
**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 September 30, 2020

OR

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

For the transition period from _____ to _____

Commission file number 001-34003

TAKE-TWO INTERACTIVE SOFTWARE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

110 West 44th Street

New York New York

(Address of principal executive offices)

51-0350842

(I.R.S. Employer
Identification No.)

10036

(Zip Code)

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

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

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

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

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

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

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

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

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

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

As of October 23, 2020, there were 115,021,621 shares of the Registrant's Common Stock outstanding, net of treasury stock.

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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.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

	September 30, 2020 (Unaudited)	March 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,345,099	\$ 1,357,664
Short-term investments	1,040,786	644,003
Restricted cash and cash equivalents	450,145	546,604
Accounts receivable, net of allowances of \$448 and \$443 at September 30, 2020 and March 31, 2020, respectively	787,818	592,555
Inventory	26,934	19,108
Software development costs and licenses	73,714	40,316
Deferred cost of goods sold	15,410	19,598
Prepaid expenses and other	192,192	273,503
Total current assets	3,932,098	3,493,351
Fixed assets, net	133,404	131,888
Right-of-use assets	156,310	154,284
Software development costs and licenses, net of current portion	403,390	401,778
Goodwill	521,000	386,494
Other intangibles, net	126,392	51,260
Deferred tax assets	117,692	116,676
Long-term restricted cash and cash equivalents	289,536	89,124
Other assets	156,332	123,977
Total assets	\$ 5,836,154	\$ 4,948,832
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 85,103	\$ 65,684
Accrued expenses and other current liabilities	1,148,617	1,169,884
Deferred revenue	1,063,064	777,784
Lease liabilities	29,051	25,187
Total current liabilities	2,325,835	2,038,539
Non-current deferred revenue	32,880	28,339
Non-current lease liabilities	150,793	152,059
Non-current software development royalties	302,435	104,417
Other long-term liabilities	122,929	86,234
Total liabilities	\$ 2,934,872	\$ 2,409,588
Commitments and contingencies (See Note 13)		
Stockholders' equity:		
Preferred stock, \$.01 par value, 5,000 shares authorized; no shares issued and outstanding at September 30, 2020 and March 31, 2020	—	—
Common stock, \$.01 par value, 200,000 shares authorized; 137,349 and 135,927 shares issued and 114,928 and 113,506 outstanding at September 30, 2020 and March 31, 2020, respectively	1,373	1,359
Additional paid-in capital	2,285,394	2,134,748
Treasury stock, at cost; 22,421 common shares at September 30, 2020 and March 31, 2020	(820,572)	(820,572)
Retained earnings	1,469,911	1,282,085
Accumulated other comprehensive loss	(34,824)	(58,376)
Total stockholders' equity	2,901,282	2,539,244
Total liabilities and stockholders' equity	\$ 5,836,154	\$ 4,948,832

See accompanying Notes.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Net revenue	\$ 841,142	\$ 857,841	\$ 1,672,452	\$ 1,398,300
Cost of goods sold	432,505	468,248	909,194	709,717
Gross profit	408,637	389,593	763,258	688,583
Selling and marketing	113,691	149,566	198,470	241,387
General and administrative	91,433	76,659	193,606	151,492
Research and development	74,216	76,197	147,324	145,160
Depreciation and amortization	13,691	12,024	26,109	23,281
Business reorganization	239	327	239	713
Total operating expenses	293,270	314,773	565,748	562,033
Income from operations	115,367	74,820	197,510	126,550
Interest and other, net	2,706	8,054	10,924	18,479
Loss on long-term investments	655	—	655	—
Income before income taxes	117,418	82,874	207,779	145,029
Provision for income taxes	18,097	11,059	19,953	26,934
Net income	\$ 99,321	\$ 71,815	\$ 187,826	\$ 118,095
Earnings per share:				
Basic earnings per share	\$ 0.87	\$ 0.63	\$ 1.65	\$ 1.05
Diluted earnings per share	\$ 0.86	\$ 0.63	\$ 1.63	\$ 1.04

See accompanying Notes.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Net income	\$ 99,321	\$ 71,815	\$ 187,826	\$ 118,095
Other comprehensive income (loss):				
Foreign currency translation adjustment	18,861	(12,567)	23,562	(21,364)
Cash flow hedges:				
Change in unrealized gains	—	5,889	(3,817)	6,092
Reclassification to earnings	—	(4,490)	(1,333)	(3,408)
Tax effect on effective cash flow hedges	—	696	845	687
Change in fair value of effective cash flow hedge	—	2,095	(4,305)	3,371
Change in fair value of available for sale securities	(1,554)	(2)	4,295	720
Other comprehensive income (loss)	17,307	(10,474)	23,552	(17,273)
Comprehensive income	\$ 116,628	\$ 61,341	\$ 211,378	\$ 100,822

See accompanying Notes.

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

	Six Months Ended September 30,	
	2020	2019
Operating activities:		
Net income	\$ 187,826	\$ 118,095
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and impairment of software development costs and licenses	92,664	72,505
Depreciation	25,826	23,037
Amortization and impairment of intellectual property	11,801	10,627
Stock-based compensation	98,719	113,199
Other, net	(2,631)	4,325
Changes in assets and liabilities:		
Accounts receivable	(189,477)	(463,019)
Inventory	(7,266)	(12,064)
Software development costs and licenses	(127,290)	(51,932)
Prepaid expenses and other assets	65,296	(131,055)
Deferred revenue	284,441	66,148
Deferred cost of goods sold	4,753	15,287
Accounts payable, accrued expenses and other liabilities	182,083	379,005
Net cash provided by operating activities	<u>626,745</u>	<u>144,158</u>
Investing activities:		
Change in bank time deposits	(218,239)	6,720
Proceeds from available-for-sale securities	260,729	137,071
Purchases of available-for-sale securities	(435,511)	(141,244)
Purchases of fixed assets	(25,021)	(25,532)
Purchases of long-term investments	(9,100)	(4,500)
Business acquisitions	(75,482)	(8,715)
Net cash used in investing activities	<u>(502,624)</u>	<u>(36,200)</u>
Financing activities:		
Tax payment related to net share settlements on restricted stock awards	(48,202)	(61,478)
Issuance of common stock	6,503	—
Net cash used in financing activities	<u>(41,699)</u>	<u>(61,478)</u>
Effects of foreign currency exchange rates on cash, cash equivalents, and restricted cash and cash equivalents	8,966	(8,063)
Net change in cash, cash equivalents, and restricted cash and cash equivalents	91,388	38,417
Cash, cash equivalents, and restricted cash and cash equivalents, beginning of year	1,993,392	1,391,986
Cash, cash equivalents, and restricted cash and cash equivalents, end of period	<u>\$ 2,084,780</u>	<u>\$ 1,430,403</u>

See accompanying Notes.

TAKE-TWO INTERACTIVE SOFTWARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Unaudited)

(in thousands)

	Three Months Ended September 30, 2020							
	Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balance, June 30, 2020	136,689	\$ 1,367	\$ 2,151,774	(22,421)	\$ (820,572)	\$ 1,370,590	\$ (52,131)	\$ 2,651,028
Net income	—	—	—	—	—	99,321	—	99,321
Change in cumulative foreign currency translation adjustment	—	—	—	—	—	—	18,861	18,861
Net unrealized gain on available-for-sale securities, net of taxes	—	—	—	—	—	—	(1,554)	(1,554)
Stock-based compensation	—	—	45,675	—	—	—	—	45,675
Issuance of restricted stock, net of forfeitures and cancellations	115	1	(1)	—	—	—	—	—
Net share settlement of restricted stock awards	(59)	(1)	(9,695)	—	—	—	—	(9,696)
Employee share purchase plan settlement	—	—	—	—	—	—	—	—
Issuance of shares related to Playdots, Inc. acquisition	604	6	97,641	—	—	—	—	97,647
Balance, September 30, 2020	137,349	\$ 1,373	\$ 2,285,394	(22,421)	\$ (820,572)	\$ 1,469,911	\$ (34,824)	\$ 2,901,282

	Three Months Ended September 30, 2019							
	Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balance, June 30, 2019	135,527	\$ 1,355	\$ 2,025,626	(22,421)	\$ (820,572)	\$ 923,906	\$ (43,988)	\$ 2,086,327
Net income	—	—	—	—	—	71,815	—	71,815
Change in cumulative foreign currency translation adjustment	—	—	—	—	—	—	(12,567)	(12,567)
Change in unrealized gains on cash flow hedge, net	—	—	—	—	—	—	2,095	2,095
Net unrealized gain on available-for-sale securities, net of taxes	—	—	—	—	—	—	(2)	(2)
Stock-based compensation	—	—	43,455	—	—	—	—	43,455
Issuance of restricted stock, net of forfeitures and cancellations	164	2	(2)	—	—	—	—	—
Net share settlement of restricted stock awards	(75)	(1)	(9,359)	—	—	—	—	(9,360)
Employee share purchase plan settlement	—	—	—	—	—	—	—	—
Balance, September 30, 2019	135,616	\$ 1,356	\$ 2,059,720	(22,421)	\$ (820,572)	\$ 995,721	\$ (54,462)	\$ 2,181,763

	Six Months Ended September 30, 2020							
	Common Stock			Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Additional Paid-in Capital	Shares	Amount			
Balance, March 31, 2020	135,927	\$ 1,359	\$ 2,134,748	(22,421)	\$ (820,572)	\$ 1,282,085	\$ (58,376)	\$ 2,539,244
Net income	—	—	—	—	—	187,826	—	187,826
Change in cumulative foreign currency translation adjustment	—	—	—	—	—	—	23,562	23,562
Change in unrealized gains on cash flow hedge, net	—	—	—	—	—	—	(4,305)	(4,305)
Net unrealized gain on available-for-sale securities, net of taxes	—	—	—	—	—	—	4,295	4,295
Stock-based compensation	—	—	94,712	—	—	—	—	94,712
Issuance of restricted stock, net of forfeitures and cancellations	1,094	11	(11)	—	—	—	—	—
Net share settlement of restricted stock awards	(341)	(4)	(48,198)	—	—	—	—	(48,202)
Employee share purchase plan settlement	65	1	6,502	—	—	—	—	6,503
Issuance of shares related to Playdots, Inc. acquisition	604	6	97,641	—	—	—	—	97,647
Balance, September 30, 2020	137,349	\$ 1,373	\$ 2,285,394	(22,421)	\$ (820,572)	\$ 1,469,911	\$ (34,824)	\$ 2,901,282

	Six Months Ended September 30, 2019							
	Common Stock			Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Additional Paid-in Capital	Shares	Amount			
Balance, March 31, 2019	134,602	\$ 1,346	\$ 2,019,369	(22,421)	\$ (820,572)	\$ 877,626	\$ (37,189)	\$ 2,040,580
Net income	—	—	—	—	—	118,095	—	118,095
Change in cumulative foreign currency translation adjustment	—	—	—	—	—	—	(21,364)	(21,364)
Change in unrealized gains on cash flow hedge, net	—	—	—	—	—	—	3,371	3,371
Net unrealized gain on available-for-sale securities, net of taxes	—	—	—	—	—	—	720	720
Stock-based compensation	—	—	96,706	—	—	—	—	96,706
Issuance of restricted stock, net of forfeitures and cancellations	1,503	15	(15)	—	—	—	—	—
Net share settlement of restricted stock awards	(551)	(6)	(61,472)	—	—	—	—	(61,478)
Employee share purchase plan settlement	62	1	5,132	—	—	—	—	5,133
Balance, September 30, 2019	135,616	\$ 1,356	\$ 2,059,720	(22,421)	\$ (820,572)	\$ 995,721	\$ (54,462)	\$ 2,181,763

See accompanying Notes.

TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(in thousands, except per share amounts)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements are unaudited and include the accounts of the Company and its wholly-owned subsidiaries and, in our opinion, reflect all normal and recurring adjustments necessary for the fair presentation of our financial position, results of operations, and cash flows. Interim results may not be indicative of the results that may be expected for the full fiscal year. All intercompany accounts and transactions have been eliminated in consolidation. The preparation of these Condensed Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported in these Condensed Consolidated Financial Statements and accompanying notes. As permitted under U.S. GAAP, interim accounting for certain expenses, including income taxes, are based on full year assumptions when appropriate. Actual results could differ materially from those estimates, including as a result of the COVID-19 pandemic, which may affect economic conditions in a number of different ways and result in uncertainty and risk.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP 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 fiscal year ended March 31, 2020.

Certain immaterial reclassifications have been made to prior period amounts to conform to the current period presentation.

Recently Adopted Accounting Pronouncements

Accounting for Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements by removing, modifying, or adding certain disclosures. We adopted this update effective April 1, 2020. The adoption of this standard did not have a material impact on our Condensed Consolidated Financial Statements.

Accounting for Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*, which replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that will require the reflection of expected credit losses and will also require consideration of a broader range of reasonable and supportable information to determine credit loss estimates. It also eliminates the concept of other-than-temporary impairment and requires credit losses related to available-for-sale debt securities to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. For most financial instruments, the standard will require the use of a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses, which will generally result in the earlier recognition of credit losses on financial instruments. We adopted this update effective April 1, 2020 under a modified retrospective basis. No adjustment to retained earnings was recorded as a result of the adoption of this standard, which did not have a material impact on our Condensed Consolidated Financial Statements.

Recently Issued Accounting Pronouncements

Accounting for Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional guidance to ease potential accounting impacts associated with transitioning away from reference rates that are expected to be discontinued, such as interbank offered rates and LIBOR. The guidance includes practical expedients for contract modifications due to reference rate reform. Generally, contract modifications related to reference rate reform may be considered an event that does not require remeasurement or reassessment of a previous accounting determination at the modification date. This guidance is effective immediately and is only available through December 31, 2022. We are currently evaluating the potential impact of adopting this guidance on our Consolidated Financial Statements.

Accounting for Income Taxes

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which enhances and simplifies various aspects of the income tax accounting guidance, including requirements such as tax basis step-up in goodwill obtained in a transaction that is not a business combination, ownership changes in investments, and interim-period accounting for enacted changes in tax law. ASU 2019-12 is effective for fiscal years, and interim periods within those fiscal years, beginning December 15, 2020 (April 1, 2021 for the Company), with early adoption permitted. We are currently evaluating the potential impact of adopting this guidance on our Consolidated Financial Statements.

2. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue

Product revenue

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

Service and other revenue

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

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Net revenue recognized:				
Service and other	\$ 551,576	\$ 421,747	\$ 1,083,626	\$ 846,132
Product	289,566	436,094	588,826	552,168
Total net revenue	\$ 841,142	\$ 857,841	\$ 1,672,452	\$ 1,398,300

Full game and other revenue

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

Recurrent consumer spending revenue

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

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Net revenue recognized:				
Recurrent consumer spending	\$ 495,724	\$ 318,468	\$ 975,129	\$ 633,326
Full game and other	345,418	539,373	697,323	764,974
Total net revenue	\$ 841,142	\$ 857,841	\$ 1,672,452	\$ 1,398,300

Geography

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Net revenue recognized:				
United States	\$ 503,583	\$ 494,661	\$ 974,073	\$ 825,140
International	337,559	363,180	698,379	573,160
Total net revenue	\$ 841,142	\$ 857,841	\$ 1,672,452	\$ 1,398,300

Platform

Net revenue by platform was as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Net revenue recognized:				
Console	\$ 641,269	\$ 651,818	\$ 1,252,954	\$ 1,086,632
PC and other	199,873	206,023	419,498	311,668
Total net revenue	\$ 841,142	\$ 857,841	\$ 1,672,452	\$ 1,398,300

Distribution channel

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Net revenue recognized:				
Digital online	\$ 711,299	\$ 615,774	\$ 1,437,525	\$ 1,043,555
Physical retail and other	129,843	242,067	234,927	354,745
Total net revenue	\$ 841,142	\$ 857,841	\$ 1,672,452	\$ 1,398,300

Deferred Revenue

We record deferred revenue when payments are due or received in advance of the fulfillment of our associated performance obligations. Deferred revenue, including current and non-current balances as of September 30, 2020 and March 31, 2020 were \$1,095,944 and \$806,123, respectively. For the three months ended September 30, 2020, the additions to our deferred revenue balance were due primarily to cash payments received or due in advance of satisfying our performance obligations, while the reductions to our deferred revenue balance were due primarily to the recognition of revenue upon fulfillment of our performance obligations, both of which were in the ordinary course of business.

During the three months ended September 30, 2020 and 2019, \$241,732 and \$234,411, respectively, of revenue was recognized that was included in the deferred revenue balance at the beginning of the respective period. During the six months ended September 30, 2020 and 2019, \$612,946 and \$564,833, respectively, of revenue was recognized that was included in the deferred revenue balance at the beginning of the respective period. As of September 30, 2020, the aggregate amount of contract revenue allocated to unsatisfied performance obligations is \$1,223,304, which includes our deferred revenue balances and amounts to be invoiced and recognized in future periods. We expect to recognize approximately \$1,092,423 of this balance as revenue over the next 12 months, and the remainder thereafter. This balance does not include an estimate for variable consideration arising from sales-based royalty license revenue in excess of the contractual minimum guarantee.

As of September 30, 2020 and March 31, 2020, our contract asset balances were \$98,053 and \$81,625, respectively, which are recorded within Prepaid expenses and other in our Condensed Consolidated Balance Sheets.

3. MANAGEMENT AGREEMENT

In November 2017, we entered into a new management agreement (the "2017 Management Agreement"), with ZelnickMedia Corporation ("ZelnickMedia") that replaces our previous agreement with ZelnickMedia and pursuant to which ZelnickMedia provides financial and management consulting services through March 31, 2024. The 2017 Management Agreement became effective January 1, 2018. As part of the 2017 Management Agreement, Strauss Zelnick, the President of ZelnickMedia, continues to serve as Executive Chairman and Chief Executive Officer of the Company, and Karl Slatoff, a partner of ZelnickMedia, continues to serve as President of the Company. The 2017 Management Agreement provides for an annual management fee of \$3,100 over the term of the agreement and a maximum annual bonus opportunity of \$7,440 over the term of the agreement, based on the Company achieving certain performance thresholds.

In consideration for ZelnickMedia's services, we recorded consulting expense (a component of General and administrative expenses) of \$2,605 and \$1,705 during the three months ended September 30, 2020 and 2019, respectively, and \$5,270 and \$3,375 during the six months ended September 30, 2020 and 2019, respectively. We recorded stock-based compensation expense for restricted stock units granted to ZelnickMedia, which is included in General and administrative expenses, of \$6,887 and \$5,956 during the three months ended September 30, 2020 and 2019, respectively, and \$13,657 and \$11,501 during the six months ended September 30, 2020 and 2019, respectively.

In connection with the 2017 Management Agreement, we have granted restricted stock units as follows:

	Six Months Ended September 30,	
	2020	2019
Time-based	79	92
Market-based(1)	145	168
Performance-based(1)		
IP	24	28
Recurrent Consumer Spending ("RCS")	24	28
Total—Performance-based	48	56
Total Restricted Stock Units	272	316

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

Time-based restricted stock units granted in fiscal year 2021 will vest on April 13, 2022, and those granted in fiscal year 2020 will vest on April 13, 2021, in each case provided that the 2017 Management Agreement has not been terminated prior to such vesting date.

Market-based restricted stock units granted in fiscal year 2021 are eligible to vest on April 13, 2022, and those granted in fiscal year 2020 are eligible to vest on April 13, 2021, in each case provided that the 2017 Management Agreement has not been terminated prior to such vesting date. Market-based restricted stock units are eligible to vest based on the Company's Total Shareholder Return (as defined in the relevant grant agreement) relative to the Total Shareholder Return (as defined in the relevant grant agreement) of the companies that constitute the NASDAQ Composite Index as of the grant date measured over a two-year period. To earn the target number of market-based restricted stock units (which represents 50% of the number of the market-based restricted stock units set forth in the table above), the Company must perform at the 50th percentile, with the maximum number of market-based restricted stock units earned if the Company performs at the 75th percentile.

Performance-based restricted stock units granted in fiscal year 2021 are eligible to vest on April 13, 2022, and those granted in fiscal year 2020 are eligible to vest on April 13, 2021, in each case provided that the 2017 Management Agreement has not been terminated prior to such vesting date. The performance-based restricted stock units, of which 50% are tied to "IP" and 50% to "RCS" (as defined in the relevant grant agreement), are eligible to vest based on the Company's achievement of certain performance metrics (as defined in the relevant grant agreement) of either individual product releases of "IP" or "RCS" measured over a two-year period. The target number of performance-based restricted stock units that may be earned pursuant to these grants is equal to 50% of the grant amounts set forth in the above table (the numbers in the table represent the maximum number of performance-based restricted stock units that may be earned). At the end of each reporting period, we assess the probability of each performance metric and upon determination that certain thresholds are probable, we record expense for the unvested portion of the shares of performance-based restricted stock units.

The unvested portion of time-based, market-based and performance-based restricted stock units held by ZelnickMedia were 588 and 613 as of September 30, 2020 and March 31, 2020, respectively. During the three and six months ended September 30, 2020, 297 restricted stock units previously granted to ZelnickMedia vested, and no restricted stock units were forfeited by ZelnickMedia.

4. FAIR VALUE MEASUREMENTS

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

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

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Observable inputs other than quoted prices included in Level 1, such as quoted prices for markets that are not active or other inputs that are observable or can be corroborated by observable market data.

- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

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

	September 30, 2020	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Balance Sheet Classification
Money market funds	\$ 638,313	\$ 638,313	\$ —	\$ —	Cash and cash equivalents
Bank-time deposits	204,000	204,000	—	—	Cash and cash equivalents
Commercial paper	33,229	—	33,229	—	Cash and cash equivalents
Corporate bonds	4,133	—	4,133	—	Cash and cash equivalents
Corporate bonds	519,645	—	519,645	—	Short-term investments
Bank-time deposits	409,239	409,239	—	—	Short-term investments
US Treasuries	33,197	33,197	—	—	Short-term investments
Asset-backed securities	950	—	950	—	Short-term investments
Commercial paper	77,755	—	77,755	—	Short-term investments
Money market funds	435,771	435,771	—	—	Restricted cash and cash equivalents
Bank-time deposits	533	533	—	—	Restricted cash and cash equivalents
Money market funds	289,536	289,536	—	—	Long-term restricted cash and cash equivalents
Private equity	5,564	—	—	5,564	Other assets
Foreign currency forward contracts	(204)	—	(204)	—	Accrued expenses and other current liabilities
Total recurring fair value measurements, net	\$ 2,651,661	\$ 2,010,589	\$ 635,508	\$ 5,564	

	March 31, 2020	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance Sheet Classification
Money market funds	\$ 497,861	\$ 497,861	\$ —	\$ —	Cash and cash equivalents
Bank-time deposits	313,757	313,757	—	—	Cash and cash equivalents
Commercial paper	97,544	—	97,544	—	Cash and cash equivalents
Corporate bonds	9,888	—	9,888	—	Cash and cash equivalents
Money market funds	546,604	546,604	—	—	Restricted cash and cash equivalents
Corporate bonds	334,631	—	334,631	—	Short-term investments
Bank-time deposits	191,000	191,000	—	—	Short-term investments
US Treasuries	30,819	30,819	—	—	Short-term investments
Commercial paper	87,553	—	87,553	—	Short-term investments
Cross-currency swap	11,275	—	11,275	—	Prepaid expenses and other
Money market funds	89,124	89,124	—	—	Long-term restricted cash and cash equivalents
Private equity	2,759	—	—	2,759	Other assets
Foreign currency forward contracts	(11)	—	(11)	—	Accrued and other current liabilities
Total recurring fair value measurements, net	<u>\$ 2,212,804</u>	<u>\$ 1,669,165</u>	<u>\$ 540,880</u>	<u>\$ 2,759</u>	

We did not have any transfers between Level 1 and Level 2 fair value measurements, nor did we have any transfers into or out of Level 3 during the six months ended September 30, 2020.

