TAKE TWO INTERACTIVE SOFTWARE INC
Form 10-Q
November 03, 2016

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

o **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)	**51-0350842** (I.R.S. Employer Identification No.)
622 Broadway **New York, New York** (Address of principal executive offices)	**10012** (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ý No o

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

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of October 28, 2016, there were 86,560,317 shares of the Registrant's Common Stock outstanding, net of treasury stock.

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(All other items in this report are inapplicable)

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

TAKE-TWO INTERACTIVE SOFTWARE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

	September 30, 2016 (Unaudited)	March 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	**770,003**	798,742
Short-term investments	**404,591**	470,820
Restricted cash	**368,109**	261,169
Accounts receivable, net of allowances of $70,480 and $45,552 at September 30, 2016 and March 31, 2016, respectively	**381,587**	168,527
Inventory	**77,561**	15,888
Software development costs and licenses	**178,629**	178,387
Deferred cost of goods sold	**129,396**	98,474
Prepaid expenses and other	**60,894**	53,269
Total current assets	**2,370,770**	2,045,276
Fixed assets, net	**68,531**	77,127
Software development costs and licenses, net of current portion	**300,340**	214,831
Deferred cost of goods sold, net of current portion	**3,033**	17,915
Goodwill	**215,658**	217,080
Other intangibles, net	**4,609**	4,609
Other assets	**16,139**	13,439
Total assets	**2,979,080**	2,590,277
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**144,756**	30,448
Accrued expenses and other current liabilities	**753,069**	607,479
Deferred revenue	**821,409**	582,484
Total current liabilities	**1,719,234**	1,220,411
Long-term debt	**511,636**	497,935
Non-current deferred revenue	**54,741**	216,319
Other long-term liabilities	**110,716**	74,227
Total liabilities	**2,396,327**	2,008,892
Commitments and Contingencies (See Note 13)		
Stockholders' equity:		

Preferred stock, $.01 par value, 5,000 shares authorized; no shares issued and outstanding at September 30, 2016 and March 31, 2016		
Common stock, $.01 par value, 200,000 shares authorized; 104,558 and 103,765 shares issued and 87,366 and 86,573 outstanding at September 30, 2016 and March 31, 2016, respectively	**1,046**	1,038
Additional paid-in capital	**1,097,098**	1,088,628
Treasury stock, at cost; 17,192 common shares at September 30, 2016 and March 31, 2016	**(303,388)**	(303,388)
Accumulated deficit	**(169,132)**	(166,997)
Accumulated other comprehensive loss	**(42,871)**	(37,896)
Total stockholders' equity	**582,753**	581,385
Total liabilities and stockholders' equity	**2,979,080**	2,590,277

See accompanying Notes.

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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,	
	2016	**2015**	**2016**	**2015**
Net revenue	**420,167**	346,974	**731,719**	622,271
Cost of goods sold	**205,605**	143,940	**396,985**	346,555
Gross profit	**214,562**	203,034	**334,734**	275,716
Selling and marketing	**80,187**	54,876	**151,321**	100,443
General and administrative	**49,685**	49,961	**96,428**	98,996
Research and development	**30,005**	24,413	**63,905**	58,555
Depreciation and amortization	**7,491**	7,353	**14,869**	13,928
Total operating expenses	**167,368**	136,603	**326,523**	271,922
Income from operations	**47,194**	66,431	**8,211**	3,794
Interest and other, net	**(7,078)**	(8,396)	**(11,584)**	(15,930)
Gain on long-term investments, net			**1,350**	
Income (loss) before income taxes	**40,116**	58,035	**(2,023)**	(12,136)
Provision for income taxes	**3,684**	3,300	**112**	152
Net income (loss)	**36,432**	54,735	**(2,135)**	(12,288)
Earnings (loss) per share:				
Basic earnings (loss) per share	**$ 0.42**	$ 0.63	**$ (0.03)**	$ (0.15)
Diluted earnings (loss) per share	**$ 0.39**	$ 0.55	**$ (0.03)**	$ (0.15)

See accompanying Notes.

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TAKE-TWO INTERACTIVE SOFTWARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

(in thousands)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Net income (loss)	**$ 36,432**	$ 54,735	**$ (2,135)**	$ (12,288)
Other comprehensive (loss) income:				
Foreign currency translation adjustment	**(1,394)**	(7,782)	**(5,027)**	1,320
Available-for-sale securities:				
Unrealized (loss) gain, net on available-for-sale securities, net of taxes	**(163)**	(4)	**43**	(45)
Reclassification to earnings for realized losses, net on available for sale securities, net of taxes	**5**		**9**	
Change in fair value of available for sale securities	**(158)**	(4)	**52**	(45)
Other comprehensive (loss) income	**(1,552)**	(7,786)	**(4,975)**	1,275
Comprehensive income (loss)	**$ 34,880**	$ 46,949	**$ (7,110)**	$ (11,013)

See accompanying Notes.

