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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2021

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, \$0.01 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 22, 2021, there were 115,299,786 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, 2021<br>(Unaudited) | March 31, 2021 |
|---|-----------------------------------|----------------|
| <b>ASSETS</b>   |                                   |                |
| Current assets:   |                                   |                |
| Cash and cash equivalents   | \$ 856,901                        | \$ 1,422,884   |
| Short-term investments  | 1,440,631                         | 1,308,692      |
| Restricted cash and cash equivalents  | 754,368                           | 538,822        |
| Accounts receivable, net of allowances of \$350 and \$350 at September 30, 2021 and March 31, 2021, respectively  | 804,468                           | 552,762        |
| Inventory   | 12,579                            | 17,742         |
| Software development costs and licenses   | 54,540                            | 43,443         |
| Deferred cost of goods sold   | 12,601                            | 15,524         |
| Prepaid expenses and other  | 307,370                           | 320,646        |
| Total current assets  | 4,243,458                         | 4,220,515      |
| Fixed assets, net   | 231,230                           | 149,364        |
| Right-of-use assets   | 208,751                           | 164,763        |
| Software development costs and licenses, net of current portion   | 621,470                           | 490,892        |
| Goodwill  | 662,585                           | 535,306        |
| Other intangibles, net  | 288,090                           | 121,591        |
| Deferred tax assets   | 74,994                            | 90,206         |
| Long-term restricted cash and cash equivalents  | 103,437                           | 98,541         |
| Other assets  | 185,016                           | 157,040        |
| Total assets  | \$ 6,619,031                      | \$ 6,028,218   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                   |                |
| Current liabilities:  |                                   |                |
| Accounts payable  | \$ 83,401                         | \$ 71,001      |
| Accrued expenses and other current liabilities  | 1,499,898                         | 1,204,090      |
| Deferred revenue  | 951,612                           | 928,029        |
| Lease liabilities   | 31,962                            | 31,595         |
| Total current liabilities   | 2,566,873                         | 2,234,715      |
| Non-current deferred revenue  | 51,531                            | 37,302         |
| Non-current lease liabilities   | 207,437                           | 159,671        |
| Non-current software development royalties  | 112,459                           | 110,127        |
| Other long-term liabilities   | 211,063                           | 154,511        |
| Total liabilities   | \$ 3,149,363                      | \$ 2,696,326   |
| Commitments and contingencies (See <a href="#">Note 13</a> )  |                                   |                |
| Stockholders' equity:   |                                   |                |
| Preferred stock, \$0.01 par value, 5,000 shares authorized; no shares issued and outstanding at September 30, 2021 and March 31, 2021   | —                                 | —              |
| Common stock, \$0.01 par value, 200,000 shares authorized; 138,891 and 137,584 shares issued and 115,210 and 115,163 outstanding at September 30, 2021 and March 31, 2021, respectively | 1,390                             | 1,376          |
| Additional paid-in capital  | 2,475,085                         | 2,288,781      |
| Treasury stock, at cost; 23,681 and 22,421 common shares at September 30, 2021 and March 31, 2021, respectively   | (1,020,584)                       | (820,572)      |
| Retained earnings   | 2,033,524                         | 1,870,971      |
| Accumulated other comprehensive loss  | (19,747)                          | (8,664)        |
| Total stockholders' equity  | \$ 3,469,668                      | \$ 3,331,892   |
| Total liabilities and stockholders' equity  | \$ 6,619,031                      | \$ 6,028,218   |

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, |              |
|---|----------------------------------|------------|--------------------------------|--------------|
|   | 2021                             | 2020       | 2021                           | 2020         |
| Net revenue                               | \$ 858,198                       | \$ 841,142 | \$ 1,671,544                   | \$ 1,672,452 |
| Cost of goods sold                        | 456,682                          | 432,505    | 786,397                        | 909,194      |
| Gross profit                              | 401,516                          | 408,637    | 885,147                        | 763,258      |
| Selling and marketing                     | 136,019                          | 113,691    | 239,873                        | 198,470      |
| General and administrative                | 127,331                          | 91,433     | 231,778                        | 193,606      |
| Research and development                  | 101,508                          | 74,216     | 193,802                        | 147,324      |
| Depreciation and amortization             | 16,181                           | 13,691     | 28,646                         | 26,109       |
| Business reorganization                   | 326                              | 239        | 423                            | 239          |
| Total operating expenses                  | 381,365                          | 293,270    | 694,522                        | 565,748      |
| Income from operations                    | 20,151                           | 115,367    | 190,625                        | 197,510      |
| Interest and other, net                   | (572)                            | 2,706      | (1,599)                        | 10,924       |
| Gain (loss) on long-term investments, net | 395                              | (655)      | 2,392                          | (655)        |
| Income before income taxes                | 19,974                           | 117,418    | 191,418                        | 207,779      |
| Provision for income taxes                | 9,677                            | 18,097     | 28,865                         | 19,953       |
| Net income                                | \$ 10,297                        | \$ 99,321  | \$ 162,553                     | \$ 187,826   |
| Earnings per share:                       |                                  |            |                                |              |
| Basic earnings per share                  | \$ 0.09                          | \$ 0.87    | \$ 1.40                        | \$ 1.65      |
| Diluted earnings per share                | \$ 0.09                          | \$ 0.86    | \$ 1.39                        | \$ 1.63      |

See accompanying Notes.

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

|   | Three Months Ended<br>September 30, |            | Six Months Ended September 30, |            |
|---|-------------------------------------|------------|--------------------------------|------------|
|   | 2021                                | 2020       | 2021                           | 2020       |
| Net income  | \$ 10,297                           | \$ 99,321  | \$ 162,553                     | \$ 187,826 |
| Other comprehensive income:                           |                                     |            |                                |            |
| Foreign currency translation adjustment               | (16,731)                            | 18,861     | (10,599)                       | 23,562     |
| Cash flow hedges:                                     |                                     |            |                                |            |
| Change in unrealized gains                            | —                                   | —          | —                              | (3,817)    |
| Reclassification to earnings                          | —                                   | —          | —                              | (1,333)    |
| Tax effect on effective cash flow hedges              | —                                   | —          | —                              | 845        |
| Change in fair value of effective cash flow hedge     | —                                   | —          | —                              | (4,305)    |
| Change in fair value of available for sale securities | (246)                               | (1,554)    | (484)                          | 4,295      |
| Other comprehensive (loss) income                     | (16,977)                            | 17,307     | (11,083)                       | 23,552     |
| Comprehensive (loss) income                           | \$ (6,680)                          | \$ 116,628 | \$ 151,470                     | \$ 211,378 |

See accompanying Notes.

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

|  | Six Months Ended September 30, |                     |
|--|--------------------------------|---------------------|
|  | 2021                           | 2020                |
| <b>Operating activities:</b>   |                                |                     |
| Net income   | \$ 162,553                     | \$ 187,826          |
| Adjustments to reconcile net income to net cash provided by operating activities:                              |                                |                     |
| Amortization of software development costs and licenses  | 95,339                         | 72,969              |
| Impairment of software development costs and licenses  | 65,049                         | 19,695              |
| Depreciation   | 28,436                         | 25,826              |
| Amortization of intellectual property  | 33,668                         | 11,801              |
| Stock-based compensation   | 96,196                         | 98,719              |
| Other, net   | 2,067                          | (2,631)             |
| Changes in assets and liabilities:   |                                |                     |
| Accounts receivable  | (242,844)                      | (189,477)           |
| Inventory  | 5,155                          | (7,266)             |
| Software development costs and licenses  | (263,235)                      | (127,290)           |
| Prepaid expenses and other assets  | (35,745)                       | 65,296              |
| Deferred revenue   | 32,672                         | 284,441             |
| Deferred cost of goods sold  | 3,018                          | 4,753               |
| Accounts payable, accrued expenses and other liabilities   | 301,350                        | 182,083             |
| Net cash provided by operating activities  | <u>283,679</u>                 | <u>626,745</u>      |
| <b>Investing activities:</b>   |                                |                     |
| Change in bank time deposits   | 1,021                          | (218,239)           |
| Proceeds from available-for-sale securities  | 353,399                        | 260,729             |
| Purchases of available-for-sale securities   | (492,582)                      | (435,511)           |
| Purchases of fixed assets  | (111,192)                      | (25,021)            |
| Purchases of long-term investments   | (3,122)                        | (9,100)             |
| Business acquisitions  | (131,617)                      | (75,482)            |
| Net cash used in investing activities  | <u>(384,093)</u>               | <u>(502,624)</u>    |
| <b>Financing activities:</b>   |                                |                     |
| Tax payment related to net share settlements on restricted stock awards  | (53,370)                       | (48,202)            |
| Issuance of common stock   | 9,230                          | 6,503               |
| Loan repayment   | (234)                          | —                   |
| Repurchase of common stock   | (200,012)                      | —                   |
| Net cash used in financing activities  | <u>(244,386)</u>               | <u>(41,699)</u>     |
| Effects of foreign currency exchange rates on cash, cash equivalents, and restricted cash and cash equivalents | (741)                          | 8,966               |
| Net change in cash, cash equivalents, and restricted cash and cash equivalents                                 | (345,541)                      | 91,388              |
| Cash, cash equivalents, and restricted cash and cash equivalents, beginning of year <sup>(1)</sup>             | 2,060,247                      | 1,993,392           |
| Cash, cash equivalents, and restricted cash and cash equivalents, end of period <sup>(1)</sup>                 | <u>\$ 1,714,706</u>            | <u>\$ 2,084,780</u> |

<sup>(1)</sup> Cash, cash equivalents and restricted cash and cash equivalents shown on our Condensed Consolidated Statements of Cash Flow includes amounts in the Cash and cash equivalents, Restricted cash and cash equivalents, and Long-term restricted cash and cash equivalents on our Condensed Consolidated Balance Sheet.

See accompanying Notes.

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

Three Months Ended September 30, 2021

|  | Take-Two Interactive Software, Inc. stockholders |                 |                                  |                 |                       |                      |  |  |                     |
|--|--|-----------------|----------------------------------|-----------------|-----------------------|----------------------|--|--|---------------------|
|  | Common Stock                                     |                 | Additional<br>Paid-in<br>Capital | Treasury Stock  |                       | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Non-<br>controlling<br>interest<br>(Note 15) | Total<br>Equity     |
|  | Shares   | Amount          |                                  | Shares          | Amount                |                      |  |  |                     |
| Balance, June 30, 2021   | 138,846  | \$ 1,389        | \$ 2,417,658                     | (22,421)        | \$ (820,572)          | \$ 2,023,227         | \$ (2,770)   | \$ 12,375                                    | \$ 3,631,307        |
| Net income   | —  | —               | —                                | —               | —                     | 10,297               | —  | —  | 10,297              |
| Change in cumulative foreign currency translation adjustment       | —  | —               | —                                | —               | —                     | —                    | (16,731)   | —  | (16,731)            |
| Net unrealized gain on available-for-sale securities, net of taxes | —  | —               | —                                | —               | —                     | —                    | (246)  | —  | (246)               |
| Stock-based compensation   | —  | —               | 62,537                           | —               | —                     | —                    | —  | —  | 62,537              |
| Repurchased common stock   | —  | —               | —                                | (1,260)         | (200,012)             | —                    | —  | —  | (200,012)           |
| Issuance of restricted stock, net of forfeitures and cancellations | 77   | 1               | (1)                              | —               | —                     | —                    | —  | —  | —                   |
| Net share settlement of restricted stock awards                    | (32)   | —               | (5,109)                          | —               | —                     | —                    | —  | —  | (5,109)             |
| Call option related to Nordeus Acquisition                         | —  | —               | —                                | —               | —                     | —                    | —  | (12,375)                                     | (12,375)            |
| <b>Balance, September 30, 2021</b>                                 | <b>138,891</b>                                   | <b>\$ 1,390</b> | <b>\$ 2,475,085</b>              | <b>(23,681)</b> | <b>\$ (1,020,584)</b> | <b>\$ 2,033,524</b>  | <b>\$ (19,747)</b>                                     | <b>\$ —</b>                                  | <b>\$ 3,469,668</b> |

Three Months Ended September 30, 2020

|  | Three Months Ended September 30, 2020 |                 |                                  |                 |                     |                      |  |                                  |  |
|--|---------------------------------------|-----------------|----------------------------------|-----------------|---------------------|----------------------|--|----------------------------------|--|
|  | Common Stock                          |                 | Additional<br>Paid-in<br>Capital | Treasury Stock  |                     | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br>Stockholders'<br>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)                          |  |
| Issuance of shares related to Playdots, Inc. acquisition           | 604                                   | 6               | 97,641                           | —               | —                   | —                    | —  | 97,647                           |  |
| <b>Balance, September 30, 2020</b>                                 | <b>137,349</b>                        | <b>\$ 1,373</b> | <b>\$ 2,285,394</b>              | <b>(22,421)</b> | <b>\$ (820,572)</b> | <b>\$ 1,469,911</b>  | <b>\$ (34,824)</b>                                     | <b>\$ 2,901,282</b>              |  |

See accompanying Notes.