5. SHORT-TERM INVESTMENTS

Our Short-term investments consisted of the following:

	September 30, 2020			
	Cost or Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Short-term investments				
Bank time deposits	\$ 409,239	\$ —	\$ —	\$ 409,239
Available-for-sale securities:				
Corporate bonds	517,663	2,193	(211)	519,645
US Treasuries	33,035	162	—	33,197
Asset-backed securities	945	5	—	950
Commercial paper	77,755	—	—	77,755
Total Short-term investments	<u>\$ 1,038,637</u>	<u>\$ 2,360</u>	<u>\$ (211)</u>	<u>\$ 1,040,786</u>

	March 31, 2020			
	Cost or Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Short-term investments				
Bank time deposits	\$ 191,000	\$ —	\$ —	\$ 191,000
Available-for-sale securities:				
Corporate bonds	337,752	307	(3,428)	334,631
US Treasuries	30,481	338	—	30,819
Commercial paper	87,553	—	—	87,553
Total short-term investments	\$ 646,786	\$ 645	\$ (3,428)	\$ 644,003

The following table summarizes the contracted maturities of our short-term investments at September 30, 2020:

	September 30, 2020	
	Amortized Cost	Fair Value
Short-term investments		
Due in 1 year or less	\$ 828,987	\$ 830,369
Due in 1 - 2 years	208,705	209,467
Due in 2 - 3 years	945	950
Total short-term investments	\$ 1,038,637	\$ 1,040,786

6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Our risk management strategy includes the use of derivative financial instruments to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. We do not enter into derivative financial contracts for speculative or trading purposes. We recognize derivative instruments as either assets or liabilities on our Consolidated Balance Sheets, and we measure those instruments at fair value. We classify cash flows from derivative transactions as cash flows from operating activities in our Consolidated Statements of Cash Flows.

Foreign currency forward contracts

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

	September 30, 2020	March 31, 2020
Forward contracts to sell foreign currencies	\$ 193,693	\$ 122,024
Forward contracts to purchase foreign currencies	71,783	52,596

For the three months ended September 30, 2020 and 2019, we recorded a loss of \$1,029 and a gain of \$2,210, respectively, and for the six months ended September 30, 2020 and 2019 we recorded a loss of \$3,685 and a loss of \$1,087, respectively, related to foreign currency forward contracts in Interest and other, net in our Condensed Consolidated Statements of Operations. Our foreign currency exchange forward contracts are not designated as hedging instruments under hedge accounting and are used to reduce the impact of foreign currency on certain balance sheet exposures and certain revenue and expense. These instruments are generally short-term in nature, with typical maturities of less than one year, and are subject to fluctuations in foreign exchange rates.

Cross-currency swap

In August 2017, we entered into a cross-currency swap agreement related to an intercompany loan that has been designated and accounted for as a cash flow hedge of foreign currency exchange risk. During the three months ended June 30, 2020, we settled the intercompany loan and cross-currency swap, thereby discontinuing the cash flow hedge. As a result, we reclassified \$3,109 from Accumulated other comprehensive income (loss) to earnings as an increase to Interest and other, net on our Condensed Consolidated Statement of Operations. We also received \$7,420 in cash to settle our corresponding derivative asset.

7. INVENTORY

Inventory balances by category were as follows:

	September 30, 2020	March 31, 2020
Finished products	\$ 24,660	\$ 17,984
Parts and supplies	2,274	1,124
Inventory	<u>\$ 26,934</u>	<u>\$ 19,108</u>

Estimated product returns included in inventory at September 30, 2020 and March 31, 2020 were \$425 and \$506, respectively.

8. SOFTWARE DEVELOPMENT COSTS AND LICENSES

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

	September 30, 2020		March 31, 2020	
	Current	Non-current	Current	Non-current
Software development costs, internally developed	\$ 51,998	\$ 309,160	\$ 17,367	\$ 305,970
Software development costs, externally developed	12,087	91,205	10,971	92,908
Licenses	9,629	3,025	11,978	2,900
Software development costs and licenses	<u>\$ 73,714</u>	<u>\$ 403,390</u>	<u>\$ 40,316</u>	<u>\$ 401,778</u>

During the three months ended September 30, 2020 and 2019, we did not record any software development impairment charges (a component of Cost of goods sold). During the six months ended September 30, 2020 and 2019, we recorded \$19,695 and \$0, respectively, of software development impairment charges (a component of Cost of goods sold). The impairment charge recorded during the six months ended September 30, 2020 related to unamortized capitalized costs for the development of a title, which were anticipated to exceed the net realizable value of the asset at the time they were impaired.

9. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following:

	September 30, 2020	March 31, 2020
Software development royalties	\$ 713,928	\$ 822,416
Licenses	133,563	57,651
Compensation and benefits	95,379	81,791
Refund liability	63,435	77,829
Marketing and promotions	33,089	40,797
Other	109,223	89,400
Accrued expenses and other current liabilities	<u>\$ 1,148,617</u>	<u>\$ 1,169,884</u>

10. DEBT

Credit Agreement

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

Loans under the Credit Agreement will bear interest at a rate of (a) 0.250% to 0.750% above a certain base rate (3.25% at September 30, 2020) or (b) 1.125% to 1.750% above LIBOR (approximately 1.48% at September 30, 2020), which rates are determined by reference to our consolidated total net leverage ratio. We had no outstanding borrowings at September 30, 2020.

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

	September 30, 2020	March 31, 2020
Available borrowings	\$ 198,336	\$ 198,336
Outstanding letters of credit	1,664	1,664

We recorded interest expense and fees related to the Credit Agreement of \$82 and \$84 for the three months ended September 30, 2020 and 2019, respectively, and \$164 and \$166 for the six months ended September 30, 2020 and 2019, respectively. The Credit Agreement also includes, among other terms and conditions, maximum leverage ratio, minimum cash reserves and, in certain circumstances, minimum interest coverage ratio financial covenants, as well as limitations on us and each of our subsidiaries' ability to: create, incur, assume or be liable for indebtedness; dispose of assets outside the ordinary course; acquire, merge or consolidate with or into another person or entity; create, incur or allow any lien on any of its property; make investments; or pay dividends or make distributions, in each case subject to certain exceptions. In addition, the Credit Agreement provides for certain events of default such as nonpayment of principal and interest when due thereunder, breaches of representations and warranties, noncompliance with covenants, acts of insolvency and default on indebtedness held by third parties (subject to certain limitations and cure periods).

11. EARNINGS PER SHARE ("EPS")

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Computation of Basic earnings per share:				
Net income	\$ 99,321	\$ 71,815	\$ 187,826	\$ 118,095
Weighted average shares outstanding—basic	114,444	113,117	114,153	112,869
Basic earnings per share	\$ 0.87	\$ 0.63	\$ 1.65	\$ 1.05
Computation of Diluted earnings per share:				
Net income	\$ 99,321	\$ 71,815	\$ 187,826	\$ 118,095
Weighted average shares outstanding—basic	114,444	113,117	114,153	112,869
Add: dilutive effect of common stock equivalents	970	960	1,092	1,056
Weighted average common shares outstanding—diluted	115,414	114,077	115,245	113,925
Diluted earnings per share	\$ 0.86	\$ 0.63	\$ 1.63	\$ 1.04

During the six months ended September 30, 2020, 1,112 restricted stock awards vested, we granted 729 unvested restricted stock awards, and 18 unvested restricted stock awards were forfeited.

12. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Six Months Ended September 30, 2020				
	Foreign currency translation adjustments	Unrealized gain (loss) on forward contracts	Unrealized gain (loss) on cross-currency swap	Unrealized gain (loss) on available-for- sales securities	Total
Balance at March 31, 2020	\$ (60,535)	\$ 600	\$ 4,305	\$ (2,746)	\$ (58,376)
Other comprehensive income (loss) before reclassifications	23,562	—	(2,972)	4,295	24,885
Amounts reclassified from accumulated other comprehensive loss	—	—	(1,333)	—	(1,333)
Balance at September 30, 2020	<u>\$ (36,973)</u>	<u>\$ 600</u>	<u>\$ —</u>	<u>\$ 1,549</u>	<u>\$ (34,824)</u>

	Six Months Ended September 30, 2019				
	Foreign currency translation adjustments	Unrealized gain (loss) on derivative instruments	Unrealized gain (loss) on cross-currency swap	Unrealized gain (loss) on available-for- sales securities	Total
Balance at March 31, 2019	\$ (33,090)	\$ 600	\$ (5,285)	\$ 586	\$ (37,189)
Other comprehensive income (loss) before reclassifications	(21,364)	—	6,779	720	(13,865)
Amounts reclassified from accumulated other comprehensive loss	—	—	(3,408)	—	(3,408)
Balance at September 30, 2019	<u>\$ (54,454)</u>	<u>\$ 600</u>	<u>\$ (1,914)</u>	<u>\$ 1,306</u>	<u>\$ (54,462)</u>

13. COMMITMENTS AND CONTINGENCIES

We have entered into various agreements in the ordinary course of business that require substantial cash commitments over the next several years. Other than agreements entered into in the ordinary course of business and in addition to the agreements requiring known cash commitments as reported in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended March 31, 2020, we did not have any significant changes to our commitments since March 31, 2020.

Legal and Other Proceedings

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

14. BUSINESS REORGANIZATION

In the first quarter of fiscal year 2018, we announced and initiated actions to implement a strategic reorganization at one of our labels (the "2018 Plan"). In connection with this initiative, we recorded expense of \$239 and \$327 for business reorganization during the three months ended September 30, 2020 and 2019, respectively, and \$239 and \$713 during the six months ended September 30, 2020 and 2019, respectively, due to updating estimates for employee separation costs. During the six months ended September 30, 2020, we made payments of \$3,500 related to these reorganization activities. As of September 30, 2020, \$3,096 remained accrued in Accrued expenses and other current liabilities. Although we may record additional expense or benefit in future periods to true-up estimates, we do not expect to incur additional reorganization costs in connection with the 2018 Plan.

15. INCOME TAXES

The provision for income taxes for the three months ended September 30, 2020 is based on our projected annual effective tax rate for fiscal year 2021, adjusted for specific items that are required to be recognized in the period in which they are incurred. The provision for income taxes was \$18,097 for the three months ended September 30, 2020 as compared to \$11,059 for the prior year period.

When compared to the statutory rate of 21%, the effective tax rate of 15.4% for the three months ended September 30, 2020 was due primarily to a tax benefit of \$5,730 due to tax credits, excess tax benefits of \$2,321 from employee stock-based compensation, and the geographic mix of earnings.

The provision for income taxes for the six months ended September 30, 2020 is based on our projected annual effective tax rate for fiscal year 2021, adjusted for specific items that are required to be recognized in the period in which they are incurred. The provision for income taxes was \$19,953 for the six months ended September 30, 2020 as compared to \$26,934 for the prior year period.

When compared to the statutory rate of 21%, the effective tax rate of 9.6% for the six months ended September 30, 2020 was due primarily to a tax benefit of \$10,662 due to tax credits and excess tax benefits of \$10,188 from employee stock-based compensation.

We are regularly examined by domestic and foreign taxing authorities. Examinations may result in tax assessments in excess of amounts claimed and the payment of additional taxes. We believe our tax positions comply with applicable tax law, and that we have adequately provided for reasonably foreseeable tax assessments. It is possible that settlement of audits or the expiration of the statute of limitations may have an impact on our effective tax rate in future periods.

16. ACQUISITIONS

On September 4, 2020, we completed the acquisition of privately-held Playdots, Inc. ("Playdots"), a New York City based free-to-play mobile game developer, for consideration of \$97,846 in cash and 603,843 shares of our common stock. The cash portion was funded from our cash on hand. Of the cash consideration, \$13,440 was contractually deferred and accrued for within Accrued expenses and other current liabilities within our Condensed Consolidated Balance Sheet.

We acquired Playdots as part of our ongoing strategy to expand selectively our portfolio of owned intellectual property and to diversify and strengthen further our mobile offerings.

The acquisition-date fair value of the consideration totaled \$195,493, which consisted of the following:

	Fair value of purchase consideration
Cash	\$ 97,846
Common stock (603,843 shares)	97,647
Total	\$ 195,493

We used the acquisition method of accounting and recognized assets at their fair value as of the date of acquisition, with the excess recorded to goodwill. The preliminary fair values of net tangible and intangible assets are management's estimates based on the information available at the acquisition date and may change over the measurement period, which will end no later than one year from the acquisition date, as additional information is received. The following table summarizes the preliminary acquisition date fair value of net tangible and intangible assets acquired, net of liabilities assumed from Playdots:

	Fair Value	Weighted average useful life
Cash acquired	\$ 12,098	N/A
Other tangible net assets	8,206	N/A
Other liabilities assumed	(24,680)	N/A
Intangible Assets		
Developed game technology	69,000	6
User base	6,200	1
Branding and trade names	3,400	8
Game engine technology	2,200	4
Goodwill	119,069	N/A
Total	<u>\$ 195,493</u>	

Goodwill, which is not deductible for U.S. income tax purposes, is primarily attributable to the assembled workforce of the acquired business and expected synergies at the time of the acquisition.

The amounts of revenue and earnings of Playdots included in our Consolidated Statement of Operations from the acquisition date to the period ending September 30, 2020 are as follows:

	September 4, 2020 to September 30, 2020
Net revenue	\$ 1,234
Net income (loss)	\$ (6,049)

The following table summarizes the pro-forma consolidated results of operations (unaudited) for the three and six months ended September 30, 2020 and 2019, as though the acquisition had occurred on April 1, 2019, the beginning of Fiscal 2020, and Playdots had been included in our consolidated results for the entire periods subsequent to that date.

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Pro-forma Net revenue	\$ 849,872	\$ 862,096	\$ 1,693,352	\$ 863,431
Pro-forma Net income	\$ 95,147	\$ 60,705	\$ 177,250	\$ 47,435

The unaudited pro-forma consolidated results above are based on the historical financial statements of the Company and Playdots and not necessarily indicative of the results of operations that would have been achieved if the acquisition was completed at the beginning of Fiscal 2020 and are not indicative of the future operating results of the combined company. The financial information for Playdots prior to the acquisition has been included in the pro-forma results of operations and includes certain adjustments to the historical consolidated financial statements of Playdots to align with the Company's accounting policies. The pro-forma consolidated results of operations also include the business combination accounting effects resulting from the acquisition, including amortization expense related to finite-lived intangible assets acquired and the related tax effects assuming that the business combination occurred on April 1, 2019.

Transaction costs of \$2,512 for the three and six months ended September 30, 2020, which have been recorded within General and administrative expense in our Condensed Consolidated Statements of Operations, have been excluded from the above pro-forma consolidated results of operations due to their non-recurring nature.

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

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

The statements contained herein, which are not historical facts, are considered forward-looking statements under federal securities laws and may be identified by words such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "potential," "predicts," "projects," "seeks," "should," "will," or words of similar meaning and include, but are not limited to, statements regarding the outlook for our future business and financial performance. Such forward-looking statements are based on the current beliefs of our management as well as assumptions made by and information currently available to them, which are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict. Actual outcomes and results may vary materially from these forward-looking statements based on a variety of risks and uncertainties including the uncertainty of the impact of the COVID-19 pandemic and measures taken in response thereto; the effect that measures taken to mitigate the COVID-19 pandemic have on our operations, including our ability to timely deliver our titles and other products, and on the operations of our counterparties, including retailers, including digital storefronts and platform partners, and distributors; the effects of the COVID-19 pandemic on consumer demand and the discretionary spending patterns of our customers; the impact of reductions in interest rates by the Federal Reserve and other central banks, including on our short-term investment portfolio; the impact of potential inflation; volatility in foreign currency exchange rates; other risks included herein; as well as, but not limited to, the risks and uncertainties discussed under the heading "Risk Factors" included in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2020; and our other periodic filings with the Securities and Exchange Commission. All forward-looking statements are qualified by these cautionary statements and speak only as of the date they are made. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events, or otherwise.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is provided in addition to the accompanying Condensed Consolidated Financial Statements and notes 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 and our annual consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2020.

Overview

Our Business

We are a leading developer, publisher, and marketer of interactive entertainment for consumers around the globe. We develop and publish products principally through Rockstar Games, 2K, Private Division, Social Point, and Playdots. Our products are currently designed for console gaming systems, such as Sony's PlayStation®4 ("PS4"), Microsoft's Xbox One® ("Xbox One"), or Nintendo's Switch™ ("Switch"), and personal computers ("PC"), including smartphones and tablets. In addition, we are currently developing games for the next-generation console systems, Sony's PlayStation 5 ("PS5") and Microsoft's Xbox Series X ("Xbox Series X"), that are expected to launch in November 2020. We deliver our products through physical retail, digital download, online platforms, and cloud streaming services.

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

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

Software titles published by our Rockstar Games label are primarily internally developed. We expect Rockstar Games, our wholly-owned publisher of the *Grand Theft Auto*, *Max Payne*, *Midnight Club*, *Red Dead Redemption*, and other popular franchises, to continue to be a leader in the action/adventure product category and to create groundbreaking entertainment. We believe that Rockstar Games has established a uniquely original, popular cultural phenomenon with its *Grand Theft Auto* series, which is the interactive entertainment industry's most iconic and critically acclaimed brand and has sold-in over 330 million units. The latest installment, *Grand Theft Auto V*, has sold in over 135 million units worldwide and includes access to *Grand Theft Auto Online*. On October 26, 2018, Rockstar Games launched *Red Dead Redemption 2*, which has been a critical and commercial success that set numerous entertainment industry records. To date, *Red Dead Redemption 2* has sold-in more than 30 million units worldwide. Rockstar Games is also well known for developing brands in other genres, including the *L.A. Noire*, *Bully*, and *Manhunt* franchises. Rockstar Games continues to expand on our established franchises by developing sequels, offering downloadable episodes, content, and virtual currency.

Our 2K label has published a variety of popular entertainment properties across all key platforms and across a range of genres including shooter, action, role-playing, strategy, sports and family/casual entertainment. We expect 2K to continue to develop new, successful franchises in the future. 2K's internally owned and developed franchises include the critically acclaimed, multi-million unit selling *BioShock*, *Mafia*, *Sid Meier's Civilization*, and *XCOM* series. 2K also publishes successful externally developed brands, such as *Borderlands*. 2K's realistic sports simulation titles include our flagship *NBA 2K* series, which continues to be the top-ranked NBA basketball video game, the *WWE 2K* professional wrestling series, and *PGA TOUR 2K*. In March 2020, 2K announced a multi-year partnership with the National Football League encompassing multiple future video games that will be non-simulation football game experiences and will launch starting in fiscal year 2022.

Our Private Division label is dedicated to bringing titles from top independent developers to market and is the publisher and owner of *Kerbal Space Program*. Private Division released *The Outer Worlds* and *Ancestors: The Humankind Odyssey*, during fiscal year 2020, and *Disintegration* during fiscal year 2021, based on new IP from renowned industry creative talent. *Kerbal Space Program 2* is planned for release in fiscal year 2023.

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

On September 4, 2020, we acquired privately held Playdots, Inc. ("Playdots") for consideration having an acquisition date fair value of \$195.5 million, consisting of \$97.8 million in cash and the issuance of 0.6 million shares of our common stock (See Note 16 of our Condensed Consolidated Financial Statements.). Founded in 2013 and based in New York City, Playdots builds mobile games with unique and thoughtful designs. They are best known for *Two Dots*, which has been downloaded over 80 million times since its launch six years ago and continues to deeply engage audiences throughout the world.

We are continuing to execute on our growth initiatives in Asia, where our strategy is to broaden the distribution of our existing products and expand our online gaming presence, especially in China and South Korea. 2K has secured a multi-year license from the NBA to develop an online version of the NBA simulation game in China, Taiwan, South Korea, and Southeast Asia. *NBA 2K Online*, our free-to-play NBA simulation game that is based on the console edition of *NBA 2K*, which was co-developed by 2K and Tencent, is the top online PC sports game in China with more than 50 million registered users. We have released two iterations of *NBA 2K Online* and continue to enhance the title with new features.

We have expanded our relationship with the NBA through the NBA 2K League. This groundbreaking competitive gaming league is jointly owned by us and the NBA and consists of teams operated by actual NBA franchises. The NBA 2K League follows a professional sports league format: head-to-head competition throughout a regular season, followed by a bracketed playoff system and a finals match-up that was held in August of each of the NBA 2K League's first three seasons. The NBA 2K League's fourth season is set to take place in calendar year 2021.

Trends and Factors Affecting our Business

Product Release Schedule. Our financial results are affected by the timing of our product releases and the commercial success of those titles. Our *Grand Theft Auto* products in particular have historically accounted for a significant portion of our revenue. Sales of *Grand Theft Auto* products generated 29.6% of our net revenue for the six months ended September 30, 2020. The timing of our *Grand Theft Auto* product releases may affect our financial performance on a quarterly and annual basis.

Economic Environment and Retailer Performance. We continue to monitor economic conditions, including the impact of the COVID-19 pandemic, that may unfavorably affect our businesses, such as deteriorating consumer demand, pricing pressure on our products, credit quality of our receivables, and foreign currency exchange rates. The COVID-19 pandemic has affected and may continue to affect our business operations, including our employees, customers, partners, and communities, and there is substantial uncertainty in the nature and degree of its continued effects over time. In the first two

quarters of fiscal year 2021, as in the final quarter of fiscal year 2020, we noted a positive impact to our results that we believe was partly due to increased consumer engagement with our products because of the COVID-19 pandemic related business closures and movement restrictions, such as "shelter in place" and "lockdown" orders, implemented around the world, as well as the online accessibility and social nature of our products. However, we cannot be certain as to the duration of these effects and the potential offsetting impacts of deteriorating economic conditions and decreased consumer spending generally. We have developed and continue to develop plans to help mitigate the negative impact of the pandemic on our business, such as our transition to working from home, based on our concern for the health and safety of our teams, for the vast majority of our teams, which to date has resulted in minimal disruption. However, these efforts may not be effective, and a protracted economic downturn may limit the effectiveness of our mitigation efforts. Any of these considerations described above could cause or contribute to the risks described under the heading "Risk Factors" included in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2020, and could materially adversely affect our business, financial condition, results of operations, or stock price. Therefore, the effects of the COVID-19 pandemic will not be fully reflected in our financial results until future periods, and, at this time, we are not able to predict its ultimate impact on our business.

Additionally, our business is dependent upon a limited number of customers that account for a significant portion of our revenue. Our five largest customers accounted for 77.7% and 74.8% of net revenue during the six months ended September 30, 2020 and 2019, respectively. As of September 30, 2020 and March 31, 2020, our five largest customers comprised 75.1% and 58.1% of our gross accounts receivable, respectively, with our significant customers (those that individually comprised more than 10% of our gross accounts receivable balance) accounting for 67.0% and 48.8% of such balance at September 30, 2020 and March 31, 2020, respectively. We had two customers who accounted for 47.3% and 19.7%, respectively, of our gross accounts receivable as of September 30, 2020 and two customers who accounted for 29.4% and 19.4%, respectively, of our gross accounts receivable as of March 31, 2020. The economic environment has affected our customers in the past and may do so in the future, including as a result of the COVID-19 pandemic. Bankruptcies or consolidations of our large retail customers could adversely affect our business, due to uncollectible accounts receivables and the concentration of purchasing power among the remaining large retailers. The COVID-19 pandemic may lead to increased consolidation as larger, better capitalized competitors will be in a stronger position to withstand prolonged periods of economic downturn and sustain their business through the financial volatility. Certain of our large customers sell used copies of our games, which may negatively affect our business by reducing demand for new copies of our games. While the online and downloadable content that we now offer for certain of our titles may serve to reduce used game sales, we expect used game sales to continue to adversely affect our business.

Hardware Platforms. We derive most of our revenue from the sale of products made for video game consoles manufactured by third parties, such as Sony's PS4, Microsoft's Xbox One, and Nintendo's Switch, which comprised 74.9% of our net revenue by product platform for the six months ended September 30, 2020. The success of our business is dependent upon the consumer acceptance of these platforms and the continued growth in their installed base. When new hardware platforms are introduced, such as those slated for release in November 2020 by Sony and Microsoft, demand for interactive entertainment playable on older platforms typically declines, which may negatively affect our business during the market transition to the new consoles. The new Sony and Microsoft consoles are expected to provide "backwards compatibility" (i.e. the ability to play games for the previous generation of consoles), which could mitigate the risk of such a decline. However, we cannot be certain how backwards compatibility will affect demand for our products. Further, the COVID-19 pandemic or other events may impact the availability of these new consoles, which may also affect demand. We manage our product delivery on each current and future platform in a manner we believe to be most effective to maximize our revenue opportunities and achieve the desired return on our investments in product development. Accordingly, our strategy is to focus our development efforts on a select number of the highest quality titles for these platforms, while also expanding our offerings for other platforms such as tablets, smartphones, and online games.

