July 31, 2007, resulting from our 2006 studio closures. The 2006 period also includes \$1.7 million of studio closure costs (severance and lease termination) and \$0.9 million related to the relocation of our international publishing headquarters to Geneva, Switzerland. Higher salaries and related expenses of \$4.8 million in our European territories in the 2007 period and higher professional fees associated with regulatory matters of approximately \$2.9 million offset the decrease in our 2007 general and administrative expenses.

General and administrative expenses for the nine months ended July 31, 2007 and 2006 also include occupancy expenses (primarily rent, utilities and office expenses) of \$11.4 million and \$11.9 million, respectively, related to our development studios.

For the nine months ended July 31, 2006, we recorded approximately \$3.3 million of severance expense in research and development resulting from studio closures. The 2006 studio closures resulted in a reduced number of development personnel and cost savings of approximately \$4.3 million in the nine months ended July 31, 2007. In addition, we realized higher software capitalization rates as a result of increased development work in progress for next generation consoles.

Business reorganization and related expenses include employee termination costs of \$9.6 million, primarily as a result of severance for former management and consolidating our international operations. We recorded lease termination costs of \$2.1 million related to our relocation of our 2K headquarters to California. In total, we spent \$4.3 million on professional fees related to the replacement of prior management and the election of five new directors to our Board of Directors at our annual stockholders' meeting (rather than the six incumbent directors nominated and recommended by our incumbent Board of Directors), \$2.0 million of which was investment banking fees incurred by prior management to consider the possibility of presenting alternative proposals to our stockholders, including a potential sale of the Company. We expect to continue to incur reorganization expenses through the remainder of 2007 and in fiscal 2008.

In the three and nine months ended July 31, 2006, we recorded an impairment charge of \$8.1 million related to goodwill and fixed assets at our Joytech subsidiary, the manufacturer and distributor of video game accessories, which operates within our publishing segment. The impairment charges reflect a decline in the fair value of Joytech's business resulting from continued competition and a decline in the price and sales volume of current generation accessories due to weaker market conditions and the ongoing transition to next generation hardware platforms. Additional impairment charges of approximately \$6.7 million were related to the write-off of certain trademarks, acquired intangibles and fixed assets. These write-offs were based on management's assessment of the future value of these assets including future business prospects and estimated cash flows to be derived from these assets.

**Provision (benefit) for income taxes.** Income tax expense was \$4.8 million, primarily attributable to foreign jurisdictions, for the nine months ended July 31, 2007 as compared to income tax benefit of \$0.6 million in the nine months ended July 31, 2006. We did not record an income tax benefit on our pre-tax loss in 2007 and 2006 due to uncertainty regarding the realization of our deferred tax assets, primarily those attributable to net operating loss carryforwards. As a result, we increased our valuation allowance by approximately \$38.8 million and \$59.5 million in the nine months ended July 31, 2007 and July 31, 2006, respectively. Our effective tax rate differed from the federal, state and foreign statutory rates primarily due to the recording of valuation allowances.

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

**Net loss and loss per share.** For the nine months ended July 31, 2007, net loss was \$131.3 million, compared to \$170.9 million in the 2006 period. Net loss per share for the nine months ended July 31, 2007 was \$1.83, compared to \$2.41 in the 2006 period. Weighted average shares outstanding were relatively flat compared to the prior period and did not have a significant impact on our loss per share.

### **Liquidity and Capital Resources**

Our primary cash requirements have been to fund (i) the development, manufacturing and marketing of our published products (ii) working capital (iii) acquisitions and (iv) capital expenditures. In addition, we expect to incur further cash obligations as part of our business reorganization initiatives. Historically, we relied on funds provided by operating activities and short and long-term borrowings to satisfy our working capital needs.

On July 3, 2007, we entered into a credit agreement with Wells Fargo Foothill, Inc. (the "Credit Agreement"), which provides for a revolving credit facility (inclusive of a swingline facility) in an amount equal to the lesser of (a) the aggregate principal amount of \$100.0 million and (b) the borrowing base (the "Credit Facility"). The agreement allows borrowings up to the sum of 85% of eligible accounts receivable (net of certain reserves), plus 65% of eligible inventory (net of certain reserves), plus \$25.0 million. The

Credit Facility is secured by substantially all of our U.S. based assets and the equity of our domestically incorporated subsidiaries. Revolving loans under the Credit Agreement will bear interest at our election of (a) 0.50% to 1.00% above a certain base rate (9.25% at July 31, 2007), or (b) 1.75% to 2.25% above the LIBOR Rate (7.61% at July 31, 2007), with the margin rate subject to the achievement of certain average liquidity levels. We are also required to pay a fee of 0.375% of the unused loan balance. The Credit Facility matures on July 3, 2012. As of July 31, 2007, we borrowed \$11 million and had \$89 million available for borrowings under the line of credit.

The Credit Agreement contains customary restrictions and remedies for events of default. Beginning in November 2007, the Credit Agreement also contains a requirement that we maintain an interest coverage ratio of more than one to one for the trailing twelve month period, if the liquidity of our domestic operations (including available borrowings under the Credit Facility) falls below \$30.0 million, based on a 30-day average. As of July 31, 2007, the Company was in compliance with all covenants and requirements outlined in the Credit Agreement.

As of July 31, 2007 and October 31, 2006, amounts due from our five largest customers comprised approximately 58.3% and 45.4%, respectively, of our gross accounts receivable balance with our significant customers (those that individually comprise more than 10% of our gross accounts receivable balance) accounting for 48.5% and 36.4% of such balance at July 31, 2007 and October 31, 2006, respectively. We believe that the receivable balances from these largest customers do not represent a significant credit risk based on past collection experience.

Generally, we collect our accounts receivable in the ordinary course of business. We do not hold any collateral to secure payment from customers and our receivables are generally not covered by insurance. However, from time to time we purchase insurance from financial institutions on our accounts receivable, with certain limits, to help protect us from loss in the event of a customer's bankruptcy or insolvency.

We have approximately \$65 million of license and marketing commitments due within one year and approximately \$305 million of such commitments over the next six years. We entered into significant long-term agreements, primarily with major sports leagues and players' associations, for intellectual properties including trademarks, player likenesses and player stats for use in the publishing, marketing and distribution of certain of our software titles. We acquired non-exclusive licenses for National Basketball Association ("NBA") and National Hockey League ("NHL") themed titles, and a third-party exclusive license for Major League Baseball ("MLB") themed titles. For certain of these agreements, in addition to the license and marketing commitments, we are subject to certain penalties based on minimum product requirements and release schedules. We also occasionally enter into agreements to license, publish, market and distribute titles based on major motion pictures and other popular entertainment properties such as *Fantastic Four: Rise of the Silver Surfer*, *Ghost Rider*, *The Da Vinci Code* and *Charlie and the Chocolate Factory*. Generally our licensing agreements require significant cash commitments by us, including, in some cases, marketing commitments in support of these titles.

We have approximately \$49 million of commitments and contingent consideration with several third-party software development studios and our internally owned (acquired) studios expiring at various times through 2009. The commitments with third-party developers require us to make advance payments to such developers, which we later have the ability to recover as pre-agreed sales thresholds are met. Our contingent considerations for internally owned (acquired) studios require us to make payments based on passage of time, release of certain titles and other pre-agreed sales thresholds. In addition, we have operating lease commitments, primarily for office space, which total nearly \$89 million over the next seven years and generally range between \$13 million and \$17 million per year.

We believe that our current cash and cash equivalents and projected cash flow from operations, along with our availability under the Credit Agreement, will provide us with sufficient liquidity to satisfy our cash requirements for working capital, capital expenditures and commitments through at least the next twelve

months. In addition, management believes it has the ability, if necessary, to implement further restructuring activities that would substantially reduce personnel and personnel-related costs, reduce capital expenditures, reduce research and development expenditures and/or reduce selling and marketing expenditures. Management also believes it has the ability to obtain additional financing, if necessary.

Our changes in cash and cash equivalents are as follows:

(thousands of dollars)	July 31,	
	2007	2006
Cash (used for) provided by operating activities	\$ (72,755)	\$ 84,362
Cash (used for) investing activities	(17,611)	(18,791)
Cash provided by financing activities	14,737	2,950
Effects of exchange rates on cash and cash equivalents	4,774	3,414
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>\$ (70,855)</b>	<b>\$ 71,935</b>

We ended the third quarter of 2007 with \$61.6 million of cash and cash equivalents compared to \$132.5 million as of October 31, 2006. Our decrease in cash and cash equivalents from October 31, 2006 is primarily a result of cash used for operating activities. In 2007, our net loss was partially offset by non-cash expenses and a decrease in working capital, reflecting seasonality in our business as we collected on sales and accounts receivable from the 2006 holiday season. Increased software development costs and licenses reduced cash flow from operating activities as we continued to prepare for the release of *BioShock* in the fourth fiscal quarter of 2007 as well as *Grand Theft Auto IV* and *Midnight Club: Los Angeles* in fiscal 2008. We also reduced inventory and accounts payable balances, mainly due to the seasonality in our business.

Our cash flow from operations was also uniquely impacted by payments for professional fees related to our stock option investigation and reorganization initiatives. In the nine months ended July 31, 2007, we paid approximately \$13.0 million in professional fees related to such matters. In addition, we used \$12.7 million of cash in the first nine months of 2007 for our business reorganization initiatives, mainly severance, lease termination and professional fees related to our change in senior executive management and consolidating our international and 2K operations. We expect to incur further cash obligations in 2007 and 2008 as we continue to take actions to improve our cost structure.

