

TAKE TWO INTERACTIVE SOFTWARE INC
Form 10-Q
June 09, 2006

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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 April 30, 2006

OR

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

For the transition period from _____ to _____

Commission file number 0-29230

TAKE-TWO INTERACTIVE SOFTWARE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation or Organization)

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

622 Broadway, New York, New York 10012
(Address of principal executive offices including zip code)

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

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

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

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

As of June 2, 2006, there were 72,548,823 shares of the Registrant's Common Stock outstanding.

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As of April 30, 2006 and October 31, 2005

(In thousands, except share and per share data)

	April 30, 2006	October 31, 2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 141,068	\$ 107,195
Accounts receivable, net of allowances of \$87,820 and \$69,904 at April 30, 2006 and October 31, 2005, respectively	130,328	198,068
Inventories	91,820	136,227
Software development costs	69,431	88,826
Licenses	4,253	7,651
Prepaid taxes and taxes receivable	69,854	40,307
Prepaid expenses and other current assets	27,772	24,025
Deferred tax assets	38,319	10,943
Total current assets	572,845	613,242
Fixed assets, net	49,796	48,617
Software development costs, net of current portion	27,183	19,602
Licenses, net of current portion	4,984	2,330
Goodwill	190,491	179,893
Intangibles, net	48,916	58,666
Deferred tax assets	7,784	5,506
Other assets	4,018	5,020
Total assets	\$ 906,017	\$ 932,876
LIABILITIES and STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 108,216	\$ 133,353
Accrued expenses and other current liabilities	135,508	90,702
Income taxes payable	14,361	10,220
Total current liabilities	258,085	234,275
Other long-term liabilities	403	2,467

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Total liabilities	258,488	236,742
<hr/>		
Stockholders' equity		
Common stock, par value \$.01 per share; 100,000,000 shares authorized; 72,515,165 and 70,667,421 shares issued and outstanding at April 30, 2006 and October 31, 2005, respectively	725	707
Additional paid-in capital	433,381	418,053
Deferred compensation		(11,189)
Retained earnings	208,382	287,877
Accumulated other comprehensive income	5,041	686
<hr/>		
Total stockholders' equity	647,529	696,134
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Total liabilities and stockholders' equity	\$906,017	\$932,876
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The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

[Back to Index](#)**TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES****Condensed Consolidated Statements of Operations (Unaudited)**

For the three and six months ended April 30, 2006 and 2005

(In thousands, except per share data)

	Three months ended		Six months ended	
	April 30,		April 30,	
	2006	2005	2006	2005
Net revenues	\$265,122	\$222,068	\$530,103	\$724,542
Cost of goods sold				
Product costs	130,940	123,504	291,793	360,989
Royalties	82,282	21,938	115,149	102,147
Software development costs	34,128	4,780	49,722	8,985
Total cost of goods sold	247,350	150,222	456,664	472,121
Gross profit	17,772	71,846	73,439	252,421
Operating expenses				
Selling and marketing	32,194	36,275	73,838	87,206
General and administrative	33,705	28,705	72,158	57,392
Research and development	16,097	13,785	33,806	37,202
Depreciation and amortization	12,944	5,102	19,595	9,888
Total operating expenses	94,940	83,867	199,397	191,688
Income (loss) from operations	(77,168)	(12,021)	(125,958)	60,733
Interest income, net	4	1,164	257	1,704
Income (loss) before income taxes	(77,164)	(10,857)	(125,701)	62,437
Provision (benefit) for income taxes	(26,791)	(2,671)	(46,206)	15,374
Net income (loss)	\$(50,373)	\$(8,186)	\$(79,495)	\$47,063
Per share data:				
Basic:				
Weighted average common shares outstanding	70,979	70,112	70,890	69,365
Net income (loss) per share	\$(0.71)	\$(0.12)	\$(1.12)	\$0.68

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Diluted:

Weighted average common shares outstanding	<u>70,979</u>	<u>70,112</u>	<u>70,890</u>	<u>70,678</u>
Net income (loss) per share	<u>\$(0.71)</u>	<u>\$(0.12)</u>	<u>\$(1.12)</u>	<u>\$0.67</u>

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

[Back to Index](#)**TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows (Unaudited)**

For the six months ended April 30, 2006 and 2005

(In thousands)