Online Content and Digital Distribution. The interactive entertainment software industry is delivering a growing amount of content through digital online delivery methods. We provide a variety of online delivered products and offerings. Virtually all of our titles that are available through retailers as packaged goods products are also available through direct digital download (from digital storefronts we own and others owned by third parties) as well as a large selection of our catalog titles. In addition, we aim to drive ongoing engagement and incremental revenue from recurrent consumer spending on our titles through virtual currency, add-on content, and in-game purchases. We also publish an expanding variety of titles for tablets and smartphones, which are delivered to consumers through digital download. As disclosed in our "Results of Operations," below, net revenue from digital online channels comprised 86.0% of our net revenue for the six months ended September 30, 2020. We expect online delivery of games and game offerings to continue to grow and to continue to be the primary part of our business over the long-term.

Product Releases

We released the following key titles during the six months ended September 30, 2020:

Title	Publishing Label	Internal or External Development	Platform(s)	Date Released
<i>PGA TOUR 2K21</i>	2K	External	PS4, Xbox One, Switch, PC, Stadia	August 21, 2020
<i>NBA 2K21</i>	2K	Internal	PS4, Xbox One, Switch, PC, Stadia	September 4, 2020
<i>WWE 2K Battlegrounds</i>	2K	External	PS4, Xbox One, Switch, PC, Stadia	September 18, 2020
<i>Mafia I: Definitive Edition</i>	2K	External	PS4, Xbox One, PC	September 25, 2020

Product Pipeline

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

Title	Publishing Label	Internal or External Development	Platform(s)	Expected Release Date
<i>Borderlands 3</i>	2K	External	Xbox Series X (digital only)	November 10, 2020
<i>NBA 2K21</i>	2K	Internal	Xbox Series X	November 10, 2020
<i>Borderlands 3</i>	2K	External	PS5 (digital only)	November 12, 2020
<i>NBA 2K21</i>	2K	Internal	PS5	November 12, 2020
<i>Grand Theft Auto V</i>	Rockstar Games	Internal	PS5, Xbox Series X	Fiscal 2022
<i>Kerbal Space Program 2</i>	Private Division	Internal	PS4, Xbox One, PC	Fiscal 2023

Critical Accounting Policies and Estimates

Our most critical accounting policies, which are those that require significant judgment, include revenue recognition; price protection and allowances for returns; capitalization and recognition of software development costs and licenses; fair value estimates including valuation of goodwill, intangible assets, and long-lived assets; valuation and recognition of stock-based compensation; and income taxes. In-depth descriptions of these can be found in our Annual Report on Form 10-K for the fiscal year ended March 31, 2020.

During the six months ended September 30, 2020 there were no significant changes to the above critical accounting policies and estimates, with the exception of our adoption of Topic 326, *Financial Instruments - Credit Losses*. Refer to Note 1 - Basis of Presentation and Significant Accounting Policies for further discussion.

Recently Adopted and Recently Issued Accounting Pronouncements

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

Operating Metric*Net Bookings*

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

	Three Months Ended September 30,				Six Months Ended September 30,			
	2020	2019	Increase/ (decrease)	% Increase/ (decrease)	2020	2019	Increase/ (decrease)	% Increase/ (decrease)
Net Bookings	\$ 957,534	\$ 950,516	\$ 7,018	0.7 %	\$ 1,953,784	\$ 1,372,756	\$ 581,028	42.3 %

For the three months ended September 30, 2020, Net Bookings increased by \$7.0 million as compared to the prior year period due primarily to increases from our *NBA 2K* franchise, *PGA TOUR 2K21*, which released in August 2020, our *Mafia* franchise, *Red Dead Redemption 2* and *Red Dead Online*, *The Outer Worlds*, which released in October 2019, our *WWE 2K* franchise, *Dragon City*, *Civilization VI*, *Two Dots*, a title from Playdots, which we acquired in September 2020 (refer to Note 16 to our Condensed Consolidated Financial Statements), and *Monster Legends*, partially offset by decreases from *Borderlands 3*, which released in September 2019, *Grand Theft Auto V*, and *Grand Theft Auto Online*.

For the six months ended September 30, 2020 Net Bookings increased by \$581.0 million as compared to the prior year period due primarily to increases from our *NBA 2K* franchise, *Grand Theft Auto Online* and *Grand Theft Auto V*, *Red Dead Redemption 2* and *Red Dead Online*, *PGA TOUR 2K21*, which released in August 2020, our *Mafia* franchise, *The Outer Worlds*, our *WWE 2K* franchise, *Civilization VI*, *Dragon City*, and *Monster Legends*, partially offset by a decrease in Net Bookings from *Borderlands 3*, which released in September 2019.

Results of Operations

The following tables set forth, for the periods indicated, our Condensed Consolidated Statements of Operations, net revenue by geographic region, net revenue by platform, net revenue by distribution channel, and net revenue by content type:

(thousands of dollars)	Three Months Ended September 30,				Six Months Ended September 30,			
	2020		2019		2020		2019	
Net revenue	\$ 841,142	100.0 %	\$ 857,841	100.0 %	\$ 1,672,452	100.0 %	\$ 1,398,300	100.0 %
Cost of goods sold	432,505	51.4 %	468,248	54.6 %	909,194	54.4 %	709,717	50.8 %
Gross profit	408,637	48.6 %	389,593	45.4 %	763,258	45.6 %	688,583	49.2 %
Selling and marketing	113,691	13.5 %	149,566	17.4 %	198,470	11.9 %	241,387	17.3 %
General and administrative	91,433	10.9 %	76,659	8.9 %	193,606	11.6 %	151,492	10.8 %
Research and development	74,216	8.8 %	76,197	8.9 %	147,324	8.8 %	145,160	10.4 %
Depreciation and amortization	13,691	1.6 %	12,024	1.4 %	26,109	1.6 %	23,281	1.7 %
Business reorganization	239	— %	327	— %	239	— %	713	0.1 %
Total operating expenses	293,270	34.9 %	314,773	36.7 %	565,748	33.8 %	562,033	40.2 %
Income from operations	115,367	13.7 %	74,820	8.7 %	197,510	11.8 %	126,550	9.1 %
Interest and other, net	2,706	0.3 %	8,054	0.9 %	10,924	0.7 %	18,479	1.3 %
Loss on long-term investments	655	0.1 %	—	— %	655	— %	—	— %
Income before income taxes	117,418	14.0 %	82,874	9.7 %	207,779	12.4 %	145,029	10.4 %
Provision for income taxes	18,097	2.2 %	11,059	1.3 %	19,953	1.2 %	26,934	1.9 %
Net income	\$ 99,321	11.8 %	\$ 71,815	8.4 %	\$ 187,826	11.2 %	\$ 118,095	8.4 %

	Three Months Ended September 30,				Six Months Ended September 30,			
	2020		2019		2020		2019	
Net revenue by geographic region:								
United States	\$ 503,583	59.9 %	\$ 494,661	57.7 %	\$ 974,073	58.2 %	\$ 825,140	59.0 %
International	337,559	40.1 %	363,180	42.3 %	698,379	41.8 %	573,160	41.0 %
Net revenue by platform:								
Console	\$ 641,269	76.2 %	\$ 651,818	76.0 %	\$ 1,252,954	74.9 %	\$ 1,086,632	77.7 %
PC and other	199,873	23.8 %	206,023	24.0 %	419,498	25.1 %	311,668	22.3 %
Net revenue by distribution channel:								
Digital online	\$ 711,299	84.6 %	\$ 615,774	71.8 %	\$ 1,437,525	86.0 %	\$ 1,043,555	74.6 %
Physical retail and other	129,843	15.4 %	242,067	28.2 %	234,927	14.0 %	354,745	25.4 %
Net revenue by content:								
Recurrent consumer spending	\$ 495,724	58.9 %	\$ 318,468	37.1 %	\$ 975,129	41.7 %	\$ 764,974	54.7 %
Full game and other	345,418	41.1 %	539,373	62.9 %	697,323	58.3 %	633,326	45.3 %

Three Months Ended September 30, 2020 Compared to September 30, 2019

(thousands of dollars)	2020	%	2019	%	Increase/ (decrease)	% Increase/ (decrease)
Net revenue	\$ 841,142	100.0 %	\$ 857,841	100.0 %	\$ (16,699)	(1.9)%
Software development costs and royalties ⁽¹⁾	142,771	17.0 %	211,996	24.7 %	(69,225)	(32.7)%
Internal royalties	127,804	15.2 %	109,991	12.8 %	17,813	16.2 %
Product costs	68,986	8.2 %	86,568	10.1 %	(17,582)	(20.3)%
Licenses	92,944	11.0 %	59,693	7.0 %	33,251	55.7 %
Cost of goods sold	432,505	51.4 %	468,248	54.6 %	(35,743)	(7.6)%
Gross profit	\$ 408,637	48.6 %	\$ 389,593	45.4 %	\$ 19,044	4.9 %

⁽¹⁾ Includes \$19,396 and \$27,832 of stock-based compensation expense in 2020 and 2019, respectively, in software development costs and royalties.

For the three months ended September 30, 2020, net revenue decreased by \$16.7 million as compared to the prior year period. The decrease was due to a decrease in net revenue of (i) \$211.5 million from *Borderlands 3*, which released in September 2019, (ii) \$32.8 million from *Red Dead Redemption 2*, and (iii) \$13.0 million from *Ancestors: The Humankind Odyssey*. These decreases were offset by an increase in net revenue of (i) \$65.5 million from our *NBA 2K* franchise, (ii) \$65.5 million from *Grand Theft Auto Online* and *Grand Theft Auto V*, (iii) \$35.6 million from *PGA TOUR 2K21*, which released in August 2020, (iv) \$33.6 million from our *Mafia* franchise, (v) \$12.9 million from our *WWE 2K* franchise, (vi) \$9.4 million from *Civilization VI*, (vii) \$6.0 million from *Dragon City*, and (viii) \$5.8 million from *Red Dead Online*.

Net revenue from console games decreased by \$10.5 million and accounted for 76.2% of our total net revenue for the three months ended September 30, 2020, as compared to 76.0% for the prior year period. The decrease was due to a decrease in net revenue from *Borderlands 3*, and *Red Dead Redemption 2*, partially offset by an increase in net revenue from *Grand Theft Auto V* and *Grand Theft Auto Online*, our *NBA 2K* franchise, *PGA TOUR 2K21*, our *Mafia* franchise, and our *WWE 2K* franchise. Net revenue from PC and other decreased by \$6.2 million and accounted for 23.8% of our total net revenue for the three months ended September 30, 2020, as compared to 24.0% for the prior year period. The decrease was due to a decrease in net revenue from *Borderlands 3*, *Ancestors: The Humankind Odyssey*, partially offset by an increase in net revenue from *Red Dead Redemption 2*, which released on PC in November 2019, our *NBA 2K* franchise, *Grand Theft Auto V* and *Grand Theft Auto Online*, our *Mafia* franchise, *Civilization VI*, *Dragon City*, *PGA TOUR 2K21*, our *WWE* franchise, *Monster Legends*, and *Word Life*.

Net revenue from digital online channels increased by \$95.5 million and accounted for 84.6% of our total net revenue for the three months ended September 30, 2020, as compared to 71.8% for the prior year period. The increase was due to an increase in net revenue from our *NBA 2K* franchise, *Grand Theft Auto Online* and *Grand Theft Auto V*, *PGA TOUR 2K21*, our *Mafia* franchise, *Red Dead Redemption 2* and *Red Dead Online*, and *Civilization VI*, partially offset by a decrease in net revenue from *Borderlands 3* and *Ancestors: The Humankind Odyssey*. Net revenue from physical retail and other channels decreased by \$112.2 million and accounted for 15.4% of our total net revenue for the three months ended September 30, 2020, as compared to 28.2% for the same period in the prior year period. The decrease in net revenue from physical retail and other channels was due primarily to a decrease in net revenue from *Borderlands 3* and *Red Dead Redemption 2*, partially offset by an increase in net revenue from our *Mafia* franchise and *PGA TOUR 2K21*.

Recurrent consumer spending is generated from ongoing consumer engagement and includes revenue from virtual currency, add-on content, and in-game purchases. Net revenue from recurrent consumer spending increased by \$177.3 million and accounted for 58.9% of net revenue for the three months ended September 30, 2020, as compared to 37.1% of net revenue for the prior year period. The increase in net revenue from recurrent consumer spending is due primarily to an increase in net revenue from our *NBA 2K* franchise, *Grand Theft Auto Online*, *Dragon City*, *Monster Legends*, and *Word Life*. Net revenue from full game and other decreased by \$194.0 million and accounted for 41.1% of net revenue for the three months ended September 30, 2020 as compared to 62.9% of net revenue for the prior year period. The decrease in net revenue from full game and other was due to a decrease in net revenue from *Borderlands 3*, and *Red Dead Redemption 2*, partially offset by an increase in net revenue from *PGA TOUR 2K21* and our *Mafia* franchise.

Gross profit as a percentage of net revenue for the three months ended September 30, 2020 was 48.6% as compared to 45.4% for the prior year period. The increase in gross profit as a percentage of net revenue was due to lower development royalties as a percentage of net revenue due primarily to the timing of releases, partially offset by higher license royalties due to the timing of when royalties are earned.

Net revenue earned outside of the United States decreased by \$25.6 million and accounted for 40.1% of our total net revenue for the three months ended September 30, 2020, as compared to 42.3% in the prior year period. The decrease in net revenue outside of the United States was due to a decrease in net revenue from *Borderlands 3*, *Red Dead Redemption 2*, and *Ancestors: The Humankind Odyssey*, partially offset by an increase in net revenue from *Grand Theft Auto Online* and *Grand Theft Auto V*, our *Mafia* franchise, our *NBA 2K* franchise, and *PGA TOUR 2K21*. Changes in foreign currency exchange rates increased net revenue by \$3.5 million and increased gross profit by \$1.5 million for the three months ended September 30, 2020 as compared to the prior year period.

Operating Expenses

(thousands of dollars)	2020	% of net revenue	2019	% of net revenue	Increase/ (decrease)	% Increase/ (decrease)
Selling and marketing	\$ 113,691	13.5 %	\$ 149,566	17.4 %	\$ (35,875)	(24.0)%
General and administrative	91,433	10.9 %	76,659	8.9 %	14,774	19.3 %
Research and development	74,216	8.8 %	76,197	8.9 %	(1,981)	(2.6)%
Depreciation and amortization	13,691	1.6 %	12,024	1.4 %	1,667	13.9 %
Business reorganization	239	— %	327	— %	(88)	(26.9)%
Total operating expenses⁽¹⁾	\$ 293,270	34.9 %	\$ 314,773	36.7 %	\$ (21,503)	(6.8)%

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

	2020	2019
General and administrative	\$ 13,830	\$ 13,576
Selling and marketing	4,439	3,744
Research and development	7,643	10,615

Changes in foreign currency exchange rates increased total operating expenses by \$2.7 million for the three months ended September 30, 2020, as compared to the prior year period.

Selling and marketing

Selling and marketing expenses decreased by \$35.9 million for the three months ended September 30, 2020, as compared to the prior year period, due primarily to lower marketing expenses for *Borderlands 3* and *Grand Theft Auto Online*, and lower trade show and travel expenses due to restrictions as a result of the COVID-19 pandemic. The decrease was partially offset by higher personnel expenses due to increased headcount and higher incentive compensation.

General and administrative

General and administrative expenses increased by \$14.8 million for the three months ended September 30, 2020, as compared to the prior year period, due to increases in (i) personnel expenses for additional headcount and higher incentive compensation, (ii) professional fees related to our acquisition of Playdots, and (iii) rent expense.

General and administrative expenses for the three months ended September 30, 2020 and 2019 included occupancy expense (primarily rent, utilities and office expenses) of \$7.1 million and \$6.1 million, respectively, related to our development studios.

Research and development

Research and development expenses decreased by \$2.0 million for the three months ended September 30, 2020, as compared to the prior year period, due primarily to (i) lower production and development expenses primarily due to additional capitalization of costs for development on titles having established technological feasibility compared to prior year and (ii) lower travel expenses due to restrictions as a result of the COVID-19 pandemic. These decreases were partially offset by (i) increases in IT expenses for cloud-based services, (ii) increases in personnel expenses for higher incentive compensation, and (iii) increases in professional fees.

Depreciation and Amortization

Depreciation and amortization expenses increased by \$1.7 million for the three months ended September 30, 2020 as compared to the prior year period, due primarily to IT infrastructure and leasehold improvements for new office locations.

Business reorganization

For the three months ended September 30, 2020, business reorganization expense decreased by \$0.1 million as compared to the prior year period and was not material.

Interest and other, net

Interest and other, net was income of \$2.7 million for the three months ended September 30, 2020, as compared to \$8.1 million for the prior year period. The change was due primarily to lower interest income due to lower interest rates, partially offset by foreign currency gains.

Provision for Income Taxes

The provision for income taxes for the three months ended September 30, 2020 is based on our projected annual effective tax rate for fiscal year 2021, adjusted for specific items that are required to be recognized in the period in which they are incurred. The provision for income taxes was \$18.1 million for the three months ended September 30, 2020 as compared to \$11.1 million for the prior year period.

When compared to the statutory rate of 21.0%, the effective tax rate of 15.4% for the three months ended September 30, 2020 was due primarily to a tax benefit of \$5.7 million from tax credits, excess tax benefits of \$2.3 million from employee stock-based compensation, and offset by the geographic mix of earnings.

In the prior year period, when compared to our statutory rate of 21%, the effective tax rate of 13.3% for the three months ended September 30, 2019 was due primarily to a tax benefit of \$3.2 million as a result of tax credits anticipated to be utilized and \$1.4 million due to a geographic mix of earnings.

The change in the effective tax rate, when compared to the prior year period's effective tax rate, is due primarily to increased excess tax benefits from employee stock-based compensation and tax credits in the current period, offset by increased expense related to the geographic mix of earnings.

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

We anticipate that additional excess tax benefits or shortfalls from employee stock compensation, tax credits, and changes in our geographic mix of earnings could have a significant impact on our effective tax rate in the future. In addition, we are regularly examined by domestic and foreign taxing authorities. Examinations may result in tax assessments in excess of amounts claimed and the payment of additional taxes. We believe our tax positions comply with applicable tax law, and that we have adequately provided for reasonably foreseeable tax assessments. It is possible that settlement of audits and/or the expiration of the statute of limitations could have an impact on our effective tax rate in future periods.

On May 19, 2019, a public referendum held in Switzerland approved the Federal Act on Tax Reform and AVH (Old-Age and Survivors Insurance) Financing ("TRAF"), which was effective for us on January 1, 2020. The TRAF abolished preferential tax regimes at the cantonal level. The cantons established transition rules which provided us a step-up in tax basis for which a deferred tax asset of \$45.3 million and valuation allowance of \$33.4 million were established. It is possible that realization of deferred tax assets relating to the Swiss cantonal basis step-up may change due to changes in forecasted future earnings in Switzerland.

On March 27, 2020, the U.S. enacted the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), which provides numerous tax and other stimulus measures. We do not expect that it will have a material impact to our Consolidated Financial Statements.

Net income and earnings per share

For the three months ended September 30, 2020, net income was \$99.3 million, as compared to \$71.8 million in the prior year period. Diluted earnings per share for the three months ended September 30, 2020 was \$0.86, as compared to diluted earnings per share of \$0.63 in the prior year period. Diluted weighted average shares of 115.4 million were 1.3 million shares higher as compared to the prior year period, due primarily to normal stock compensation activity, including vests as well as grants and forfeitures in the prior year being fully outstanding in the current year period. See Note 11 to our Condensed Consolidated Financial Statements for additional information regarding earnings per share.

Six Months Ended September 30, 2020 Compared to September 30, 2019

(thousands of dollars)	2020	%	2019	%	Increase/ (decrease)	% Increase/ (decrease)
Net revenue	\$ 1,672,452	100.0 %	\$ 1,398,300	100.0 %	\$ 274,152	19.6 %
Software development costs and royalties (1)	290,818	17.4 %	320,437	22.9 %	(29,619)	(9.2)%
Internal royalties	341,867	20.4 %	172,880	12.4 %	168,987	97.7 %
Product costs	127,546	7.6 %	134,203	9.6 %	(6,657)	(5.0)%
Licenses	148,963	8.9 %	82,197	5.9 %	66,766	81.2 %
Cost of goods sold	909,194	54.4 %	709,717	50.8 %	199,477	28.1 %
Gross profit	\$ 763,258	45.6 %	\$ 688,583	49.2 %	\$ 74,675	10.8 %

(1) Includes \$48,429 and \$58,630 of stock-based compensation expense in 2020 and 2019, respectively, in software development costs and royalties.

For the six months ended September 30, 2020, net revenue increased by \$274.2 million as compared to the prior year period. The increase was due primarily to an increase in net revenue of (i) \$174.2 million from *Grand Theft Auto Online* and *Grand Theft Auto V*, (ii) \$128.9 million from our *NBA 2K* franchise, (iii) \$41.1 million from our *Mafia* franchise, (iv) \$35.6 million from *PGA TOUR 2K21*, which released in August 2020, (vi) \$27.4 million from *Civilization VI*, (vi) \$21.6 million from *Red Dead Online*, and (vii) \$21.6 million from our *WWE 2K* franchise. These increases were offset by a decrease in net revenue of (i) \$154.2 million from *Borderlands 3*, which released in September 2019, and (ii) \$28.0 million from *Red Dead Redemption 2*.

Net revenue from console games increased by \$166.3 million and accounted for 74.9% of our total net revenue for the six months ended September 30, 2020, as compared to 77.7% for the prior year period. The increase was due to an increase in net revenue from *Grand Theft Auto V* and *Grand Theft Auto Online*, our *NBA 2K* franchise, our *Mafia* franchise, *PGA TOUR 2K21*, our *WWE 2K* franchise, and *Red Dead Online*, partially offset by a decrease in net revenue from *Borderlands 3*, and *Red Dead Redemption 2*. Net revenue from PC and other increased by \$107.8 million and accounted for 25.1% of our total net revenue for the six months ended September 30, 2020, as compared to 22.3% for the prior year period. The increase was due an increase in net revenue from *Red Dead Redemption 2*, which released on PC in November 2019, *Grand Theft Auto V* and *Grand Theft Auto Online*, our *NBA 2K* franchise, *Civilization VI*, *Dragon City*, and our *Mafia* franchise, partially offset by a decrease in net revenue from *Borderlands 3* and *Ancestors: The Humankind Odyssey*.

Net revenue from digital online channels increased by \$394.0 million and accounted for 86.0% of our total net revenue for the six months ended September 30, 2020, as compared to 74.6% for the prior year period. The increase was due to an increase in net revenue from *Grand Theft Auto Online* and *Grand Theft Auto V*, our *NBA 2K* franchise, *Red Dead Redemption 2* and *Red Dead Online*, our *Mafia* franchise, *Civilization VI*, and *PGA TOUR 2K21* partially offset by a decrease in net revenue from *Borderlands 3*. Net revenue from physical retail and other channels decreased by \$119.8 million and accounted for 14.0% of our total net revenue for the six months ended September 30, 2020, as compared to 25.4% for the same period in the prior year period. The decrease was due to a decrease in net revenue from *Borderlands 3*, *Red Dead Redemption 2*, and our *NBA 2K* franchise, partially offset by an increase in net revenue from our *Mafia* franchise and *PGA TOUR 2K21*.