Cash used in investing activities consisted primarily of capital expenditures in the 2007 period, which decreased compared to the prior period. Purchases of fixed assets reflect the continuous investment in programming and development equipment, high-definition monitors and leasehold improvements at certain of our studios.

Cash provided by financing activities reflects the cash received from our line of credit of \$11.0 million and the exercise of stock options in 2007, which was higher than the amount received in the 2006 period as a result of a higher average stock price in the 2007 period. The cash receipts were offset by cash paid for debt issuance costs in connection with our new Credit Agreement in the third quarter of 2007.

Cash and cash equivalents increased \$4.8 million in the 2007 period as a result of foreign currency exchange translation.

### Fluctuations in Quarterly Operating Results and Seasonality

We have experienced fluctuations in quarterly operating results as a result of the timing of the introduction of new titles; variations in sales of titles developed for particular platforms; market acceptance of our titles; development and promotional expenses relating to the introduction of new titles; sequels or enhancements of existing titles; projected and actual changes in platforms; the timing and success of title introductions by our competitors; product returns; changes in pricing policies by us and our competitors; the accuracy of retailers' forecasts of consumer demand; the size and timing of acquisitions; the timing of orders from



major customers; and order cancellations and delays in product shipment. Sales of our titles are also seasonal, with peak shipments typically occurring in the fourth calendar quarter (our fourth and first fiscal quarters) as a result of increased demand for titles during the holiday season. Quarterly comparisons of operating results are not necessarily indicative of future operating results.

### **International Operations**

Net revenue earned outside of the United States is principally generated by our operations in Europe, Canada, Australia and Asia. For the nine months ended July 31, 2007 and 2006, approximately 30.1% and 39.0%, respectively, of our net revenue was earned outside of the United States. We are subject to risks inherent in foreign trade, including increased credit risks, tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays and international political, regulatory and economic developments, all of which can have a significant impact on our operating results.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

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

Historically, fluctuations in interest rates have not had a significant impact on our operating results. As a result of the new Credit Agreement entered into during July 2007, we had a balance of \$11.0 million outstanding as of July 31, 2007. This agreement is based on variable interest rates and bear interest at our election of (a) 0.50% to 1.00% above a certain base rate (9.25% at July 31, 2007), or (b) 1.75% to 2.25% above the LIBOR Rate (7.61% at July 31, 2007), with the margin rate subject to the achievement of certain average liquidity levels. Changes in market rates may impact our future interest expense. For instance, if the LIBOR rate were to increase or decrease one percentage point (1.0%), our expected annual interest expense would change by approximately \$0.1 million based on our outstanding balance as of July 31, 2007.

We transact business in foreign currencies and are exposed to risks resulting from fluctuations in foreign currency exchange rates. Accounts relating to foreign operations are translated into United States dollars using prevailing exchange rates at the relevant quarter end. Translation adjustments are included as a separate component of stockholders' equity. For the nine months ended July 31, 2007, our foreign currency translation adjustment gain was approximately \$10.3 million. The foreign exchange transaction gain recognized in our statement of operations for the nine months ended July 31, 2007 was \$0.4 million.

### **Item 4. Controls and Procedures**

#### *Evaluation of Disclosure Controls and Procedures*

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

### *Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting during the third quarter of 2007, which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II — OTHER INFORMATION**

### **Item 1. Legal Proceedings**

Except as noted below, there were no new material legal proceedings or material developments to the pending legal proceedings that have been previously reported in Part I, Item 3 of our 2006 Form 10-K. A full discussion of our pending legal proceedings is also contained in Part I, Item 1, "Notes to Unaudited Condensed Consolidated Financial Statements" of this Report.

On August 9, 2007, we received a "Wells" call from the Staff of the Division of Enforcement (the "Staff") of the SEC during which the Staff informed us that it intends to seek authority from the SEC to file charges in connection with its investigation, and that it also intends to seek authority from the SEC to seek a civil monetary penalty. The Staff informed us that we could make a submission to the SEC and the Staff that we thought appropriate (a "Wells" submission). The Staff informed the Company that it would consider the content of the Wells submission and provide the submission to the SEC before the SEC ultimately makes a decision on whether to charge or penalize the Company. We continue to cooperate with the Staff and continue to expect to resolve this investigation by means of a settlement rather than a contested litigation of charges, and believe that the "Wells" call represents a significant step forward towards that resolution.

### **Item 1A. Risk Factors**

There have been no material changes to the Risk Factors disclosed in Item 1A of our Annual Report on Form 10-K for the year ended October 31, 2006 other than the following.

#### ***We have experienced significant turnover in our Board and executive management and have a new business development plan.***

During the second quarter of 2007, five new members were elected to our Board, our Board elected a new Chairman and Chief Executive Officer and appointed a sixth new member to our Board, and we engaged ZelnickMedia to provide us with executive management services. The Board and ZelnickMedia have begun, and plan to continue, to reorganize our executive management team and our business. It is not yet possible to accurately assess how effective our new management team will be, whether they will be able to accomplish the objectives of our new business development plan or whether our business reorganization plan, if successful, will be of significant benefit to us and our financial performance. In addition, the success of our new business development plan depends in part on events and circumstances that are beyond our control, including general economic conditions, consumer demand for our products, and other factors affecting our industry. The changes that are part of our reorganization may be disruptive to our business and operations and may slow our progress toward our objectives.

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

We incurred significant losses in the year ended October 31, 2006 and in the nine months ended July 31, 2007, and we may incur future losses. If losses continue we may be required to raise additional capital in order to fund our operations. We could seek to raise capital in a number of ways, including through the issuance of debt or equity, or through other financing arrangements. If we are able to borrow funds and do

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

***Charges against our former Chairman and CEO and other former employees may result in significant costs to us and management distraction, and may result in additional proceedings against us and former officers or directors.***

The investigation conducted by the New York County District Attorney's office resulted in the Company's former Chairman and Chief Executive Officer, Ryan A. Brant, pleading guilty to two felony counts relating to our historical stock option grant practices during Mr. Brant's tenure with the Company, and the SEC instituted a civil action against him. Further, in connection with the District Attorney's investigation, it has been reported that the Company's former General Counsel, Ken Selterman, and the Company's former Controller, Patti Tay, have also been convicted of crimes relating to their conduct during their employment with the Company. These former corporate officers and employees' convictions may lead to further investigations and proceedings (civil and criminal) against the Company and other former officers and directors of the Company, as well as further shareholder derivative actions and other litigation relating to our stock option granting practices. Governmental or regulatory actions against other former officers, directors or employees may have a similar impact.

The investigations and charges against Mr. Brant and related litigation have imposed, and future investigations, charges or proceedings against us or other current or former officers, directors or employees are likely to impose, significant costs on us both financially and as a result of the distraction of our management team. While we are unable to estimate the exact nature or amount of these future costs, we believe they will likely include:

- damage to our reputation and business relationships;
- professional fees in connection with the conduct of the investigations and the defense of related litigations and other proceedings;
- potential damages, fines, penalties or settlement costs imposed on the Company;
- advancement of certain expenses and reimbursement of certain amounts payable by, or on behalf of, our current and former officers, directors and employees subject to the investigation or named in any litigations or other proceedings pursuant to our indemnification obligations; and
- potential impairment of our ability to obtain coverage and reimbursement under existing insurance policies, and potentially negative impact on future insurance coverage.

***Our past stock option granting practices and the restatement of prior financial statements have exposed us to greater risks associated with litigation, regulatory proceedings and government enforcement actions.***

Several derivative complaints and a class action complaint have been filed in state and federal courts against certain of our current and former directors and certain of our former executive officers pertaining to, among other things, allegations relating to stock option grants. In addition, we have responded to the previously disclosed subpoenas and informal requests for documents and additional information from these agencies. We intend to continue to fully cooperate with these investigations. No assurance can be

given regarding the outcomes from litigation, regulatory proceedings or government enforcement actions relating to our past stock compensation practices. The resolution of these matters will be time consuming, expensive, and will distract management from the conduct of our business. Furthermore, if we are subject to adverse findings in litigation, regulatory proceedings or government enforcement actions, we could be required to pay damages, fines or penalties or have other remedies imposed, which could harm our business, financial condition, results of operations and cash flows.

## Item 6. Exhibits

### Exhibits:

10.1	Confidential License Agreement for the Wii Console dated August 20, 2007, between Nintendo of America Inc. and the Company.*
31.1	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

## SIGNATURES

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

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

(Registrant)

Date: September 10, 2007      By: /s/ Benjamin Feder  
Benjamin Feder  
Chief Executive Officer  
(Principal Executive Officer)

Date: September 10, 2007      By: /s/ Lainie Goldstein  
Lainie Goldstein  
Chief Financial and  
Accounting Officer  
(Principal Financial Officer)

**CONFIDENTIAL LICENSE AGREEMENT  
FOR THE Wii CONSOLE  
(Western Hemisphere)**

THIS LICENSE AGREEMENT (“Agreement”) is entered into between NINTENDO OF AMERICA INC. (“NOA”) at 4820 150th Avenue N.E., Redmond, WA 98052 Attn: General Counsel (Fax: 425-882-3585) and TAKE-TWO INTERACTIVE SOFTWARE, INC., and each of the Affiliates that are signatories to this Agreement (collectively, “LICENSEE”) at 622 Broadway, 6th Floor, New York, NY 10012 Attn: Kristine Severson (Fax: 212-334-6644). NOA and LICENSEE agree as follows:

**1. RECITALS**

1.1 NOA markets and sells advanced design, high-quality video game systems, including the Wii video game console (“Wii”).