|  | Six Months Ended September 30, 2021 |                 |                            |                 |                       |                     |   |                            |  |
|--|-------------------------------------|-----------------|----------------------------|-----------------|-----------------------|---------------------|---|----------------------------|--|
|  | 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, 2021  | 137,584                             | \$ 1,376        | \$ 2,288,781               | (22,421)        | \$ (820,572)          | \$ 1,870,971        | \$ (8,664)                                    | \$ 3,331,892               |  |
| Net income   | —                                   | —               | —                          | —               | —                     | 162,553             | —   | 162,553                    |  |
| Change in cumulative foreign currency translation adjustment       | —                                   | —               | —                          | —               | —                     | —                   | (10,599)                                      | (10,599)                   |  |
| Net unrealized gain on available-for-sale securities, net of taxes | —                                   | —               | —                          | —               | —                     | —                   | (484)   | (484)                      |  |
| Stock-based compensation   | —                                   | —               | 136,304                    | —               | —                     | —                   | —   | 136,304                    |  |
| Repurchased common stock   | —                                   | —               | —                          | (1,260)         | (200,012)             | —                   | —   | (200,012)                  |  |
| Issuance of restricted stock, net of forfeitures and cancellations | 1,020                               | 10              | (10)                       | —               | —                     | —                   | —   | —                          |  |
| Net share settlement of restricted stock awards                    | (298)                               | (2)             | (53,368)                   | —               | —                     | —                   | —   | (53,370)                   |  |
| Employee share purchase plan settlement                            | 70                                  | 1               | 9,229                      | —               | —                     | —                   | —   | 9,230                      |  |
| Issuance of shares related to Nordeus acquisition                  | 515                                 | 5               | 94,149                     | —               | —                     | —                   | —   | 94,154                     |  |
| <b>Balance, September 30, 2021</b>                                 | <b>138,891</b>                      | <b>\$ 1,390</b> | <b>\$ 2,475,085</b>        | <b>(23,681)</b> | <b>\$ (1,020,584)</b> | <b>\$ 2,033,524</b> | <b>\$ (19,747)</b>                            | <b>\$ 3,469,668</b>        |  |

|  | 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 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                     |  |
| <b>Balance, September 30, 2020</b>                                 | <b>137,349</b>                      | <b>\$ 1,373</b> | <b>\$ 2,285,394</b>        | <b>(22,421)</b> | <b>\$ (820,572)</b> | <b>\$ 1,469,911</b> | <b>\$ (34,824)</b>                            | <b>\$ 2,901,282</b>        |  |

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, and T2 Mobile Games, which includes Socialpoint, Playdots, and Nordeus. Our products are designed for console systems, including but not limited to, Sony's PlayStation®4 ("PS4") and PlayStation 5 ("PS5"), Microsoft's Xbox One® ("Xbox One") and Xbox Series X|S ("Xbox Series X|S"), and Nintendo's Switch™ ("Switch"), personal computers ("PC"), and mobile including smart phones and tablets ("Mobile"), 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, 2021.

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

**Recently Adopted Accounting Pronouncements**

***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. We adopted this update effective April 1, 2021. The adoption of this standard did not have a material impact on our Condensed Consolidated Financial Statements.

**2. REVENUE FROM CONTRACTS WITH CUSTOMERS**

**Disaggregation of revenue**

***Timing of recognition***

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 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 timing of recognition was as follows:

|                                | Three Months Ended September 30, |            | Six Months Ended September 30, |              |
|--------------------------------|----------------------------------|------------|--------------------------------|--------------|
|                                | 2021                             | 2020       | 2021                           | 2020         |
| <b>Net revenue recognized:</b> |                                  |            |                                |              |
| Service and other (over time)  | \$ 609,025                       | \$ 551,576 | \$ 1,242,663                   | \$ 1,083,626 |
| Product (point in time)        | 249,173                          | 289,566    | 428,881                        | 588,826      |
| Total net revenue              | \$ 858,198                       | \$ 841,142 | \$ 1,671,544                   | \$ 1,672,452 |

### Content

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

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.

Net revenue by content was as follows:

|                                | Three Months Ended September 30, |            | Six Months Ended September 30, |              |
|--------------------------------|----------------------------------|------------|--------------------------------|--------------|
|                                | 2021                             | 2020       | 2021                           | 2020         |
| <b>Net revenue recognized:</b> |                                  |            |                                |              |
| Recurrent consumer spending    | \$ 563,649                       | \$ 519,897 | \$ 1,135,915                   | \$ 1,016,750 |
| Full game and other            | 294,549                          | 321,245    | 535,629                        | 655,702      |
| Total net revenue              | \$ 858,198                       | \$ 841,142 | \$ 1,671,544                   | \$ 1,672,452 |

### 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, |              |
|--------------------------------|----------------------------------|------------|--------------------------------|--------------|
|                                | 2021                             | 2020       | 2021                           | 2020         |
| <b>Net revenue recognized:</b> |                                  |            |                                |              |
| United States                  | \$ 514,920                       | \$ 503,583 | \$ 1,008,106                   | \$ 974,073   |
| International                  | 343,278                          | 337,559    | 663,438                        | 698,379      |
| Total net revenue              | \$ 858,198                       | \$ 841,142 | \$ 1,671,544                   | \$ 1,672,452 |

### Platform

Net revenue by platform was as follows:

|                                | Three Months Ended September 30, |            | Six Months Ended September 30, |              |
|--------------------------------|----------------------------------|------------|--------------------------------|--------------|
|                                | 2021                             | 2020       | 2021                           | 2020         |
| <b>Net revenue recognized:</b> |                                  |            |                                |              |
| Console                        | \$ 596,080                       | \$ 641,269 | \$ 1,198,523                   | \$ 1,252,954 |
| PC and other                   | 147,002                          | 138,686    | 275,647                        | 303,946      |
| Mobile                         | 115,116                          | 61,187     | 197,374                        | 115,552      |
| Total net revenue              | \$ 858,198                       | \$ 841,142 | \$ 1,671,544                   | \$ 1,672,452 |

### 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, |                     |
|--------------------------------|----------------------------------|-------------------|--------------------------------|---------------------|
|                                | 2021                             | 2020              | 2021                           | 2020                |
| <b>Net revenue recognized:</b> |                                  |                   |                                |                     |
| Digital online                 | \$ 779,097                       | \$ 725,684        | \$ 1,519,903                   | \$ 1,461,260        |
| Physical retail and other      | 79,101                           | 115,458           | 151,641                        | 211,192             |
| Total net revenue              | <u>\$ 858,198</u>                | <u>\$ 841,142</u> | <u>\$ 1,671,544</u>            | <u>\$ 1,672,452</u> |

### 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, 2021 and March 31, 2021 were \$1,003,143 and \$965,331, respectively. For the three months ended September 30, 2021, 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, 2021 and 2020, \$278,306 and \$241,732, 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, 2021 and 2020, \$741,547 and \$612,946, respectively, of revenue was recognized that was included in the deferred revenue balance at the beginning of the respective period. As of September 30, 2021, the aggregate amount of contract revenue allocated to unsatisfied performance obligations is \$1,152,076, which includes our deferred revenue balances and amounts to be invoiced and recognized in future periods. We expect to recognize approximately \$1,035,546 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, 2021 and March 31, 2021, our contract asset balances were \$107,865 and \$105,554, 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 to the Company 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 \$1,705 and \$2,605 during the three months ended September 30, 2021 and 2020, respectively, and \$3,410 and \$5,270 during the six months ended September 30, 2021 and 2020, respectively. We recorded stock-based compensation expense for restricted stock units granted to ZelnickMedia, which is included in General and administrative expenses, of \$7,365 and \$6,887 during the three months ended September 30, 2021 and 2020, respectively, and \$14,583 and \$13,657 during the six months ended September 30, 2021 and 2020, respectively.

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

|                                     | Six Months Ended<br>September 30, |            |
|-------------------------------------|-----------------------------------|------------|
|                                     | 2021                              | 2020       |
| Time-based                          | 51                                | 79         |
| Market-based <sup>(1)</sup>         | 93                                | 145        |
| Performance-based <sup>(1)</sup>    |                                   |            |
| IP                                  | 16                                | 24         |
| Recurrent Consumer Spending ("RCS") | 16                                | 24         |
| Total Performance-based             | 32                                | 48         |
| Total Restricted Stock Units        | <u>176</u>                        | <u>272</u> |

<sup>(1)</sup> Represents the maximum number of shares eligible to vest.

Time-based restricted stock units granted in fiscal year 2022 will vest on April 13, 2023, and those granted in fiscal year 2021 will vest on April 13, 2022, 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 2022 are eligible to vest on April 13, 2023, and those granted in fiscal year 2021 are eligible to vest on April 13, 2022, 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 2022 are eligible to vest on April 13, 2023, and those granted in fiscal year 2021 are eligible to vest on April 13, 2022, 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 449 and 588 as of September 30, 2021 and March 31, 2021, respectively. During the three and six months ended September 30, 2021, 315 restricted stock units previously granted to ZelnickMedia vested, and no restricted stock units were forfeited by ZelnickMedia.

#### 4. FAIR VALUE MEASUREMENTS

##### *Recurring 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.

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- 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, 2021  | Quoted prices<br>in active<br>markets for<br>identical<br>assets<br>(level 1) | Significant<br>other<br>observable<br>inputs<br>(level 2) | Significant<br>unobservable<br>inputs<br>(level 3) | Balance Sheet Classification                   |
|--|---------------------|---|---|--|--|
| Money market funds                           | \$ 306,204          | \$ 306,204  | \$ —  | \$ —   | Cash and cash equivalents                      |
| Bank-time deposits                           | 115,000             | 115,000   | —   | —  | Cash and cash equivalents                      |
| Commercial paper                             | 19,439              | —   | 19,439  | —  | Cash and cash equivalents                      |
| Corporate bonds                              | 707,115             | —   | 707,115   | —  | Short-term investments                         |
| Bank-time deposits                           | 577,741             | 577,741   | —   | —  | Short-term investments                         |
| US Treasuries                                | 48,165              | 48,165  | —   | —  | Short-term investments                         |
| Asset-backed securities                      | 14                  | —   | 14  | —  | Short-term investments                         |
| Commercial paper                             | 107,596             | —   | 107,596   | —  | Short-term investments                         |
| Money market funds                           | 751,355             | 751,355   | —   | —  | Restricted cash and cash equivalents           |
| Bank-time deposits                           | 542                 | 542   | —   | —  | Restricted cash and cash equivalents           |
| Money market funds                           | 103,437             | 103,437   | —   | —  | Long-term restricted cash and cash equivalents |
| Private equity                               | 10,091              | —   | —   | 10,091   | Other assets                                   |
| Foreign currency forward contracts           | (465)               | —   | (465)   | —  | Accrued expenses and other current liabilities |
| Contingent earn-out consideration            | 44,167              | —   | —   | 44,167   | Accrued expenses and other current liabilities |
| Contingent earn-out consideration            | 37,014              | —   | —   | 37,014   | Other long-term liabilities                    |
| Total recurring fair value measurements, net | <u>\$ 2,827,415</u> | <u>\$ 1,902,444</u>   | <u>\$ 833,699</u>   | <u>\$ 91,272</u>                                   |  |

|   | March 31, 2021      | 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                                  | \$ 837,614          | \$ 837,614   | \$ —  | \$ —                                      | Cash and cash equivalents                      |
| Bank-time deposits                                  | 95,000              | 95,000   | —   | —   | Cash and cash equivalents                      |
| Commercial paper                                    | 100,105             | —  | 100,105                                       | —   | Cash and cash equivalents                      |
| Corporate bonds                                     | —                   | —  | —   | —   | Cash and cash equivalents                      |
| Money market funds                                  | 528,659             | 528,659  | —   | —   | Restricted cash and cash equivalents           |
| Bank-time deposits                                  | 563                 | 563  | —   | —   | Restricted cash and cash equivalents           |
| Corporate bonds                                     | 521,224             | —  | 521,224                                       | —   | Short-term investments                         |
| Bank-time deposits                                  | 578,762             | 578,762  | —   | —   | Short-term investments                         |
| US Treasuries                                       | 60,086              | 60,086   | —   | —   | Short-term investments                         |
| Commercial paper                                    | 148,150             | —  | 148,150                                       | —   | Short-term investments                         |
| Asset-backed securities                             | 470                 | —  | 470   | —   | Short-term investments                         |
| Money market funds                                  | 98,541              | 98,541   | —   | —   | Long-term restricted cash and cash equivalents |
| Private equity                                      | 7,578               | —  | —   | 7,578                                     | Other assets                                   |
| Foreign currency forward contracts                  | \$ (125)            | \$ —   | \$ (125)                                      | \$ —                                      | Accrued expenses and other current liabilities |
| <b>Total recurring fair value measurements, net</b> | <b>\$ 2,976,627</b> | <b>\$ 2,199,225</b>  | <b>\$ 769,824</b>                             | <b>\$ 7,578</b>                           |  |

In connection with the Nordeus acquisition (see [Note 15 - Acquisitions](#)), we recorded \$61,055 as the initial fair value of contingent earn-out consideration. The fair value was estimated using a Monte-Carlo simulation model, which included significant unobservable Level 3 inputs, such as projected financial performance over the earn-out period along with estimates for market volatility and the discount rate applicable to potential cash payouts.