Recurrent consumer spending is generated from ongoing consumer engagement and includes revenue from virtual currency, add-on content, and in-game purchases. Net revenue from recurrent consumer spending increased by \$341.8 million and accounted for 58.3% of net revenue for the six months ended September 30, 2020, as compared to 45.3% of net revenue for the prior year period. The increase was due to an increase in net revenue from our *NBA 2K* franchise, *Grand Theft Auto Online*, *Red Dead Online*, *Borderlands 3*, and *Civilization VI*. Net revenue from full game and other decreased by \$67.7 million and accounted for 41.7% of net revenue for the six months ended September 30, 2020 as compared to 54.7% of net revenue for the prior year period. The decrease was due to a decrease in net revenue from *Borderlands 3*, *Red Dead Redemption 2*, partially offset by an increase in net revenue from *Grand Theft Auto V*, our *Mafia* franchise, *PGA TOUR 2K21*, and our *WWE 2K* franchise.

Gross profit as a percentage of net revenue for the six months ended September 30, 2020 was 45.6% as compared to 49.2% for the prior year period. The decrease in gross profit as a percentage of net revenue was due to higher internal royalties and license royalties due primarily to the timing of when royalties are earned, partially offset by lower development royalties, capitalized software amortization, and product costs based on the timing of releases.

Net revenue earned outside of the United States increased by \$125.2 million, and accounted for 41.8% of our total net revenue for the six months ended September 30, 2020, as compared to 41.0% in the prior year period. The increase in net

revenue outside of the United States was due to an increase in net revenue from *Grand Theft Auto Online* and *Grand Theft Auto V*, our *NBA 2K* franchise, our *Mafia* franchise, *Civilization VI*, *PGA TOUR 2K21*, and *Red Dead Online*, partially offset by a decrease in net revenue from *Borderlands 3*. Changes in foreign currency exchange rates increased net revenue by \$2.3 million and increased gross profit by \$1.7 million for the six months ended September 30, 2020 as compared to the prior year period.

Operating Expenses

(thousands of dollars)	2020	% of net revenue	2019	% of net revenue	Increase/ (decrease)	% Increase/ (decrease)
Selling and marketing	\$ 198,470	11.9 %	\$ 241,387	17.3 %	\$ (42,917)	(17.8)%
General and administrative	193,606	11.6 %	151,492	10.8 %	42,114	27.8 %
Research and development	147,324	8.8 %	145,160	10.4 %	2,164	1.5 %
Depreciation and amortization	26,109	1.6 %	23,281	1.7 %	2,828	12.1 %
Business reorganization	239	— %	713	0.1 %	(474)	(66.5)%
Total operating expenses (1)	\$ 565,748	33.8 %	\$ 562,033	40.2 %	\$ 3,715	0.7 %

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

	2020	2019
General and administrative	\$ 27,030	\$ 27,143
Selling and marketing	9,167	10,220
Research and development	14,093	17,206

Changes in foreign currency exchange rates increased total operating expenses by \$0.7 million for the six months ended September 30, 2020, as compared to the prior year period.

Selling and marketing

Selling and marketing expenses decreased by \$42.9 million for the six months ended September 30, 2020, as compared to the prior year period, due primarily to lower marketing expenses for *Borderlands 3*, *Red Dead Online*, *Grand Theft Auto Online*, and *Red Dead Redemption 2*, partially offset by higher marketing expenses for *Dragon City* and *Word Life*. This decrease was partially offset by higher personnel expenses due to increased headcount and higher incentive compensation.

General and administrative

General and administrative expenses increased by \$42.1 million for the six months ended September 30, 2020, as compared to the prior year period, due to increases in (i) charitable contributions made in connection with our COVID-19 pandemic response and relief efforts, (ii) personnel expenses for additional headcount and higher incentive compensation, (iii) rent expense, (iv) professional fees related to our acquisition of Playdots, and (v) IT related expenses for cloud-based service and IT infrastructure.

General and administrative expenses for the six months ended September 30, 2020 and 2019 included occupancy expense (primarily rent, utilities and office expenses) of \$13.7 million and \$12.4 million, respectively, related to our development studios.

Research and development

Research and development expenses increased by \$2.2 million for the six months ended September 30, 2020, as compared to the prior year period, due primarily to (i) increases in IT expenses for cloud-based services, (ii) increases in personnel expenses for higher incentive compensation, (iii) increases in professional fees, and (iv) higher online support costs. These increases were partially offset by (i) lower production and development expenses primarily due to additional capitalization of costs for development on titles having established technological feasibility compared to prior year and (ii) lower travel expenses due to restrictions as a result of the COVID-19 pandemic.

Depreciation and Amortization

Depreciation and amortization expenses for the six months ended September 30, 2020 increased by \$2.8 million, as compared to the prior year period, due primarily to IT infrastructure.

Business reorganization

During the six months ended September 30, 2020, as compared to the prior year period, business reorganization expense decreased \$0.5 million and was not material.

Interest and other, net

Interest and other, net was income of \$10.9 million for the six months ended September 30, 2020, as compared to \$18.5 million for the prior year period. The change was due primarily to lower interest income due to lower interest rates, partially offset by foreign currency gains, including a \$3.1 million reclassification from Accumulated other comprehensive loss as a result of discontinuing our cash flow hedge related to our cross-currency swap.

Provision for Income Taxes

The provision for income taxes for the six months ended September 30, 2020 is based on our projected annual effective tax rate for fiscal year 2020, adjusted for specific items that are required to be recognized in the period in which they are incurred. The provision for income taxes was \$20.0 million for the six months ended September 30, 2020 as compared to a provision for income taxes of \$26.9 million for the prior year period.

When compared to the statutory rate of 21.0%, the effective tax rate of 9.6% for the six months ended September 30, 2020 was due primarily to a benefit of \$10.7 million as a result of tax credits anticipated to be utilized and excess tax benefits of \$10.2 million from employee stock-based compensation.

In the prior year period, when compared to our blended statutory rate of 21%, the effective tax rate of 18.6% for the six months ended September 30, 2019 was due primarily to a tax benefit of \$11.7 million from changes in unrecognized tax benefits due to audit settlements, a benefit of \$6.0 million as a result of tax credits anticipated to be utilized, and a benefit of \$3.2 million from our geographic mix of earnings. To a lesser extent, the rate was also affected by excess tax benefits from employee stock-based compensation. These benefits were partially offset by a tax expense of \$19.8 million from the reversal of net deferred tax benefits relating to the Altera case, discussed below.

The change in the effective tax rate, when compared to the prior year period's effective tax rate, is due primarily to increased benefits related to excess tax benefits from employee stock-based compensation and to tax credits offset by decreased tax expense relating to the Altera case, discussed below, and decreased tax benefits related to the changes in unrecognized tax benefits due to audit settlements.

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

We anticipate that additional excess tax benefits or shortfalls from employee stock compensation, tax credits, and changes in our geographic mix of earnings could have a significant impact on our effective tax rate in the future. In addition, we are regularly examined by domestic and foreign taxing authorities. Examinations may result in tax assessments in excess of amounts claimed and the payment of additional taxes. We believe our tax positions comply with applicable tax law, and that we have adequately provided for reasonably foreseeable tax assessments. It is possible that settlement of audits and/or the expiration of the statute of limitations could have an impact on our effective tax rate in future periods.

On July 27, 2015, the U.S. Tax Court issued an opinion in *Altera Corp. v. Commissioner*, which concluded that related parties in an intercompany cost-sharing arrangement are not required to share costs related to stock-based compensation. In February 2016, the U.S. Internal Revenue Service appealed the decision to the U.S. Court of Appeals for the Ninth Circuit. On June 7, 2019, the Ninth Circuit reversed the 2015 decision of the U.S. Tax Court. As a result of this decision, we are no longer reflecting a net tax benefit within our financial statements related to the removal of stock-based compensation from our intercompany cost-sharing arrangement. During the six months ended September 30, 2020, we removed the deferred tax asset and a deferred tax liability associated with this matter, resulting in a cumulative net discrete income tax expense of \$19.8 million. The taxpayer requested a rehearing before the full Ninth Circuit which was denied on November 12, 2019. In February 2020, the taxpayer appealed to the U.S. Supreme Court, which denied certiorari on June 22, 2020.

On May 19, 2019, a public referendum held in Switzerland approved the Federal Act on Tax Reform and AVH (Old-Age and Survivors Insurance) Financing ("TRAF"), which was effective for us on January 1, 2020. The TRAF abolished preferential tax regimes at the cantonal level. The cantons established transition rules which provided us a step-up in tax basis for which a deferred tax asset of \$45.3 million and valuation allowance of \$33.4 million were established. It is possible that

realization of deferred tax assets relating to the Swiss cantonal basis step-up may change due to changes in forecasted future earnings in Switzerland.

On March 27, 2020, the U.S. enacted the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), which provides numerous tax and other stimulus measures. We do not expect that it will have a material impact to our Consolidated Financial Statements.

Net income and earnings per share

For the six months ended September 30, 2020, net income was \$187.8 million, as compared to \$118.1 million in the prior year period. For the six months ended September 30, 2020, diluted earnings per share was \$1.63 as compared to diluted earnings per share of \$1.04 in the prior year period. Diluted weighted average shares of 115.2 million were 1.3 million shares higher as compared to the prior year period, due primarily to normal stock compensation activity, including vests as well as grants and forfeitures in the prior year being fully outstanding in the current year period. See Note 11 to our Condensed Consolidated Financial Statements for additional information regarding earnings 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. We expect to rely on cash and cash equivalents as well as on short-term investments, funds provided by our operating activities, and our Credit Agreement to satisfy our working capital needs.

Short-term Investments

As of September 30, 2020, we had \$1,040.8 million of short-term investments, which are highly liquid in nature and represent an investment of cash that is available for current operations. From time to time, we may purchase additional short-term investments depending on future market conditions and liquidity needs. As of September 30, 2020, based on the composition of our investment portfolio and relatively lower interest rates as a result of the recent actions by central banks around the world, including the interest rate cuts by the U.S. Federal Reserve, in response to the COVID-19 pandemic and related adverse economic conditions, we anticipate investment yields may remain low, which would lower our future interest income. Such impact is not expected to be material to our liquidity.

Credit Agreement

On February 8, 2019, we entered into an unsecured Credit Agreement (the "Credit Agreement") that runs through February 8, 2024. The Credit Agreement provides for an unsecured five-year revolving credit facility with commitments of \$200 million, including sublimits for (i) the issuance of letters of credit in an aggregate face amount of up to \$25 million and (ii) borrowings and letters of credit denominated in Pounds Sterling, Euros, and Canadian Dollars in an aggregate principal amount of up to \$25 million. In addition, the Credit Agreement contains uncommitted incremental capacity permitting the incurrence of up to an additional \$250 million in term loans or revolving credit facilities.

Loans under the Credit Agreement will bear interest at a rate of (a) 0.250% to 0.750% above a certain base rate (3.25% at September 30, 2020) or (b) 1.125% to 1.750% above LIBOR (approximately 1.48% at September 30, 2020), which rates are determined by reference to our consolidated total net leverage ratio.

As of September 30, 2020, there was \$198.3 million available to borrow under the Credit Agreement, and we had \$1.7 million of letters of credit outstanding. At September 30, 2020, we had no outstanding borrowings under the Credit Agreement.

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

Financial Condition

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

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

A majority of our trade receivables are derived from sales to major retailers, including digital storefronts and platform partners, and distributors. Our five largest customers accounted for 77.7% and 74.8% of net revenue during the six months ended September 30, 2020 and 2019, respectively. As of September 30, 2020 and March 31, 2020, five customers accounted for 75.1% and 58.1% of our gross accounts receivable, respectively. Customers that individually accounted for more than 10% of our gross accounts receivable balance comprised 67.0% and 48.8% of such balances at September 30, 2020 and March 31, 2020, respectively. We had two customers who accounted for 47.3% and 19.7% of our gross accounts receivable as of September 30, 2020, respectively, and two customers who accounted for 29.4% and 19.4% of our gross accounts receivable as of March 31, 2020, respectively. Based upon performing ongoing credit evaluations, maintaining trade credit insurance on a majority of our customers and our past collection experience, we believe that the receivable balances from these largest customers do not represent a significant credit risk, although we actively monitor each customer's credit worthiness and economic conditions that may affect our customers' business and access to capital. We are monitoring the current global economic conditions, including credit markets and other factors as it relates to our customers in order to manage the risk of uncollectible accounts receivable, including as a result of the COVID-19 pandemic.

We believe our current cash and cash equivalents, short-term investments and projected cash flows from operations, along with availability under our Credit Agreement, will provide us with sufficient liquidity to satisfy our cash requirements for working capital, capital expenditures, and commitments on both a short-term and long-term basis. Our liquidity and capital resources were not materially affected by the COVID-19 pandemic and related volatility and slowdown in the global financial markets during the first two quarters of fiscal year 2021.

As of September 30, 2020, the amount of cash and cash equivalents held outside of the U.S. by our foreign subsidiaries was \$544.1 million. These balances are dispersed across various locations around the world. We believe that such dispersion meets the business and liquidity needs of our foreign affiliates. In addition, we expect to have the ability to generate sufficient cash domestically to support ongoing operations for the foreseeable future.

The Tax Cuts and Jobs Act, as enacted in December 2017, includes a number of provisions, which generally establish a territorial-style system for taxing foreign income of domestic multinational corporations. Our current intention is to reinvest indefinitely earnings of our foreign subsidiaries, and therefore we have not recorded any tax liabilities associated with the repatriation of foreign earnings.

Our Board of Directors has authorized the repurchase of up to 14.2 million shares of our common stock. Under this program, we may purchase shares from time to time through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. Repurchases are subject to the availability of stock, prevailing market conditions, the trading price of the stock, our financial performance, and other conditions. The program does not require us to repurchase shares and may be suspended or discontinued at any time for any reason.

During the six months ended September 30, 2020, we did not make any repurchases of our common stock in the open market. We have repurchased a total of 10.4 million shares of our common stock under the program, and as of September 30, 2020, 3.8 million shares of our common stock remained available for repurchase under the share repurchase program.

Our changes in cash flows were as follows:

(thousands of dollars)	Six Months Ended September 30,	
	2020	2019
Net cash provided by operating activities	\$ 626,745	\$ 144,158
Net cash used in investing activities	(502,624)	(36,200)
Net cash used in financing activities	(41,699)	(61,478)
Effects of foreign currency exchange rates on cash, cash equivalents, and restricted cash and cash equivalents	8,966	(8,063)
Net change in cash, cash equivalents, and restricted cash and cash equivalents	\$ 91,388	\$ 38,417

At September 30, 2020, we had \$2,084.8 million of cash and cash equivalents and restricted cash and cash equivalents, compared to \$1,993.4 million at March 31, 2020. The increase was due to Net cash provided by operating activities from sales of our products, partially offset by the timing of payments. This net increase was partially offset by (1) Net cash used in investing activities primarily related to changes in bank time deposits and net purchases of available for sale securities as well

as our purchase of Playdolls and (2) Net cash used in financing activities, which was primarily for tax payments related to net share settlements of our restricted stock awards.

Contractual Obligations and Commitments

We have entered into various agreements in the ordinary course of business that require substantial cash commitments over the next several years. Other than agreements entered into in the ordinary course of business and in addition to the agreements requiring known cash commitments as reported in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended March 31, 2020, we did not have any significant changes to our commitments since March 31, 2020.

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

Off-Balance Sheet Arrangements

As of September 30, 2020 and March 31, 2020, we did not have any material relationships with unconsolidated entities or financial parties, such as entities often referred to as structured finance or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market, or credit risk that could arise if we had engaged in such relationships.

International Operations

Net revenue earned outside of the United States is principally generated by our operations in Europe, Asia, Australia, Canada, and Latin America. For the three months ended September 30, 2020 and 2019, 40.1% and 42.3%, 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 effect on our operating results.

Fluctuations in Quarterly Operating Results and Seasonality

We have experienced fluctuations in quarterly and annual operating results as a result of the timing of the introduction of new titles; variations in sales of titles developed for particular platforms; market acceptance of our titles; development and promotional expenses relating to the introduction of new titles; sequels or enhancements of existing titles; projected and actual changes in platforms; the timing and success of title introductions by our competitors; product returns; changes in pricing policies by us and our competitors; the accuracy of retailers' forecasts of consumer demand; the size and timing of acquisitions; the timing of orders from major customers; and order cancellations and delays in product shipment. Sales of our full game products are also seasonal, with peak demand typically occurring in the fourth calendar quarter during the holiday season. For certain of our software products with multiple performance obligations, we defer the recognition of our net revenue over an estimated service period, which generally ranges from 6 to 15 months. As a result, the quarter in which we generate the highest net bookings may be different from the quarter in which we recognize the highest amount of net revenue. Quarterly comparisons of operating results are not necessarily indicative of future operating results.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

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

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

As of September 30, 2020, we had \$1,040.8 million of short-term investments, which included \$631.5 million of available-for-sale securities. The available-for-sale securities were recorded at fair market value with unrealized gains or losses resulting from changes in fair value reported as a separate component of Accumulated other comprehensive income (loss), net of tax, in Stockholders' equity. We also had \$1,345.1 million of cash and cash equivalents that are comprised primarily of money market funds and bank-time deposits. We determined that, based on the composition of our investment portfolio, there was no material interest rate risk exposure to our Condensed Consolidated Financial Statements or liquidity as of September 30, 2020.

Historically, fluctuations in interest rates have not had a significant effect on our operating results. Under our Credit Agreement, loans will bear interest at our election of (a) 0.250% to 0.750% above a certain base rate (3.25% at September 30, 2020), or (b) 1.125% to 1.750% above the LIBOR rate (approximately 1.48% at September 30, 2020), with the margin rate subject to the achievement of certain average liquidity levels. Changes in market rates may affect our future interest expense if there is an outstanding balance on our line of credit. At September 30, 2020, there were no outstanding borrowings under our Credit Agreement.

Foreign Currency Exchange Rate Risk

We transact business in foreign currencies and are exposed to risks resulting from fluctuations in foreign currency exchange rates. Accounts relating to foreign operations are translated into U.S. dollars using prevailing exchange rates at the relevant period end. Translation adjustments are included as a separate component of Stockholders' equity on our Condensed Consolidated Balance Sheets. For the three months ended September 30, 2020 and 2019, our foreign currency translation adjustment was a gain of \$18.9 million and a loss of \$12.6 million, respectively. For the six months ended September 30, 2020 and 2019, our foreign currency translation adjustment was a gain of \$23.6 million and a loss of \$21.4 million, respectively. For the three months ended September 30, 2020 and 2019, we recognized a foreign currency exchange transaction gain of \$1.5 million and a loss of \$1.7 million, respectively, and for the six months ended September 30, 2020 and 2019, we recognized a foreign currency exchange transaction gain of \$5.0 million and a loss of \$2.7 million, respectively, included in Interest and other, net in our Condensed Consolidated Statements of Operations.

Balance Sheet Hedging Activities

We use foreign currency forward contracts to mitigate foreign currency exchange rate risk associated with non-functional currency denominated cash balances and intercompany funding loans, non-functional currency denominated accounts receivable and non-functional currency denominated accounts payable. These transactions are not designated as hedging instruments and are accounted for as derivatives whereby the fair value of the contracts is reported as either assets or liabilities on our Condensed Consolidated Balance Sheets, and gains and losses resulting from changes in the fair value are reported in Interest and other, net, in our Condensed Consolidated Statements of Operations. We do not enter into derivative financial contracts for speculative or trading purposes. At September 30, 2020, we had \$193.7 million of forward contracts outstanding to sell foreign currencies in exchange for U.S. dollars and \$71.8 million of forward contracts outstanding to buy foreign currencies in exchange for U.S. dollars, all of which have maturities of less than one year. At March 31, 2020, we had \$122.0 million of forward contracts outstanding to sell foreign currencies in exchange for U.S. dollars and \$52.6 million of forward contracts outstanding to buy foreign currencies in exchange for U.S. dollars, all of which have maturities of less than one year. For the three months ended September 30, 2020 and 2019, we recorded a loss of \$1.0 million and a gain of \$2.2 million, respectively. For the six months ended September 30, 2020 and 2019, we recorded a loss of \$3.7 million and a loss of \$1.1 million. As of September 30, 2020, the fair value of these outstanding forward contracts was an immaterial gain and was included in Accrued expenses and other current liabilities, and, as of March 31, 2020, the fair value of outstanding forward contracts was an immaterial loss and was included in Accrued expenses and other current liabilities. The fair value of these outstanding forward contracts is estimated based on the prevailing exchange rates of the various hedged currencies as of the end of the period.

Our hedging programs are designed to reduce, but do not entirely eliminate, the effect of currency exchange rate movements. We believe that the counterparties to these foreign currency forward contracts are creditworthy multinational commercial banks and that the risk of counterparty nonperformance is not material. Notwithstanding our efforts to mitigate some foreign currency exchange rate risks, there can be no assurance that our hedging activities will adequately protect us against the risks associated with foreign currency fluctuations, which may be more volatile as a result of the COVID-19 pandemic. For the three months ended September 30, 2020, 40.1% of our revenue was generated outside the United States. Using sensitivity analysis, a hypothetical 10% increase in the value of the U.S. dollar against all currencies would decrease revenues by 4.0%, while a hypothetical 10% decrease in the value of the U.S. dollar against all currencies would increase revenues by 4.0%. In our opinion, a substantial portion of this fluctuation would be offset by cost of goods sold and operating expenses incurred in local currency.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2020, 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.

On September 4, 2020, we acquired Playdots. Our management plans to exclude Playdots from its assessment of and report on internal control over financial reporting for the fiscal year ending March 31, 2021. We are currently in the process of incorporating the internal controls and procedures of Playdots into our internal control over financial reporting for purposes of our assessment of and report on internal control over financial reporting for the fiscal year ending March 31, 2022.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Inherent limitations to any system of disclosure controls and procedures include, but are not limited to, the possibility of human error and the circumvention or overriding of such controls by one or more persons. In addition, we have designed our system of controls based on certain assumptions, which we believe are reasonable, about the likelihood of future events, and our system of controls may therefore not achieve its desired objectives under all possible future events.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes to the Risk Factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2020.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Share Repurchase Program—Our Board of Directors previously authorized the repurchase of up to 14,218 shares of our common stock. The authorizations permit us to purchase shares from time to time through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. Repurchases are subject to the availability of stock, prevailing market conditions, the trading price of the stock, our financial performance and other conditions. The program may be suspended or discontinued at any time for any reason. During the three months ended September 30, 2020, we did not make any repurchases of our common stock in the open market. As of September 30, 2020, we have repurchased a total of 10,400 shares of our common stock under this program and 3,818 shares of common stock remained available for repurchase under our share repurchase program. The table below details the share repurchases made by us during the three months ended September 30, 2020:

Period	Shares purchased	Average price per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the repurchase program
July 1-31, 2020	—	\$ —	—	3,818
August 1-31, 2020	—	\$ —	—	3,818
September 1-30, 2020	—	\$ —	—	3,818

Item 6. Exhibits

Exhibits:

- 2.1 [Agreement and Plan of Merger, dated as of August 17, 2020, by and among Take-Two Interactive Software, Inc., Dash MS, LLC, Dash MS II, LLC, Playdots, Inc. and Shareholder Representative Services LLC, as Stockholder Representative \(incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 18, 2020\)](#)
 - 10.1 [Xbox Console Publisher License Agreement, dated as of July 1, 2020, by and between Take-Two Interactive Software, Inc. and Microsoft Corporation*](#)
 - 10.2 [Amended and Restated Take-Two Interactive Software, Inc. 2017 Stock Incentive Plan \(incorporated by reference to Annex B of the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on July 24, 2020\)](#)
 - 10.3 [Amendment No. 1 to the Amended and Restated Take-Two Interactive Software, Inc. 2017 Stock Incentive Plan \(incorporated by reference to Exhibit 99.2 of the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on September 4, 2020\)](#)
 - 10.4 [PlayStation 5 Amendment to PlayStation Global Developer and Publisher Agreement, effective as of May 1, 2020 and signed on September 30, 2020, between Take-Two Interactive Software, Inc. and certain of its affiliates and Sony Interactive Entertainment, Inc., Sony Interactive Entertainment America LLC, and Sony Interactive Entertainment Europe Ltd.*](#)
 - 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](#)
- 101.INS The Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Calculation Linkbase Document
- 101.LAB Inline XBRL Taxonomy Label Linkbase Document
- 101.PRE Inline XBRL Taxonomy Presentation Linkbase Document
- 101.DEF Inline XBRL Taxonomy Extension Definition Document

* Portions of this exhibit have been redacted in compliance with Regulation S-K Item 601(b)(10).