1.2 LICENSEE desires use of the highly proprietary programming specifications, unique and valuable security technology, trademarks, copyrights and other valuable intellectual property rights of NOA and its parent company, Nintendo Co., Ltd., which rights are only available for use under the terms of a license agreement, to develop, have manufactured, advertise, market and sell video game software for play on Wii.

1.3 NOA is willing to grant a license to LICENSEE on the terms and conditions set forth in this Agreement.

**2. DEFINITIONS**

2.1 “Affiliates” means and includes with respect to Take Two Interactive Software, Inc., a corporation or other legal entity that operates primarily as a video game publisher and/or developer and is under the Control of, or is under common Control with, Take Two Interactive Software, Inc. A list of such Affiliates is attached to this Agreement as Exhibit A, which may be amended in writing from time to time.

2.2 “Artwork” means the text and design specifications for the Game Disc label and the Printed Materials in the format specified by NOA in the Guidelines.

2.3 “Bulk Goods” means Game Discs that have been printed with the Game Disc label Artwork for delivery to LICENSEE without Printed Materials or other packaging.

2.4 “Control” means ownership, either directly or indirectly, through a subsidiary or series of tiered subsidiaries, of shares of capital stock (or like units of ownership) representing more than fifty percent (50%) of the voting rights in such corporation or other legal entity.

2.5 “Check Disc(s)” means the pre-production Game Discs to be produced by Nintendo.

2.6 “Confidential Information” means the information described in Section 8.1.

2.7 “Development Tools” means the development kits, programming tools, emulators and other materials of Nintendo, or third parties authorized by Nintendo, that may be used in the development of Games under this Agreement.

2.8 “Effective Date” means February 21, 2007.

2.9 “Game Discs(s)” means custom optical discs for play on Wii on which a Game has been stored.

2.10 “Game(s)” means any interactive programs (including source and object/binary code) developed to be compatible with Wii.

2.11 “Guidelines” means the then current version of “Wii Programming Guidelines,” “Licensee Packaging Guidelines,” and “Nintendo Trademark Guidelines,” together with other guidelines provided by NOA to LICENSEE from time to time.

2.12 “Independent Contractor” means any individual or entity that is not an employee of LICENSEE, including any independent programmer, consultant, contractor, board member or advisor.

2.13 “Intellectual Property Rights” means individually, collectively or in any combination, Proprietary Rights owned, licensed or otherwise held by Nintendo that are associated with the development, manufacturing, advertising, marketing or sale of the Licensed Products, including, without limitation, (a) registered and unregistered trademarks and trademark applications used in connection with Wii including Nintendo®, Wii™, Official Nintendo Seal of Quality®, and Mii™, (b) select trade dress associated with Wii and licensed video games for play thereon, (c) Proprietary Rights in the Security Technology employed in the Games or Game Discs by Nintendo, (d) rights in the Development Tools for use in developing the Games, excluding, however, rights to use, incorporate or duplicate select libraries, protocols and/or sound or graphic files associated with the Development Tools which belong to any third party and for which no additional licenses or consents are required, (e) patents, design registrations or copyrights which may be associated with the Game Discs or Printed Materials, (f) copyrights in the Guidelines, and (g) other Proprietary Rights of Nintendo in the Confidential Information.

2.14 “Licensed Products” means Bulk Goods after being assembled by or for LICENSEE with the Printed Materials in accordance with the Guidelines.

2.15 “Marketing Materials” means marketing, advertising or promotional materials developed by or for LICENSEE (or subject to LICENSEE’s approval) that promote the sale of the Licensed Products, including but not limited to, television, radio and on-line advertising, point-of-sale materials (e.g., posters, counter-cards), package advertising, print media and all audio or video content other than the Game that is to be included on the Game Disc.

2.16 “NDA” means the non-disclosure agreement related to Wii previously entered into between NOA and LICENSEE.

2.17 “Nintendo” means NOA’s parent company, Nintendo Co., Ltd., of Kyoto, Japan, individually or collectively with NOA.

2.18 “Notice” means any notice permitted or required under this Agreement. All notices shall be sufficiently given when (a) personally served or delivered, or (b) transmitted by facsimile, with an original sent concurrently by first class U.S. mail, or (c) deposited, postage prepaid, with a guaranteed air courier service, in each case addressed as stated herein, or addressed to such other person or address either party may designate in a Notice. Notice shall be deemed effective upon the earlier of actual receipt or two (2) business days after transmittal, provided, however, any Notice received after the recipient’s normal business hours will be deemed received on the next business day.

2.19 “Price Schedule” means the then current version of NOA’s schedule of purchase prices and minimum order quantities for the Bulk Goods.

2.20 “Printed Materials” means a plastic disc storage case, title page, instruction booklet, warranty card and poster incorporating the Artwork.

2.21 “Promotional Disc(s)” means custom optical discs compatible with Wii that incorporate select game promotional or supplemental materials, as may be specified or permitted in the Guidelines.

2.22 “Proprietary Rights” means any rights or applications for rights owned, licensed or otherwise held in patents, trademarks, service marks, copyrights, mask works, trade secrets, trade dress, moral rights and publicity rights, together with all inventions, discoveries, ideas, technology, know-how, data, information, processes, formulas, drawings and designs, licenses, computer programs, software source code and object code, and all amendments, modifications, and improvements thereto for which such patent, trademark, service mark, copyright mask work, trade secrets, trade dress, moral rights or publicity rights may exist or may be sought and obtained in the future.

2.23 “Rebate Program” means any then current version of NOA’s optional rebate program, establishing select terms for price rebates under this Agreement.

2.24 “Reverse Engineer(ing)” means, without limitation, (a) the x-ray, electronic scanning or physical or chemical stripping of semiconductor components, (b) the disassembly, decompilation, decryption or simulation of object code or executable code, or (c) any other technique designed to extract source code or facilitate the duplication of a program or product.

2.25 “Security Technology” means the highly proprietary security features of the Wii and the Licensed Products to minimize the risk of unlawful copying and other unauthorized or unsafe usage, including, without limitation, any security signature, bios, data scrambling, password, hardware security apparatus, watermark, hologram, encryption, digital rights management system, copyright management information system, proprietary manufacturing process or any feature which obstructs piracy, limits unlawful, unsafe or unauthorized use, or facilitates or limits compatibility with other hardware, software, accessories or peripherals, or with respect to a video game system other than the Wii, or limits distribution outside of the Territory.

2.26 “Term” means three (3) years from the Effective Date.

2.27 “Territory” means all countries within the Western Hemisphere and their respective territories and possessions.

2.28 “Wii Network Services” means and includes the Wii Shop Channel Services, WiiConnect24, and any related services and material delivered to a consumer’s Wii console over the Internet.

### **3. GRANT OF LICENSE; LICENSEE RESTRICTIONS**

3.1 **Limited License Grant.** For the Term and for the Territory, NOA grants to LICENSEE a nonexclusive, nontransferable, limited license to use the Intellectual Property Rights to develop (or have developed on LICENSEE’s behalf) Games for manufacture, advertising, marketing and sale by LICENSEE as Licensed Products, subject to the terms and conditions of this Agreement. Except as permitted under a separate written authorization from Nintendo, LICENSEE shall not use the Intellectual Property Rights for any other purpose.

3.2 **LICENSEE Acknowledgement.** LICENSEE acknowledges (a) the valuable nature of the Intellectual Property Rights, (b) the right, title and interest of Nintendo in and to the Intellectual Property Rights, and (c) the right, title, and interest of Nintendo in and to the Proprietary Rights associated with all aspects of Wii. LICENSEE recognizes that the Development Tools, Games, Game Discs and Licensed Products will embody valuable rights of Nintendo and Nintendo’s licensors. LICENSEE represents and warrants that it will not undertake any act or thing which in any way impairs or is intended to impair any part of the right, title, interest or goodwill of Nintendo in the Intellectual Property Rights. LICENSEE’s use of the Intellectual Property Rights shall not create any right, title or interest of LICENSEE therein. Licensee is authorized and permitted to develop Games, and have manufactured, advertise, market, and sell Licensed Products, only for play on Wii and only in accordance with this Agreement.