During the three months ended September 30, 2021, we recognized General and administrative expense of \$20,000 within our Condensed Consolidated Statements of Operations for the increase in fair value of the contingent earn-out consideration liability associated with the Nordeus acquisition, which increased the fair value of the contingent consideration liability to \$81,181. The increase resulted from a higher probability of Nordeus achieving certain performance measures in the 12- and 24-month periods following the closing.

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, 2021.

#### *Nonrecurring fair value measurements*

We hold equity investments in certain unconsolidated entities without a readily determinable fair value. These strategic investments represent less than a 20% ownership interest in each of the privately-held affiliates, and we do not maintain significant influence over or control of the entities. We have elected the practical expedient in Topic 321, *Investments-Equity Securities*, to measure these investments at cost less any impairment, adjusted for observable price changes, if any. Based on these considerations, we estimate that the carrying value of the acquired shares represents the fair value of the investment. At September 30, 2021, we held \$20,000 of such investments in Other assets within our Condensed Consolidated Balance Sheet.

## 5. SHORT-TERM INVESTMENTS

Our Short-term investments consisted of the following:

|                                | September 30, 2021     |                  |                 |                     |
|--------------------------------|------------------------|------------------|-----------------|---------------------|
|                                | Cost or Amortized Cost | Gross Unrealized |                 | Fair Value          |
|                                |                        | Gains            | Losses          |                     |
| Short-term investments         |                        |                  |                 |                     |
| Bank time deposits             | \$ 577,741             | \$ —             | \$ —            | \$ 577,741          |
| Available-for-sale securities: |                        |                  |                 |                     |
| Corporate bonds                | 706,959                | 411              | (255)           | 707,115             |
| US Treasuries                  | 48,150                 | 15               | —               | 48,165              |
| Asset-backed securities        | 14                     | —                | —               | 14                  |
| Commercial paper               | 107,596                | —                | —               | 107,596             |
| Total Short-term investments   | <u>\$ 1,440,460</u>    | <u>\$ 426</u>    | <u>\$ (255)</u> | <u>\$ 1,440,631</u> |

|                                | March 31, 2021         |                  |                 |                     |
|--------------------------------|------------------------|------------------|-----------------|---------------------|
|                                | Cost or Amortized Cost | Gross Unrealized |                 | Fair Value          |
|                                |                        | Gains            | Losses          |                     |
| Short-term investments         |                        |                  |                 |                     |
| Bank time deposits             | \$ 578,762             | \$ —             | \$ —            | \$ 578,762          |
| Available-for-sale securities: |                        |                  |                 |                     |
| Corporate bonds                | 520,486                | 994              | (256)           | 521,224             |
| US Treasuries                  | 60,029                 | 57               | —               | 60,086              |
| Asset-backed securities        | 469                    | 1                | —               | 470                 |
| Commercial paper               | 148,149                | 1                | —               | 148,150             |
| Total Short-term investments   | <u>\$ 1,307,895</u>    | <u>\$ 1,053</u>  | <u>\$ (256)</u> | <u>\$ 1,308,692</u> |

The following table summarizes the contracted maturities of our short-term investments at September 30, 2021:

|                              | September 30, 2021  |                     |
|------------------------------|---------------------|---------------------|
|                              | Amortized Cost      | Fair Value          |
| Short-term investments       |                     |                     |
| Due in 1 year or less        | \$ 1,164,287        | \$ 1,164,571        |
| Due in 1 - 2 years           | 276,173             | 276,060             |
| Total Short-term investments | <u>\$ 1,440,460</u> | <u>\$ 1,440,631</u> |

## 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, 2021 | March 31, 2021 |
|--|--------------------|----------------|
| Forward contracts to sell foreign currencies     | \$ 153,127         | \$ 140,510     |
| Forward contracts to purchase foreign currencies | 93,453             | 92,123         |

For the three months ended September 30, 2021 and 2020, we recorded a gain of \$602 and a loss of \$1,029, respectively, and for the six months ended September 30, 2021 and 2020 we recorded a loss of \$1,226 and a loss of \$3,685, 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.

## 7. INVENTORY

Inventory balances by category were as follows:

|                    | September 30, 2021 | March 31, 2021 |
|--------------------|--------------------|----------------|
| Finished products  | \$ 9,926           | \$ 16,941      |
| Parts and supplies | 2,653              | 801            |
| Inventory          | \$ 12,579          | \$ 17,742      |

Estimated product returns included in Inventory at September 30, 2021 and March 31, 2021 were \$123 and \$186, respectively.

## 8. SOFTWARE DEVELOPMENT COSTS AND LICENSES

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

|  | September 30, 2021 |             | March 31, 2021 |             |
|--|--------------------|-------------|----------------|-------------|
|  | Current            | Non-current | Current        | Non-current |
| Software development costs, internally developed | \$ 47,482          | \$ 495,489  | \$ 22,225      | \$ 412,919  |
| Software development costs, externally developed | 1,056              | 119,137     | 7,349          | 75,086      |
| Licenses   | 6,002              | 6,844       | 13,869         | 2,887       |
| Software development costs and licenses          | \$ 54,540          | \$ 621,470  | \$ 43,443      | \$ 490,892  |

During the three months ended September 30, 2021 and 2020, we recorded \$55,278 and \$0, respectively, of software development impairment charges (a component of Cost of goods sold). The impairment charge recorded during the three months ended September 30, 2021, related to (i) a decision not to proceed with further development of certain interactive entertainment software and (ii) recognizing 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.

During the six months ended September 30, 2021 and 2020, we recorded \$65,049 and \$19,695, respectively, of software development impairment charges (a component of Cost of goods sold). The impairment charge recorded during the six months ended September 30, 2021 related to (i) a decision not to proceed with further development of certain interactive entertainment software and (ii) recognizing 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. The impairment charges 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, 2021  | March 31, 2021      |
|--|---------------------|---------------------|
| Software development royalties                 | \$ 1,077,989        | \$ 814,998          |
| Compensation and benefits                      | 98,647              | 122,404             |
| Licenses                                       | 124,027             | 84,330              |
| Deferred acquisition payments                  | 50,224              | 13,343              |
| Refund liability                               | 46,827              | 53,361              |
| Marketing and promotions                       | 26,793              | 32,591              |
| Other  | 75,391              | 83,063              |
| Accrued expenses and other current liabilities | <u>\$ 1,499,898</u> | <u>\$ 1,204,090</u> |

## 10. DEBT

### *Credit Agreement*

On February 8, 2019, we entered into an unsecured Credit Agreement, and on June 28, 2021, we amended our unsecured Credit Agreement solely to increase the commitments under the facility by \$50,000 (as amended, the “Credit Agreement”) that runs through February 8, 2024. The Credit Agreement provides for an unsecured five-year revolving credit facility with commitments of \$250,000, 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 \$200,000 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, 2021) or (b) 1.125% to 1.750% above LIBOR (approximately 0.09% at September 30, 2021), which rates are determined by reference to our consolidated total net leverage ratio. We had no outstanding borrowings at September 30, 2021.

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

|                               | September 30, 2021 | March 31, 2021 |
|-------------------------------|--------------------|----------------|
| Available borrowings          | \$ 247,782         | \$ 197,874     |
| Outstanding letters of credit | 2,218              | 2,126          |

We recorded interest expense and fees related to the Credit Agreement of \$113 and \$82 for the three months ended September 30, 2021 and 2020, respectively, and \$257 and \$164 for the six months ended September 30, 2021 and 2020, 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, |            |
|--|----------------------------------|-----------|--------------------------------|------------|
|  | 2021                             | 2020      | 2021                           | 2020       |
| <b>Computation of Basic earnings per share:</b>    |                                  |           |                                |            |
| Net income   | \$ 10,297                        | \$ 99,321 | \$ 162,553                     | \$ 187,826 |
| Weighted average shares outstanding—basic          | 115,757                          | 114,444   | 115,727                        | 114,153    |
| Basic earnings per share                           | \$ 0.09                          | \$ 0.87   | \$ 1.40                        | \$ 1.65    |
| <b>Computation of Diluted earnings per share:</b>  |                                  |           |                                |            |
| Net income   | \$ 10,297                        | \$ 99,321 | \$ 162,553                     | \$ 187,826 |
| Weighted average shares outstanding—basic          | 115,757                          | 114,444   | 115,727                        | 114,153    |
| Add: dilutive effect of common stock equivalents   | 1,046                            | 970       | 1,164                          | 1,092      |
| Weighted average common shares outstanding—diluted | 116,803                          | 115,414   | 116,891                        | 115,245    |
| Diluted earnings per share                         | \$ 0.09                          | \$ 0.86   | \$ 1.39                        | \$ 1.63    |

During the six months ended September 30, 2021, 1,020 restricted stock awards vested, we granted 896 unvested restricted stock awards, and 36 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, 2021      |  |             |  |
|--|--|--|-------------|--|
|  | Foreign currency translation adjustments | Unrealized gain (loss) on available-for-sales securities | Total       |  |
| Balance at March 31, 2021                                  | \$ (9,282)                               | \$ 618   | \$ (8,664)  |  |
| Other comprehensive income (loss) before reclassifications | (10,599)                                 | (484)  | (11,083)    |  |
| Balance at September 30, 2021                              | \$ (19,881)                              | \$ 134   | \$ (19,747) |  |

  

|  | Six Months Ended September 30, 2020      |  |   |  |             |
|--|--|--|---|--|-------------|
|  | 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, 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                                  | \$ (36,973)                              | \$ 600   | \$ —  | \$ 1,549   | \$ (34,824) |

## 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 [Note 15](#) to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended March 31, 2021, we did not have any significant changes to our commitments since March 31, 2021.

### ***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. INCOME TAXES**

The provision for income taxes for the three months ended September 30, 2021 is based on our projected annual effective tax rate for fiscal year 2022, adjusted for specific items that are required to be recognized in the period in which they are incurred. The provision for income taxes was \$9,677 for the three months ended September 30, 2021, as compared to \$18,097 for the prior year period.

When compared to the statutory rate of 21%, the effective tax rate of 48.4% for the three months ended September 30, 2021 was due primarily to a tax expense of \$5,440 from a shortfall on employee stock-based compensation, tax expense of \$2,389 related to a nondeductible increase in fair value of the contingent consideration liability associated with the acquisition of Nordeus, offset by \$2,647 related to the geographic mix of earnings.

The provision for income taxes for the six months ended September 30, 2021 is based on our projected annual effective tax rate for fiscal year 2022, adjusted for specific items that are required to be recognized in the period in which they are incurred. The provision for income taxes was \$28,865 for the six months ended September 30, 2021 as compared to \$19,953 for the prior year period.

When compared to the statutory rate of 21%, the effective tax rate of 15.1% for the six months ended September 30, 2021 was due primarily to a tax benefit of \$11,420 due to tax credits and excess tax benefits of \$4,007 from employee stock-based compensation offset by tax expense of \$2,389 related to a nondeductible increase in fair value of the contingent consideration liability associated with the acquisition of Nordeus and by the geographic mix of earnings.

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.

### **15. ACQUISITIONS**

#### *Nordeus Acquisition*

On June 1, 2021, we completed the acquisition of 94.5% of Nordeus Limited ("Nordeus"), a privately-held Irish holding company of a Belgrade, Serbia based free-to-play mobile game developer, for initial consideration of \$120,488 in cash, 515 shares of our common stock, and a contingent earn-out consideration arrangement that requires us to pay up to an aggregate of \$153,000 in cash if Nordeus achieves certain performance measures over the 12- and 24-month periods following the closing. The cash portion was funded from our cash on hand. In addition, we exercised our option to purchase the remaining 5.5% of the outstanding equity of Nordeus for cash consideration of \$12,375, in September 2021.

We acquired Nordeus 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 \$289,774, which consisted of the following:

|                                      | <b>Fair value of purchase consideration</b> |
|--------------------------------------|---|
| Cash, including call option exercise | \$ 132,863                                  |
| Common stock (515 shares)            | 94,154                                      |
| Contingent earn-out                  | 61,055                                      |
| Deferred payment                     | 1,702                                       |
| <b>Total</b>                         | <b>\$ 289,774</b>                           |

The fair value of the contingent earn-out consideration arrangement at the acquisition date was \$61,055. We estimated the fair value of the contingent earn-out consideration using a Monte Carlo simulation model. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in ASC 820. (Refer to [Note 4 - Fair Value Measurements](#).)

During the three months ended September 30, 2021, we recognized an increase in fair value of the contingent consideration liability associated with the acquisition of Nordeus. We reported \$44,167 within Accrued expenses and \$37,014 within Other long-term liabilities in our Condensed Consolidated Balance Sheet as of September 30, 2021.