Attached as Exhibit 101 to this report are the following formatted in Inline XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2020 and March 31, 2020, (ii) Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2020 and 2019, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended September 30, 2020 and 2019, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2020 and 2019, (v) Condensed Consolidated Statements of Stockholders' Equity for the three and six months ended September 30, 2020 and 2019; and (vi) Notes to Condensed Consolidated Financial Statements (Unaudited).

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: November 5, 2020

By: _____
/s/ STRAUSS ZELNICK
Strauss Zelnick
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: November 5, 2020

By: _____
/s/ LAINIE GOLDSTEIN
Lainie Goldstein
Chief Financial Officer
(Principal Financial Officer)

Certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) would likely cause competitive harm to the Company, if publicly disclosed. Brackets with triple asterisks denote omissions.

XBOX CONSOLE PUBLISHER LICENSE AGREEMENT

This Xbox Console Publisher License Agreement is entered into and effective as of July 1, 2020 (“**Effective Date**”), between Microsoft Corporation, a Washington corporation, (“**Microsoft**”), and Take-Two Interactive Software, Inc., a Delaware corporation (“**Publisher**”).

RECITALS

Microsoft or its Affiliates provide a family of computer game and entertainment systems, including the Xbox One, Xbox One S, Xbox One X, and their successors and variants (collectively, “**Xbox One**”), a next generation game and entertainment system and its successors and variants (collectively, “**Xbox Series**”), and an associated proprietary online service (known as “**Xbox Live**.”) Publisher intends to develop and/or publish software products for Xbox Consoles on the terms in this Agreement. The parties agree as follows:

1. **Exhibits.** The following exhibits are incorporated into this Agreement by this reference:

Exhibit 1: Digital Store Payments	Exhibit 2: Physical Disc Manufacture and Sales
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2. **Definitions.** As further described in this Agreement, the following terms have the following respective meanings:

- 2.1 “**Affiliate**” means a person or entity that Controls, is Controlled by, or is under common Control with a party (but only for so long as Control exists), where “Control” of a person or entity means the possession, directly or indirectly, of the power to direct or cause the direction of the management, operating policies, or assets of that person or entity, whether by way of ownership of more than 50% of its voting or equity securities or assets or by way of contract, management agreement, voting trust, or otherwise.
- 2.2 “**Agreement**” means this Xbox Console Publisher License Agreement and includes this document (including all Exhibits), the Publisher Guide, any approved Concept submission forms (in the form approved by Microsoft), any other documents expressly referenced in other parts of this Agreement, the GDK Licenses, and applicable terms of the NDA.
- 2.3 “**Avatar**” means a character that is a virtual representation of an End User created using the Microsoft- provided avatar creator tools.
- 2.4 “**Avatar Items**” means items such as wearables for use with an Avatar.
- 2.5 “**Base Game**” means each software product (in either digital or physical format), as described in an approved Concept, including any Title Updates (if and to the extent approved by Microsoft) but does not include Demo, Trial, Premium Downloadable Content, or additional downloadable content.
- 2.6 “**Beta**” is a portion of an applicable Software Title that may be distributed to a select audience at no cost to test and help further develop a Software Title.
- 2.7 “**Branding Specifications**” means the specifications as provided by Microsoft for using Microsoft Trademarks, as set forth in the Publisher Guide.
- 2.8 “**Business Day**” means any day other than Saturday, Sunday, or national holidays in the U.S.A.
- 2.9 “**Certification**” means the approval process in which Microsoft approves or disapproves of a Software Title for distribution.
- 2.10 “**Certification Requirements**” means the requirements necessary to ensure proper functioning of the Software Title on Xbox Consoles and Xbox Services, as further described in this Agreement. Certification Requirements include Xbox Requirements, technical certification requirements, and functional test cases. The Certification Requirements will be set forth in the Publisher Guide and enforced during Certification.
- 2.11 “**Commercial Release**” or “**Commercially Released**” means the first availability of a Software Title to End Users not designated as a Demo or Trial.
- 2.12 “**Competitive Platforms**” means: [***].

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- 2.13 “**Concept**” means a detailed description of Publisher’s proposed Software Title, including such information as may be requested by Microsoft.
- 2.14 “**Data Protection Law**” means any law, rule, regulation, decree, statute, or other enactment, order, mandate or resolution, applicable to Publisher or Microsoft, relating to data security, data protection and/or privacy, and any implementing, derivative or related legislation, rule, regulation, and regulatory guidance, as amended, extended, repealed and replaced, or re-enacted.
- 2.15 “**Demo**” means a small portion of an applicable Software Title or timed availability of full Software Title that is provided to End Users at no or minimal cost to advertise or promote a Software Title.
- 2.16 “**DFU**” or “**Digital Finished Unit**” means an object-code copy of a Software Title that has passed Certification and has been approved by Microsoft and Publisher for Commercial Release.
- 2.17 “**Digital Content**” means any content, feature, or service published by Publisher for electronic distribution under this Agreement. Digital Content includes DFUs, PDLC, Game Features, Title Updates, Beta, Demo, Avatar Items, Trials, trailers, “themes,” “gamer pictures” or any other category of digital content or online service approved by Microsoft or otherwise described in the Publisher Guide.
- 2.18 “**End User**” means an individual or entity that uses an Xbox Console, its features or applications, and associated services.
- 2.19 “**Game Features**” means content, features, or services (e.g., map packs, levels, and multiplayer functionality) related to consuming a specific Software Title that are made available to End Users, whether included in the Software Title or otherwise distributed via Xbox Services or Publisher Services (as defined in Section 11.3).
- 2.20 “**IPR**” means any patents, copyrights, trademarks and service marks, trade secrets, moral rights, and any other intellectual property or proprietary rights arising at any time under the applicable law of any applicable jurisdiction.
- 2.21 “**Marketing Guidelines**” means the requirements that form the basis for Microsoft’s review and approval of Publisher’s Marketing Materials and any media plan as per the Publisher Guide.
- 2.22 “**Marketing Materials**” collectively means all press releases, marketing, advertising, or promotional materials related to a Software Title, including web advertising and Publisher’s web pages to the extent they refer to Software Title(s) that will be used and distributed by Publisher in the marketing of Software Title(s).
- 2.23 “**Microsoft Store**” means the proprietary online marketplace or store through which Digital Content is made available to End Users. Microsoft may elect to change the branding and/or name of Microsoft Store from time to time.
- 2.24 “**Microsoft Trademarks**” means the Microsoft trademarks so identified in the Publisher Guide.
- 2.25 “**NDA**” means the Microsoft Corporation Non-Disclosure Agreement entered into between the parties and signed by Publisher on [***].
- 2.26 “**Personal Data**” means any information relating to an identified or identifiable natural person (“Data Subject”) and any other data or information that constitutes personal data or personal information under any applicable Data Protection Law.
- 2.27 “**Premium Downloadable Content (PDLC)**” means downloadable additional content offered to an End User for a fee, such as a game add-on, available from the Microsoft Store for use with or in a Software Title.
- 2.28 “**Project xCloud**” means the cloud-based game streaming features and service of Xbox Consoles. Microsoft may elect to change the branding and/or name of Project xCloud from time to time.
- 2.29 “**Sales Territory**” means the Asian Sales Territory, Australian Sales Territory, European, Middle East and African Sales Territory, Japan Sales Territory, North American Sales Territory, and South American Sales Territory as described further in the Publisher Guide.
- 2.30 “**Software Title**” means each software product that Publisher publishes for Xbox Consoles, in either digital or physical format, including any Title Updates (if and to the extent approved by Microsoft) and all Digital Content for such Software Title.

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- 2.31 “**Streaming Devices**” means [***].
- 2.32 “**Sub-Publisher**” means an entity that has a valid Xbox Console Publisher License Agreement with Microsoft or a Microsoft Affiliate, and with which Publisher has entered into a written agreement to allow such entity to publish a Software Title in specific countries.
- 2.33 “**Trial**” means a subset of a full Software Title that can be converted to the full experience through digital entitlements and to which an End User is granted limited or timed access at no cost.
- 2.34 “**User Generated Content**” means any content that originates from End Users in any format, including graphics, text, or voice content published through or as part of a Software Title.
- 2.35 “**Verification Version**” means a unit of a Software Title that is intended to comply fully with all terms of this Agreement and that has not passed Certification, which is provided by Publisher for testing purposes.
- 2.36 “**Xbox Console(s)**” means collectively, Xbox One and Xbox Series.
- 2.37 “**Xbox Console Remote Access**” means the features that allow End Users to access their gameplay experiences from their Xbox Consoles on Streaming Devices.
- 2.38 “**Xbox Requirements**” or “**XR**s” means objective requirements regarding proper operation of Software Titles in relation to Xbox Consoles and Xbox Services, as stated in the Publisher Guide and enforced during Certification, and policy requirements that are enforced over the life of the Software Title.
- 2.39 “**Xbox Services**” means the proprietary online service offered by Microsoft to End Users. The current product name of Xbox Services is “Xbox Live.” Microsoft may elect to change the branding and/or name of Xbox Services from time to time.
- 2.40 **Other Terms.** Other initially capitalized terms are defined by their first use.

3 Game Development Kit License / Loaned Equipment.

- 3.1. **Xbox One and Game Development Kit License.** Xbox One Development Kits (“**XDK**”) and Game Development Kits (“**GDK**”) are licensed to Publisher and/or its Affiliates(s) under the terms of the development kit license(s) between Publisher and/or its Affiliate(s) and Microsoft for the relevant territory (each a “**GDK License**”). Microsoft retains title and ownership of the XDK and GDK, which will be licensed to Publisher and/or its Affiliates during the Term.
- 3.2. **Loaned Equipment.** Microsoft may periodically loan Publisher certain Microsoft assets in relation to Publisher’s development, marketing, and promotion of Software Titles. Such loaned assets may include Xbox Console kiosks, Xbox Console hardware, and accessories (“**Loaned Equipment**”). With respect to all Loaned Equipment provided to Publisher: (1) Publisher will not provide the Loaned Equipment to any third party not approved by Microsoft in advance (“**Approved Third Party**”) and, if so approved, Publisher will be responsible for ensuring that the Approved Third Party complies with this Section 3.2; (2) Publisher is solely liable for theft, damage, loss, or injury to people or property occurring while such Loaned Equipment is in Publisher’s or an Approved Third Party’s possession or control; (3) the Loaned Equipment will be used only in a Microsoft-approved location; (4) Publisher’s insurance policy described in Section 18 will cover all theft, loss, damage, or injury to people or property in relation to Publisher’s or an Approved Third Party’s use or possession of Loaned Equipment; (5) Publisher (and any Approved Third Party) will use only power supplies, power cords, cables, and other parts and accessories provided by Microsoft to connect to or use Loaned Equipment; and (6) Publisher will return Loaned Equipment to Microsoft by the date requested (and in accordance with any shipping instructions provided by Microsoft). For clarity, Microsoft retains title and ownership of the Loaned Equipment.

4. **Publisher Guide.** Microsoft will provide Publisher access to a guide containing program-wide requirements and information applicable to the Xbox Consoles platform (as supplemented, revised or updated by Microsoft from time to time, the “**Publisher Guide**”), including Xbox Requirements, Branding Specifications, Marketing Guidelines, Xbox Games Store policy, End User data requirements, and other information regarding other operational aspects of Xbox Consoles, and Xbox Services. Each Software Title must comply with the Publisher Guide; provided, in no event shall the Publisher Guide supersede any of the terms provided for herein, and in the event of any conflict between this Agreement and the Publisher Guide, this Agreement shall control to the extent required to resolve such conflict. Subject to the foregoing, on publication of a supplement, revision, or updated version of the Publisher Guide,

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Publisher will automatically be bound by all provisions; provided, Microsoft will provide written notice (email sufficient) to Publisher of any material financial or legal changes in the Publisher Guide (e.g., changes in token fees) and if any such changes alter the economic terms provided for hereunder or represent material changes to the rights granted to, or obligations imposed on, Publisher hereunder, Publisher may terminate this agreement with notice to Microsoft. After a Software Title has completed optional certification or within [***] of submission for Certification, however, Publisher will not be obligated to comply, for such Software Title only, with any subsequent changes made by Microsoft to the Xbox Requirements or other required categories in the Publisher Guide, unless (1) such subsequent changes are intended to address privacy, security or technical integrity issues, or (2) compliance will not add significant expense or delay to a Software Title's development, manufacture, or Certification. Changes made to Branding Specifications, packaging requirements, FPU technical specifications, or Marketing Guidelines will be effective as to a Software Title that has passed Certification only on a "going forward" basis (i.e., only to such Marketing Materials created more than [***] after Microsoft notifies Publisher of the change), unless Publisher can implement the change without delaying or materially increasing the cost of the publishing of affected Marketing Materials.

5. Software Title Approval process. The standard approval process for a Software Title is summarized below and is further described in the Publisher Guide.

- 5.1. Concept.** Publisher will deliver to Microsoft a completed Concept submission form (using Microsoft's then-current form) describing the proposed Software Title. If Publisher wants to host (or have a third party host) any Game Features, Publisher will so indicate on the Concept submission form and must comply with all Publisher Services requirements in this Agreement and the Publisher Guide. Microsoft will review Publisher's submission and notify Publisher whether the Concept is approved or rejected. Adherence to the approved Concept submission form is required for Certification.
- 5.2. Certification.** Publisher will deliver to Microsoft the proposed final-release version of the applicable Software Title that is complete and ready for Commercial Release, commercial distribution, and access by End Users. Such version must include the final content rating required by Section 5.4. Microsoft will conduct compliance, compatibility, functional, and other testing to determine the Software Title's compliance with Certification Requirements ("**Certification Testing**") and will provide Publisher with the testing results, including any fixes required to pass Certification. Release from Certification for a Software Title requires: (1) passing Certification Testing; (2) conforming with the approved Concept; (3) providing any other materials required by the Publisher Guide; and (4) ongoing compliance with all Certification Requirements and other required categories in the Publisher Guide, except as otherwise provided in this Agreement. Microsoft will not unreasonably withhold or delay any testing and/or approvals contemplated by this Section 5.2. If a Software Title fails Certification, Microsoft may charge Publisher a reasonable fee designed to offset the costs associated with testing for any additional resubmissions. Publisher will not distribute any Software Title or submit any Software Title intended for distribution until Verification Version(s) have been submitted, evaluated, and approved, and Microsoft has given its final approval and release from Certification.
- 5.3. Marketing Materials.** Publisher will submit to Microsoft all Marketing Materials that incorporate Microsoft Trademarks and will not use, publish, or distribute any such Marketing Materials until Microsoft has approved them in writing. Publisher will incorporate all changes related to the Microsoft Trademarks that Microsoft may require to bring such Marketing Materials into compliance with the Marketing Guidelines. Additionally, if press releases or announcements otherwise mention Xbox Consoles, Xbox Services, or Xbox Console versions of Software Titles, Publisher will make reasonable efforts to provide Microsoft with notice of such materials and their contents before release.
- 5.4. Content rating.** Microsoft will not accept submission of a Software Title for Certification unless Publisher has obtained a rating of "Mature (17+)" (or the equivalent highest age rating available that does not require the distribution of such Software Title to be limited to certain licensed premises) or lower (i.e., more broadly appropriate) from industry-accepted rating bodies, including any independent content rating authority(ies) that Microsoft may reasonably designate for all publishers (e.g., ESRB, PEGI, IARC). Publisher will include such rating(s) prominently on Marketing Materials, as per the applicable rating body's guidelines. For countries that do not have their own mandatory content rating system, Microsoft will not approve any Software Title that, in Microsoft's opinion, is unsuitable for Xbox Consoles (e.g.,

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because it contains excessive sexual content or violence, inappropriate language, or other unsuitable elements). If, after Commercial Release, Microsoft (acting reasonably and in good faith) or an industry-accepted ratings body (reasonably designated by Microsoft for all publishers) determines that a Software Title would require the distribution of such Software Title to be limited to certain licensed premises or is indecent, obscene, or illegal, Publisher will recall, at Publisher's own expense, all Marketing Materials for that Software Title (to the extent under Publisher's control) and FPU's for that Software Title that have not been distributed to consumers, following consultation between Publisher and Microsoft. Unless Publisher has obtained, and communicated to Microsoft, a separate rating for Digital Content as per the Publisher Guide, Publisher represents and warrants that all Digital Content not in the initial Base Game for a Software Title will be consistent with the content rating (or, in those countries not using a content rating system, with the overall nature of the content) of the underlying Software Title. Publisher will also comply with any other rating requirements in the Publisher Guide provided that such requirements do not materially alter the provisions of this Section 5.4. Microsoft may require removal of Digital Content or require Publisher to obtain a separate rating if Microsoft later deems such content inconsistent with the content rating for the underlying Software Title. Publisher must include the content ratings(s) for all Software Titles prominently on FPU's and Marketing Materials to the extent required by the applicable rating body's guidelines.

5.5. User Generated Content.

5.5.1. Microsoft approval. Publisher may not allow End Users to create, share, or otherwise provide User Generated Content through a Software Title without first obtaining Microsoft's approval, which shall not be unreasonably withheld or delayed. Furthermore, the Software Title must comply with any XRs related to the creation and/or consumption of User Generated Content.

5.5.2. Third Party Claims. If Microsoft has approved Publisher to make User Generated Content available, Publisher will maintain a procedure that complies with applicable law for removing User Generated Content in the event of a third party claim regarding the User Generated Content (e.g., of infringement, defamation, or violation of other rights). Microsoft may notify Publisher of any complaints related to User Generated Content. Publisher will remove User Generated Content as soon as commercially practicable after receipt of a legitimate (as determined in Publisher's reasonable discretion) third-party claim or reasonable notice from Microsoft. Publisher will notify Microsoft as soon as commercially practicable after Publisher receives any legitimate third-party claim, which notice will also specify the steps that Publisher has taken or will take in response, and Publisher will indemnify, defend and hold Microsoft harmless from any claims, causes of action, costs (including without limitation, reasonable attorneys' fees) and any liabilities of any nature whatsoever related to any such claims of infringement.

5.5.3. Violations of End User terms of use or code of conduct. Microsoft may, in its discretion, require Publisher to remove User Generated Content that violates the End User terms of use, End User code of conduct, or both.

5.6. Localization. All Software Titles will be localized as required by local regulation (if applicable) and at least to the same extent (languages, in-game text, and voice) and provided to End Users in the same manner (e.g., incorporated in the Base Game) as any corresponding Competitive Platform product.

6. Post-release compliance.

6.1. Bugs or errors. Notwithstanding Microsoft's Certification, all Software Titles must remain in compliance with all Certification Requirements in the Publisher Guide on a continuing and ongoing basis. Nothing in this Agreement may be construed to relieve Publisher of its obligation to (and Publisher will, as soon as possible after discovery) correct material bugs and errors in Software Titles whenever discovered (including after Commercial Release) in a mutually-agreed manner (which may be via a Title Update). [***].

6.2. Title Updates. All Software Title digital patches and updates provided to End Users for free and that must be accepted for game play (collectively, "**Title Updates**") are subject to Microsoft's approval, except if otherwise stated in this Agreement. Microsoft may require Publisher to develop and provide a Title Update if a Software Title adversely affects Xbox Services. Microsoft reserves the right to remove or

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reverse a Title Update if such Title Update adversely impacts the Software Title (e.g., Software Title crashes for all End Users). Microsoft will not charge Publisher for Certification or distribution of Title Updates to End Users for any Title Update required by a Publisher Guide change or otherwise requested by Microsoft. [***].

- 6.3. Minimum Commitment.** [***]. Publisher will provide necessary customer support for such Game Feature during its availability and [***] after discontinuation, and must retain in archive (in object code, source code, and symbol format) all versions of Digital Content made available to End Users during, and at least [***] after, the period in which it was available. Subject to Publisher's compliance with this Section 6.3, Publisher may terminate Microsoft's license to such Game Feature [***] prior notice (which must include a Microsoft-approved decommission plan). Publisher will clearly notify End Users of the duration of availability, and will notify End Users reasonably in advance of discontinuation, of Game Features.
- 6.4. Specific Digital Content Availability.** Unless immediate removal is necessary to comply with Publisher's contractual or other legal obligations, Publisher will provide Microsoft [***] prior notice before removing Digital Content that has been made available to End Users for sale or collection in the Software Titles. Notwithstanding termination or expiration of Microsoft's license to distribute Digital Content, Microsoft may retain a copy of Digital Content, and Publisher grants Microsoft a license to redistribute the final version of any Digital Content to End Users who have previously purchased it, directly or indirectly, from Microsoft to their Xbox Consoles for [***], even if the End User is re-downloading to a different Xbox Console unit or within a different country than where originally downloaded.
- 6.5. Disablement.** Microsoft may disable or remove any Digital Content from the Xbox Consoles (including by disabling previously downloaded copies on End Users' Xbox Consoles), Xbox Services, or the Microsoft Store, immediately and at any time (following consultation with Publisher, when practical), globally or in specific countries, if Microsoft determines that: (1) Publisher has breached this Agreement; (2) Publisher has terminated this Agreement in its entirety or as applicable to a particular Software Title, or terminated applicable license grants; (3) such Digital Content or its related Software Title fails to comply with applicable documentation, the approved Concept or other aspects of this Agreement; (4) such Digital Content or its related Software Title materially deviates from the version passing Certification or materially fails to perform as originally intended; (5) such Digital Content or its related Software Title is causing harm to (or is likely to harm) the Xbox Console, Xbox Services, third-party networks, End Users, or otherwise (e.g., due to piracy, security breach or security defects, or technical failure); or (6) such Digital Content is damaging (or is likely to damage) Microsoft's reputation, involve Microsoft in public controversy, or subject Microsoft to liability.

7. Other rights and obligations.

- 7.1. Security.** Microsoft may add to the final release version of Software Titles delivered by Publisher to Microsoft such digital signatures, other security technology, and copyright management information (collectively, "**Security Technology**") as Microsoft elects, or Microsoft may elect to modify signatures included in any Security Technology included in the Software Title by Publisher. Additionally, Microsoft may add Security Technology that prohibits playing Software Titles on Xbox Consoles units sold in a country different from the country in which Software Titles are intended to be distributed, or Software Titles modified in any way not authorized by Microsoft. Any changes in Security Technology will not be applicable to Software Titles already in Certification testing, or FPU's already in manufacturing by an Authorized Replicator, unless such change will not materially delay the delivery date of such FPU's by Authorized Replicator to Publisher, or unless otherwise agreed by Publisher. Subject to this Section 7.1, Microsoft may update Security Technology requirements from time to time via the Publisher Guide.
- 7.2. Samples.** For each Software Title published under this Agreement, Publisher will provide a reasonable number of samples as per the Publisher Guide (but not to exceed [***] per Software Title). Microsoft may use such samples, subject to Publisher's prior written consent, for non-revenue generating purposes, such as for marketing, as product samples, and for customer support, product and charitable giveaways), testing, and archival purposes. Any use of such samples for marketing use prior to Commercial Release will be subject to Section 10.2. Publisher will not be entitled to any [***] with respect to samples as authorized under this Section 7.2, provided that Publisher shall at all times remain entitled to the Royalty Fee in

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respect of all Digital Content and PDLC for the corresponding Software Title for which Microsoft receives payment.