3.3 LICENSEE Restrictions and Prohibitions. LICENSEE is not licensed to and covenants that, without the express, written consent of NOA, it will not at any time, directly or indirectly, do or cause to be done any of the following:

(a) grant access to, distribute, transmit or broadcast a Game by electronic means or by any other means known or hereafter devised, including, without limitation, by wireless, cable, fiber optic, telephone lines, microwave, radiowave, computer or other device network, except (a) as a part of wireless Game play on and among Wii systems, or between Wii and Nintendo DS systems (b) for the purpose of facilitating Game development under the terms of this Agreement, or (c) as otherwise approved in writing by Nintendo. LICENSEE shall use reasonable security measures, customary within the high technology industry, to reduce the risk of unauthorized interception or retransmission of any Game transmission. No right of retransmission shall attach to any authorized transmission of a Game;

(b) authorize or permit any online activities involving a Game, including, without limitation, multiplayer, peer-to-peer or online play, except as expressly permitted by Nintendo in writing;

(c) modify, install or operate a Game on any server or computing device for the purpose of or resulting in the rental, lease, loan or other grant of remote access to the Game;

(d) emulate, interoperate, interface or link a Game for operation or use with any hardware or software platform, accessory, computer language, computer environment, chip instruction set, consumer electronics device or device other than Wii, the Nintendo DS system, the Development Tools or such other Nintendo system as NOA may authorize in the Guidelines;

(e) embed, incorporate, or store a Game in any media or format except the optical disc format utilized by Wii, except as may be necessary as a part of the Game development process under this Agreement;

(f) design, implement or undertake any process, procedure, program or act designed to disable, obstruct, circumvent or otherwise diminish the effectiveness or operation of the Security Technology;

(g) utilize the Intellectual Property Rights to design or develop any interactive video game program, except as authorized under this Agreement;

(h) manufacture or reproduce a Game developed under this Agreement, except through Nintendo; or

(i) Reverse Engineer or assist in Reverse Engineering all or any part of Wii, including the hardware, software (embedded or not) or the Security Technology.

3.4 No Free-Riding; No Co-Publishing Arrangements. To protect Nintendo's valuable Intellectual Property Rights, to prevent the dilution of Nintendo's trademarks and to preclude free-riding by third parties on the goodwill associated with Nintendo's trademarks, the license granted under this Agreement is limited to LICENSEE and may not be delegated or contracted out for the benefit of a third party, or to a division, affiliate, or subsidiary of LICENSEE. This Agreement, together with all submissions, representations, undertakings and approvals contemplated of LICENSEE by this Agreement, is and shall remain the right and obligation only of LICENSEE. All Printed Materials and Marketing Materials for a Game shall prominently and accurately identify LICENSEE as NOA's licensee. NOA does not permit the designation or identification of any third party co-publisher for a Game on any Game Disc or Game Disc label Artwork, however, LICENSEE may identify a third party as a co-publisher, licensor, developer or other partner of LICENSEE in those Printed Materials (other than the Game Disc label), Marketing Materials or Game credits, as authorized under the Guidelines. For purposes of clarification, LICENSEE's name, or logo, will appear on the Licensed Product Game Disc case and Game Disc label as it appears in the preamble of this Agreement.

3.5 Development Tools. NOA and Nintendo Co., Ltd. may lease, loan or sell Development Tools to LICENSEE to assist in the development of Games under this Agreement. Ownership and use of any Development Tools shall be subject to the terms of this Agreement and any separate license or purchase agreement required by Nintendo or any third party licensing the Development Tools. LICENSEE acknowledges the respective interests of Nintendo, and in the case of third-party Development Tools, such third parties, in and to the Proprietary Rights associated with the Development Tools. LICENSEE's use of the Development Tools shall not create any right, title or interest of LICENSEE therein. LICENSEE shall not, directly or indirectly, (a) use the Development Tools for any purpose except the design and development of Games under this Agreement, (b) reproduce or create derivatives of the Development Tools, except in association with the development of Games under this Agreement, (c) Reverse Engineer the Development Tools, or (d) sell, lease, assign, lend, license, encumber or otherwise transfer the Development Tools. Anything developed or derived by LICENSEE as a result of a study of the performance, design or operation of any Nintendo Development Tools shall be considered a derivative work of the Intellectual Property Rights and shall belong to Nintendo, but may be retained and utilized by LICENSEE in connection with this Agreement. In no event shall LICENSEE (i) seek, claim or file for any patent, copyright or other Proprietary Right with regard to any such derivative work, (ii) make available any such derivative work to any third party, or (iii) use any such derivative work except in connection with the design and development of Games under this Agreement. Anything developed or derived by LICENSEE as a result of a study of the performance, design or operation of any third-party Development Tools shall be governed by the terms of the license agreement applicable to such Development Tools. Notwithstanding any referral or information provided or posted regarding third-party Development Tools, NOA and Nintendo Co., Ltd. make no representations or warranties with regard to any such third-party Development Tools. LICENSEE acquires and utilizes third-party Development Tools at its own risk.

3.6 Third Party Developers. LICENSEE shall not disclose or permit access to the Confidential Information, the Guidelines or the Intellectual Property Rights to any Independent Contractor, unless and until such Independent Contractor has signed a confidentiality agreement with LICENSEE that is no less restrictive than the terms of Section 8 below, and that expressly includes the following language:

**“Independent Contractor may have access to highly-confidential and proprietary information, intellectual property, and trade secrets of Nintendo Co., Ltd. and/or Nintendo of America Inc. (collectively, “Nintendo”). Independent Contractor expressly acknowledges (i) the valuable nature of such materials; and (ii) Nintendo’s right, title and interest in such materials. All such materials constitute confidential information under this agreement and shall be treated by Independent Contractor as such. Independent Contractor shall not undertake any act or thing which in any way impairs or is intended to impair any part of the right, title, interest or goodwill of Nintendo in such materials. Independent Contractor’s use of such materials shall not create any right, title or interest of Independent Contractor therein. Nintendo Co., Ltd. and Nintendo of America Inc. are intended third-party beneficiaries of this agreement.”**

LICENSEE shall, upon request by NOA, provide NOA with copies of the confidentiality agreements required by this Section. Notwithstanding any such confidentiality agreement, LICENSEE shall remain fully responsible for, and shall hold NOA and Nintendo Co., Ltd. harmless against, any breach of the confidentiality agreement by any Independent Contractor involving any Confidential Information, Guidelines, or Intellectual Property Rights.

3.7 Games Developed for Linked Play on Two Systems. In the event the Guidelines permit LICENSEE to develop a Game for simultaneous or linked play on Wii and on another Nintendo video game system, LICENSEE shall be required to acquire and maintain with NOA such additional licenses as

are necessary for the use of the Proprietary Rights associated with such other Nintendo video game system.

3.8 In Game Advertising. LICENSEE shall not include advertising or product placements for products or services of third parties, whether in the Game, as separate content on a Game Disc (e.g., a trailer), or in the Printed Materials without Nintendo's prior written consent.

3.9 Use of Mii Characters. LICENSEE shall not develop any Game that permits Nintendo's Mii characters to appear in the Game without NOA's prior written consent.

3.10 Sending Data to Consumers. LICENSEE shall not, without the prior, written consent of NOA, send any data, content, messages, advertising, or other communications of any kind to any consumer's Wii console through the Wii Network Services or otherwise.

3.11 Downloadable Content. If LICENSEE desires to develop Games, or updates/additions of any kind for any Licensed Product, to be downloaded to consumers through the Wii Network Services, the terms and conditions of such development shall be separately agreed in writing between the parties. LICENSEE acknowledges that the rights granted herein do not include the right to use the Intellectual Property Rights to develop downloadable content.

#### **4. SUBMISSION AND APPROVAL OF GAME AND ARTWORK**

4.1 Submission of a Completed Game to NOA. Upon completion of a Game, LICENSEE shall deliver a prototype of the Game to NOA in a format specified in the Guidelines. Delivery shall be made in accordance with the methods set forth in the Guidelines. Each Submission shall include such other information or documentation deemed necessary by NOA, including, without limitation, a complete set of written user instructions, a complete description of any security holes, backdoors, time bombs, cheats, "easter eggs" or other hidden features or characters in the Game and a complete screen text script. LICENSEE must establish that the Game and any other content included on the Game Disc complies with the Advertising Code of Conduct of the Entertainment Software Ratings Board ("ESRB") and that the Game has been rated EC, E, E10+, T or M (or another non-Adult Only category added by the ESRB) by the ESRB. LICENSEE shall provide NOA with a certificate of rating for the Game issued by the ESRB.

4.2 Testing of a Completed Game. Upon submission of a completed Game, NOA and Nintendo Co., Ltd. shall promptly test the Game with regard to its technical compatibility with and error-free operation on Wii, utilizing the lot check process. Within a reasonable period of time after receipt, NOA shall approve or disapprove such Game. If a Game is disapproved, NOA shall specify in writing the reasons for such disapproval and state what corrections are necessary. After making the necessary corrections, LICENSEE shall submit a revised Game to NOA for testing. NOA shall not unreasonably withhold or delay its approval of any Game. Neither the testing nor approval of a Game by NOA or Nintendo Co., Ltd. shall relieve LICENSEE of its sole responsibility for the development, quality and operation of the Game or in any way create any warranty by NOA or Nintendo Co., Ltd. relating to any Licensed Product.

4.3 Production of Check Discs. By submission of a completed Game to NOA in accordance with section 4.1, LICENSEE authorizes Nintendo to proceed with production of Check Discs for such Game. If NOA approves a Game, it shall promptly, and without further notification to or instruction from LICENSEE, submit such Game for the production of Check Discs. Unless otherwise advised by LICENSEE, following production of the Check Discs, NOA shall deliver to LICENSEE approximately ten (10) Check Discs for content verification, testing and final approval by LICENSEE.

4.4 Approval or Disapproval of Check Discs by LICENSEE. If, after review and testing, LICENSEE approves the Check Discs, it shall promptly transmit to NOA a signed authorization for production in the form specified in the Guidelines. If LICENSEE does not approve the sample Check Discs for any reason, LICENSEE shall advise NOA in writing and may, after undertaking any necessary

changes or corrections, resubmit the Game to NOA for approval in accordance with the procedures set forth in this Section 4. The absence of a signed authorization form from LICENSEE within five (5) days after delivery of the Check Discs to LICENSEE shall be deemed disapproval of such Check Discs. Production of any order for Bulk Goods shall not proceed without LICENSEE's signed authorization.