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TAKE-TWO INTERACTIVE SOFTWARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Six Months Ended September 30, 2016	Six Months Ended September 30, 2015
Operating activities:		
Net loss	**$ (2,135)**	$ (12,288)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Amortization and impairment of software development costs and licenses	**63,459**	40,719
Depreciation and amortization	**14,869**	13,928
Amortization and impairment of intellectual property		160
Stock-based compensation	**33,333**	35,406
Deferred income taxes	**(15)**	68
Amortization of discount on Convertible Notes	**12,981**	11,544
Amortization of debt issuance costs	**779**	792
Other, net	**(2,897)**	1,102
Changes in assets and liabilities:		
Restricted cash	**(106,940)**	(45,548)
Accounts receivable	**(212,032)**	(22,668)
Inventory	**(62,555)**	(3,755)
Software development costs and licenses	**(148,512)**	(117,959)
Prepaid expenses, other current and other non-current assets	**(8,560)**	(13,250)
Deferred revenue	**80,913**	113,042
Deferred cost of goods sold	**(17,287)**	(38,440)
Accounts payable, accrued expenses and other liabilities	**303,790**	57,161
Net cash (used in) provided by operating activities	**(50,809)**	20,014
Investing activities:		
Change in bank time deposits	**66,841**	(162,401)
Proceeds from available-for-sale securities	**72,387**	
Purchases of available-for-sale securities	**(74,552)**	(4,987)
Purchases of fixed assets	**(8,283)**	(25,793)
Proceeds from sale of long-term investment	**1,350**	
Purchase of long-term investments	**(1,885)**	
Net cash povided by (used in) investing activities	**55,858**	(193,181)
Financing activities:		
Excess tax benefit from stock-based compensation	**1,143**	9,529
Tax payment related to net share settlements on restricted stock awards	**(30,621)**	(10,386)
Repurchase of common stock		(26,552)
Net cash used in financing activities	**(29,478)**	(27,409)
Effects of foreign currency exchange rates on cash and cash equivalents	**(4,310)**	1,169
Net decrease in cash and cash equivalents	**(28,739)**	(199,407)
Cash and cash equivalents, beginning of year	**798,742**	911,120
Cash and cash equivalents, end of period	**$ 770,003**	$ 711,713

See accompanying Notes.

TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(Dollars in thousands, except share and per share amounts)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Take-Two Interactive Software, Inc. (the "Company," "we," "us," or similar pronouns) 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 through our two wholly-owned labels Rockstar Games and 2K. Our products are designed for console systems and personal computers, including smart phones and tablets, and are delivered through physical retail, digital download, online platforms and cloud streaming services.

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements are unaudited and include the accounts of the Company and its wholly-owned subsidiaries and, in the opinion of management, 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 inter-company 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 requires management to make estimates and assumptions that affect the amounts reported in these Condensed Consolidated Financial Statements and accompanying notes. As permitted under generally accepted accounting principles in the United States, interim accounting for certain expenses, including income taxes, are based on full year assumptions when appropriate. Actual results could differ materially from those estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission, 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, 2016.

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

The following is an update to our Significant Accounting Policies disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016.

Revenue Recognition

Because the service period for our online-enabled games with significant post-contract customer support ("PCS") is not an explicitly defined period, we must make an estimate of the service offering period for purposes of recognizing revenue. As our franchise offerings with significant PCS are relatively new offerings, we have limited historical data to assess end-user game playing patterns. Therefore, the estimated service period for current deferred title offerings is based on our estimate of the economic game life of the respective title. Determining the estimated service period (or economic game life) is inherently subjective and is subject to regular revision based on numerous factors and considerations. The factors that we primarily consider as part of our process of initially determining

TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

(Dollars in thousands, except share and per share amounts)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

and subsequently reassessing estimated service periods for our *Grand Theft Auto* and other franchise titles include:

- the period of time over which the substantial majority of a respective title's estimated lifetime game sales and in-game virtual currency sales are expected to occur;
- the period of time over which we plan to provide free unspecified add-on content updates, maintenance or other remaining material online support services associated with our online-enabled games;
- the time over which we plan to dedicate internal resources to support the online functionality of a title;
- known and expected online gameplay trends;
- the results from prior analyses;
- the nature of the game (e.g., annual title, genre, period of time between franchise title releases, etc.); and
- the disclosed service periods for competitors' games.