- 7.3. **Demos.** Subject to the Publisher Guide, Publisher may distribute Demo(s) digitally or placed on a single disc, either as a stand-alone or with other Demos, [***]. All rights, obligations, and approvals in this Agreement that apply to Software Titles will separately apply to any Demo. [***].
 - 7.4. **Trials.** [***]. All rights, obligations, and approvals in this Agreement that apply to Software Titles will separately apply to any Trial. [***].
 - 7.5. **Sub-Publishing.** Publisher may enter into independent agreements with other publishers to publish Software Titles in approved countries if: (1) Publisher completes and provides to Microsoft, at least [***] days before authorizing a Sub-Publisher to publish any Software Title(s) in each country for each Sub-Publisher, the Sub-Publishing Notification Form (as provided by Microsoft) which will summarize the scope and nature of the Sub-Publishing relationship between Publisher and Sub-Publisher, identify which entity will be responsible for Certification of Software Title(s), list the Software Title(s) for which Sub-Publisher has acquired publishing rights, identify the geographic territory(ies) for which such rights were granted, and identify the term of Publisher's agreement with Sub-Publisher; and (2) Publisher and Sub-Publisher are and remain at all times in good standing under their respective publisher license agreements.
 - 7.6. **Authorized affiliates.** If the parties and Publisher's Affiliate execute the "Authorized Affiliate" form (as provided by Microsoft in the Publisher Guide), such Affiliate may exercise the rights granted to Publisher under this Agreement. The foregoing will not apply to any Publisher Affiliate that operates from a European billing address. Any such European Affiliate must execute a Publisher Enrollment Form with Microsoft Ireland Operations Ltd., in the form provided in the Publisher Guide.
8. **Pricing and Payment Exhibits.** The parties will make payments to each other under the terms of the following Exhibit(s):
- 8.1. **Exhibit 1: Digital Store Payments.**
 - 8.2. **Exhibit 2: Physical Disc Manufacture and Sales.**
9. **Software Title parity.** Each Software Title is subject to the following requirements:
- 9.1. **Features and content parity.**
 - 9.1.1. [***]
 - 9.1.2. [***]
 - 9.2. **Simship with Competitive Platforms.**
 - 9.2.1. [***]
 - 9.2.2. [***]
 - 9.3. **Software Title feature updates post-Commercial Release.** Subject to hardware limitations and announce/availability of development tools, at any time after Commercial Release, with respect to any hardware feature updates made to a Software Title (e.g., HDR, spatial audio) that are available for Competitive Platform versions, Publisher will (1) in its implementation of such features, optimize the performance and technical capability of Xbox Console versions in parity with the Competitive Platform version; and (2) make the same hardware feature updates commercially available for the Xbox Console versions either before or simultaneously with the Competitive Platform version(s). As used in this Section 9.3, "simultaneously" means within [***] of the availability of such hardware feature on a Competitive Platform. If Publisher is unable to release the hardware features updates simultaneously due solely to availability of the Xbox Console development tools, the parties will work together in good faith to determine a mutually agreeable release date. The parties will work together in good faith to address any platform limitations that may impact feature parity for the Xbox Console version of the hardware feature updates.
 - 9.4. **Cross Generation Licenses.** [***]. Cross generation licenses must (1) grant End Users rights to both an Xbox One version and an Xbox Series version of the Software Title, and (2) include features and/or performance that differentiates the Xbox Series version of the Software Title from the Xbox One version, as described in the Publisher Guide. For clarity, cross generation licenses will not be included as a requirement for certification in the Publisher Guide.

10. Marketing, sales, support, and promotion.

- 10.1. Publisher responsible.** As between Publisher and Microsoft, only Publisher will market Software Titles outside of the Microsoft Store, and only Microsoft is responsible and has sole discretion for marketing on the Microsoft Store and/or Microsoft sites (subject to the prior approval of Publisher over such marketing assets). This section does not prohibit Publisher from purchasing advertising on Microsoft's advertising platforms (including the Microsoft Store). Publisher will provide all technical and other support related to Software Titles. Publisher will provide appropriate contact information (including Publisher's street address, telephone number, and the applicable individual/group responsible for customer support) to all End Users and to Microsoft for posting online. Microsoft is solely responsible for providing technical and all other support relating the Microsoft Store and Xbox Consoles.
- 10.2. Software Title Marketing license.** Subject to Publisher's prior written consent (which may be via email) in each case (which will not be unreasonably withheld), Publisher grants Microsoft a worldwide, fully-paid, royalty-free, non-exclusive license to: (1) publicly perform and publicly display Software Titles at conventions, events, trade shows, press briefings, public interactive displays, and the like; (2) use the title of, screen shots from, and additional marketing assets related to the Software Title in advertising and promotional material related to Xbox Consoles and other Microsoft products and services, as Microsoft may reasonably deem appropriate; and (3) distribute Demos as a standalone product or with other demo software. The licenses granted in this Section 10.2 are sublicensable to Microsoft's Affiliates and third-party contractors. The parties may from time to time discuss additional proposed marketing and promotion activities. For purposes of the foregoing, it is not unreasonable for Publisher to withhold approval if it deems that its screen shots, advertising materials, and other materials permitted for use pursuant to this Section 10.2 would be depicted with Microsoft titles that compete with Publisher's Software Titles, or Microsoft's proposed use is inconsistent with Publisher's marketing plan for such Software Title (e.g., use by Microsoft prior to Publisher's official announcement of a Software Title). The parties will develop a process to pre-approve uses of Software Titles and screen shots in accordance with this Section 10.2. Nothing in this Agreement, however, will preclude Microsoft from using screen shots, Marketing Materials, and other materials permitted for use pursuant to this Section 10.2 as permitted by law without a license (e.g., "fair use" under applicable copyright and trademark law).
- 10.3. Promotions.** If Publisher wants to distribute Microsoft-generated codes that are redeemable by End Users for Digital Content downloads ("**Tokens**") as part of promotional activities related to a Software Title (each, a "**Token Promotion**"), Publisher will comply with the Publisher Guide's policy with respect to ordering additional Tokens, including payment of all applicable fees as set in the Publisher Guide. As soon as commercially feasible after payment by Publisher for a Token order, Microsoft will create Tokens and deliver them to Publisher. In addition to Token Promotions, Microsoft and Publisher may periodically develop, execute, and administer promotions involving Software Title(s) and execute a schedule for each promotion as per the Publisher Guide.

11. Grant of distribution and other licenses; limitations.

- 11.1. Digital Content rights.** In consideration of royalties payable under Exhibit 1 and subject to Section 11.11, Publisher grants Microsoft a worldwide, transferable, sublicensable license during the Term to broadcast, transmit, distribute to the public, communicate to the public, make available, host, publicly perform and publicly display, reproduce, stream, and store Digital Content and Software Title gameplay for access, use, viewing, download and storage by End Users and other third parties (collectively, the "**Digital Content Rights**") through Microsoft's platforms and channels, including the Xbox Services; provided, Microsoft acknowledges and agrees that the foregoing rights do not grant Microsoft (or End Users) the rights [***]. This Section 11 does not prevent Publisher from making other platform versions of its Software Titles or Digital Content available via other platform-specific online services.
- 11.2. Multiple Generation Xbox Console Support.** Publisher agrees that the rights granted to Microsoft in Section 11.1 also include the following rights in support of multiple-generational Xbox Console support:
- 11.2.1.** Microsoft may make all Software Titles that are playable on Xbox One (including Software Titles from prior Xbox generations authorized by Publisher to play on Xbox One) available for access and

use on Xbox Series at no cost to End Users who purchased or otherwise obtained rights to (e.g., via subscription) such Software Titles. [***].

11.2.2. To the extent Publisher makes a Software Title available for purchase on any Xbox Console, Microsoft may make all Software Titles playable on Xbox One (including such Software Titles from prior Xbox generations authorized by Publisher to play on Xbox One) available for purchase for access and use on Xbox Series.

11.2.3. Additional requirements for multiple generation Xbox Console support may be included in the Certification Requirements.

11.2.4. Publisher grants Microsoft the right to conduct testing of Software Titles that are playable on Xbox One to ensure compatibility and playability on Xbox Series, and Publisher shall similarly have the right (facilitated by Microsoft) to perform such testing using the GDK.

11.2.5. Subject to Section 11.11, Publisher has obtained and will maintain all third-party rights, consents, and licenses necessary to meet its commitments and obligations in this Section 11.2.

11.3. Publisher Services. As between Publisher and Microsoft, Microsoft will solely offer, host, fulfill, and deliver Software Titles, Game Features, and any other Xbox Console related content or services to End Users, [***].

11.3.1. Subject to Publisher's compliance with the terms of the Agreement and the Publisher Guide, Microsoft grants Publisher a worldwide, non-exclusive, royalty-free license to access the Xbox Services, as necessary to implement and operate the Publisher Services.

11.3.2. Subject to Microsoft's advance written consent (which may be by email), Publisher may subcontract to a third party host all or any portion of Publisher's rights or obligations solely with regard to providing Publisher Services. All actions and failures to act of any third party engaged by Publisher are imputed to Publisher and deemed to be Publisher's actions or failures to act. Publisher may provide the third party with access to only those portions of Xbox Services that are necessary to perform hosting services, and to no other portions. Publisher unconditionally and irrevocably guarantees any third party's performance of the applicable obligations imposed by this Agreement and the GDK License.

11.3.3. Additional requirements for Publisher Services may be included in the Publisher Guide.

11.4. Gameplay record and share. The Xbox Console gameplay record and share features allow End Users to record their gameplay experiences and publish the recorded gameplay clips to share with third parties via Microsoft and third-party video sharing sites and services. [***], Publisher grants Microsoft a worldwide, fully-paid, royalty-free, non-exclusive, perpetual license to, solely as part of the gameplay record and share features: (1) record portions of Software Title gameplay; (2) copy, archive, host, and have hosted such recordings; (3) create derivative works, using only Microsoft-provided editing tools, of such recordings (including by application of various compression and streaming technologies); (4) publicly perform and publicly display such recordings; and (5) grant to third parties the right to view such recordings. The licenses granted in this Section 11.4 are sublicensable to Microsoft's affiliates, third-party contractors, and End Users.

11.5. Gameplay streaming features. The Xbox Console gameplay streaming features allow End Users to share their gameplay experiences with Microsoft and third-party applications and services (e.g., Mixer). [***], Publisher grants Microsoft a worldwide, fully-paid, royalty-free, non-exclusive, perpetual license, solely as part of the gameplay streaming feature, to broadcast, transmit, distribute, host, publicly perform and publicly display, reproduce, make available, communicate to the public, and stream gameplay of a Software Title with Microsoft and third-party applications and services. The licenses granted in this Section 11.5 are sublicensable to Microsoft's Affiliates, third-party contractors, and End Users.

11.6. Xbox Console Remote Access. [***] Publisher grants Microsoft a worldwide, fully-paid, royalty-free, non-exclusive, perpetual license, solely as part of the Xbox Console Remote Access feature, to (a) broadcast, transmit, distribute, host, publicly perform and publicly display, reproduce, and stream gameplay of a Software Title; and (b) provide use, access, and control of the gameplay on a Software Title on any Streaming Device.

11.7. Project xCloud Support. [***]

Certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) would likely cause competitive harm to the Company, if publicly disclosed. Brackets with triple asterisks denote omissions.

11.8. Reservation. All rights not expressly granted in this Agreement are reserved. Notwithstanding anything to the contrary contained herein, Microsoft acknowledges and agrees that nothing in this Agreement or the Publisher Guide grants Microsoft the right to include a Software Title or Digital Content in any game content subscription program (i.e., Game Pass, its successors, or any similar program), and Microsoft shall not provide End Users with access to any of Publisher's Software Titles or related content as part of a game content subscription offering without Publisher's prior written consent in each instance. Without limiting the above, and except to the extent otherwise expressly provided in this Agreement, nothing in this Agreement may be construed as a license to either party's IPR, expressly or by implication, estoppel, exhaustion, or otherwise.

11.9. Ownership. Except for IPR supplied by Microsoft to Publisher (including Microsoft Trademarks, licenses in software and hardware granted by a GDK License, or any of Microsoft's IPR that Publisher may have included in any Software Titles), ownership of which Microsoft retains, Publisher will, as between the parties, own all rights in the Software Titles.

11.10. License to End Users. Publisher may create a license agreement to govern Publisher's relationship with End Users with regard to Software Titles distributed to them (each, a "**EULA**"). If Publisher elects to bind End Users to a EULA, Publisher's EULA must: (1) to the maximum extent allowed by applicable law, disclaim any warranties, limit liability, and exclude damages on behalf of Microsoft and its Affiliates, either by category (e.g., by a reference to "Publisher's licensors") or by name; (2) disclaim any obligation on the part of Microsoft or its Affiliates to provide support or services other than those covered by Microsoft's End User terms of use; (3) RESERVED; and (4) not purport to govern or change, in any way, the End User's relationship with Microsoft under Microsoft's applicable agreements with such End User.

12. Xbox Usage data and Personal Data. Microsoft may collect and store Xbox Console usage data, including statistics, scores, ratings, and rankings (collectively, "**Xbox User Data**"), which may include End User Personal Data. Microsoft may periodically make certain Xbox User Data available to Publisher in accordance with the then-current Microsoft Privacy Statement. Microsoft will use commercially reasonable efforts to periodically make certain Xbox User Data available to Publisher for Publisher's use. [***]. Each party will comply with the obligations imposed on it under Data Protection Law. If Publisher receives Personal Data from Microsoft, then Publisher must comply with the following requirements:

- 12.1.** Publisher must provide End Users with access to Publisher's privacy statement that governs Publisher's use of the Personal Data.
- 12.2.** Publisher must ensure its network, operating system, software, databases, and other relevant computer systems are properly built, configured, and designed to operate to store, manage and protect any Personal Data received or obtained from Microsoft in a secure manner.
- 12.3.** [***]
- 12.4.** [***]
- 12.5.** [***]
- 12.6.** Publisher will comply with Microsoft's other reasonable requirements governing the use of Xbox User Data set forth in the Publisher Guide.
- 12.7.** [***]

13. Trademark rights and restrictions.

13.1. Microsoft Trademarks. Publisher will incorporate Microsoft Trademarks, and include credit and acknowledge Microsoft as required by the Branding Specifications, in each Software Title, Demo, Trial, and all Marketing Materials. Subject to all terms of this Agreement, Microsoft grants to Publisher a non-exclusive, non-transferable license to use Microsoft Trademarks on Software Titles, Demos, Trials, and Marketing Materials, solely in connection with marketing, sale, and distribution in approved countries. Except as expressly permitted in this Agreement, Publisher is granted no right, and will not purport to permit any third party, to use Microsoft Trademarks in any manner without Microsoft's prior written consent. Publisher has no right to use Microsoft Trademarks in connection with merchandising or selling related or

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promotional products, other than approved Demos. Publisher will not during the Term contest the validity of, by act or omission jeopardize, or take any action inconsistent with, Microsoft's rights or goodwill in Microsoft Trademarks in any country, including attempted registration of any Microsoft Trademark, or use or attempted registration of any mark confusingly similar to any Microsoft Trademark.

13.2. Branding Specifications. Publisher's use of Microsoft Trademarks must comply with the Publisher Guide, including the Branding Specifications. Publisher will not use Microsoft Trademarks with third-party trademarks in a manner that might suggest co-branding or otherwise create confusion as to source or sponsorship of the Software Title or Marketing Materials, or ownership of Microsoft Trademarks, unless Microsoft has approved such use, expressly and in writing. If Publisher learns of any non-conformance with this Section 13.2, it will promptly remedy such non-conformance and notify Microsoft of the non-conformance and remedial steps taken.

13.3. Ownership; goodwill. Publisher acknowledges Microsoft's ownership of, and all goodwill associated with, the Microsoft Trademarks. Use of the Microsoft Trademarks will not create any right, title, or interest in this Agreement in Publisher's favor. Publisher's use of the Microsoft Trademarks will inure solely to the benefit of Microsoft.

14. Confidentiality; publicity. The NDA will apply to all Confidential Information (defined in the NDA) provided by the parties under this Agreement or a GDK License (regardless of any earlier termination or expiration of the NDA). Any general terms in the NDA (e.g., applicable law and venue), however, will not apply to the extent they conflict with this Agreement. Except if otherwise stated in this Agreement, neither party will communicate with the press or public about their relationship under, or use the other's name connected to, this Agreement, without the other's express, prior, written consent, not to be unreasonably withheld. Notwithstanding the foregoing, if either party is advised by legal counsel that any portion of this Agreement must be disclosed as part of that party's public filings, it will notify the other in writing and the parties will jointly seek confidential treatment of such information to the maximum extent reasonably possible, in documents approved by both parties and filed with the applicable governmental or regulatory authorities, and Microsoft will prepare a redacted version of this Agreement for filing.

15. Protection of proprietary rights.

15.1. Microsoft's IPR. Publisher will promptly notify Microsoft if it learns of any infringement or misappropriation of Microsoft's IPR related to this Agreement. Microsoft may take such actions as it deems advisable to protect its IPR, and Publisher will, on request, cooperate with Microsoft in all reasonable respects, at Microsoft's expense. Microsoft will not, however, be required to take any action and may retain all proceeds derived from any such actions.

15.2. Publisher's IPR. Publisher, without Microsoft's express written permission, may bring any action related to actual or potential infringement of Software Titles, Marketing Materials, Digital Content, information, data, logos, software, or any other materials provided or otherwise made available by Publisher under or in relation to this Agreement (excluding only Microsoft Trademarks, Security Technology, and redistributable components in the form delivered to Publisher by Microsoft under a GDK License) (collectively, "**Publisher Content**"), to the extent such infringement involves Publisher's IPR (but not Microsoft's IPR). Publisher will make reasonable efforts to inform Microsoft regarding such actions in a timely manner and may retain all proceeds derived from any such actions.

15.3. Joint actions. The parties may jointly pursue cases of infringement involving Software Titles (as such products will contain IPR owned by each of them). Unless otherwise agreed, or unless recovery is expressly allocated between them by the court, if the parties jointly prosecute an infringement lawsuit under this Section 15.3, any recovery will be used first to reimburse the parties' respective reasonable attorneys' fees and expenses, pro rata, and any remaining recovery will also be given to the parties pro rata based on the fees and expenses incurred in bringing such action.

16. Representations, warranties, and disclaimers.

16.1. Publisher. Publisher continuously represents and warrants that:

16.1.1. It has full power to enter into this Agreement;

16.1.2. It has not previously granted, and will not grant, any rights to any third party that are inconsistent with the rights granted to Microsoft in this Agreement;

Certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) would likely cause competitive harm to the Company, if publicly disclosed. Brackets with triple asterisks denote omissions.

- 16.1.3. The Publisher Content does not, and Microsoft's and End Users' access to and use of Publisher Content through and in relation to Xbox Consoles will not, infringe or misappropriate any third-party IPR, subject to Section 11.11;
- 16.1.4. It will comply with all laws, regulations, administrative and court orders, and requirements applicable to (and will keep in force all necessary permits, licenses, registrations, approvals, and exemptions throughout the Term, as long as it is) distributing, selling, or marketing Publisher Content and Publisher's obligations under this Agreement;
- 16.1.5. The Publisher Content does not and will not contain any messages, data, images, or programs that are illegal (e.g., defamatory, obscene, pornographic, or violate privacy laws) or violate content rating requirements in all countries where the Software Title is marketed or distributed; and
- 16.1.6. Subject to Section 11.11, Publisher has obtained and will maintain third-party rights, consents, and licenses for the permitted exploitation of Publisher Content and associated features, including Game Features, User Generated Content, gameplay recording and sharing, gameplay and Project xCloud streaming, remote access, and Digital Content under this Agreement as set forth therein.

16.2. Microsoft. Microsoft continuously represents and warrants that:

- 16.2.1. it has full power to enter into this Agreement and it has not previously granted, and will not grant, any rights to any third party that are inconsistent with the rights granted to Publisher under this Agreement; and
- 16.2.2. it will comply with all laws, regulations, administrative and court orders, and requirements in the Sales Territories relating to (and will keep in force all necessary permits, licenses, registrations, approvals, and exemptions throughout the Term) distributing, selling, or marketing Publisher Content via the Microsoft Store.

16.3. Disclaimer. Expressly subject to Section 16.2, Microsoft provides all materials (including the Security Technology) and services under this Agreement "as is," without warranty of any kind, and, to the maximum extent permitted by applicable law, disclaims all other warranties (express, implied, statutory, or otherwise) under the applicable laws of any jurisdiction, regarding the materials and services it provides under this Agreement, including any warranties of merchantability or fitness for a particular purpose, of freedom from computer viruses, and of non-infringement.

16.4. Excluded damages. To the maximum extent permitted by applicable law, in no event will Microsoft or its affiliates, licensors, or suppliers be liable for any special, incidental, punitive, or consequential damages of any kind or nature whatsoever, arising out of or related to this Agreement or the transactions contemplated under it, including lost profits or lost goodwill and whether based on breach of any express or implied warranty, breach of contract, tort (including negligence), or strict liability, regardless of whether Microsoft has been advised of the possibility of such damage or if such damage could have been reasonably foreseen.

16.5. Limitation of liability. [***]

17. Defense of claims.

17.1. Obligation. If a Claim is brought against a party, its Affiliates, agents, licensees, or successors, or any agents, directors, officers, or employees of any of them (all, collectively, "**Defendant**"), the other party ("**Respondent**") will defend the Claim (including by paying litigation costs and reasonable attorneys' fees) and pay any settlement that Respondent consents to or any adverse final judgment. As used in this Section, "**Claim**" means an unaffiliated third party's demand, suit, or other action to the extent: (1) as alleged, it reflects Respondent's breach of this Agreement; (2) as alleged, it arises from or relates to Respondent's gross negligence or willful misconduct; (3) solely for Microsoft as Respondent, it alleges that Publisher's use in any country of a Microsoft Trademark, as permitted under this Agreement, infringes claimant's trademark rights; or (4) solely for Publisher as Respondent, and to the extent such Claim is not covered by Microsoft's obligations under (1), (2), or (3) above, as it relates to any Software Title or User Generated Content (excluding unmodified software delivered to Publisher by Microsoft under a GDK License), including any allegation relating to quality, performance, safety, privacy, or security of a Software Title (solely to the

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extent such issues are not caused by the Xbox Consoles), or arising out of Publisher's use of Microsoft Trademarks in breach of this Agreement.

17.2. Procedure. Defendant: (1) will promptly notify Respondent of any Claim and permit Respondent, using agreed counsel, to answer and defend; (2) at Respondent's reasonable request and expense, will assist in the defense and provide non-confidential information; and (3) at its expense, may participate in the defense with separate counsel. Respondent is not responsible for settlements it does not consent to and will not settle Claims under this Section 17 without Defendant's consent (with both parties' consent not unreasonably withheld). Neither party will stipulate, acknowledge, or admit fault or liability on the other's part without the other's prior, written consent. Respondent will not publicize any settlement without Defendant's prior written consent.

18. Insurance.

18.1. Coverage. Publisher will maintain sufficient and appropriate insurance coverage to enable it to meet its obligations under this Agreement and by law. Without limiting the foregoing, Publisher will maintain all coverage required by **Table 1** below (converted to the equivalent value in local currency, as of the date of issuance). The Professional Liability and Errors & Omissions Liability Insurance ("**E&O**") will include coverage for infringement of any third-party proprietary right, including copyright and trademark infringement, related to Publisher's performance under this Agreement. The E&O insurance retroactive coverage date will be no later than the Effective Date. Publisher will maintain an active policy, or purchase an extended reporting period providing E&O coverage for claims first made and reported to the insurance company within [***] after Microsoft's final payment related to this Agreement. Notwithstanding the foregoing, Publisher may meet the requirements for E&O coverage in all Sales Territories by self-insuring for the required amounts.

- Insurance Coverage Requirements			
	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]

18.2. Other requirements. On request, Publisher will deliver to Microsoft proof of the coverage required by this Section 18. If Microsoft reasonably determines that Publisher's coverage is less than required to meet its obligations under this Agreement, Publisher will promptly acquire such coverage and notify Microsoft.

19. Bankruptcy. The rights conferred by Publisher on Microsoft under this Agreement, including those described in Sections 10.1 and 11, constitute a license running from Publisher to Microsoft of a right to intellectual property for purposes of Section 365(n) of the United States Bankruptcy Code (11 U.S.C. 101, et seq.), and that Microsoft will have, in a bankruptcy proceeding in which Publisher is a debtor, the rights of a "licensee" as set forth in that provision. In a bankruptcy proceeding of Publisher, and notwithstanding any other term of this Agreement, Publisher will not have the power, absent Microsoft's consent in its sole discretion, to assume or assign to a third-party any license running from Microsoft to Publisher of any property, interest, or right created in the Agreement, all such rights being purely personal to Publisher, such that governing non-bankruptcy law will preclude Publisher's assignment (and, if applicable, assumption) of those rights without Microsoft's consent.