We used the acquisition method of accounting and recognized assets and liabilities 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 Nordeus:

|                           | <b>Fair Value</b> | <b>Weighted average useful life</b> |
|---------------------------|-------------------|-------------------------------------|
| Cash acquired             | \$ 22,566         | N/A                                 |
| Other tangible assets     | 18,174            | N/A                                 |
| Other liabilities assumed | (63,283)          | N/A                                 |
| <b>Intangible Assets</b>  |                   |                                     |
| Developed game technology | 186,500           | 9                                   |
| User base                 | 3,200             | 1                                   |
| Branding and trade names  | 3,200             | 8                                   |
| Game engine technology    | 3,900             | 4                                   |
| Goodwill                  | 115,517           | N/A                                 |
| <b>Total</b>              | <b>\$ 289,774</b> |                                     |

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 Nordeus included in our Condensed Consolidated Statement of Operations from the acquisition date are as follows:

|             | <b>Three Months Ended<br/>September 30, 2021</b> | <b>Six Months Ended September<br/>30, 2021</b> |
|-------------|--|--|
| Net revenue | \$ 10,290  | \$ 12,226                                      |
| Net loss    | \$ 15,245  | \$ 19,735                                      |

The following table summarizes the pro-forma consolidated results of operations (unaudited) for the three and six months ended September 30, 2021 and 2020, as though the acquisition had occurred on April 1, 2020, the beginning of fiscal year 2021, and Nordeus had been included in our consolidated results for the entire periods subsequent to that date.

|                       | <b>Three Months Ended September 30,</b> |             | <b>Six Months Ended September 30,</b> |              |
|-----------------------|---|-------------|---------------------------------------|--------------|
|                       | <b>2021</b>                             | <b>2020</b> | <b>2021</b>                           | <b>2020</b>  |
| Pro forma Net revenue | \$ 858,198                              | \$ 853,035  | \$ 1,681,388                          | \$ 1,694,299 |
| Pro forma Net income  | \$ 7,330                                | \$ 103,730  | \$ 161,376                            | \$ 186,684   |

The unaudited pro-forma consolidated results above are based on the historical financial statements of the Company and Nordeus and not necessarily indicative of the results of operations that would have been achieved if the acquisition was completed at the beginning of fiscal year 2021 and are not indicative of the future operating results of the combined company. The financial information for Nordeus 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 Nordeus to align with our 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, 2020.

Transaction costs of \$2,949 and \$4,952 for the three and six months ended September 30, 2021, 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.

#### *Asset Acquisition*

In June 2021, we acquired two office buildings in the United Kingdom to use for office space for total cash consideration of \$72,908. The transaction was treated as an asset acquisition, in which the cash consideration and direct transaction costs were allocated on a relative fair value basis to identified assets. The following table summarizes the acquisition date fair value of tangible assets, which are included within Fixed asset on our Condensed Consolidated Balance Sheets, and intangible assets, which are included within Intangible assets, net on our Condensed Consolidated Balance Sheets, acquired:

|                                 | <b>Fair Value</b> | <b>Weighted average useful<br/>life</b> |
|---------------------------------|-------------------|---|
| Building                        | \$ 31,104         | 30                                      |
| Land                            | 38,243            | N/A                                     |
| Lease-in-place intangible asset | 2,176             | 4                                       |
| Total                           | <u>\$ 71,523</u>  |   |

## **16. SHARE REPURCHASE**

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

During the three months ended September 30, 2021, we repurchased 1,260 shares of our common stock in the open market for \$200,012, including commissions of \$13, as part of the program. We have repurchased a total of 11,660 shares of our common stock under the program, and, as of September 30, 2021, 2,558 shares of our common stock remained available for repurchase under the share repurchase program.

In November 2021, our Board of Directors authorized an increase of 7,442 shares to the number of shares available for repurchase, resulting in an aggregate of 21,660 total shares being authorized for repurchase under the program and 10,000 shares remaining available for repurchase as of the date of the additional authorization.

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

## 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 as the situation with the pandemic continues to evolve; 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, 2021; 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, 2021.

#### 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, and T2 Mobile Games. Our products are currently designed for console gaming systems, PC, and Mobile including smartphones and tablets. We deliver our products through physical retail, digital download, online platforms, and cloud streaming services.

We endeavor to be the most creative, innovative, and efficient company in our industry. Our core strategy is to capitalize on the popularity of video games by developing and publishing high-quality interactive entertainment experiences across a range of genres. We focus on building compelling entertainment franchises by publishing a select number of titles for which we can create sequels and incremental revenue opportunities through virtual currency, add-on content, and in-game purchases. Most of our intellectual property is internally owned and developed, which we believe best positions us financially and competitively. We have established a portfolio of proprietary software content for the major hardware platforms in a wide range of genres, including action, adventure, family/casual, 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, Serbia, 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 355 million units. Our most recent installment, *Grand Theft Auto V*, which was released in 2013, has sold in over 155 million units worldwide and includes access to *Grand Theft Auto Online*. *Red Dead Redemption 2*, which has been a critical and commercial success that set numerous entertainment industry records, has sold-in more than 35 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, and additional content. Rockstar Game's titles are published across all key platforms, including mobile.

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. 2K also publishes mobile titles, such as *WWE SuperCard*.

Our Private Division label is dedicated to bringing titles from the industry's leading creative talent to market and is the publisher and owner of *Kerbal Space Program*. *Kerbal Space Program 2* is planned for release in fiscal year 2023. Private Division also released *The Outer Worlds* and *Ancestors: The Humankind Odyssey*.

T2 Mobile Games includes Socialpoint, Playdots, and Nordeus, which publish popular free-to-play mobile games that deliver high quality, deeply engaging entertainment experiences and generates revenue from in-game sales and in-game advertising. T2 Mobile Games' titles include *Dragon City*, *Monster Legends*, *Two Dots*, and *Top Eleven*.

We acquired Nordeus Limited on June 1, 2021, for consideration having an acquisition date fair value of \$289.8 million, consisting of \$132.9 million in cash, the issuance of 0.5 million shares of our common stock, and a contingent earn-out consideration arrangement that requires us to pay up to an aggregate of \$153.0 million in cash if Nordeus achieves certain performance measures over the 12- and 24-month periods following the closing (See [Note 15 - Acquisitions](#) of our Condensed Consolidated Financial Statements). Founded in 2010, Nordeus is a mobile games company based in Belgrade, Serbia, best known for *Top Eleven*, which has over 240 million registered users.

We are continuing our strategy in Asia 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 54 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 concluded in September 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 31.2% of our net revenue for the six months ended September 30, 2021. 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 the evolution of the COVID-19 pandemic, including economic conditions that may unfavorably affect our businesses, such as deteriorating consumer demand, pricing pressure on our products, credit quality of our receivables, and foreign currency exchange rates. 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. During 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, the impact of vaccination efforts or of the lifting of certain restrictions, and the potential offsetting impacts of deteriorating economic conditions and decreased consumer spending generally. While we expect that engagement trends will continue to be higher than they were pre-pandemic, we expect a moderation of the trends that have benefited our industry as the return to normalcy continues to unfold.

Based on our concern for the health and safety of our teams, we have developed and continue to develop plans to help mitigate the negative impacts of the pandemic on our business, including transitioning the vast majority of our teams to working from home. We are taking a prudent approach relating to our return to office cadence and planning. Some of our offices are open, and we plan for the majority of our offices to reopen in the coming months. Given the evolving dynamics of the COVID-19 pandemic, we continue to adhere to safety standards in the planning and implementation of our return to office. To date, our plans have resulted in minimal disruption. However, despite largely positive outcomes to date, these efforts may ultimately 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, 2021, 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 79.8% and 77.7% of net revenue during the six months ended September 30, 2021 and 2020, respectively. As of September 30, 2021 and March 31, 2021, our five largest customers comprised 76.9% and 77.6% 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 64.3% and 69.2% of such balance at September 30, 2021 and March 31, 2021, respectively. We had two customers who accounted for 45.4% and 18.9%, respectively, of our gross accounts receivable as of September 30, 2021 and two customers who accounted for 50.4% and 18.8%, respectively, of our gross accounts receivable as of March 31, 2021. 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, which comprised 69.5% of our net revenue by product platform for the six months ended September 30, 2021. The success of our business is dependent on consumer acceptance of these platforms and the continued growth in their installed base. When new hardware platforms are introduced, such as those released 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 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 have affected and may continue to affect 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 90.8% of our net revenue for the six months ended September 30, 2021. 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.

### Content Release Highlights

During fiscal year 2022, 2K released *NBA 2K22*, and Private Division released *Hades* physically on consoles.

To date we have announced that, during fiscal year 2022, Rockstar Games will release *Grand Theft Auto V* and a standalone version of *Grand Theft Auto Online* for the PS5 and Xbox Series X|S, and *Grand Theft Auto: The Trilogy*, Private Division will release *OlliOlli World*, and 2K will release *WWE 2K22* and *Tiny Tina's Wonderlands*.

In addition, throughout the year, we expect to continue to deliver new content for our franchises. We will also continue to invest in opportunities that we believe will enhance and scale our business and have the potential to drive growth over the long-term.

### 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, 2021.

### 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, |              |                         |                           |
|--------------|----------------------------------|------------|-------------------------|---------------------------|--------------------------------|--------------|-------------------------|---------------------------|
|              | 2021                             | 2020       | Increase/<br>(decrease) | % Increase/<br>(decrease) | 2021                           | 2020         | Increase/<br>(decrease) | % Increase/<br>(decrease) |
| Net Bookings | \$ 984,852                       | \$ 957,534 | \$ 27,318               | 2.9 %                     | \$ 1,696,282                   | \$ 1,953,784 | \$ (257,502)            | (13.2)%                   |

For the three months ended September 30, 2021, Net Bookings increased by \$27.3 million as compared to the prior year period due primarily to an increase in Net Bookings from *Grand Theft Auto Online* and *Grand Theft Auto V; Top Eleven*, which was part of the Nordeus acquisition in June 2021; our *NBA 2K* franchise; *Two Dots*, which was part of the Playdots acquisition in September 2020; and *Borderlands 3*. These increases were partially offset by a decrease in Net Bookings from *PGA TOUR 2K21*, which released in August 2020; our *Mafia* franchise; *The Outer Worlds*; and our *WWE 2K* franchise.

For the six months ended September 30, 2021, Net Bookings decreased by \$257.5 million as compared to the prior year period due primarily to a decrease in Net Bookings from *Grand Theft Auto V* and *Grand Theft Auto Online*, our *NBA 2K* franchise, *Red Dead Redemption 2*, *PGA TOUR 2K21*, our *Mafia* franchise, *The Outer Worlds*, our *WWE 2K* franchise, and *Borderlands 3*, partially offset by an increase in Net Bookings from *Top Eleven* and *Two Dots*.

## 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, |         |              |         |
|---|----------------------------------|---------|------------|---------|--------------------------------|---------|--------------|---------|
|   | 2021                             |         | 2020       |         | 2021                           |         | 2020         |         |
| Net revenue                               | \$ 858,198                       | 100.0 % | \$ 841,142 | 100.0 % | \$ 1,671,544                   | 100.0 % | \$ 1,672,452 | 100.0 % |
| Cost of goods sold                        | 456,682                          | 53.2 %  | 432,505    | 51.4 %  | 786,397                        | 47.0 %  | 909,194      | 54.4 %  |
| Gross profit                              | 401,516                          | 46.8 %  | 408,637    | 48.6 %  | 885,147                        | 53.0 %  | 763,258      | 45.6 %  |
| Selling and marketing                     | 136,019                          | 15.8 %  | 113,691    | 13.5 %  | 239,873                        | 14.4 %  | 198,470      | 11.9 %  |
| General and administrative                | 127,331                          | 14.8 %  | 91,433     | 10.9 %  | 231,778                        | 13.9 %  | 193,606      | 11.6 %  |
| Research and development                  | 101,508                          | 11.8 %  | 74,216     | 8.8 %   | 193,802                        | 11.6 %  | 147,324      | 8.8 %   |
| Depreciation and amortization             | 16,181                           | 1.9 %   | 13,691     | 1.6 %   | 28,646                         | 1.7 %   | 26,109       | 1.6 %   |
| Business reorganization                   | 326                              | — %     | 239        | — %     | 423                            | — %     | 239          | — %     |
| Total operating expenses                  | 381,365                          | 44.4 %  | 293,270    | 34.9 %  | 694,522                        | 41.5 %  | 565,748      | 33.8 %  |
| Income from operations                    | 20,151                           | 2.3 %   | 115,367    | 13.7 %  | 190,625                        | 11.4 %  | 197,510      | 11.8 %  |
| Interest and other, net                   | (572)                            | (0.1)%  | 2,706      | 0.3 %   | (1,599)                        | (0.1)%  | 10,924       | 0.7 %   |
| Gain (loss) on long-term investments, net | 395                              | — %     | (655)      | (0.1)%  | 2,392                          | 0.1 %   | (655)        | — %     |
| Income before income taxes                | 19,974                           | 2.3 %   | 117,418    | 14.0 %  | 191,418                        | 11.5 %  | 207,779      | 12.4 %  |
| Provision for income taxes                | 9,677                            | 1.1 %   | 18,097     | 2.2 %   | 28,865                         | 1.7 %   | 19,953       | 1.2 %   |
| Net income                                | \$ 10,297                        | 1.2 %   | \$ 99,321  | 11.8 %  | \$ 162,553                     | 9.7 %   | \$ 187,826   | 11.2 %  |