4.5 Cost of Check Discs and Disc Stamper. If LICENSEE: (a) disapproves the Check Discs for any reason; (b) fails to order the minimum order quantity of any Game approved by NOA within six (6) months after the date the Game was first approved by NOA; or (c) submits a revised version of the Game to NOA after production of such Game has commenced, LICENSEE shall reimburse NOA (or its designee) for the reasonable estimated cost of the production of the Check Discs, including the cost of the disc stamper. The payment will be due (i) thirty (30) days after NOA's written notification to LICENSEE of the Check Disc fee due NOA because of LICENSEE's failure to approve such Check Disc; (ii) six (6) months after the date the Game was first approved by NOA; or (iii) upon the subsequent submission by LICENSEE of a revised version of the Game to NOA, as the case may be.

4.6 Submission and Approval of Artwork. Prior to submitting a completed Game to NOA under Section 4.1, LICENSEE shall submit to NOA all Artwork for the proposed Licensed Product. Within ten (10) business days of receipt, NOA shall approve or disapprove the Artwork. If any Artwork is disapproved, NOA shall specify in writing the reasons for such disapproval and state what corrections or improvements are necessary. After making the necessary corrections or improvements, LICENSEE shall submit revised Artwork to NOA for approval. NOA shall not unreasonably withhold or delay its approval of any Artwork. The approval of the Artwork by NOA shall not relieve LICENSEE of its sole responsibility for the development and quality of the Artwork or in any way create any warranty for the Artwork or the Licensed Product by NOA. All Artwork must be approved prior to submitting an order for the Bulk Goods, and LICENSEE shall not produce any Printed Materials for commercial distribution until such Artwork has been approved by NOA.

4.7 Promotional Discs. In the event NOA issues Guidelines in the future that permit LICENSEE to develop and distribute Promotional Discs, either separately or as a part of the Licensed Product, the content and specifications of such Promotional Disc shall be subject to all of the terms and conditions of this Agreement, including, without limitation, the Guidelines, the Price Schedule and the submission and approval procedures provided for in this Section 4.

## **5. ORDER PROCESS, PURCHASE PRICE, PAYMENT AND DELIVERY**

5.1 Submission of Orders by LICENSEE. After receipt of NOA's approval for a Game and Artwork, LICENSEE may at any time submit a written purchase order to NOA for Bulk Goods for such Game. The terms and conditions of this Agreement shall control over any contrary or additional terms of such purchase order or any other written documentation or verbal instruction from LICENSEE. All orders shall be subject to acceptance by NOA in Redmond, WA.

5.2 Purchase Price and Minimum Order Quantities. The purchase price and minimum order quantities for the Bulk Goods shall be set forth in NOA's then current Price Schedule. Unless otherwise specifically provided for, the purchase price includes the cost of manufacturing a single Game Disc, together with a royalty for the use of the Intellectual Property Rights. No taxes, duties, import fees or other tariffs related to the development, manufacture, import, marketing or sale of the Licensed Products (except for taxes imposed on NOA's income) are included in the purchase price and all such taxes are the responsibility of LICENSEE. The Price Schedule is subject to change by NOA at any time without Notice, provided however, that any price increase shall be applicable only to purchase orders submitted, paid for, and accepted by NOA after the effective date of the price increase.

5.3 Payment. Upon placement of an order with NOA, LICENSEE shall pay the full purchase price either (a) by tender of an irrevocable letter of credit in favor of NOA (or its designee) and payable at sight, issued by a bank acceptable to NOA and confirmed, if requested by NOA, at LICENSEE's expense, or (b) in cash, by wire transfer to an account designated by NOA. All letters of credit shall comply with NOA's written instructions and all associated banking charges shall be for LICENSEE's account.

5.4 Delivery of Bulk Goods. Bulk Goods shall be delivered to LICENSEE FCA Torrance, California, USA, or such other delivery point within the continental United States as may be specified by NOA. Orders may be delivered in partial shipments, at NOA's option. Title to Bulk Goods shall vest in LICENSEE in accordance with the terms of the applicable letter of credit, or in the absence thereof, upon delivery to LICENSEE and receipt by NOA of full payment for the shipment at issue. The term "FCA" shall have the same meaning for purposes of this Section as given by INCOTERMS 2000.

5.5 Rebate Program. NOA, at its sole option, may elect to offer LICENSEE a Rebate Program. The terms and conditions of any Rebate Program shall be subject to NOA's sole discretion. LICENSEE shall not be entitled to offset any claimed rebate amount against other amounts owing NOA. No interest shall be payable by NOA to LICENSEE on any claimed rebate. The Rebate Program is subject to change or cancellation by NOA at any time without Notice.

## **6. MANUFACTURE OF THE LICENSED PRODUCT**

6.1 Manufacturing. Nintendo Co., Ltd. shall be the exclusive source for the manufacture of the Game Discs, Check Discs and Promotional Discs, with responsibility for all aspects of the manufacturing process, including the selection of the locations and specifications for any manufacturing facilities, determination of materials and processes, appointment of suppliers and subcontractors and management of all work-in-progress. Upon acceptance by NOA of a purchase order from LICENSEE and receipt of payment as provided for at Section 5.3 herein, NOA shall place the order with Nintendo Co., Ltd. who shall (through its suppliers and subcontractors) arrange for manufacturing.

6.2 Security Features. The final release version of the Game, the Game Disc and the Printed Materials shall include such Security Technology as Nintendo, in its sole discretion, deems necessary or appropriate to (a) reduce the risk of unlawful copying or other unlawful, unsafe or unauthorized uses, (b) protect the Proprietary Rights of Nintendo and of the LICENSEE, (c) promote consumer confidence, and (d) increase the quality, reliability or operation of Wii.

6.3 Printed Materials for Bulk Goods. Upon delivery to LICENSEE of Bulk Goods, LICENSEE shall assemble the Printed Materials and Bulk Goods into the Licensed Products in accordance with the Guidelines. No other materials, items, products or packaging may be included or assembled with the Bulk Goods without NOA's prior written consent. Bulk Goods may be sold or distributed by LICENSEE only when fully assembled in accordance with the Guidelines.

6.4 Prior Approval of LICENSEE's Independent Contractors. Prior to the placement of a purchase order for Bulk Goods, LICENSEE shall obtain NOA's approval of any Independent Contractors selected to perform the production and assembly operations. LICENSEE shall provide NOA with the names, addresses and all business documentation reasonably requested by NOA for such Independent Contractors. NOA may, prior to approval and at reasonable intervals thereafter, (a) require submission of additional business or financial information regarding the Independent Contractors, (b) inspect applicable facilities of the Independent Contractors, and (c) be present to supervise any work on the Licensed Products to be done by the Independent Contractors. If at any time NOA deems the Independent Contractor to be unable to meet quality, security or performance standards reasonably established by NOA, NOA may refuse to grant its approval or withdraw its approval upon Notice to LICENSEE. LICENSEE may not proceed with the production of the Printed Materials or assembly of the Licensed Product by such Independent Contractor until NOA's concerns have been resolved to its satisfaction or until LICENSEE has selected and received NOA's approval of another Independent Contractor. NOA may establish preferred or required supply sources for select components of the Printed Materials, or for assembly of Printed Materials and Bulk Goods into Licensed Products, which sources shall be deemed preapproved in accordance with this Section 6.4. LICENSEE shall comply with all sourcing requirements established by NOA.

6.5 Sample Printed Materials. Within a reasonable period of time after LICENSEE's assembly of an initial order for Bulk Goods for a Game title, LICENSEE shall provide NOA with (a) six (6)

samples of the fully assembled Licensed Product, and (b) seventy-five (75) samples of the LICENSEE produced Printed Materials (excluding the plastic disc storage case, warranty card, and poster) for such Game title.

6.6 Retention of Sample Licensed Products by NOA. NOA or Nintendo may, at their own expense, manufacture reasonable quantities of the Bulk Goods, and make a reasonable number of copies of the Printed Materials to be used for archival purposes, legal proceedings against infringers of the Intellectual Property Rights and for other lawful purposes.

## 7. MARKETING AND ADVERTISING

7.1 Approval of Marketing Materials. LICENSEE represents and warrants that the Printed Materials and the Marketing Materials shall be of high quality and comply with (a) the Guidelines, (b) the ESRB's Advertising Code of Conduct and Principles and Guidelines for Responsible Advertising, and (c) all applicable laws and regulations in those jurisdictions in the Territory where they will be used or distributed, including without limitation all applicable privacy laws such as the Children's Online Privacy Protection Act. Prior to actual use or distribution, LICENSEE shall submit to NOA for review samples of all proposed Marketing Materials. NOA shall, within ten (10) business days of receipt, approve or disapprove of the quality of such samples. If any of the samples are disapproved, NOA shall specify the reasons for such disapproval and state what corrections and/or improvements are necessary. After making the necessary corrections and/or improvements, LICENSEE shall submit revised samples for approval by NOA. No Marketing Materials shall be used or distributed by LICENSEE without NOA's prior written approval. NOA shall not unreasonably withhold or delay its approval of any proposed Marketing Materials.