20. Term and termination.

20.1. Term. This Agreement shall commence on the Effective Date and shall continue until May 31, 2023 (the "Term"). Unless one party gives the other notice of non-renewal within [***] of the end of the then-current term, this Agreement shall automatically renew for successive one (1) year terms. If the Agreement will expire, the parties will agree on a plan to allow End Users who purchase Software Titles near the expiration date to access and use the Digital Content of such Software Titles for a commercially reasonable time after expiration.

20.2. Termination. Either party may terminate this Agreement (in its entirety or solely for an applicable Software Title), effective immediately on notice if: (1) the other party materially breaches this Agreement (other than

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Section 14, the NDA, or a GDK License) and fails to cure within [***] after notice (provided that Publisher's breach of Section 16.1.3 or Section 16.1.6 shall not give rise to a right of Microsoft to terminate this Agreement, either in its entirety or solely for an applicable Software Title, subject to Publisher's indemnification obligations); (2) the other party materially breaches Section 14, the NDA, or a GDK License; or (3) if the other party becomes Insolvent. If Publisher is the breaching party, Microsoft may suspend availability of Digital Content during any cure period. In addition, Microsoft may terminate this Agreement immediately and without notice if Publisher fails to respond to all Agreement-related communications made by Microsoft during any consecutive [***] period (and automatically-generated responses are deemed not to be a response by Publisher for purposes of this termination right). Any notice of breach must be prominently labeled "Notice of Breach". Additionally, if Microsoft determines, at any time before Commercial Release that the applicable Software Title does not materially comply with the Publisher Guide (subject to Section 4) or any applicable laws, Microsoft may, notwithstanding any prior approvals, terminate this Agreement without cost or penalty on a Software Title by Software Title, or country by country basis, on notice to Publisher. "**Insolvent**" means admitting in writing the inability to pay debts as they mature; making a general assignment for the benefit of creditors; suffering or permitting appointment of a trustee or receiver for all or any assets, unless such appointment is vacated or dismissed within [***]; filing (or having filed) any petition as a debtor under any provision of law relating to insolvency, unless such petition and all related proceedings are dismissed within [***]; being adjudicated insolvent or bankrupt; having wound up or liquidated; or ceasing to carry on business.

20.3. Effect. On termination or expiration of this Agreement, subject to Exhibit 2, Publisher has no further right to, and will not, exercise rights licensed under this Agreement. Publisher will, until the end of the Minimum Commitment term, continue to support existing Game Features for Software Titles sold before the effective date of termination or expiration.

20.4. Cross-default. If Microsoft has the right to terminate this Agreement, then it may also terminate the GDK License. If Microsoft has the right to terminate a GDK License, then Microsoft may also terminate this Agreement.

20.5. Survival. The following will survive expiration or termination of this Agreement: Sections 2, 6.3-6.4, 8, 10.1, 11.2.1, 11.4 (solely with respect to storing and distributing recorded gameplay clips), 11.5, 11.6, 11.7, 11.11, 12, 14-18, 20.3 - 20.5, and 21; Sections 1-5 of Exhibit 1; and Sections 1, 3.6-3.8, 3.10, 3.11, and 4-7 of Exhibit 2.

21. General.

21.1. Law, venue, attorneys' fees. Washington State law governs this Agreement (excluding conflicts principles that would require applying different law). If federal jurisdiction exists, the parties consent to exclusive jurisdiction and venue in the King County, Washington federal courts. If not, the parties consent to exclusive jurisdiction and venue in the King County, Washington Superior Court. In any action arising out of or relating to this Agreement, the prevailing party may recover its reasonable attorneys' fees, costs, and other expenses, including those on appeal or in a bankruptcy action.

21.2. Notice. All notices under this Agreement will be: (1) in writing; (2) in English; (3) deemed given when received; (4) sent by delivery service, messenger, or registered or certified mail (postage prepaid, return receipt requested); and (5) addressed and sent, with any required copies, as provided in Table 2 below (or as the recipient has otherwise designated, in writing or by email, before notice was sent). Ordinary business communications (excluding, for example, those related to payment or breach) may be sent by email and need not be cc'd.

- Contact Information			
To Microsoft:	Microsoft Corporation One Microsoft Way Redmond, Washington 98052-6399 USA	To Publisher:	Take-Two Interactive Software Inc. 110 West 44th Street New York, NY 10036
Attention:	General Manager, Global Games Partnerships and Development	Attention:	Karl Slatoff, President
Phone:	[***]	Phone:	[***]
Fax:	[***]	Fax:	N/A
Copy To:	Microsoft Corporation One Microsoft Way Redmond, Washington 98052-6399 USA Attn: Corporate, External, & Legal Affairs	Copy To:	Take-Two Interactive Software Inc. 110 West 44th Street New York, NY 10036 Attn: General Counsel
Copy To Fax:	[***]	Copy To Fax:	N/A

- 21.3. No delay or waiver.** No delay or failure to exercise or enforce any right or remedy under this Agreement, and no course of dealing or performance, will waive any such right or remedy. No express waiver of any right or remedy in one instance will waive such right or remedy in any other instance. All rights and remedies will be cumulative, not exclusive.
- 21.4. Assignment.** Publisher may not assign this Agreement, or any right or duty under it, to any third party unless Microsoft expressly consents to such assignment, in writing. Microsoft may assign this Agreement, or any right or duty under it, as it deems appropriate, or authorize its affiliates or contractors to perform this Agreement in whole or part on Microsoft's behalf. A merger, consolidation, or other corporate reorganization, or a transfer or sale of a controlling interest in a party's stock, or of all or substantially all of its assets, is deemed to be an assignment. This Agreement will inure to the benefit of and bind the parties, their successors, administrators, heirs, and permitted assigns.
- 21.5. Relationship.** Each party is an independent contractor to the other and has no authority to act on behalf of or bind the other, and this Agreement does not create any other relationship (e.g., employment, partnership, or agency).
- 21.6. Interpretation.** If a court of competent jurisdiction finds any part of this Agreement illegal, unenforceable, or invalid, that part will be deemed replaced with an enforceable term most closely matching the parties' intent, and the rest of the Agreement will remain in full force and effect. This Agreement will be interpreted according to its plain meaning without presuming that it should favor either party. Unless stated or context requires otherwise: (1) all internal references are to this Agreement, its parties, and its Exhibits; (2) all monetary amounts are expressed and, if applicable, payable, in U.S. dollars; (3) "**days**" means calendar days; (4) "**may**" means that the applicable party has a right, but not a concomitant duty; (5) "**partner**", if used in this Agreement or related documents, is used in its common, marketing sense and does not imply a partnership; (6) "**notify**" means to give notice as provided in (and "**notice**" means a notice that complies with) Section 21.1; (7) "**current**" or "**currently**" means "as of the Effective Date" but "**then-current**" means the present time when the applicable right is exercised or performance rendered or measured; (8) URLs are understood to also refer to successors, localizations, and information or resources linked from within websites at such URLs; (9) lists of examples following "**including**", "**e.g.**", "**such as**", or "**for example**" are deemed to include "without limitation"; and (10) "**or**" means "and/or" (i.e., "a or b" is interpreted to mean "a, or b, or both a and b"); and (11) a party's choices under this Agreement are in its sole discretion.
- 21.7. Injunction.** Publisher's threatened or actual unauthorized use of Microsoft Trademarks or other Microsoft proprietary rights, and either party's threatened or actual breach of confidentiality provisions, may result in immediate and irreparable damage for which there is no adequate remedy at law. In such event, the non-breaching party is entitled to appropriate injunctive relief from any court of competent jurisdiction.
- 21.8. Miscellaneous.** All rights and remedies under this Agreement are cumulative. Each party will pay its own costs to perform (except if expressly stated otherwise). This Agreement: (1) is effective only when manually signed (i.e., with a pen) or signed via an electronic signature service by authorized representatives of both parties, which signature requirement is, without limitation, a material term; (2) is the parties' entire agreement on this subject and merges, replaces, and supersedes all related oral understandings, representations, prior discussions, letters of intent, or preliminary agreements, including any Xbox One Publisher License Agreement between the parties; (3) is formed as of the Effective Date; (4) may be modified only by a writing hand-signed (i.e., with a pen) or signed via an electronic signature service by authorized representatives of each party (except as otherwise expressly provided in this Agreement); and (5) may be executed in counterparts, by fax or other electronic means to accurately send images, or by electronic signature service. The parties have formed this Agreement as of the Effective Date.

Certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) would likely cause competitive harm to the Company, if publicly disclosed. Brackets with triple asterisks denote omissions.

Agreed and accepted:

Microsoft Corporation	Take-Two Interactive Software, Inc.
Signature: /s/ Lacey Peterson	Signature: /s/ Dan Emerson
Name: Lacey Peterson	Name: Dan Emerson
Title: Xbox 3PP Program Manager	Title: EVP and CLO
Date: 7/10/2020	Date: 7/10/2020

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EXHIBIT 1 – DIGITAL STORE PAYMENTS

1. Definitions. Capitalized terms used in this Exhibit but not defined below will have the meanings provided in the Agreement.

- 1.1. “**CSV**” means [***].
- 1.2. “**CSV Remittance Rate**” means [***].
- 1.3. “**WSP**” or “**Wholesale Price**” means, [***].

2. Digital Content and PDLC.

- 2.1. **Generally.** Publisher may submit Digital Content to Microsoft for distribution via the Microsoft Store. Publisher will set the WSP, which can be zero. Microsoft may choose to offer such Digital Content to End Users for free, for a fee, or not at all and for sale in currency or via CSV. If Publisher is requesting that Digital Content be delivered for free via the Microsoft Store, Microsoft may also charge Publisher a reasonable fee for such service. For all Digital Content for which Microsoft receives payment, Microsoft will pay Publisher a royalty as per Section 2.22 (“**Royalty Fee**”).
- 2.2. **Royalty.** [***]:
 - 2.2.1. **CSV purchases.** [***]
 - 2.2.2. **Non-CSV purchases.** [***]
- 2.3. **Payment.** [***]
- 2.4. **Xbox Services billing, collection, and Publisher Hosted Services.** Microsoft has the sole right to bill and collect all fees associated with Xbox Services, including for subscriptions or any Digital Content for which End Users may be charged, which amounts will be in Microsoft’s discretion. As between Publisher and Microsoft, Microsoft will solely offer, host, fulfill, and deliver Digital Content and any other Xbox Console-related content or services to End Users, except as permitted for Publisher Services.
- 2.5. **Offsets.** [***]
- 2.6. [***]
- 2.7. **Taxes.** Neither party is liable for any of the other party’s taxes that the other is legally obligated to pay and that are incurred or arise in connection with or related to transactions under this Agreement, and all such taxes (including net income or gross receipts taxes, franchise taxes, property taxes, or taxes arising from sales between a party and its subscribers or customers) are the financial responsibility of the party legally obligated to pay such tax. Each party will pay to the other any sales, use, or value-added taxes owed by that party solely as a result of entering into this Agreement and required to be collected under applicable law. A party may provide to the other a valid exemption certificate, in which case that other party will not collect taxes covered by such certificate. Each party will defend, indemnify, and hold the other harmless from any taxes (including sales or use taxes paid by one party to the other) or claims, causes of action, costs (including reasonable attorneys’ fees), and any other liabilities of any kind whatsoever related to a party’s taxes. If any taxes must be withheld on payments made by one party to the other, the paying party will deduct such taxes from the amount otherwise owed and pay them to the appropriate taxing authority. The paying party will secure and deliver to the other an official receipt for those withholdings and other documents reasonably requested by the other to claim a foreign tax credit or refund. The

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parties will use reasonable efforts to ensure that any taxes withheld are minimized to the extent possible under applicable law. This tax section will govern the treatment of all taxes arising as a result of, or connected with, this Agreement notwithstanding any other section of this Agreement.

3. **Audit.** Each party will keep all usual and proper records related to its performance under this Agreement (including any addenda or amendments), including audited financial statements and support for all transactions related to the ordering, production, inventory, distribution, or billing/invoicing information for [***] from the date created. Either party (“**Auditing Party**”) may, on [***] notice, cause a third-party independent CPA or law firm to audit or inspect the other party’s (“**Audited Party**”) records no more than once in any [***] period to verify compliance with the financial, royalty, and payment terms of this Agreement. Auditing Party will have access to the previous [***] of Audited Party’s records from the date that the audit request notice was received by Audited Party. The right of inspection and consultation will expire with respect to all records related to any amounts payable under this Agreement on the [***] anniversary of the date of the statement or payment to which such records relate. Any such audit will be conducted during regular business hours at Audited Party’s offices and will be paid for by Auditing Party, unless Material discrepancies are disclosed. [***]. For purposes of this Section 5, “**Material**” means [***] of the amounts due to Auditing Party within the audit period (net of any overpayments that may have occurred during such audit period).
4. **Xbox Play Anywhere.** If a Software Title supports Xbox Play Anywhere (“**XPA**”), which means that the Software Title is playable on both Xbox Consoles and Windows 10 (as further described in the Publisher Guide), then Publisher acknowledges that for XPA Software Title(s) purchased via the Microsoft Store, the Royalty Fee set forth in Section 2 of Exhibit 1 shall be the sole compensation payable to Publisher for such XPA Software Title. Microsoft shall not make Publisher’s support of XPA a requirement for certification in the Publisher Guide.

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EXHIBIT 2 – PHYSICAL DISC MANUFACTURE AND SALES

The terms of this Exhibit govern the manufacturing and sale of Publisher's Software Titles on game media.

1. Definitions. Capitalized terms used in this Exhibit but not defined below will have the meanings provided in the Agreement.

- 1.1. "Authorized Replicator"** means a software replicator approved by Microsoft to replicate FPU's for Xbox Consoles.
- 1.2. "BTS"** means a Microsoft-designed break-the-seal sticker that will be issued to the Authorized Replicator for placement on the Packaging Materials as specified in the Publisher Guide.
- 1.3. "FPU" or "Finished Product Unit"** means a copy of a Software Title, in object code form, that has passed Certification, has been affixed to a game media and is approved by Microsoft and Publisher for release and manufacturing. Once Packaging Materials have been added and the BTS has been assigned to the FPU or its packaging, the FPU also includes its accompanying BTS and Packaging Materials.
- 1.4. "FPU Verification Version"** means a unit of a Software Title that is intended to comply fully with all terms of the Agreement and this Exhibit and that has not passed Certification, which Publisher or an Authorized Replicator provides for testing purposes.
- 1.5. "Packaging Materials"** means art and mechanical formats for a Software Title, including retail packaging, End User instruction manual, warranties, End User warnings, FPU media label, and any promotional inserts and other materials to be included in retail packaging.
- 1.6. "Security Technology"** means such digital signatures, other security technology, and copyright management information that may be added to an FPU.
- 1.7. "Threshold Price"** means the WSP (for the North American, the European Middle East and African, the Asian, the Australian, and the South American Sales Territories) or SRP (for the Japan Sales Territory) at which Publisher intends to sell Software Titles. If the Software Title is bundled with any product or service that is not a Software Title, the Threshold Price will be the WSP or SRP for the entire bundle.
- 1.8. "WSP" or "Wholesale Price"** means, [***]

2. Distribution License Conditions

- 2.1.** Reserved.
- 2.2. Distribution license.** On Certification of a Software Title, approval of Marketing Materials, and receipt of the FPU Verification Version by Microsoft, and subject to all terms of the Agreement and this Exhibit, Microsoft grants Publisher a non-exclusive, non-transferable, personal license to distribute FPU's containing redistributable, sample code, and Security Technology in approved Sales Territories, solely in FPU form, to third parties for distribution to users or directly to End Users. Except for transfers of FPU's through normal distribution channels (e.g., retailers, wholesalers), Publisher may not sublicense, transfer, or assign its rights under this license to any third parties (including any right to distribute Software Titles or FPU's to another entity that will brand, co-brand, or otherwise assume control over such products as a "publisher" as that concept is understood in the console game industry) without Microsoft's express, prior, written consent. Publisher's license does not include any right, power, or

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authority to subject Microsoft's software (or derivative works of, or IPR associated with, such software) in whole or in part to any terms of an Excluded License. "Excluded License" means any license that requires, as a condition of use, modification, or distribution of software subject to the Excluded License, that such software or other software combined or distributed with such software be: (1) disclosed or distributed in source code form; (2) licensed for the purpose of making derivative works; or (3) redistributable at no charge.

2.3. Distribution limitations. Except as provided for in the Agreement and this Exhibit, Publisher will distribute FPU's only in the Sales Territories for which the Software Titles have been approved by Microsoft. Publisher will not, directly or indirectly: (1) export any FPU's from one Sales Territory to another, or outside of Sales Territories; (2) assist or knowingly permit any third party in doing so, except for de minimis quantities of which Publisher provides Microsoft advanced written notice; or (3) distribute FPU's to any person or entity that Publisher has reason to believe may re-distribute or sell such FPU's outside a Sales Territory. Publisher may, however, request to distribute FPU's in countries outside the Sales Territories, and Microsoft will not unreasonably withhold consent.

2.4. Simship obligations.

2.41. DFU and FPU Simship. For each FPU of a Base Game Commercially Released in a given Sales Territory, a DFU of the same Base Game must be made available for distribution in that same Sales Territory, on a country-by-country basis, via the Microsoft Store simultaneously. For purposes of this Section 2.4 only, "simultaneously" means within [***] of FPU Commercial Release.

2.42. [***]

3. Manufacturing.

3.1. Replication. Publisher will use only Authorized Replicators to produce FPU's. Before placing an order with an Authorized Replicator, Publisher will confirm with Microsoft that such entity is an Authorized Replicator, as such list of Authorized Replicators may change from time to time. A then-current list of Authorized Replicators will be in the Publisher Guide. Publisher will notify Microsoft of its intended Authorized Replicator for each Software Title. The agreement for replication services will be negotiated between Publisher and the applicable Authorized Replicator, subject to the terms of the Agreement and this Exhibit. Microsoft may charge Authorized Replicator for rights, services, or products associated with manufacturing FPU's. The agreement between Microsoft and each Authorized Replicator grants Microsoft the right to instruct Authorized Replicator to cease manufacturing FPU's, or to prohibit releasing FPU's to Publisher or its agents, if Publisher is in breach of the Agreement (including this Exhibit) or any credit arrangement between the parties; provided, Microsoft shall take no such action without first reasonably consulting with Publisher. Microsoft does not guarantee performance of, and will not be liable for the failure to perform any agreement by, any Authorized Replicators. Microsoft is not obligated to ensure that FPU's are free of defects.

3.2. Submission to Authorized Replicator. Microsoft, and not Publisher, will provide to the applicable Authorized Replicator the final release version of the Software Title and all specifications required by Microsoft for manufacturing FPU's, including the Security Technology. Publisher will prepare and deliver to the Authorized Replicator all other items required for manufacturing FPU's, including approved Packaging Materials associated with the FPU's.

3.3. Verification Versions. Publisher shall allow Microsoft to cause Authorized Replicator to create several Verification Versions of each FPU that has been submitted, but has not passed

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Certification, that will be provided to both Microsoft and Publisher for evaluation. Before Authorized Replicator fully manufactures FPU, both parties must approve the applicable Verification Version. Microsoft's approval of each Verification Version is a condition precedent to Publisher's right to manufacture, however Publisher will grant final approval and will work directly with Authorized Replicator regarding the production run, including by verifying that all FPU are replicated in conformity with all quality standards and manufacturing specifications, policies, and procedures that Microsoft requires of Authorized Replicators and all Packaging Materials are approved by Microsoft before pack out. Publisher will cause Authorized Replicator to include BTS on each FPU. "**Verification Version**" means a unit of a Software Title that is intended to comply fully with all terms of this Agreement and that has not passed Certification, which is created by Authorized Replicator solely for testing purposes.

- 3.4. Manufacturing reports.** Publisher will use commercially reasonable efforts to provide Microsoft with forecasts showing [***] manufacturing projections by Sales Territory for each Software Title. Publisher will use commercially reasonable efforts to cause Authorized Replicator to deliver to Microsoft, within [***] after the end of each [***] during the Term, accurate monthly statements of FPU manufactured in such [***], for each Software Title and with sufficient detail to satisfy Microsoft. Microsoft will have reasonable audit rights to examine Authorized Replicator's records regarding the number of FPU manufactured.
- 3.5. Samples.** In addition to DFU Samples required in the Agreement, for each Software Title published under the Agreement and this Exhibit, Publisher will provide to Microsoft a reasonable number of samples (as per the Publisher Guide, but not to exceed [***] in which the Software Title will be Commercially Released). Microsoft may use such samples for non-revenue generating purposes, such as for marketing, as product samples, and for customer support, product and charitable giveaways (provided that Microsoft obtains Publisher's prior written consent in each instance), testing, and archival purposes. Any use of such samples for marketing use prior to Commercial Release will be subject to Section 10.2 of the Agreement. Publisher will not be required to pay royalty fees for such FPU samples if the samples are shipped directly from an Authorized Replicator to Microsoft, provided that Publisher shall at all times remain entitled to the Royalty Fee in respect of all Digital Content and PDLC for the corresponding FPU Software Title for which Microsoft receives payment.
- 3.6. Support.** Publisher will provide all technical and other support related to FPU. Publisher will provide appropriate contact information (including Publisher's street address, telephone number, and the applicable individual/group responsible for customer support) to all End Users and to Microsoft for posting on www.xbox.com.
- 3.7. Warranty.** Publisher will provide the original End User of any FPU a minimum warranty (in writing and in practice) that complies with local laws (as reasonably determined by Publisher) in each country of each Sales Territory in which the FPU is sold. Publisher will offer End Users additional warranty coverage in the applicable country of each Sales Territory as required by local law.
- 3.8. Recall of FPU.** Notwithstanding anything in the Agreement and this Exhibit to the contrary, if there is a material defect in any FPU that in Publisher's or Microsoft's reasonable judgment would: (1) significantly impair any End User's ability to play such FPU; or (2) adversely affect Xbox Console gameplay, Microsoft may require Publisher, following consultation between Publisher and Microsoft, to recall FPU, at Publisher's own expense, and promptly repair or replace such FPU if the defect has not been otherwise remedied via a Title Update.

Certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) would likely cause competitive harm to the Company, if publicly disclosed. Brackets with triple asterisks denote omissions.

3.9. No unapproved or unauthorized bundling. Except as expressly stated in this Section 3.9, Publisher will not market or distribute FPU's bundled with any other product or service, or knowingly permit or assist any third party in such bundling, without Microsoft's prior written consent. [***].

3.10. Effect and sell-off. On termination or expiration of the Agreement, Publisher has no further right to, and will not, exercise rights licensed under the Agreement and will promptly cease all manufacture of FPU's through its Authorized Replicators and, other than as provided below, cease using Microsoft Trademarks. Publisher will have [***] after expiration (or termination, if not due to Publisher's breach) ("**Sell-Off Period**") to sell its inventory of FPU's existing as of the date of termination or expiration, after which Publisher will immediately return all unsold FPU's to an Authorized Replicator for destruction. Publisher will cause the Authorized Replicator to: (1) destroy all returned FPU's; and (2) have its authorized representative certify to Microsoft, in writing, that all such FPU's were destroyed. All of Publisher's obligations under the Agreement and this Exhibit will apply during such Sell-Off Period. If the Agreement is terminated due to Publisher's breach, Microsoft may require Publisher to immediately destroy all undistributed FPU's not yet distributed to Publisher's distributors, dealers and/or end users and shall require all those distributing the FPU over which it has control to cease distribution. Publisher will, until the end of the Minimum Commitment term, continue to support existing Game Features for FPU's sold before the effective date of termination or expiration.

Duty to defend. Publisher and Microsoft acknowledge that Section 17.1 above covers third party claims that relate to the Software Title FPU's or related user generated content, subject to the terms and conditions contained therein.

4. Platform royalty. [***]

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Certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) would likely cause competitive harm to the Company, if publicly disclosed. Brackets with triple asterisks denote omissions.

[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]
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Certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) would likely cause competitive harm to the Company, if publicly disclosed. Brackets with triple asterisks denote omissions.