|   | Three Months Ended September 30, |        |            |        | Six Months Ended September 30, |        |              |        |
|---|----------------------------------|--------|------------|--------|--------------------------------|--------|--------------|--------|
|   | 2021                             |        | 2020       |        | 2021                           |        | 2020         |        |
| <b>Net revenue by geographic region:</b>    |                                  |        |            |        |                                |        |              |        |
| United States                               | \$ 514,920                       | 60.0 % | \$ 503,583 | 59.9 % | \$ 1,008,106                   | 60.3 % | \$ 974,073   | 58.2 % |
| International                               | 343,278                          | 40.0 % | 337,559    | 40.1 % | 663,438                        | 39.7 % | 698,379      | 41.8 % |
| <b>Net revenue by platform:</b>             |                                  |        |            |        |                                |        |              |        |
| Console                                     | \$ 596,080                       | 69.5 % | \$ 641,269 | 76.2 % | \$ 1,198,523                   | 71.7 % | \$ 1,252,954 | 74.9 % |
| PC and other                                | 147,002                          | 17.1 % | 138,686    | 16.5 % | 275,647                        | 16.5 % | 303,946      | 18.2 % |
| Mobile                                      | 115,116                          | 13.4 % | 61,187     | 7.3 %  | 197,374                        | 11.8 % | 115,552      | 6.9 %  |
| <b>Net revenue by distribution channel:</b> |                                  |        |            |        |                                |        |              |        |
| Digital online                              | \$ 779,097                       | 90.8 % | \$ 725,684 | 86.3 % | \$ 1,519,903                   | 90.9 % | \$ 1,461,260 | 87.4 % |
| Physical retail and other                   | 79,101                           | 9.2 %  | 115,458    | 13.7 % | 151,641                        | 9.1 %  | 211,192      | 12.6 % |
| <b>Net revenue by content:</b>              |                                  |        |            |        |                                |        |              |        |
| Recurrent consumer spending                 | \$ 563,649                       | 65.7 % | \$ 519,897 | 61.8 % | \$ 1,135,915                   | 68.0 % | \$ 1,016,750 | 60.8 % |
| Full game and other                         | 294,549                          | 34.3 % | 321,245    | 38.2 % | 535,629                        | 32.0 % | 655,702      | 39.2 % |

### Three Months Ended September 30, 2021 Compared to September 30, 2020

| (thousands of dollars)                                  | 2021              | %             | 2020              | %             | Increase/<br>(decrease) | % Increase/<br>(decrease) |
|---|-------------------|---------------|-------------------|---------------|-------------------------|---------------------------|
| Net revenue   | \$ 858,198        | 100.0 %       | \$ 841,142        | 100.0 %       | \$ 17,056               | 2.0 %                     |
| Internal royalties                                      | 159,586           | 18.6 %        | 127,804           | 15.2 %        | 31,782                  | 24.9 %                    |
| Software development costs and royalties <sup>(1)</sup> | 144,869           | 16.9 %        | 142,771           | 17.0 %        | 2,098                   | 1.5 %                     |
| Licenses  | 86,130            | 10.0 %        | 92,944            | 11.0 %        | (6,814)                 | (7.3)%                    |
| Product costs   | 66,097            | 7.7 %         | 68,986            | 8.2 %         | (2,889)                 | (4.2)%                    |
| Cost of goods sold                                      | 456,682           | 53.2 %        | 432,505           | 51.4 %        | 24,177                  | 5.6 %                     |
| <b>Gross profit</b>                                     | <b>\$ 401,516</b> | <b>46.8 %</b> | <b>\$ 408,637</b> | <b>48.6 %</b> | <b>\$ (7,121)</b>       | <b>(1.7)%</b>             |

<sup>(1)</sup> Includes \$10,336 and \$19,396 of stock-based compensation expense in 2021 and 2020, respectively, in software development costs and royalties.

For the three months ended September 30, 2021, net revenue increased by \$17.1 million as compared to the prior year period. The increase was due to an increase in net revenue of (i) \$37.8 million from *Two Dots*, (ii) \$12.3 million from *Grand Theft Auto Online*, (iii) \$10.2 million from *Top Eleven*, (iv) \$10.1 million from *Red Dead Online*, and (v) \$8.6 million from our *NBA 2K* franchise. These increases were partially offset by a decrease in net revenue of (i) \$27.5 million from *PGA TOUR 2K21*, (ii) \$27.3 million from our *Mafia* franchise, and (iii) \$9.6 million from *Red Dead Redemption 2*.

Net revenue from console games decreased by \$45.2 million and accounted for 69.5% of our total net revenue for the three months ended September 30, 2021, as compared to 76.2% for the prior year period. The decrease was due to a decrease in net revenue from *PGA TOUR 2K21*, and our *Mafia* franchise. Net revenue from PC and other increased by \$8.3 million and accounted for 17.1% of our total net revenue for the three months ended September 30, 2021, as compared to 16.5% for the prior year period. The increase was due to an increase in net revenue from *Borderlands 3*, partially offset by a decrease in net revenue from our *Mafia* franchise, and our *NBA 2K* franchise. Net revenue from mobile increased by \$53.9 million and accounted for 13.4% of our total net revenue for three months ended September 30, 2021, as compared to 7.3% for the prior year period. The increase was due primarily to an increase in net revenue from *Two Dots* and *Top Eleven*.

Net revenue from digital online channels increased by \$53.4 million and accounted for 90.8% of our total net revenue for the three months ended September 30, 2021, as compared to 86.3% for the prior year period. The increase was due to an increase in net revenue from *Two Dots*, *Grand Theft Auto Online*, *Top Eleven*, *Red Dead Online*, and *Borderlands 3*, partially offset by a decrease in net revenue from our *Mafia* franchise and *PGA TOUR 2K21*. Net revenue from physical retail and other channels decreased by \$36.4 million and accounted for 9.2% of our total net revenue for the three months ended September 30, 2021, as compared to 13.7% 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 our *Mafia* franchise, *PGA TOUR 2K21*, our *WWE 2K* franchise, *Borderlands 3*, and *Red Dead Redemption 2*, partially offset by an increase in net revenue from *Hades*.

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 \$43.8 million and accounted for 65.7% of net revenue for the three months ended September 30, 2021, as compared to 61.8% 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 *Two Dots*, *Grand Theft Auto Online*, and *Top Eleven*, partially offset by a decrease in net revenue from *Borderlands 3*. Net revenue from full game and other decreased by \$26.7 million and accounted for 34.3% of net revenue for the three months ended September 30, 2021 as compared to 38.2% of net revenue for the prior year period. The decrease in net revenue from full game and other was due primarily to a decrease in net revenue from *PGA TOUR 2K21*, our *Mafia* franchise, and our *WWE 2K* franchise, partially offset by an increase in net revenue from *Borderlands 3* and our *NBA 2K* franchise.

Gross profit as a percentage of net revenue for the three months ended September 30, 2021 was 46.8% as compared to 48.6% for the prior year period. The decrease in gross profit as a percentage of net revenue was due to higher internal royalties due to the timing of when royalties are earned, partially offset by lower development royalties due primarily to the timing of releases. The decrease in gross profit as a percentage of net revenue was also impacted by impairments recognized against some of our capitalized software balances for three months ended September 30, 2021. (See [Note 8 - Software Development Costs and Licenses](#) of our Condensed Consolidated Financial Statements).

Net revenue earned outside of the United States increased by \$5.7 million and accounted for 40.0% of our total net revenue for the three months ended September 30, 2021, as compared to 40.1% in the prior year period. The increase in net revenue outside of the United States was due to an increase in net revenue from *Two Dots* and *Top Eleven*, partially offset by a decrease in net revenue from our *Mafia* franchise. 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, 2021 as compared to the prior year period.

## Operating Expenses

| (thousands of dollars)                        | 2021              | % of net revenue | 2020              | % of net revenue | Increase/<br>(decrease) | % Increase/<br>(decrease) |
|---|-------------------|------------------|-------------------|------------------|-------------------------|---------------------------|
| Selling and marketing                         | \$ 136,019        | 15.8 %           | \$ 113,691        | 13.5 %           | \$ 22,328               | 19.6 %                    |
| General and administrative                    | 127,331           | 14.8 %           | 91,433            | 10.9 %           | 35,898                  | 39.3 %                    |
| Research and development                      | 101,508           | 11.8 %           | 74,216            | 8.8 %            | 27,292                  | 36.8 %                    |
| Depreciation and amortization                 | 16,181            | 1.9 %            | 13,691            | 1.6 %            | 2,490                   | 18.2 %                    |
| Business reorganization                       | 326               | — %              | 239               | — %              | 87                      | 36.4 %                    |
| <b>Total operating expenses<sup>(1)</sup></b> | <b>\$ 381,365</b> | <b>44.4 %</b>    | <b>\$ 293,270</b> | <b>34.9 %</b>    | <b>\$ 88,095</b>        | <b>30.0 %</b>             |

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

|                            | 2021     | 2020     |
|----------------------------|----------|----------|
| Selling and marketing      | \$ 7,134 | \$ 4,439 |
| General and administrative | 16,666   | 13,830   |
| Research and development   | 13,010   | 7,643    |

Changes in foreign currency exchange rates increased total operating expenses by \$2.7 million for the three months ended September 30, 2021, as compared to the prior year period.

### Selling and marketing

Selling and marketing expenses increased by \$22.3 million for the three months ended September 30, 2021, as compared to the prior year period, due primarily to higher overall marketing expense for *Grand Theft Auto Online*, *Two Dots*, *Top Eleven*, and our *NBA 2K* franchise, partially offset by lower overall marketing expenses for our *WWE 2K* franchise, our *Mafia* franchise, and *PGA TOUR 2K21*.

### General and administrative

General and administrative expenses increased by \$35.9 million for the three months ended September 30, 2021, as compared to the prior year period, due primarily to increases in (i) the fair value of the contingent earn-out liability related to our acquisition of Nordeus (refer to [Note 15 - Acquisitions](#)), (ii) personnel expenses for additional headcount, (iii) IT expenses for cloud-based services, and (iv) transfer tax expense related to our acquisition of Nordeus. The increase was partially offset due primarily to a decrease in professional fees in the prior year period related to our acquisition of Playdots.

General and administrative expenses for the three months ended September 30, 2021 and 2020 included occupancy expense (primarily rent, utilities and office expenses) of \$8.4 million and \$7.1 million, respectively, related to our development studios.

### Research and development

Research and development expenses increased by \$27.3 million for the three months ended September 30, 2021, as compared to the prior year period, due primarily to increases in (i) personnel expenses due to increased headcount and (ii) IT expenses for cloud-based services.

### Depreciation and Amortization

Depreciation and amortization expenses increased by \$2.5 million for the three months ended September 30, 2021 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, 2021, business reorganization expense increased by \$0.1 million as compared to the prior year period and was not material.

### **Interest and other, net**

Interest and other, net was expense of \$0.6 million for the three months ended September 30, 2021, as compared to income of \$2.7 million for the prior year period. The change was due primarily to (i) higher interest expense on our available-for-sale securities and (ii) lower foreign currency gains in the current year period as compared to the prior year period.

### **Gain on long-term investments, net**

Gain on long-term investments, net for the three months ended September 30, 2021 was \$0.4 million and was due primarily to changes in value based on the observable price changes of our long-term investments.

### ***Provision for Income Taxes***

The provision for income taxes for the three months ended September 30, 2021 is based on our projected annual effective tax rate for fiscal year 2022, adjusted for specific items that are required to be recognized in the period in which they are incurred. The provision for income taxes was \$9.7 million for the three months ended September 30, 2021 as compared to \$18.1 million for the prior year period.

When compared to the statutory rate of 21.0%, the effective tax rate of 48.4% for the three months ended September 30, 2021 was due primarily to a tax expense of \$2.4 million related to a nondeductible increase in fair value of the contingent consideration liability associated with the acquisition of Nordeus, tax expense of \$5.4 million from a shortfall on employee stock-based compensation offset by \$2.6 million from the geographic mix of earnings.

In the prior year period, when compared to our 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 \$5.7 million from tax credits, excess tax benefits of \$2.3 million from employee stock-based compensation, and offset by the geographic mix of earnings.

The change in the effective tax rate, when compared to the prior year period's effective tax rate, is due primarily to decreases in tax benefits from tax credits and excess tax benefits from employee stock-based compensation the current period, partially offset by 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 March 11, 2021, The American Rescue Plan Act of 2021 ("ARPA") was signed into law. ARPA includes several revenue-raising and business provisions. One such provision that impacts the Company is the expansion of the limitation of compensation deductions for certain covered employees of publicly held corporations. Effective April 1, 2027, ARPA expanded the limitation to cover the next five most highly compensated employees. As September 30, 2021, ARPA did not have a material impact on our Condensed Consolidated Financial Statements.

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 that generally support the U.S. economy. The CARES Act did not have a material impact on our Condensed Consolidated Financial Statements.