7.2 No Bundling. To protect Nintendo's valuable Intellectual Property Rights, to prevent the dilution of Nintendo's trademarks and to preclude free-riding by non-licensed products on the goodwill associated with Nintendo's trademarks, LICENSEE shall not market or distribute any Games or Game Discs that have been bundled with (a) any peripheral designed for use with Wii that has not been licensed or approved in writing by NOA, or (b) any other product or service where NOA's association, approval or endorsement might be suggested by bundling the products or services.

7.3 Warranty and Repair. LICENSEE shall provide the original consumer with a minimum ninety (90) day limited warranty on all Licensed Products. LICENSEE shall also provide reasonable product service, including out-of-warranty service, for all Licensed Products. LICENSEE shall make such warranty and repair information available to consumers as required by applicable federal and state law.

7.4 Business Facilities. LICENSEE agrees to develop and maintain (a) suitable office facilities within the United States, adequately staffed to enable LICENSEE to fulfill all responsibilities under this Agreement, (b) necessary warehouse, distribution, marketing, sales, collection and credit operations to facilitate proper handling of the Licensed Product, and (c) customer service and game counseling, including telephone service, to adequately support the Licensed Products.

7.5 No Sales Outside the Territory. LICENSEE covenants that it shall not market, sell, offer to sell, import or distribute the Licensed Products outside the Territory, or within the Territory when LICENSEE has actual or constructive knowledge that a subsequent destination of the Licensed Product is outside the Territory.

7.6 Defects and Recall. In the event of a material programming defect in a Licensed Product that would, in NOA's reasonable judgment, significantly impair the ability of a consumer to play the Game, NOA may, after consultation with LICENSEE, require the LICENSEE to recall the Licensed Product and undertake suitable repairs or replacements.

7.7 NOA Promotional Materials, Publications and Events. At its option and expense \*\*, NOA may (a) utilize screen shots, Artwork and information regarding the Licensed Products in Nintendo Power, Nintendo Power Source, official Nintendo sponsored web sites or other

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\*\* Denotes confidential information that has been omitted and filed separately, accompanied by a confidential treatment request, with the Securities and Exchange Commission pursuant to 17 C.F.R. 200.83.

advertising, promotional or marketing media, which promote Nintendo products, services or programs, and (b) exercise public performance rights in the Games and use related trademarks and Artwork in connection with NOA sponsored contests, tours, conventions, trade shows, press briefings and similar events which promote Wii. \*\*

7.8 Nintendo Gateway System. To promote and increase demand for games on Nintendo video game systems, NOA licenses select games in various non-coin activated commercial settings such as commercial airlines, cruise ships, rail systems and hotels, where customers play games on specially adapted Nintendo video game hardware referred to as the "Nintendo Gateway System". If NOA identifies a Game for possible license on the Nintendo Gateway System, the parties agree to conduct good faith negotiations to determine commercially reasonable terms for such participation.

## 8. CONFIDENTIAL INFORMATION

8.1 Definition. Confidential Information means information provided to LICENSEE by Nintendo or any third party working with Nintendo relating to the hardware and software for Wii or the Development Tools, including, but not limited to, (a) all current or future information, know-how, techniques, methods, information, tools, emulator hardware or software, software development specifications, proprietary manufacturing processes and/or trade secrets, (b) any information on patents or patent applications, (c) any business, legal, marketing, pricing or sales data or information, and (d) any other information or data relating to development, design, operation, manufacturing, marketing or sales. Confidential Information shall include all confidential information disclosed, whether in writing, orally, visually, or in the form of drawings, technical specifications, software, samples, pictures, models, recordings, or other tangible items which contain or manifest, in any form, the above listed information. Confidential Information shall not include (i) data and information which was in the public domain prior to LICENSEE's receipt of the same hereunder, or which subsequently becomes part of the public domain by publication or otherwise, except by LICENSEE's wrongful act or omission, (ii) data and information which LICENSEE can demonstrate, through written records kept in the ordinary course of business, was in its possession without restriction on use or disclosure, prior to its receipt of the same hereunder and was not acquired directly or indirectly from Nintendo under an obligation of confidentiality which is still in force, and (iii) data and information which LICENSEE can show was received by it from a third party who did not acquire the same directly or indirectly from Nintendo and to whom LICENSEE has no obligation of confidentiality.

8.2 Disclosures Required by Law. LICENSEE shall be permitted to disclose Confidential Information if such disclosure is required by an authorized governmental or judicial entity, provided that LICENSEE shall notify NOA at least thirty (30) days prior to such disclosure. LICENSEE shall use its best efforts to limit the disclosure to the greatest extent possible consistent with LICENSEE's legal obligations, and if required by NOA, shall cooperate in the preparation and entry of appropriate protective orders.

8.3 Disclosure and Use. NOA may provide LICENSEE with highly confidential development information, Guidelines, Development Tools, systems, specifications and related resources and information constituting and incorporating the Confidential Information to assist LICENSEE in the development of Games. LICENSEE agrees to maintain all Confidential Information as strictly confidential and to use such Confidential Information only in accordance with this Agreement. LICENSEE shall limit access to the Confidential Information to LICENSEE's employees, and Independent Contractors that are in compliance with the requirements of Section 3.6 above, having a strict need to know and shall advise such individuals of their obligation of confidentiality as provided herein. LICENSEE shall require each such individual retain in confidence the Confidential Information pursuant to a written non-disclosure agreement with LICENSEE. LICENSEE shall use its best efforts to ensure that individuals who are permitted hereunder to work with or otherwise having access to Confidential Information shall not disclose or make any unauthorized use of the Confidential Information.

8.4 Agreement Confidentiality. LICENSEE agrees that the terms, conditions and contents of this Agreement shall be treated as Confidential Information. Any public announcement or press release regarding this Agreement or the release dates for Games developed by LICENSEE under this Agreement

\*\* Denotes confidential information that has been omitted and filed separately, accompanied by a confidential treatment request, with the Securities and Exchange Commission pursuant to 17 C.F.R. 200.83.

shall be subject to NOA's prior written approval. The parties may disclose this Agreement (a) to accountants, banks, financing sources, lawyers, parent companies and related parties under substantially equivalent confidentiality obligations, (b) in connection with any formal legal proceeding for the enforcement of this Agreement, (c) as required by the regulations of the Securities and Exchange Commission ("SEC"), provided that all Confidential Information shall be redacted from such disclosures to the maximum extent allowed by the SEC, and (d) in response to lawful process, subject to a written protective order approved in advance by NOA.

8.5 Notification Obligations. LICENSEE shall promptly notify NOA of the unauthorized use or disclosure of any Confidential Information by LICENSEE or any of its employees, or any Independent Contractor or its employees, and shall promptly act to recover any such information and prevent further breach of the obligations herein. The obligations of LICENSEE set forth herein are in addition to and not in lieu of any other legal remedy that may be available to NOA under this Agreement or applicable law.

8.6 Continuing Effect of the NDA. The terms of this Section 8 supplement the terms of the NDA, which shall remain in effect. In the event of a conflict between the terms of the NDA and this Agreement, the provisions of this Agreement shall control.

## 9. REPRESENTATIONS AND WARRANTIES

9.1 LICENSEE's Representations and Warranties. LICENSEE represents and warrants that:

(a) it is a duly organized and validly existing corporation and has full authority to enter into this Agreement and to carry out the provisions hereof,

(b) the execution, delivery and performance of this Agreement by LICENSEE does not conflict with any agreement or understanding to which LICENSEE may be bound, and

(c) excluding the Intellectual Property Rights, LICENSEE is either (i) the sole owner of all right, title and interest in and to the trademarks, copyrights and all other Proprietary Rights incorporated into the Game or the Artwork or used in the development, advertising, marketing and sale of the Licensed Products or the Marketing Materials, or (ii) the holder of such rights, including trademarks, copyrights and all other Proprietary Rights which belong to any third party but have been licensed from such third party by LICENSEE, as are necessary for incorporation into the Game or the Artwork or as are used in the development, advertising, marketing and sale of the Licensed Products or the Marketing Materials under this Agreement.

9.2 NOA's Representations and Warranties. NOA represents and warrants that:

(a) it is a duly organized and validly existing corporation and has full authority to enter into this Agreement and to carry out the provisions hereof, and

(b) the execution, delivery and performance of this Agreement by NOA does not conflict with any agreement or understanding to which NOA may be bound.

9.3 INTELLECTUAL PROPERTY RIGHTS DISCLAIMER. NOA (ON ITS OWN BEHALF AND ON BEHALF OF NINTENDO CO., LTD. AND ITS AFFILIATES, LICENSORS, SUPPLIERS AND SUBCONTRACTORS) EXPRESSLY DISCLAIMS ALL REPRESENTATIONS AND WARRANTIES CONCERNING THE SCOPE OR VALIDITY OF THE INTELLECTUAL PROPERTY RIGHTS. NOA (ON ITS OWN BEHALF AND ON BEHALF OF NINTENDO CO., LTD. AND ITS AFFILIATES, LICENSORS, SUPPLIERS AND SUBCONTRACTORS) EXPRESSLY DISCLAIMS ANY WARRANTY THAT THE DESIGN, DEVELOPMENT, ADVERTISING, MARKETING OR SALE OF THE LICENSED PRODUCTS OR THE USE OF THE INTELLECTUAL PROPERTY RIGHTS BY LICENSEE WILL NOT INFRINGE UPON ANY PATENT, COPYRIGHT, TRADEMARK OR OTHER PROPRIETARY RIGHTS OF A THIRD PARTY. ANY WARRANTY THAT MAY BE PROVIDED IN ANY APPLICABLE PROVISION OF THE



UNIFORM COMMERCIAL CODE OR ANY OTHER COMPARABLE LAW OR STATUTE IS EXPRESSLY DISCLAIMED. LICENSEE HEREBY ASSUMES THE RISK OF INFRINGEMENT.