[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]
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[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]						

- 4.1. Standard Software Titles.** Publisher will submit to Microsoft, at least [***] before placing the first manufacturing order for a Software Title, a completed “*Xbox Console Royalty Tier Selection Form*” as specified in the Publisher Guide (which may require electronic submission) for each Sales Territory. The selection in such form will be effective only once approved by Microsoft.
- 4.2. Unit Discounts.** Publisher is eligible for a discount on FPU’s manufactured for a particular Sales Territory (a “*Unit Discount*”) based on the number of FPU’s manufactured for sale in only that Sales Territory [***] as set forth in Table 3 of this Exhibit 2. The discount will be rounded up to the nearest USD Cent, Yen, or Euro Cent.

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Table 3: Unit Discounts						
[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]

4.3. Royalty Tier migration. [***] after Commercial Release of a FPU in a Sales Territory, Publisher may elect to change the Royalty Tier to any other valid Royalty Tier (e.g., migrate from Tier 1 to Tier 2 or from Tier 1 to Tier 3). A Software Title may migrate Royalty Tiers [***]. Publisher must submit to Microsoft, at least [***] before placing the first manufacturing order under the desired migrated Royalty Tier a completed “**Xbox Console Royalty Tier Migration Form**” as specified in the Publisher Guide (which may require electronic submission). [***].

4.4. Greatest Hits Program. In each Sales Territory, if (i) a Software Title meets the criteria set forth below at the time of the targeted Commercial Release date of the Greatest Hits FPU; and (ii) Publisher satisfies all the conditions set forth below, Publisher is authorized to manufacture and distribute Greatest Hits FPUs in such Sales Territory at the royalty rate in Table 1 above applicable to Greatest Hits FPUs.

4.4.1. The Software Title must have been commercially available as a Standard FPU in the applicable Sales Territory for at least [***] at the time of Commercial Release of the Greatest Hits FPU.

4.4.2. As of the date Publisher wishes to Commercially Release the Software Title as a Greatest Hits FPU, Publisher must have manufactured the minimum FPUs and reached the minimum number of DFU transactions for such Software Title as set forth in Table 4 of this Exhibit 2 below:

Table 4: Combined FPU and DFU Transaction Thresholds						
[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]

[***].

4.4.3. Packaging for a Greatest Hits Software Title must comply with all Microsoft packaging and branding requirements set forth in the Publisher Guide.

4.4.4. The Greatest Hits FPU version must be the same or substantially equivalent to the Standard FPU version of the Software Title. Publisher may modify or add additional content or features to the Greatest Hits FPU version of the Software Title (e.g., demos or game play changes) subject to Microsoft’s review and approval, and Publisher acknowledges that any such modifications or additions may require the Software Title to be re-Certified at Publisher’s expense.

4.4.5. Publisher acknowledges that Microsoft may change any of the qualifications for participation in a Greatest Hits Program upon [***] advanced written notice to Publisher.

Certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) would likely cause competitive harm to the Company, if publicly disclosed. Brackets with triple asterisks denote omissions.

4.4.6. Publisher shall submit to Microsoft, at least [***] prior to the targeted Commercial Release of the Greatest Hits Software Title, a completed and signed Xbox Console Greatest Hits Programs Election Form in the form available in the Publisher Guide for each Sales Territory. The Xbox Console Greatest Hits Programs Election Form will be effective once it has been approved by Microsoft. If a Greatest Hits Software Title does not have an approved Xbox Console Greatest Hits Programs Election Form as required hereunder (e.g., as a result of the Publisher not providing an Xbox Console Greatest Hits Programs Election Form or because Microsoft has not approved the Xbox Console Greatest Hits Programs Election Form), the royalty rate for such Software Title will default to the Royalty Tier that applied to the last manufacturing of the Software Title (i.e., if Microsoft does not approve an Xbox Console Greatest Hits Programs Election Form because it is filled out incorrectly, the royalty rate will default to the Royalty Tier that applied to the last manufacturing of the Software Title). Publisher may elect either GH Tier 1 or GH Tier 2 at initial Commercial Release as a Greatest Hits Software Title provided that the Greatest Hits Software Title meets the Threshold Price requirements set forth in Table 1 above.

4.4.7. After [***] from the Commercial Release of a Greatest Hits Software Title, Publisher may elect to change the previously elected Greatest Hits Tier royalty rate for such Greatest Hits Software Title to a lower Greatest Hits Tier royalty rate in a specific Sales Territory provided that the Greatest Hits Software Title has a Threshold Price that meets the requirements for the newly elected Greatest Hits Tier royalty rate in Table 2 above.

4.4.8. To change a previously elected Greatest Hits Tier royalty, Publisher must submit to Microsoft, at least [***] before placing the first manufacturing order for the applicable Greatest Hits Software Title, a completed Xbox Console Greatest Hits Royalty Tier Migration Form (a "Greatest Hits Tier Migration Form") set forth in the Publisher Guide for each Sales Territory. The change in royalty rate will only apply to manufacturing orders for such Greatest Hits Software Title placed after the relevant Greatest Hits Tier Migration Form has been approved by Microsoft.

5. Asian Language Localization Incentive Program. [*]**

5.1. [*]**

5.1.1. [*]**

5.1.2. [*]**

5.1.3. [*]**

5.2. [*]**

5.3. [*]**

Certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) would likely cause competitive harm to the Company, if publicly disclosed. Brackets with triple asterisks denote omissions.

Table 5: Asian Language Localization Program Tier Discounts				
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]

5.4. [***]

5.5. Publisher shall submit to Microsoft, at least [***] prior to the first manufacturing order being placed for the Software Title, a completed “Xbox Console Asian Language Localization Tier Selection Form” for each Software Title in the form provided in the Publisher Guide. The selection in such form will be effective only once approved by Microsoft. If the Software Title does not have an approved Xbox Console Asian Language Localization Tier Selection Form (e.g., due to Publisher not providing, or Microsoft not yet approving the form), the royalty rate for such Software Title will default to Tier 1, regardless of the actual WSP.

6. Japan Tier Reduction Incentive Program. [***]

6.1. [***]

6.1.1. [***]

6.1.2. [***]

6.1.3. [***]

6.2. [***]

6.3. In order to participate in the program, Publisher shall submit to Microsoft a completed “Xbox Console Royalty Tier Selection Form” as specified in the Publisher Guide (which may require electronic submission) for Japan, at least [***] prior to the first manufacturing order being placed for the Software Title. The participation in the program and Tier selection will be effective only once approved by Microsoft. If the Software Title is not approved to qualify for the program (e.g., due to Publisher not submitting a completed “Xbox Console Royalty Tier Selection Form” electronically), the royalty rate for such Software Title will default to Tier 1, regardless of the actual SRP.

7. **FPU Exchanges for DFUs.** Microsoft may, and may authorize its suppliers and retail partners to, offer End Users the ability to exchange FPUs of such Software Title for DFUs of the same Software Title free of charge to End Users (except for processing and/or administrative fees) and Publisher (the “**FPU Exchange Program**”). The DFU provided to End Users will be the same version of the Software Title as the FPU used for the exchange, or a substantially similar DFU if the same version is not available. Such exchanges will not be deemed the sale of the DFU provided to End Users, and Publisher will not be entitled to any Royalty Fee for the DFU granted to End Users in accordance therewith. All FPUs exchanged in the FPU Exchange Program will be destroyed either physically or electronically. Microsoft agrees to provide reporting to Publisher, in a manner and form reasonably agreed upon with Publisher, including without limitation the Software Title, units, Sales Territory and retailer for each FPU exchanged as part of the FPU Exchange Program. Further, Microsoft agrees to cooperate with Publisher to ensure that there is no misuse of DFUs by any third party as part of

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the FPU Exchange Program, and Publisher shall have the rights to revoke its consent to such program if there is reasonable evidence of such misuse.

- 8. Payment process.** Publisher will pay all royalties owed to Microsoft for all FPUs manufactured by its Authorized Replicators within [***] after receipt of a royalty invoice from Microsoft for such FPUs. Authorized Replicators are authorized by Microsoft to begin production once Microsoft has provided them with written confirmation that Publisher has satisfied its payment obligations with respect to such manufacturing order. Upon the Authorized Replicator's receipt of such confirmation, the Authorized Replicator will determine the timing of production. All payments will be made by wire transfer, in accordance with payment instructions in the Publisher Guide, in the currency stated in Table 6 of this Exhibit 2 below for FPUs manufactured for sale in the applicable Sales Territory. Publisher has [***].

Sales Territory	North American	European, Middle East and African	Australian	Japan	Asian	South American
Currency	U.S. Dollars	Euros	U.S. Dollars	Yen	U.S. Dollars	U.S. Dollars

- 9. Billing address.** Publisher may have up to two "bill to" addresses for royalty payment under this Exhibit. Each such address will be for FPUs manufactured by Authorized Replicators in a given Sales Territory. If Publisher includes a "bill-to" address in a European country, Publisher (or its Affiliate) must execute a Publisher Enrollment Form (in the form provided in the Publisher Guide) with Microsoft's affiliate, Microsoft Ireland Operations, Ltd. within [***] before establishing a billing address in a European country. Publisher's billing address(es) for North American Sales Territory and/or either Japan or Asian Sales Territory set forth in Table 6 below.

North American Sales Territory	Publisher Entity Name: Take-Two Interactive Software, Inc. Address: 110 West 44 th Street, New York, NY 10036 Phone: 646-536-2842 Accounts Payable Contact: [***] Accounts Payable Contact Email: [***]
Japan or Asian Sales Territory	N/A

Certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) would likely cause competitive harm to the Company, if publicly disclosed. Brackets with triple asterisks denote omissions.

ADDENDUM #1 TO THE XBOX CONSOLE PUBLISHER LICENSE AGREEMENT

This Addendum #1 to the Xbox Console Publisher License Agreement (this “Addendum”) is entered into and effective as of July 1, 2020 (the “Effective Date”) by and between Microsoft Corporation, a Washington corporation (“Microsoft”) and Take-Two Interactive Software, Inc. (“Publisher”) and supplements the Xbox Console Publisher License Agreement signed between the parties dated July 1, 2020 (the “Agreement”).

RECITALS

- A. Microsoft and Publisher have entered into the Xbox Console Publisher License Agreement to support Publisher’s game content on Xbox Consoles; and
- B. Microsoft and Publisher now desire to enter into in this partnership agreement related to specific Xbox Consoles programmatic support as set forth below.

Microsoft and Publisher agree as follows:

1. Definitions. The following definitions apply to this Addendum. Capitalized terms not defined below will have the meaning provided in the Agreement.

- 1.1. “Accounting Period”** means each Microsoft fiscal quarter within the Addendum Term.
- 1.2. “Average [***]”** means the average number of [***] during an Accounting Period, calculated by summing the [***] number from each month of the Accounting Period and dividing by three (3).
- 1.3. “Average [***]”** means the average number of [***] during an Accounting Period, calculated by summing the [***] number from each month of the Accounting Period and dividing by three (3).
- 1.4. [***]**
- 1.5. “[***]”** means an [***].
- 1.6. “[***]”** means the [***].
- 1.7. “Qualifying Software Titles”** means [***].
- 1.8. “Single Cross Generation License”** shall have the meaning provided in Section 3.3.1 (“Single Cross Generation License”) below.
- 1.9. “Target Software Titles”** means the following Publisher Software Titles and all associated Digital Content:
- 1.9.1. [***]**
 - 1.9.2. [***]**
 - 1.9.3. [***]**
 - 1.9.4. [***]**
- 1.10. “Target Software Title Minimum Requirements”** means the following Xbox Console support requirements that all of the Target Software Titles must meet in order for Publisher to [***].
- 1.11. “Total Net Revenue”** means the [***]
- 1.12. “Addendum Term”** means [***].

2. Commercial Release of all Publisher games. For each game or other software application Publisher releases on any Competitive Platform, Publisher will Commercially Release an Xbox Console version (or versions, as applicable) of that game or software application as an Xbox Console Software Title. [***].

Take-Two and Microsoft Confidential

Certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) would likely cause competitive harm to the Company, if publicly disclosed. Brackets with triple asterisks denote omissions.

3. Qualifying Software Titles Requirements. Beginning on the date of [***], each Publisher Software Title that meets the following requirements of this Section 3 shall be deemed a Qualifying Software Title:

3.1. Competitive Platform Parity and Simship Obligations. Publisher will release the Software Titles and Digital Content related to such Software Titles in compliance with the parity and simship obligations in the Agreement (as amended herein), including Section 5.6 (“Localization”) and Section 9 (“Software Title Parity”) of the Agreement and Section 2.4 (“Simship Obligations”) of Exhibit 2 to the Agreement.

3.2. Project xCloud Support.

3.2.1. Project xCloud Support. [***]

3.2.2. Cloud Streaming Optimization. [***]

3.3. Additional Xbox Console Support.

3.3.1. Single Cross Generation License. [***]

3.3.2. Cross network saves. [***]

3.3.3. Multiple Generation Xbox Console Support. Publisher shall meet the obligations of Section 11.2 (Multiple Generation Xbox Console Support) of the Agreement for the Software Titles.

3.4. Notwithstanding anything to the contrary herein, nothing in this Section 3 (“Qualifying Software Titles Commitments”) amends or modifies Publisher’s obligations in the Agreement.

4. Microsoft Payment Obligations. Beginning on the date of Commercial Release of [***]:

4.1. [***]

4.1.1. [***]

4.1.2. [***]

Accounting Period	[***]
[***]	[***]
[***]	[***]
[***]	[***]
[***]	[***]
[***]	[***]

[***]

4.2. Payment Terms. Within forty five (45) days of the end of each Accounting Period, Microsoft will pay [***] to Publisher.

[***]

4.3. [***]

4.4. [***]

4.5. Disqualification: For the avoidance of doubt:

Certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) would likely cause competitive harm to the Company, if publicly disclosed. Brackets with triple asterisks denote omissions.

4.5.1. If the [***]for Publisher's Software Titles commercially released prior to [***] and Qualifying Software Titles is [***] then as the sole consequence of such result, the [***].

4.5.2. [***]

4.5.3. Publisher shall not be in breach of the Addendum for failing to satisfy the requirements of Section 3 above for any Software Title. If Publisher releases a Software Title that does not comply with Section 3 above, then, subject to Section 3.4 above, Publisher shall incur no penalty under this Addendum, provided [***]

4.5.4. [***]

5. Additional Changes to the Agreement. The parties agree to the following additional changes to the Agreement. For the avoidance of doubt, the terms of this Section 5 ("Additional Changes to the Agreement") shall survive termination of the Addendum and will expire upon the expiration or termination of the Agreement:

5.1. Competitive Platforms. The following will be added to the end of Section 2.12 in the Agreement: [***]

5.2. Features and content parity. The following will be added to the end of Section 9.1.1 in the Agreement: [***]

5.3. Features and content parity. The following will be added to the end of Section 9.1.2 in the Agreement: [***]

5.4. Features and content parity. The following Section 9.1.3 will be added to Section 9.1 of the Agreement: [***]. The parties will work together in good faith to address any platform limitations such that Publisher may comply with the requirements of this Section 9.

5.5. Simship and Competitive Platforms. The following will be added to the end of Section 9.2.2 in the Agreement: [***]

5.6. Gameplay record and share. The following will be added to the end of Section 11.4: Microsoft agrees that for each Software Title, Microsoft shall provide the necessary tools and assistance for Publisher to [***]. Microsoft may promote, curate, and surface gameplay clips and derivative works created by End Users, Microsoft or Publisher via Microsoft-owned channels (e.g., Xbox Consoles, Xbox Live, etc.), and will use good faith efforts to obtain Publisher's prior consent when doing so. However, Microsoft shall not use any gameplay clips or derivative works related to any Publisher Software Title to promote any Microsoft or third party products or services in marketing initiatives or in any Microsoft-scripted presentation at conventions, events, trade shows, press briefings, public interactive displays and the like, without Publisher's prior written consent. Notwithstanding anything to the contrary herein, Microsoft acknowledges that the licenses granted in this Section to support Xbox Console gameplay record and share features do not grant Microsoft any rights to the use of such Software Title gameplay on Microsoft's Mixer service (or other Microsoft services) that are not otherwise provided by law.

5.7. Gameplay streaming features. The following will be added to the end of Section 11.5: Microsoft agrees that for each Software Title, Microsoft shall provide the necessary tools and assistance for Publisher to [***]. Notwithstanding anything to the contrary herein, Microsoft acknowledges that the licenses granted in this Section to support Xbox Console gameplay streaming features do not grant Microsoft any rights to the use of such Software Title gameplay

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on Microsoft's Mixer service (or other Microsoft services) that are not otherwise provided by law.

5.8. [***]. The following will be added to the end of Section 11.7 in the Agreement: Without limiting any of the foregoing, Publisher shall [***].

5.9. [***]. The following shall be added to the Agreement as Section 11.7.1:

11.7.1. [***]

5.10. **Additional Licenses.** The following will be added to the Agreement as a new Section 11.11:

11.11 Additional Licenses. [***]

5.11. **Limitation of Liability.** Section 16.5 in the Agreement will be replaced with the following:

16.5: **Limitation of liability. Except for amounts owed under this Agreement, the maximum liability of Microsoft to Publisher or any third party relating to this Agreement will be the aggregate of [***]**

5.12. Exhibit 1, Section 2.6 ("Additional Payment") to the Agreement shall be deleted and replaced with "Reserved."

5.13. **FPU exchanges for DFUs.** The first sentence of Exhibit 2, Section 7 will be replaced with the following revised sentence:

[***] in the FPU Exchange Program for a specific Software Title, Microsoft may, and may authorize its suppliers and retail partners to, offer End Users the ability [***].

5.14. The following shall be added to the end of Section 3.2 of Exhibit 2: Microsoft will not require, as a condition on Publisher or an Authorized Replicator for the continued distribution of Publisher's Software Titles, for Publisher to change previously approved Packaging Materials for a given Software Title already being distributed to End Users.

Take-Two and Microsoft Confidential

Certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) would likely cause competitive harm to the Company, if publicly disclosed. Brackets with triple asterisks denote omissions.

In the event of any conflict between the terms of the Agreement and this Addendum, the terms of this Addendum shall control. The parties have caused this Addendum #1 to be executed as of the Addendum Effective Date by their respective duly authorized representatives.

MICROSOFT CORPORATION

By: (Sign)
/s/ Lacey Peterson

Name:
Lacey Peterson

Title:
Xbox 3PP Program Manager

Date: 7/10/2020

TAKE-TWO INTERACTIVE SOFTWARE, INC.

By: (Sign)
/s/ Dan Emerson

Name:
Dan Emerson

Title:
EVP and CLO

Date: 7/10/2020

Take-Two and Microsoft Confidential

Certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) would likely cause competitive harm to the Company, if publicly disclosed. Brackets with triple asterisks denote omissions.

**PLAYSTATION 5 AMENDMENT TO PLAYSTATION
GLOBAL
DEVELOPER & PUBLISHER AGREEMENT**

This PlayStation 5 Amendment (“**PS5 Amendment**”) to the PlayStation Global Developer and Publisher Agreement (“**GDPA**”), effective as of May 1, 2020 (“**PS5 Effective Date**”), entered into by Sony Interactive Entertainment, Inc. (“**SIEJA**”), a Japanese company with offices at 1-7-1 Konan, Minato-ku, Tokyo 108-0075, Japan, Sony Interactive Entertainment LLC (“**SIEA**”), a Delaware limited liability company with offices at 2207 Bridgepointe Parkway, San Mateo, CA 94404, and Sony Interactive Entertainment Europe Limited (“**SIEE**”), an English company with offices at 10 Great Marlborough Street, London W1F 7LP, UK, on the one hand (SIEJA, SIEA and SIEE, each individually an “**SIE Company**” and collectively, “**SIE**”), and Take-Two Interactive Software, Inc., a Delaware Corporation with offices at 110 West 44th Street, New York, NY 10036, and email address [***], Take-Two Interactive Japan G.K., Take-Two Interactive Korea Ltd., Take-Two Interactive Software UK Limited and Take Two International GmbH (individually and collectively, “**Publisher**”), on the other hand.

SIE and Publisher entered into the GDPA for the development and publishing of products for the PlayStation 4 and other proprietary PlayStation Systems. SIE and its Affiliates have since designed and developed certain core technology relating to the PlayStation 5 interactive entertainment system (“**PS5**”). Publisher desires to be granted a non-exclusive license to develop, publish, have manufactured, market, advertise, distribute or sell products for the PS5 and SIE is willing to grant Publisher such a license in accordance with the terms, and subject to the conditions, of this PS5 Amendment.

SIE and Publisher agree:

1. **Definition of Terms.** Unless otherwise indicated, capitalized terms used in this PS5 Amendment have the meanings given to them in Schedule 1 of the GDPA.
2. **Extension of GDPA to PS5.** The terms and conditions of the GDPA, as modified by this PS5 Amendment, shall be extended to Publisher’s PS5 products or services and all references to “Systems” in the GDPA are deemed to include PS5. The definition of “Systems” in Schedule 1 of the GDPA will be deleted and replaced by the following:

“System” means each of the proprietary PlayStation systems known as the PlayStation, PlayStation 2, PlayStation 3, PlayStation 4, PlayStation 5, PlayStation Portable (PSP), PlayStation Vita (PS Vita), and PlayStation Vita TV (PS Vita TV), including all iterations and server emulation of each. Collectively, all of the foregoing are referred to as the “Systems.”
3. [***]. Section 9.2.2(b) of the GDPA shall be deleted in its entirety and replaced with the following:

[***].
4. **Other Modifications to the GDPA.** Certain terms of the GDPA will be modified as set out in Exhibit 1 of this PS5 Amendment.
5. **Standard Contractual Clauses For The Transfer of Personal Data.** By accepting this PS5 Amendment, Publisher is deemed to have read, acknowledged and accepted the European Commission’s Standard Contractual Clauses for the Transfer of Personal Data set forth in Exhibit 2 of this PS5 Amendment. Upon acceptance of this PS5 Amendment, the GDPA will be deemed to include such clauses as a Schedule to the GDPA.
6. **Interpretation.** Except as modified by this PS5 Amendment, the GDPA will continue in full force and effect. In the event of any conflict between this PS5 Amendment and the GDPA, the terms of this PS5 Amendment will prevail solely to the extent of such conflict. This PS5 Amendment may be executed by

electronic signature and in counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same document.

7. **Authority to Contract.** Each SIE Company is authorized by each other SIE Company to present and execute this PS5 Amendment on behalf of each other SIE Company, and to bind each other SIE Company to this PS5 Amendment.

IN WITNESS OF WHEREOF, the parties hereto have executed this PS5 Amendment as of the dates set forth below.

Sony Interactive Entertainment LLC

By: /s/ Philip L. Rosenberg

Print Name: Philip L. Rosenberg

Title: SVP

Date: 09-30-2020

Take-Two Interactive Software, Inc.

By: /s/ Daniel Emerson

Print Name: Daniel Emerson

Title: EVP & GC

Date: 9/29/2020

Take-Two Interactive Japan G.K. Take-Two Interactive Korea Ltd.

By: /s/ Sebastian Belcher By: /s/ Sebastian Belcher

Print Name: Sebastian Belcher Print Name: Sebastian Belcher

Title: Director Title: Director

Date: 30 September 2020 Date: 30 September 2020

Take-Two Interactive Software UK Limited Take Two International GmbH

By: /s/ Sebastian Belcher By: /s/ Frédéric Beaurain

Print Name: Sebastian Belcher Print Name: Frédéric Beaurain

Title: Director Title: Financial Controller

Date: 30 September 2020 Date: 30 September 2020

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Section 302 Certification

I, Strauss Zelnick, certify that:

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

November 5, 2020

/s/ STRAUSS ZELNICK

Strauss Zelnick
Chairman and Chief Executive Officer

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES
CERTIFICATION OF CHIEF FINANCIAL OFFICER
Section 302 Certification

I, Lainie Goldstein, certify that:

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

November 5, 2020

/s/ LAINIE GOLDSTEIN

Lainie Goldstein
Chief Financial Officer

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES

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

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

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

November 5, 2020

/s/ STRAUSS ZELNICK

Strauss Zelnick
Chairman and Chief Executive Officer

TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES

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

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

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

November 5, 2020

/s/ LAINIE GOLDSTEIN

Lainie Goldstein
Chief Financial Officer