### ***Net income and earnings per share***

For the three months ended September 30, 2021, net income was \$10.3 million, as compared to \$99.3 million in the prior year period. Diluted earnings per share for the three months ended September 30, 2021 was \$0.09, as compared to diluted earnings per share of \$0.86 in the prior year period. Diluted weighted average shares of 116.8 million were 1.4 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, partially offset by shares repurchased. See [Note 11 - Earnings Per Share](#) to our Condensed Consolidated Financial Statements for additional information.

**Six Months Ended September 30, 2021 Compared to September 30, 2020**

| (thousands of dollars)                                  | 2021              | %             | 2020              | %             | Increase/<br>(decrease) | % Increase/<br>(decrease) |
|---|-------------------|---------------|-------------------|---------------|-------------------------|---------------------------|
| Net revenue   | \$ 1,671,544      | 100.0 %       | \$ 1,672,452      | 100.0 %       | \$ (908)                | (0.1)%                    |
| Internal royalties                                      | 304,964           | 18.2 %        | 341,867           | 20.4 %        | (36,903)                | (10.8)%                   |
| Software development costs and royalties <sup>(1)</sup> | 231,906           | 13.9 %        | 290,818           | 17.4 %        | (58,912)                | (20.3)%                   |
| Licenses  | 136,534           | 8.2 %         | 148,963           | 8.9 %         | (12,429)                | (8.3)%                    |
| Product costs   | 112,993           | 6.8 %         | 127,546           | 7.6 %         | (14,553)                | (11.4)%                   |
| Cost of goods sold                                      | 786,397           | 47.0 %        | 909,194           | 54.4 %        | (122,797)               | (13.5)%                   |
| <b>Gross profit</b>                                     | <b>\$ 885,147</b> | <b>53.0 %</b> | <b>\$ 763,258</b> | <b>45.6 %</b> | <b>\$ 121,889</b>       | <b>16.0 %</b>             |

<sup>(1)</sup> Includes \$22,386 and \$48,429 of stock-based compensation expense in 2021 and 2020, respectively, in software development costs and royalties.

For the six months ended September 30, 2021, net revenue decreased by \$0.9 million as compared to the prior year period. The decrease was due to a decrease in net revenue of (i) \$56.7 million from *Red Dead Redemption 2*, (ii) \$23.0 million from *Borderlands 3*, (iii) \$15.4 million from *PGA TOUR 2K21*, and (iv) \$11.3 million from *Civilization VI*. These decreases were partially offset by an increase in net revenue of (i) \$63.3 million from our *NBA 2K* franchise, (ii) \$54.4 million from *Two Dots*, (iii) \$31.9 million from *Grand Theft Auto Online*, (iv) \$13.7 million from *Red Dead Online*, and (v) \$12.2 million from *Top Eleven*.

Net revenue from console games decreased by \$54.4 million and accounted for 71.7% of our total net revenue for the six months ended September 30, 2021, as compared to 74.9% for the prior year period. The decrease was due to a decrease in net revenue from our *Red Dead Redemption 2*, *Borderlands 3*, our *Mafia* franchise, *PGA TOUR 2K21*, and our *WWE 2K* franchise, partially offset by an increase in net revenue from our *NBA 2K* franchise, and *Grand Theft Auto Online*. Net revenue from PC and other decreased by \$28.3 million and accounted for 16.5% of our total net revenue for the six months ended September 30, 2021, as compared to 18.2% for the prior year period. The decrease was due to a decrease in net revenue from *Red Dead Redemption 2*, *Grand Theft Auto V*, and *Civilization VI*, partially offset by an increase in net revenue from our *NBA 2K* franchise. Net revenue from mobile increased by \$81.8 million and accounted for 11.8% of our total net revenue for six months ended September 30, 2021, as compared to 6.9% for the prior year period. The increase was due primarily to an increase in net revenue from *Two Dots* and *Top Eleven*.

Net revenue from digital online channels increased by \$58.6 million and accounted for 90.9% of our total net revenue for the six months ended September 30, 2021, as compared to 87.4% for the prior year period. The increase was due to an increase in net revenue from our *NBA 2K* franchise, *Two Dots*, *Grand Theft Auto Online*, *Red Dead Online*, and *Top Eleven*, partially offset by a decrease in net revenue from *Red Dead Redemption 2*, our *Mafia* franchise, *Borderlands 3*, *Civilization VI*, *PGA TOUR 2K21*, and our *XCOM* franchise. Net revenue from physical retail and other channels decreased by \$59.6 million and accounted for 9.1% of our total net revenue for the six months ended September 30, 2021, as compared to 12.6% for the prior year period. The decrease was due to a decrease in net revenue from *Red Dead Redemption 2*, our *Mafia* franchise, *Borderlands 3*, *PGA TOUR 2K21*, *Grand Theft Auto V*, and our *WWE 2K* franchise.

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 \$119.2 million and accounted for 68.0% of net revenue for the six months ended September 30, 2021, as compared to 60.8% of net revenue for the prior year period. The increase was due to an increase in net revenue from *Two Dots*, our *NBA 2K* franchise, *Grand Theft Auto Online*, and *Top Eleven*, partially offset by a decrease in net revenue from *Borderlands 3*. Net revenue from full game and other decreased by \$120.1 million and accounted for 32.0% of net revenue for the six months ended September 30, 2021 as compared to 39.2% of net revenue for the prior year period. The decrease was due to a decrease in net revenue from *Red Dead Redemption 2*, our *Mafia* franchise, *Grand Theft Auto V*, and *PGA TOUR 2K21*.

Gross profit as a percentage of net revenue for the six months ended September 30, 2021 was 53.0% as compared to 45.6% for the prior year period. The increase in gross profit as a percentage of net revenue was due to lower development royalties due primarily to the timing of releases and lower internal royalties due primarily to the timing of when royalties are earned. Offsetting the increase in gross profit as a percentage of net revenue were impairments recognized against some of our capitalized software balances for six months ended September 30, 2021. (See [Note 8 - Software Development Costs and Licenses](#) of our Condensed Consolidated Financial Statements).

Net revenue earned outside of the United States decreased by \$34.9 million, and accounted for 39.7% of our total net revenue for the six months ended September 30, 2021, as compared to 41.8% in the prior year period. The decrease in net

revenue outside of the United States was due to a decrease in net revenue from *Red Dead Redemption 2*, our *Mafia* franchise, *Grand Theft Auto V*, and *Borderlands 3*, partially offset by an increase in net revenue from *Two Dots*, *Top Eleven*, and our *NBA 2K* franchise. 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, 2021 as compared to the prior year period.

**Operating Expenses**

| (thousands of dollars)                         | 2021              | % of net revenue | 2020              | % of net revenue | Increase/<br>(decrease) | % Increase/<br>(decrease) |
|--|-------------------|------------------|-------------------|------------------|-------------------------|---------------------------|
| Selling and marketing                          | \$ 239,873        | 14.4 %           | \$ 198,470        | 11.9 %           | \$ 41,403               | 20.9 %                    |
| General and administrative                     | 231,778           | 13.9 %           | 193,606           | 11.6 %           | 38,172                  | 19.7 %                    |
| Research and development                       | 193,802           | 11.6 %           | 147,324           | 8.8 %            | 46,478                  | 31.5 %                    |
| Depreciation and amortization                  | 28,646            | 1.7 %            | 26,109            | 1.6 %            | 2,537                   | 9.7 %                     |
| Business reorganization                        | 423               | — %              | 239               | — %              | 184                     | 77.0 %                    |
| <b>Total operating expenses</b> <sup>(1)</sup> | <b>\$ 694,522</b> | <b>41.5 %</b>    | <b>\$ 565,748</b> | <b>33.8 %</b>    | <b>\$ 128,774</b>       | <b>22.8 %</b>             |

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

|                            | 2021      | 2020     |
|----------------------------|-----------|----------|
| Selling and marketing      | \$ 15,167 | \$ 9,167 |
| General and administrative | 33,863    | 27,030   |
| Research and development   | 24,780    | 14,093   |

Changes in foreign currency exchange rates increased total operating expenses by \$0.7 million for the six months ended September 30, 2021, as compared to the prior year period.

Selling and marketing

Selling and marketing expenses increased by \$41.4 million for the six months ended September 30, 2021, as compared to the prior year period, due primarily to higher overall marketing expenses for *Two Dots*, *Grand Theft Auto Online*, *Top Eleven*, and our *NBA 2K* franchise.

General and administrative

General and administrative expenses increased by \$38.2 million for the six months ended September 30, 2021, as compared to the prior year period, due to increases in (i) the fair value of the contingent earn-out liability related to our acquisition of Nordeus (refer to [Note 15 - Acquisitions](#)), (ii) personnel expenses for additional headcount (iii) IT expenses for cloud-based services (iv) professional fees related to our acquisition of Nordeus, and (v) rent expense. The increase was partially offset by a decrease in charitable contributions as compared to the prior year period primarily due to our COVID-19 response and relief efforts in the prior year period.

General and administrative expenses for the six months ended September 30, 2021 and 2020 included occupancy expense (primarily rent, utilities and office expenses) of \$15.9 million and \$13.7 million, respectively, related to our development studios.

Research and development

Research and development expenses increased by \$46.5 million for the six months ended September 30, 2021, as compared to the prior year period, due primarily to increases in personnel expenses for higher headcount.

Depreciation and Amortization

Depreciation and amortization expenses for the six months ended September 30, 2021 increased by \$2.5 million, as compared to the prior year period, due primarily to IT infrastructure.

Business reorganization

During the six months ended September 30, 2021, as compared to the prior year period, business reorganization expense increased \$0.2 million and was not material.



***Interest and other, net***

Interest and other, net was expense of \$1.6 million for the six months ended September 30, 2021, as compared to income of \$10.9 million for the prior year period. The change was due primarily to (i) foreign currency losses in the current year period as compared to gains in the prior year period, (ii) higher interest expense on our available-for-sale investments, and (iii) lower interest income on our investments due to lower rates.

***Gain on long-term investments, net***

Gain on long-term investments, net for the six months ended September 30, 2021 was \$2.4 million and was due primarily to changes in value based on the observable price change of our long-term investment.

***Provision for Income Taxes***

The provision for income taxes for the six months ended September 30, 2021 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 \$28.9 million for the six months ended September 30, 2021 as compared to a provision for income taxes of \$20.0 million for the prior year period.

When compared to the statutory rate of 21.0%, the effective tax rate of 15.1% for the six months ended September 30, 2021 was due primarily to a tax benefit of \$11.4 million as a result of tax credits anticipated to be utilized and excess tax benefits of \$4.0 million from employee stock-based compensation offset by a tax expense of \$2.4 million related to a nondeductible increase in fair value of the contingent consideration liability associated with the acquisition of Nordeus and by the geographic mix of earnings.

In the prior year period, when compared to our blended statutory rate of 21%, 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.

The change in the effective tax rate, when compared to the prior year period's effective tax rate, is due primarily to decreased tax benefits from employee stock-based compensation in the current period, partially offset by 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 March 11, 2021, The American Rescue Plan Act of 2021 ("ARPA") was signed into law. ARPA includes several revenue-raising and business provisions. One such provision that impacts the Company is the expansion of the limitation of compensation deductions for certain covered employees of publicly held corporations. Effective April 1, 2021, ARPA expanded the limitation to cover the next five most highly compensated employees. As September 30, 2021, ARPA did not have a material impact on our Condensed Consolidated Financial Statements.

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 that generally support the U.S. economy. The CARES Act did not have a material impact on our Condensed Consolidated Financial Statements.

***Net income and earnings per share***

For the six months ended September 30, 2021, net income was \$162.6 million, as compared to \$187.8 million in the prior year period. For the six months ended September 30, 2021, diluted earnings per share was \$1.39 as compared to diluted earnings per share of \$1.63 in the prior year period. Diluted weighted average shares of 116.9 million were 1.6 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, partially offset by shares repurchased.

See [Note 11 - Earnings Per Share](#) 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, 2021, we had \$1,440.6 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, 2021, based on the composition of our investment portfolio and relatively lower interest rates as a result of the 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"), and on June 28, 2021, we amended our unsecured Credit Agreement solely to increase the commitments under the facility by \$50 million (as amended, the "Credit Agreement") that runs through February 8, 2024. The Credit Agreement provides for an unsecured five-year revolving credit facility with commitments of \$250 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 \$200 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, 2021) or (b) 1.125% to 1.750% above LIBOR (approximately 0.09% at September 30, 2021), which rates are determined by reference to our consolidated total net leverage ratio. The LIBOR benchmark rate is expected to be phased out by the end of June 2023. We do not expect that the discontinuation of the LIBOR rate will have a material impact on our liquidity or results of operations.

As of September 30, 2021, there was \$247.8 million available to borrow under the Credit Agreement, and we had \$2.2 million of letters of credit outstanding. At September 30, 2021, 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 79.8% and 77.7% of net revenue during the six months ended September 30, 2021 and 2020, respectively. As of September 30, 2021 and March 31, 2021, five customers accounted for 76.9% and 77.6% of our gross accounts receivable, respectively. Customers that individually accounted for more than 10% of

our gross accounts receivable balance comprised 64.3% and 69.2% of such balances at September 30, 2021 and March 31, 2021, respectively. We had two customers who accounted for 45.4% and 18.9% of our gross accounts receivable as of September 30, 2021, respectively, and two customers who accounted for 50.4% and 18.8% of our gross accounts receivable as of March 31, 2021, 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 to date. For further discussion regarding the potential future impacts of the COVID-19 pandemic and related economic conditions on our business, refer to [Item 1A, Risk Factors of our Annual Report on Form 10-K](#) for the fiscal year ended March 31, 2021.