9.4 GENERAL DISCLAIMER. NOA (ON ITS OWN BEHALF AND ON BEHALF OF NINTENDO CO., LTD. AND ITS AFFILIATES, LICENSORS, SUPPLIERS AND SUBCONTRACTORS) EXPRESSLY DISCLAIMS ANY AND ALL WARRANTIES WITH RESPECT TO THE BULK GOODS AND THE LICENSED PRODUCTS, INCLUDING, WITHOUT LIMITATION, THE SECURITY TECHNOLOGY. LICENSEE PURCHASES AND ACCEPTS ALL BULK GOODS AND LICENSED PRODUCTS ON AN “AS IS” AND “WHERE IS” BASIS. NOA (ON ITS OWN BEHALF AND ON BEHALF OF NINTENDO CO., LTD. AND ITS AFFILIATES, LICENSORS, SUPPLIERS AND SUBCONTRACTOR) EXPRESSLY DISCLAIMS ALL WARRANTIES UNDER THE APPLICABLE LAWS OF ANY COUNTRY, EXPRESS OR IMPLIED, INCLUDING IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A GENERAL OR PARTICULAR PURPOSE.

9.5 LIMITATION OF LIABILITY. TO THE MAXIMUM EXTENT PERMITTED BY LAW, NEITHER NOA NOR NINTENDO CO., LTD. (NOR THEIR AFFILIATES, LICENSORS, SUPPLIERS OR SUBCONTRACTORS) SHALL BE LIABLE FOR LOSS OF PROFITS, OR FOR ANY SPECIAL, PUNITIVE, INCIDENTAL OR CONSEQUENTIAL DAMAGES OF LICENSEE OR ITS CUSTOMERS ARISING OUT OF OR RELATED TO THIS AGREEMENT, INCLUDING, WITHOUT LIMITATION, THE BREACH OF THIS AGREEMENT BY NOA, THE MANUFACTURE OF THE BULK GOODS OR THE USE OF THE BULK GOODS ON ANY NINTENDO VIDEO GAME SYSTEM BY LICENSEE OR BY ANY END USER.

## 10. INDEMNIFICATION

10.1 Claim. “Claim” means any and all third party claims, demands, actions, suits, proceedings, losses, liabilities, damages, expenses and costs, including, without limitation, reasonable attorneys’ fees and costs and any expenses incurred in the settlement or avoidance of any such claim. “Claim” shall specifically include civil, criminal, and regulatory matters, and those brought by any third party (including governmental authorities or agencies) under any federal, state, or foreign law or regulation, or the rules of any self-regulatory body (e.g., ESRB).

10.2 LICENSEE’s Indemnification. LICENSEE shall indemnify and hold harmless NOA and Nintendo Co., Ltd. (and any of their respective affiliates, subsidiaries, licensors, suppliers, officers, directors, employees or agents) from any Claims which are alleged to result from or be in connection with:

- (a) a breach by LICENSEE of any of the provisions in this Agreement,
- (b) any infringement of a third party’s Proprietary Rights as a result of the design, development, advertising, marketing, sale or use of any aspect of the Licensed Products, Promotional Materials or the Marketing Materials,
- (c) a defect, failure to warn, bodily injury (including death) or other personal or property damage arising out of, or in connection with, the design, development, advertising, marketing, sale or use of any aspect of the Licensed Products, and
- (d) the design, development, advertising, marketing, sale or use of any aspect of the Licensed Products, Promotional Materials or the Marketing Materials.

NOA and LICENSEE shall give prompt Notice to the other of any Claim which is or which may be subject to indemnification under this Section 10. With respect to any such Claim, LICENSEE, as indemnitor, shall have the right to select counsel and to control the defense and/or settlement thereof. NOA may, at its own expense, participate in such action or proceeding with counsel of its own choice. LICENSEE shall not enter into any settlement of any Claim in which (i) NOA or Nintendo Co., Ltd. has been named as a party, or (ii) Intellectual Property Rights have been asserted, without NOA’s prior written consent. NOA shall provide reasonable assistance to LICENSEE in its defense of any Claim.

10.3 LICENSEE's Insurance. LICENSEE shall, at its own expense, obtain a comprehensive policy of general liability insurance (including coverage for advertising injury and product liability Claims) from an insurance company rated at least B+ by A.M. Best. Such policy of insurance shall be in an amount of not less than Five Million Dollars (\$5,000,000 US) on a per occurrence basis and shall provide for adequate protection against any Claims. Such policy shall name NOA and Nintendo Co., Ltd. as additional insureds and shall specify it may not be canceled without thirty (30) days' prior written Notice to NOA. A Certificate of Insurance shall be provided to NOA's Licensing Department not later than the date of the initial order of Bulk Goods under this Agreement. If LICENSEE fails to provide NOA's Licensing Department with such Certificate of Insurance or fails to maintain such insurance at any time during the Term and for a period of two (2) years thereafter, NOA, in its sole discretion may 1) terminate this Agreement in accordance with Section 13.2 herein; and/or 2) secure comparable insurance, at LICENSEE's expense, for the sole benefit and protection of NOA and Nintendo Co., Ltd. .

10.4 Suspension of Production. In the event NOA deems itself at risk with respect to any Claim under this Section 10, NOA may, at its sole option, suspend production, delivery or order acceptance for any Bulk Goods, in whole or in part, pending resolution of such Claim.

## **11. PROTECTION OF PROPRIETARY RIGHTS**

11.1 Joint Actions against Infringers. LICENSEE and NOA may agree to jointly pursue cases of infringement involving the Licensed Products, as such Licensed Products will contain Proprietary Rights owned by each of them. Unless the parties otherwise agree, or unless the recovery is expressly allocated between them by the court, in the event of such an action, any recovery shall be used first to reimburse LICENSEE and NOA for their respective reasonable attorneys' fees and costs, pro rata, and any remaining recovery shall be distributed to LICENSEE and NOA, pro rata, based upon the fees and costs incurred in bringing such action.

11.2 Actions by LICENSEE. LICENSEE, without the consent of NOA, may bring any action or proceeding relating to an infringement or potential infringement of LICENSEE's Proprietary Rights in the Licensed Products. LICENSEE shall make reasonable good faith efforts to inform NOA of such actions in a timely manner. LICENSEE will have the right to retain all proceeds it may derive from any recovery in connection with such actions.

11.3 Actions by NOA. NOA, without the consent of LICENSEE, may bring any action or proceeding relating to an infringement or potential infringement of NOA's Intellectual Property Rights in the Licensed Products. NOA shall make reasonable, good faith efforts to inform LICENSEE of such actions likely to affect LICENSEE's rights in a timely manner. NOA will have the right to retain all proceeds it may derive from any recovery in connection with such actions.

## **12. ASSIGNMENT**

12.1 Definition. "Assignment" means every type and form of assignment, transfer, sale, sublicense, delegation, encumbrance, pledge and/or hypothecation of LICENSEE's rights or obligations under this Agreement, including, but not limited to, (a) a voluntary assignment, transfer, sale, sublicense, delegation, encumbrance, pledge and/or hypothecation by LICENSEE of all or any portion of its rights or obligations under this Agreement, (b) the assignment, transfer, sale, sublicense, delegation, encumbrance, pledge and/or hypothecation of all or any portion of LICENSEE's rights or obligations under this Agreement to or by LICENSEE's trustee in bankruptcy, receiver, or other individual or entity appointed to control or direct the business and affairs of LICENSEE, (c) an involuntary assignment, transfer, sale, sublicense, delegation, encumbrance, pledge or hypothecation of all or a portion of LICENSEE's rights or obligations under this Agreement, including but not limited to a foreclosure by a third party upon assets of LICENSEE, (d) the merger or consolidation of LICENSEE if LICENSEE is a corporation, and (e) any other means or method whereby rights or obligations of LICENSEE under this Agreement are sold, assigned or transferred to another individual or entity for any reason. Assignment also includes the sale, assignment, transfer or other event affecting a change in the controlling interest of

LICENSEE, whether by sale, transfer or assignment of shares in LICENSEE, or by sale, transfer or assignment of partnership interests in LICENSEE, or otherwise.

12.2 No Assignment by LICENSEE. This Agreement and the subject matter hereof are personal to LICENSEE. No Assignment of LICENSEE's rights or obligations hereunder shall be valid or effective without NOA's prior written consent, which consent may be withheld by NOA for any reason whatsoever in its sole discretion. In the event of an attempted Assignment in violation of this provision, NOA shall have the right at any time, at its sole option, to immediately terminate this Agreement. Upon such termination, NOA shall have no further obligation under this Agreement to LICENSEE or to LICENSEE's intended or purported assignee.

12.3 Proposed Assignment. Prior to any proposed Assignment of this Agreement, LICENSEE shall give NOA not less than thirty (30) days prior written Notice thereof, which Notice shall disclose the name of the proposed assignee, the proposed effective date of the Assignment and the nature and extent of the rights and obligations that LICENSEE proposes to assign. NOA may, in its sole discretion, approve or disapprove such proposed Assignment. Unless written consent is given by NOA to a proposed Assignment, any attempted or purported Assignment shall be deemed disapproved and NOA shall have the unqualified right, in its sole discretion, to terminate this Agreement at any time. Upon termination, NOA shall have no further obligation under this Agreement to LICENSEE or to LICENSEE's intended or purported assignee.