	Six months ended	
	April 30,	
	2006	2005
Cash flows from operating activities:		
Net income (loss)	\$(79,495)	\$47,063
Adjustment to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	19,595	9,888
Loss on disposal of fixed assets		15
Amortization of intellectual property and other	6,563	6,642
Amortization of compensatory restricted stock	2,032	9,266
Stock-based compensation related to compensatory stock options	6,662	
Amortization of software development costs and licenses	68,982	28,327
Provision for doubtful accounts and other allowances	15,712	14,634
Write-off of software development costs and licenses	18,462	3,397
Tax benefit from exercise of compensatory stock and stock options		9,941
Foreign currency transaction (gain) loss	(1,252)	247
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	54,270	162,459
Inventories	45,348	37,847
Software development costs	(67,504)	(70,866)
Licenses	(7,218)	(5,556)
Prepaid taxes and taxes receivable	(29,547)	(8,900)
Prepaid expenses and other current assets	(1,199)	373
Non-current assets	893	(347)
Accounts payable	(26,029)	(76,474)
Accrued expenses and other liabilities	11,162	(66,589)
Income taxes payable	5,206	(2,748)
Net cash provided by operating activities	42,643	98,619
Cash flows from investing activities:		
Purchase of fixed assets	(13,009)	(14,610)
Acquisition of intangible assets		(20,000)
Acquisitions, net of cash acquired	1,143	(23,244)
Escrow payment for settlement		(7,500)
Payments for prior acquisitions	(1,334)	(965)
Proceeds from sale of fixed assets and investments		73

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Net cash used in investing activities	(13,200)	(66,246)
	<u> </u>	<u> </u>
Cash flows from financing activities:		
Proceeds from exercise of stock options	1,944	24,445
Excess tax benefit from exercise of compensatory stock and stock options	124	
Other financing		(52)
	<u> </u>	<u> </u>
Net cash provided by financing activities	2,068	24,393
	<u> </u>	<u> </u>
Effect of foreign exchange rates	2,362	(1,620)
	<u> </u>	<u> </u>
Net increase in cash for the period	33,873	55,146
Cash and cash equivalents, beginning of the period	107,195	155,095
	<u> </u>	<u> </u>
Cash and cash equivalents, end of the period	\$ 141,068	\$ 210,241
	<u> </u>	<u> </u>

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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For the six months ended April 30, 2006 and 2005

(In thousands)

	Six months ended April,	
	2006	2005
Supplemental information on businesses acquired:		
Fair value of assets acquired:		
Current assets	\$ 112	\$ 111
Non-current assets	421	1,196
Intangible assets	5,644	7,980
Goodwill	11,085	29,433
Less: liabilities assumed		
Current liabilities	(200)	(3,275)
Deferred income taxes	(1,620)	(3,192)
Net assets of businesses acquired, excluding cash acquired	<u>\$ 15,442</u>	<u>\$ 32,253</u>
Cash paid for businesses acquired	\$ 857	\$ 24,000
Less: cash acquired	(2,000)	(756)
Net cash paid (acquired) for businesses	(1,143)	23,244
Additional consideration in connection with acquisitions	4,085	6,416
Contingent and deferred consideration		2,593
Issuance of unregistered common stock in connection with acquisitions	12,500	
Total consideration, net of cash acquired	<u>\$ 15,442</u>	<u>\$ 32,253</u>
Supplemental cash flow information:		
Issuance of warrants to licensor	\$	\$ 1,183
Cash paid for taxes	9,724	26,809
Cash paid for interest	575	131

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

[Back to Index](#)**TAKE-TWO INTERACTIVE SOFTWARE, INC. and SUBSIDIARIES****Condensed Consolidated Statements of Stockholders' Equity (Unaudited)**

For the year ended October 31, 2005 and the six months ended April 30, 2006

(In thousands)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Deferred Compensation</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (loss)</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>					
Balance, October 31, 2004	68,159	\$ 682	\$ 381,928	\$ (3,896)	\$ 250,402	\$ 6,354	\$ 635,470
Foreign currency translation adjustment						(5,668)	(5,668)
Net income					37,475		37,475
Comprehensive income							31,807
Purchase of treasury shares, retired	(925)	(9)	(24,920)				(24,929)
Exchange of treasury shares, retired	(367)	(4)	(8,307)				(8,311)
Proceeds from exercise of stock options and warrants	2,753	27	31,196				31,223
Amortization of deferred compensation				14,860			14,860
Issuance of common stock in connection with acquisition	82	1	1,999				2,000
Issuance of compensatory stock and stock options	965	10	22,688	(22,153)			545
Tax benefit in connection with the exercise of compensatory stock and stock options			12,286				12,286
Issuance of warrants to licensor			1,183				1,183
Balance, October 31, 2005	70,667	\$ 707	\$ 418,053	\$ (11,189)	\$ 287,877	\$ 686	\$ 696,134
Foreign currency translation adjustment						4,355	4,355
Net loss					(79,495)		(79,495)