As of September 30, 2021, the amount of cash and cash equivalents held outside of the U.S. by our foreign subsidiaries was \$306.9 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 three months ended September 30, 2021, we repurchased 1.3 million shares of our common stock in the open market for \$200.0 million, including commissions, as part of the program. We have repurchased a total of 11.7 million shares of our common stock under the program, and as of September 30, 2021, 2.6 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<br>September 30, |                  |
|--|-----------------------------------|------------------|
|  | 2021                              | 2020             |
| Net cash provided by operating activities  | \$ 283,679                        | \$ 626,745       |
| Net cash used in investing activities  | (384,093)                         | (502,624)        |
| Net cash used in financing activities  | (244,386)                         | (41,699)         |
| Effects of foreign currency exchange rates on cash, cash equivalents, and restricted cash and cash equivalents | (741)                             | 8,966            |
| Net change in cash, cash equivalents, and restricted cash and cash equivalents                                 | <u>\$ (345,541)</u>               | <u>\$ 91,388</u> |

At September 30, 2021, we had \$1,714.7 million of cash and cash equivalents and restricted cash and cash equivalents, compared to \$2,060.2 million at March 31, 2021. The decrease was due to (1) Net cash used in investing activities primarily related to (i) net purchases of available for sale securities, (ii) our acquisition of Nordeus (refer to [Note 15 - Acquisitions](#)), and (iii) purchases of fixed assets, including our acquisition of two office buildings in the UK (refer to [Note 15 - Acquisitions](#)) and (2) Net cash used in financing activities, which was primarily for (i) repurchase of our common stock and (ii) tax payments related to net share settlements of our restricted stock awards. This net increase was partially offset by Net cash provided by operating activities from sales of our products, partially offset by the timing of payments.

### **Contractual Obligations and Commitments**

Refer to [Note 13 - Commitments and Contingencies](#) to our Condensed Consolidated Financial Statements for disclosures regarding our commitments.

### **Capital Expenditures**

In fiscal year 2022, we anticipate capital expenditures to be \$170 million. During the six months ended September 30, 2021, capital expenditures were \$111.2 million, which includes our acquisition of two office buildings in the UK (refer to [Note 15 - Acquisitions](#)).

### **Off-Balance Sheet Arrangements**

As of September 30, 2021 and March 31, 2021, 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, 2021 and 2020, 40.0% and 40.1%, respectively, of our net revenue was earned outside of the United States. We are subject to risks inherent in foreign trade, including increased credit risks, tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays, and international political, regulatory and economic developments, all of which can have a significant 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, 2021, we had \$1,440.6 million of short-term investments, which included \$862.9 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 \$856.9 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, 2021.

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, 2021), or (b) 1.125% to 1.750% above the LIBOR rate (approximately 0.09% at September 30, 2021), 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, 2021, 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, 2021 and 2020, our foreign currency translation adjustment was a loss of \$16.7 million and a gain of \$18.9 million, respectively. For the three months ended September 30, 2021 and 2020, we recognized a foreign currency exchange transaction gain of \$0.4 million and a gain of \$1.5 million, respectively, included in Interest and other, net in our Condensed Consolidated Statements of Operations. For the six months ended September 30, 2021 and 2020, our foreign currency translation adjustment was a loss of \$10.6 million and a gain of \$23.6 million, respectively. For the six months ended September 30, 2021 and 2020, we recognized a foreign currency exchange transaction loss of \$1.9 million and a gain of \$5.0 million, respectively, included in Interest and other, net in our Condensed Consolidated Statement 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, 2021, we had \$153.1 million of forward contracts outstanding to sell foreign currencies in exchange for U.S. dollars and \$93.5 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, 2021, we had \$140.5 million of forward contracts outstanding to sell foreign currencies in exchange for U.S. dollars and \$92.1 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, 2021 and 2020, we recorded a gain of \$0.6 million and a loss of \$1.0 million, respectively. For the six months ended September 30, 2021 and 2020, we recorded a loss of \$1.2 million and a loss of \$3.7 million, respectively. As of September 30, 2021, the fair value of these outstanding forward contracts was an immaterial loss and was included in Accrued expenses and other current liabilities, and, as of March 31, 2021, 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, 2021, 40.0% 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, 2021, 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 June 1, 2021, we acquired Nordeus. Our management plans to exclude Nordeus from its assessment of and report on internal control over financial reporting for the fiscal year ending March 31, 2022. We are currently in the process of incorporating the internal controls and procedures of Nordeus 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, 2023.

*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

Refer to [Note 13 - Commitments and Contingencies](#) to our Condensed Consolidated Financial Statements for disclosures regarding legal proceedings.

### 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, 2021.

### 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, 2021, we repurchased 1,260 shares of our common stock in the open market for \$200,012, including commissions of \$13, as part of the program. As of September 30, 2021, we had repurchased a total of 11,660 shares of our common stock under this program and 2,558 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, 2021:

| 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, 2021      | —                | \$ —                    | —  | 3,818   |
| August 1-31, 2021    | 1,260            | \$ 158.67               | 1,260  | 2,558   |
| September 1-30, 2021 | —                | \$ —                    | —  | 2,558   |

In November 2021, our Board of Directors authorized an increase of 7,442 shares to the number of shares available for repurchase, resulting in an aggregate of 21,660 total shares being authorized for repurchase under the program and 10,000 shares remaining available for repurchase as of the date of the additional authorization.

**Item 6. Exhibits**

**Exhibits:**

- 10.1 [Second Amendment to Lease, dated as of August 31, 2021 by and between Take-Two Interactive Software, Inc. and DOLP 1133 Properties III LLC](#)
  - 10.2 [Amended and Restated Take-Two Interactive Software, Inc. 2017 Stock Incentive Plan \(incorporated by reference to Annex B of the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on July 27, 2021\)](#)
  - 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).

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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, 2021 and March 31, 2021, (ii) Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2021 and 2020, (iii) Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and six months ended September 30, 2021 and 2020, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2021 and 2020, (v) Condensed Consolidated Statements of Equity for the three and six months ended September 30, 2021 and 2020; and (vi) Notes to Condensed Consolidated Financial Statements (Unaudited).





**SECOND AMENDMENT TO LEASE**

THIS SECOND AMENDMENT TO LEASE (this “**Agreement**”), dated as of August 31, 2021 between DOLP 1133 PROPERTIES III LLC, having an office at One Bryant Park, New York, New York 10036 (“**Landlord**”) and TAKE-TWO INTERACTIVE SOFTWARE, INC., having an office at 1133 Avenue of the Americas, New York, New York 10036 (“**Tenant**”).

W I T N E S S E T H:

WHEREAS, DOLP 1133 Properties II LLC (“**DOLP II**”), predecessor-in-interest to Landlord, as landlord, and Tenant, as tenant, entered into that certain indenture of lease dated as of December 12, 2016 (the “**Original Lease**”), as amended by that certain First Amendment to Lease dated as of July 25, 2018 (the “**First Amendment**”) and those certain side letters dated December 12, 2016, September 19, 2017 and July 25, 2018 (the Original Lease, as so amended by the foregoing, collectively, the “**Existing Lease**”) covering the entire leasable area of the second (2<sup>nd</sup>) and third (3<sup>rd</sup>) floors (collectively, the “**Initial Office Space**”), a portion of the leasable area of the fifteenth (15<sup>th</sup>) floor, and portions of the leasable area of the ground floor (collectively, the “**Existing Premises**”) in the building (the “**Building**”) designated and known as 1133 Avenue of the Americas and 110 West 44<sup>th</sup> Street, in the Borough of Manhattan and City, County and State of New York;

WHEREAS, Landlord has succeeded to the interest of DOLP II in and to the Existing Lease;

WHEREAS, in order to lease to Tenant the entire leasable area of the fourth (4<sup>th</sup>) floor of the Building as shown on the floor plan annexed hereto as Exhibit A (the “**4th Floor Premises**,” the 4th Floor Premises and the Existing Premises are sometimes referred to herein collectively as the “**Premises**”), Landlord is simultaneously entering into a lease amendment (the “**ING Agreement**”) with ING Financial Holdings Corporation (“**ING**”) pursuant to which Landlord and ING shall cancel ING’s lease with respect to the 4th Floor Premises upon and subject to the terms thereof;

WHEREAS, the Initial Term of the Existing Lease expires in accordance with its terms on December 31, 2032; and

WHEREAS, Landlord and Tenant desire (i) that Tenant lease the 4th Floor Premises, (ii) to extend the term of the Existing Lease, and (iii) to modify the Existing Lease in certain other respects, in each case on the terms hereinafter set forth.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Defined Terms. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed thereto in the Existing Lease. As used herein, the term “**Lease**” shall mean the Existing Lease, as amended by this Agreement.
2. Extension of Term. The term of the Existing Lease is hereby extended, upon and subject to the terms of the Existing Lease, except as otherwise expressly set forth herein, for the term (the “**Extended Term**”) commencing on January 1, 2033 (the “**Extended Term Commencement Date**”) and ending upon December 31, 2037 (the “**Extended Term Expiration Date**”), unless the term of the Lease

shall sooner terminate pursuant to any of the terms of the Lease or pursuant to law. As of the date hereof, all references in the Lease to (i) the "term" or "Initial Term" shall be deemed to include the Extended Term and (ii) the term "Expiration Date" shall mean the Extended Term Expiration Date. Except as otherwise expressly provided herein, (a) Landlord shall be under no obligation to make any changes, improvements, or alterations to the Premises to prepare the same for Tenant's occupancy during the Extended Term and Tenant shall be deemed to have accepted possession of the Premises for the Extended Term in its then "as is" condition on the Extended Term Commencement Date and (b) Tenant shall not be entitled to any work allowance or rent credit with respect to the Premises.

3. 4th Floor Premises.

A. Effective for the period (the "**4th Floor Premises Term**") beginning on September 1, 2021 (the "**4th Floor Premises Commencement Date**") and (subject to the terms of the Lease) ending on the Expiration Date, the 4th Floor Premises shall be deemed to be included in the Office Space and the Premises for all purposes of the Lease. Throughout the 4th Floor Premises Term, all references in the Lease to the terms "Office Space," "Demised Premises" and "Premises" shall be deemed to include the 4th Floor Premises. Subject to ING's timely vacating thereof, Landlord shall deliver to Tenant vacant possession of the 4th Floor Premises on September 1, 2021 in its then "as is" condition but with the items set forth on Exhibit C attached hereto (collectively, the "**Furniture**") remaining therein. The Furniture shall be delivered to Tenant in its then "as is" condition and Landlord makes no representations or warranties as to the condition, merchantability, fitness, ownership, usability or suitability of the Furniture for any particular purpose (it being further agreed that Landlord shall have no responsibility for the repair, maintenance and/or replacement of the Furniture for any reason). During the 4th Floor Premises Term, the common corridors and other common areas of the fourth (4<sup>th</sup>) floor of the Building (including all core toilet rooms thereon, without any representation or warranty by Landlord in connection therewith) shall be deemed to be part of the Office Space, the Premises and Tenant's Insurable Property for all purposes of the Lease, including for the purposes of Articles 11, 12, 16 and 17 of the Original Lease.

B. Except as otherwise expressly provided herein, all of the other terms of the Existing Lease, including those applicable to items of Fixed Rent and additional rent payable pursuant to the terms of the Existing Lease, shall be deemed to be, and shall remain, as set forth in the Existing Lease throughout the remainder of the term of the Existing Lease.

C. Except as otherwise expressly provided herein, (i) Tenant shall accept possession of the 4th Floor Premises in its "as is" condition on the 4th Floor Premises Commencement Date (except for any repair and/or maintenance obligations of Landlord expressly set forth in the Existing Lease), (ii) Landlord shall be under no obligation to make any changes, improvements, or alterations to the 4th Floor Premises to prepare the same for Tenant's occupancy, (iii) Tenant shall not be entitled to any work allowance or rent credit with respect to the 4th Floor Premises, (iv) the taking of occupancy of the whole or part of the 4th Floor Premises by Tenant shall be conclusive evidence that Tenant shall have accepted possession thereof and that the 4th Floor Premises shall be in good and satisfactory condition at the time such occupancy shall be so taken and (v) Landlord has not made and does not make any representations or warranties with respect to the 4th Floor Premises.

D. Tenant shall use the 4th Floor Premises for the Permitted Uses and the Ancillary Uses and for no other purpose.

E. Supplementing the terms of Section 6.7 of the Original Lease, promptly following the 4th Floor Premises Commencement Date, Tenant at its expense may install one (1) sign containing Tenant's name and/or logo reasonably approved by Landlord on or adjacent to the exterior doors of the 4<sup>th</sup> Floor Premises (subject to the applicable terms of the penultimate sentence of Section 6.7 of the Original Lease). Tenant shall be responsible for the maintenance and removal of such sign in accordance with the terms of Section 6.7 of the Original Lease.