12.4 LICENSEE's Obligation of Non-Disclosure. LICENSEE shall not (a) disclose Nintendo's Confidential Information to any proposed assignee of LICENSEE, or (b) permit access to Nintendo's Confidential Information by any proposed assignee or other third party, without the prior written consent of NOA to such disclosure.

### 13. TERM AND TERMINATION

13.1 Term. This Agreement shall commence on the Effective Date and continue for the Term, unless earlier terminated as provided for herein.

13.2 Default or Breach. In the event that either party is in default or commits a breach of this Agreement, which is not cured within thirty (30) days after Notice thereof, then this Agreement shall automatically terminate on the date specified in such Notice.

13.3 Bankruptcy. At NOA's option, this Agreement may be terminated immediately and without Notice in the event that LICENSEE (a) makes an assignment for the benefit of creditors, (b) becomes insolvent, (c) files a voluntary petition for bankruptcy, (d) acquiesces to any involuntary bankruptcy petition, (e) is adjudicated as a bankrupt, or (f) ceases to do business.

13.4 Termination Other Than by Breach. Upon the expiration of this Agreement or its termination other than by LICENSEE's breach, LICENSEE shall have a period of one hundred eighty (180) days to sell any unsold Licensed Products. All Licensed Products in LICENSEE's control following the expiration of such sell-off period shall be destroyed by LICENSEE within ten (10) days and Notice of such destruction (with proof certified by an officer of LICENSEE) shall be delivered to NOA.

13.5 Termination by LICENSEE's Breach. If this Agreement is terminated by NOA as a result of a breach of its terms and conditions by LICENSEE, LICENSEE shall immediately cease all distribution, advertising, marketing or sale of any Licensed Products. All Bulk Goods and Licensed Products in LICENSEE's control as of the date of such termination shall be destroyed by LICENSEE within ten (10) days and Notice of such destruction (with proof certified by an officer of LICENSEE) shall be delivered to NOA.

13.6 Breach of NDA or other NOA License Agreements. At NOA's option, any breach by LICENSEE of (a) the NDA, or (b) any other license agreement between NOA and LICENSEE relating to the development of games for any Nintendo video game system, which breach is not cured within the

time period for cure allowed under the applicable agreement, shall be considered a material breach of this Agreement entitling NOA to terminate this Agreement in accordance with Section 13.5 herein.

13.7 No Further Use of the Intellectual Property Rights. Upon expiration or termination of this Agreement, LICENSEE shall cease all use of the Intellectual Property Rights for any purpose, except as may be required in connection with the sale of the Licensed Products authorized under Section 13.4 herein. LICENSEE shall, within thirty (30) days of expiration or termination, (a) return to NOA all Development Tools provided to LICENSEE by Nintendo, and (b) return to NOA or destroy any and all copies of materials constituting, relating to, or disclosing any Confidential Information, including but not limited to Guidelines, writings, drawings, models, data, and tools, whether in LICENSEE's possession or in the possession of any past or present employee, agent or Independent Contractor who received the information through LICENSEE.. Proof of such return or destruction shall be certified by an officer of LICENSEE and promptly provided to NOA.

13.8 Termination by NOA's Breach. If this Agreement is terminated by LICENSEE as a result of a breach of its terms or conditions by NOA, LICENSEE may continue to sell the Licensed Products in the Territory until the expiration of the Term, at which time the provisions of Section 13.4 shall apply.

## 14. GENERAL PROVISIONS

14.1 Export Control. LICENSEE agrees to comply with the export laws and regulations of the United States and any other country with jurisdiction over the Intellectual Property Rights, the Licensed Products or the Development Tools.

14.2 Force Majeure. Neither party shall be liable for any breach of this Agreement occasioned by any cause beyond the reasonable control of such party, including governmental action, war, riot or civil commotion, fire, natural disaster, labor disputes, restraints affecting shipping or credit, delay of carriers, inadequate supply of suitable materials, or any other cause which could not with reasonable diligence be controlled or prevented by the parties. In the event of material shortages, including shortages of materials or production facilities necessary for production of the Bulk Goods, NOA reserves the right to allocate such resources among itself and its licensees.

14.3 Records and Audit. During the Term and for a period of two (2) years thereafter, LICENSEE agrees to keep accurate, complete and detailed records relating to the use of the Confidential Information, the Development Tools and the Intellectual Property Rights. Upon reasonable Notice to LICENSEE, NOA may, at its expense, audit LICENSEE's records, reports and other information related to LICENSEE's compliance with this Agreement; provided, however, that NOA shall not, during the course of the audit, access LICENSEE's source code, development plans, marketing plans, internal business plans or other items deemed confidential by LICENSEE, except to the extent such materials incorporate, disclose or reference Nintendo's Confidential Information or Intellectual Property Rights.

14.4 Waiver, Severability, Integration, and Amendment. The failure of a party to enforce any provision of this Agreement shall not be construed to be a waiver of such provision or of the right of such party to thereafter enforce such provision. In the event that any term, clause or provision of this Agreement shall be construed to be or adjudged invalid, void or unenforceable, such term, clause or provision shall be construed as severed from this Agreement, and the remaining terms, clauses and provisions shall remain in effect. Together with the NDA, this Agreement constitutes the entire agreement between the parties relating to the subject matter hereof. All prior negotiations, representations, agreements and understandings are merged into, extinguished by and completely expressed by this Agreement and the NDA. Any amendment to this Agreement shall be in writing, signed by both parties.

14.5 Survival. In addition to those rights specified elsewhere in this Agreement, the rights and obligations set forth in Sections 3, 8, 9, 10, 11, 12.4, 13.4, 13.7, 13.8 and 14 shall survive any expiration or termination of this Agreement to the degree necessary to permit their complete fulfilment or discharge.

14.6 Governing Law and Venue. This Agreement shall be governed by the laws of the State of Washington, without regard to its conflict of laws principles. Any legal actions (including judicial and administrative proceedings) with respect to any matter arising under or growing out of this Agreement, shall be brought in a court of competent jurisdiction in King County, Washington. Each party hereby consents to the jurisdiction and venue of such courts for such purposes.

14.7 Equitable Relief. LICENSEE acknowledges that in the event of its breach of this Agreement, no adequate remedy at law may be available to NOA and that NOA shall be entitled to seek injunctive or other equitable relief in addition to any relief available at law.

14.8 Attorneys' Fees. In the event it is necessary for either party to this Agreement to undertake legal action to enforce or defend any action arising out of or relating to this Agreement, the prevailing party in such action shall be entitled to recover from the other party all reasonable attorneys' fees, costs and expenses relating to such legal action or any appeal therefrom.

14.9 Counterparts and Signature by Facsimile. This Agreement may be signed in counterparts, which shall together constitute a complete Agreement. A signature transmitted by facsimile shall be considered an original for purposes of this Agreement.

IN WITNESS WHEREOF, the parties have entered into this Agreement on the dates set forth below.

NOA:

**NINTENDO OF AMERICA INC.**

By: /s/ James R. Cannataro  
Name: James R. Cannataro  
Title: Executive VP, Administration

LICENSEE:

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

By: /s/ Ben Feder  
Name: Ben Feder  
Title: CEO

**ROCKSTAR GAMES, INC.**

By: /s/ Daniel Emerson  
Name: Daniel Emerson  
Title: Secretary

**GLOBAL STAR SOFTWARE, INC.**

By: /s/ Daniel Emerson  
Name: Daniel Emerson  
Title: Secretary

**2K GAMES, INC.**

By: /s/ Daniel Emerson  
Name: Daniel Emerson  
Title: Secretary

**2K SPORTS, INC.**

By: /s/ Daniel Emerson  
Name: Daniel Emerson  
Title: Secretary

Exhibit A

**Affiliates**

<b>Affiliates:</b>	<b>Jurisdiction of Incorporation</b>	<b>Address</b>	<b>Contact/Email</b>
Rockstar Games, Inc.	Delaware	622 Broadway New York, NY 10012	
Global Star Software, Inc.	Delaware	622 Broadway New York, NY 10012	Steve Lux (646) 723-4231
2K Games, Inc.	Delaware	622 Broadway New York, NY 10012	Christoph Hartmann (646) 723-4217
2K Sports, Inc.	Delaware	622 Broadway New York, NY 10012	Christoph Hartmann (646) 723-4217

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**  
**Section 302 Certification**

I, Benjamin Feder, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2007 of Take-Two Interactive Software, Inc.;
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(s) 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 statement 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(s) 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.

September 10, 2007/s/ Benjamin

Feder  
Benjamin Feder  
Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**  
**Section 302 Certification**

I, Lainie Goldstein, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2007 of Take-Two Interactive Software, Inc.;
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(s) 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 statement 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(s) 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.

September 10, 2007 /s/ Lainie  
Goldstein  
Lainie Goldstein  
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**

In connection with the Quarterly Report of Take-Two Interactive Software, Inc. (the "Company") on Form 10-Q for the period ended July 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Benjamin Feder, as Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. SS 1350, as adopted pursuant to SS. 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.

September 10, 2007 /s/ Benjamin  
Feder  
Benjamin Feder  
Benjamin Feder  
Chief Executive  
Officer

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