F. During the 4<sup>th</sup> Floor Premises Term, Landlord shall not use (nor permit any other third party, including Tenant, to use) the portion of the fourth (4<sup>th</sup>) floor of the Building substantially as shown on the floor plan annexed hereto as Exhibit B for any purpose.

G. Tenant expressly waives any right to rescind this Agreement under Section 223-a of the New York Real Property Law or under any present or future statute of similar import then in force and Tenant further expressly waives the right to recover any damages, direct or indirect, which may result from Landlord's failure to timely deliver possession of the 4th Floor Premises. Tenant agrees that the provisions of this Article 3 are intended to constitute "an express provision to the contrary" within the meaning of said Section 223-a.

4. Fixed Rent.

A. Tenant shall continue to pay all Fixed Rent with respect to the Existing Premises at the rates and in the manner provided in the Existing Lease through December 31, 2032. Thereafter, during the Extended Term, Tenant shall pay Fixed Rent with respect to the Existing Premises in the manner provided in the Existing Lease at such rate(s) as determined in accordance with the terms of Section 4C hereof, payable in advance in equal monthly installments.

B. In addition, Tenant shall pay Fixed Rent in the manner provided in the Existing Lease with respect to the 4th Floor Premises as follows:

(i) \$1,907,496.00 per annum during the period commencing on September 1, 2021 and ending upon January 31, 2023, payable in advance in equal monthly installments of \$158,958.00;

(ii) \$2,066,454.00 per annum during the period commencing upon February 1, 2023 and ending upon October 31, 2026, payable in advance in equal monthly installments of \$172,204.50;

(iii) during the period commencing on November 1, 2026 and ending on November 30, 2027, an annual rate equal to the sum of (a) \$1,986,975.00 and (b) the annual additional rent (on a per rentable square foot basis) on account of increases in Taxes and Expenses pursuant to the Existing Lease payable with respect to the Initial Office Space as of November 1, 2026 pursuant to Section 6A hereof;

(iv) during the period commencing on December 1, 2027 and ending on December 31, 2032, an annual rate equal to the sum of (a) \$2,119,440.00 and (b) the annual additional rent (on a per rentable square foot basis) on account of increases in Taxes and Expenses pursuant to the Existing Lease payable with respect to the Initial Office Space as of November 1, 2026 pursuant to Section 6A hereof; and

(v) during the Extended Term, at such rate(s) as determined in accordance with the terms of Section 4C hereof, payable in advance in equal monthly installments.

C. The annual Fixed Rent with respect to the entire Premises during the Extended Term shall be equal to one hundred percent (100%) of the annual fair market rental value thereof as of January 1, 2033 (taking into account those leasing terms and conditions with respect thereto as are set forth in the Lease), which annual fair market rental value may include periodic increases and shall be determined in the manner set forth in Article 38 of the Original Lease, except that (a) all references therein to the Premises shall be deemed to be references to the entire Premises, including the Existing Premises and the 4<sup>th</sup> Floor Premises, (b) the annual fair market rental value of the entire Premises shall be determined with respect to the first five (5) years of a ten (10) year term, and (c) the base years for Taxes and Expenses (to the extent applicable) shall be determined by the parties and taken into account in the determination of the annual fair market rental value of the Premises.

5. Electricity. Tenant shall continue to compensate Landlord for supplying Tenant with electrical current in the Existing Premises in accordance with the applicable terms of the Existing Lease. In addition, Landlord shall provide electricity to the 4th Floor Premises during the 4th Floor Premises Term, and Tenant shall compensate Landlord therefor, in accordance with the applicable terms of the Existing Lease. The capacity referred to in the first (1<sup>st</sup>) sentence of Section 7.2 of the Original Lease with respect to the 4<sup>th</sup> Floor Premises shall be equal to a demand electrical load of six (6) watts (average) per usable square foot at 265/460 volts, 3 phase, 4 wire, exclusive of the base building HVAC system.

6. Escalations and Other Additional Rent.

A. Tenant shall continue to pay all additional rent with respect to the Existing Premises at the rates and in the manner provided in the Existing Lease through December 31, 2032. Thereafter, during the Extended Term, Tenant shall continue to pay all additional rent with respect to the Existing Premises at the rates and in the manner provided in the Existing Lease, although the base years for Taxes and Expenses (to the extent applicable) shall be determined in accordance with the terms of Section 4C hereof.

B.

(i) In addition, Tenant shall pay all additional rent with respect to the 4th Floor Premises at the rates and in the manner provided in the Lease, except that (a) during the period commencing on September 1, 2021 and ending on October 31, 2026, the term "Base Tax" shall mean the Taxes, as finally determined, for the fiscal year July 1, 2017 to June 30, 2018 and the term "Expense Base" shall mean one-half (1/2) of the sum of the Expenses for the 2017 and 2018 Expense Years, (b) during the period commencing on November 1, 2026 and ending on December 31, 2032 (the "**Additional Period**"), the term "Base Tax" shall mean the Taxes, as finally determined, for the fiscal year July 1, 2026 to June 30, 2027 and the term "Expense Base" shall mean the Expenses for the 2027 Expense Year and (c) during the Extended Term, the base years for Taxes and Expenses shall be determined in accordance with the terms of Section 4C hereof.

(ii) The terms and provisions set forth in Exhibit D attached hereto are incorporated by reference herein as if set forth in full in this Section 6B.

7. Modifications to Existing Lease. The Existing Lease shall be amended as follows as of the date hereof:

A. Renewal Option. The Renewal Option is hereby amended so that the Renewal Option shall consist solely of one (1) additional five (5) year term commencing on January 1, 2038 and ending on December 31, 2042, it being agreed that (a) all references therein to the Initial Term shall be deemed to be references to the Extended Term and (b) the fair market rental value of the Premises shall be determined with respect to the first five (5) years of a ten (10) year term.

B. Expansion Option. The terms and provisions set forth in Exhibit E attached hereto are incorporated by reference herein as if set forth in full in this Section 7B.

C. Balance Space and 15<sup>th</sup> Floor Space.

(i) Section 2B of the First Amendment and all references in the Existing Lease to the terms “Balance Space,” “Balance Space Term,” “Balance Space Commencement Date,” “Landlord’s Balance Space Work,” “Estimated Balance Space Delivery Date” and “Tenant’s Balance Space Work” are hereby deleted in their entirety, it being agreed that Tenant shall no longer be obligated to lease the Balance Space unless Tenant exercises the Expansion Option with respect thereto.

(ii) The 15<sup>th</sup> Floor Space shall no longer include the Balance Space and shall solely include the Additional Space. The terms and provisions set forth in Exhibit F attached hereto are incorporated by reference herein as if set forth in full in this Section 7C(ii).

D. Prohibited Uses.

(i) Clause (12) of Section 5.2 of the Original Lease shall be amended to read as follows: “an executive suite business (or co-working or shared office uses (e.g., WeWork, Regus, etc., including the so-called “Enterprise Solutions” or similar business) or conference center use for third parties or a social club).”

(ii) A new clause (15) of Section 5.2 of the Original Lease shall be added as follows: “the conduct of any event sponsored by a third party (it being agreed that the foregoing shall not preclude Tenant from occasionally hosting in the Office Space as an Ancillary Use an event sponsored by Tenant, such as a holiday party or a client reception).”

E. Assignment/Subletting. Clause (8) of Section 8.1C of the Original Lease shall be amended to become clause (9), and a new clause (8) shall be added as follows: “The proposed assignee or subtenant (or its affiliate) is a competitor of Landlord or an affiliate thereof in the ownership and/or management of office buildings; or.”

F. Internal Staircase. The terms of the final sentence of Section 13.4L of the Original Lease shall be fully applicable with respect to Tenant’s leasing of the 4th Floor Premises (it being agreed that any internal staircase constructed by Tenant between the third (3<sup>rd</sup>) and fourth (4<sup>th</sup>) floors of the Building shall (a) be in a location designated by Tenant and reasonably acceptable to Landlord and (b) be deemed to be a Specialty Alteration under the Lease).

G. Notice. The title Corporate Counsel in Exhibit M-11 of the Original Lease shall be amended to be General Counsel.

H. Carbon Emissions Law. The following is added as a new Section 7.9 of the Original Lease: The terms and provisions set forth in Exhibit G attached hereto are incorporated by reference herein as if set forth in full in this Section 7H.

I. Expenses.

(i) The following shall be added prior to the semicolon in clause (b) of Section 4.1A(9)(iii) of the Original Lease: “or by Legal Requirements enacted prior to the Commencement Date but with respect to which the obligation to comply shall arise after the Commencement Date (e.g., the Carbon Emissions Law).”

(ii) In no event shall Base Building CEL Charges be included in Expenses.

8. Elevators. Supplementing the terms of Section 5A of the First Amendment and subject to the terms of Section 6.3 of the Original Lease, commencing on the 4<sup>th</sup> Floor Premises Commencement Date, (a) Landlord shall provide non-exclusive passenger elevator service to and from the Building lobby and the fourth (4<sup>th</sup>) floor of the Building during business hours, (b) Landlord shall provide during business hours non-exclusive passenger elevator service to and from the Building lobby and the second (2<sup>nd</sup>), third (3<sup>rd</sup>), fourth (4<sup>th</sup>) and fifteenth (15<sup>th</sup>) floors of the Building by one (1) elevator car currently designated as car A-5, and (c) at all times other than during business hours, not fewer than one (1) passenger elevator car designated by Landlord shall be on call to the 4<sup>th</sup> Floor Premises.

9. Broker. Each of Landlord and Tenant warrants and represents that it has not dealt with any broker in connection with this Agreement other than the Broker (i.e., Cushman & Wakefield, Inc.). Tenant and Landlord each agrees to defend, save and hold harmless the other party from any claims for fees and commissions and against any liability (including reasonable attorneys' fees and disbursements) arising out of any conversations or negotiations had by such party with any broker or party acting as such. Landlord shall be responsible pursuant to a separate agreement solely for the payment of any commission or other fee earned by the Broker with respect to the leasing by Tenant of (a) the 4<sup>th</sup> Floor Premises for the Additional Period and (b) the entire Premises for the Extended Term. This Article 9 shall survive the expiration or sooner termination of the Lease.

10. Payment of Legal Fees. Simultaneously with its execution hereof and in order to induce Landlord to execute this Agreement, Tenant shall pay to Landlord, as additional rent under the Lease, Landlord's reasonable legal fees in the amount of \$22,000.00 incurred in connection with the preparation and negotiation of this Agreement.

11. Miscellaneous. Except as amended herein, all of the other terms of the Existing Lease are and shall remain in full force and effect and are hereby ratified and confirmed. This Agreement is submitted to Tenant on the understanding that it shall not be considered an offer and shall not bind Landlord in any way until (i) Tenant has duly executed and delivered duplicate originals to Landlord, and (ii) Landlord has executed and unconditionally delivered one of said originals to Tenant. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement may be executed in counterparts, each of which may be deemed an original and all of which together shall constitute one and the same instrument. If any of the provisions of the Lease or the application thereof to any person or circumstance, shall, to any extent, be invalid or unenforceable, the remainder of the Lease or the application of such provision or provisions to persons or circumstances other than those as to whom or which it is held invalid or unenforceable shall not be affected thereby, and every provision of the Lease shall be valid and enforceable to the fullest extent

permitted by law. This Agreement may not be orally waived, terminated, changed or modified. Landlord and Tenant each represents and warrants to the other that (a) this Agreement (1) has been duly authorized, executed and delivered by such party and (2) constitutes the legal, valid and binding obligation of such party and (b) the execution and delivery of this Agreement is not prohibited by, nor does it conflict with or constitute a default under, any agreement or instrument to which such party may be bound or any Legal Requirements applicable to such party. The captions herein are inserted only as a convenience and for reference and they in no way define, limit or describe the scope of this Agreement or the intent of any provision thereof. Each reference in this Agreement to a section or article of the Existing Lease shall be deemed to be a reference thereto, as the same may have been theretofore amended and as the same may be further amended by this Agreement. The exchange of executed copies of this Agreement by so-called "portable document format" or similar electronic format transmission (including executed through use of a reputable electronic signature service such as Sertifi or DocuSign) (collectively, "PDF") shall constitute effective execution and delivery of this Agreement as to the parties for all purposes, and signatures of the parties transmitted by PDF shall be deemed to be their original signatures for all purposes.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Agreement as of the day and year first above written.

DOLP 1133 PROPERTIES III LLC

By: The Durst Manager LLC, a New York limited liability company, its Manager

By: SRDA Manager, LLC, a New York limited liability company, its Managing Member

By: /s/ Jonathan Durst

TAKE-TWO INTERACTIVE SOFTWARE, INC.

By: /s/ Matt Breitman

Name: Matt Breitman

Title: SVP & GC Americas



**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 3, 2021

/s/ STRAUSS ZELNICK

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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 3, 2021

/s/ LAINIE GOLDSTEIN

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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 September 30, 2021 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 3, 2021

/s/ STRAUSS ZELNICK

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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 September 30, 2021 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 3, 2021

/s/ LAINIE GOLDSTEIN

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Lainie Goldstein  
*Chief Financial Officer*