To the extent we have recorded significant amounts of revenue deferred for specific titles, changes in the estimated service periods could materially impact the revenue recognition reported in a particular period.

Recently Issued Accounting Pronouncements

Accounting for Stock Compensation

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, Compensation Stock Compensation. This new guidance identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. This update is effective for annual periods beginning after December 15, 2016 (April 1, 2017 for the Company) and interim periods within those annual periods. Early adoption is permitted in any interim or annual period. We are currently evaluating the impact of adopting this update on our Consolidated Financial Statements.

Accounting for Leases

In February 2016, the FASB issued ASU 2016-02, "Leases." This new guidance requires lessees to recognize a right-of-use asset and a lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital

TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

(Dollars in thousands, except share and per share amounts)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting. This update is effective for annual periods, and interim periods within those years, beginning after December 15, 2018 (April 1, 2019 for the Company). This new guidance must be adopted using a modified retrospective approach whereby lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Early adoption is permitted. We are currently evaluating the impact of adopting this update on our Consolidated Financial Statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), as a new Topic, Accounting Standards Codification Topic 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March 2016, the FASB amended ASU 2014-09 by issuing ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations included in ASU 2014-09. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to customers. In April 2016, the FASB amended ASU 2014-09 by issuing ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, which clarifies the implementation guidance on licensing and identifying performance obligations. In May 2016, the FASB further amended ASU 2014-09 by issuing ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients, which does not change the core principles of the standard, but clarifies the guidance on assessing collectibility, presenting sales taxes, measuring noncash consideration, and certain transition matters. ASU 2014-09 and its amendments can be adopted retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. In July 2015, the FASB voted to defer the effective date by one year to annual and interim years beginning after December 15, 2017 (April 1, 2018 for the Company). Early adoption is permitted, but no earlier than the original effective date of annual and interim periods beginning after December 15, 2016 (April 1, 2017 for the Company). While we continue to evaluate the impact and available implementation approaches, we believe adoption of ASU 2014-09, as amended, may have a material impact on the allocation and timing of revenue recognition and associated cost of goods sold.

2. MANAGEMENT AGREEMENT

In May 2011, we entered into an amended management services agreement, (the "2011 Management Agreement") with ZelnickMedia Corporation ("ZelnickMedia") pursuant to which ZelnickMedia provided us with certain management, consulting and executive level services. In March 2014, we entered into a new management agreement, (the "2014 Management Agreement"), with ZelnickMedia pursuant to which ZelnickMedia continues to provide financial and management consulting services to the Company through March 31, 2019. The 2014 Management Agreement became effective April 1, 2014 and supersedes and replaces the 2011 Management Agreement, except as otherwise contemplated by the 2014 Management Agreement. As part of the 2014 Management

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TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

(Dollars in thousands, except share and per share amounts)

2. MANAGEMENT AGREEMENT (Continued)

Agreement, Strauss Zelnick, the President of ZelnickMedia, continues to serve as Executive Chairman and Chief Executive Officer and Karl Slatoff, a partner of ZelnickMedia, continues to serve as President of the Company. The 2014 Management Agreement provides for an annual management fee of $2,970 over the term of the agreement and a maximum annual bonus opportunity of $4,752 over the term of the agreement, based on the Company achieving certain performance thresholds. In consideration for ZelnickMedia's services, we recorded consulting expense (a component of general and administrative expenses) of $1,336 and $2,524 during the three months ended September 30, 2016 and 2015, respectively, and $2,673 and $3,861 during the six months ended September 30, 2016 and 2015, respectively. We recorded stock-based compensation expense for non-employee restricted stock units granted to ZelnickMedia, which is included in general and administrative expenses of $6,907 and $4,935 during the three months ended September 30, 2016 and 2015, respectively, and $10,796 and $12,258 during the six months ended September 30, 2016 and 2015, respectively.

In connection with the 2014 Management Agreement, we granted restricted stock units as follows:

	Six Months Ended September 30,	
	2016	**2015**
Time-based	**107,551**	151,575
Market-based(1)	**199,038**	280,512
Performance-based(1)		
New IP	**33,174**	46,752
Major IP	**33,172**	46,752
Total Performance-based	**66,346**	93,504
Total Restricted Stock Units	**372,935**	525,591

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

Time-based restricted stock units granted in 2016 will vest on April 1, 2018 and those granted in 2015 will vest on April 1, 2017, in each case provided that the 2014 Management Agreement has not been terminated prior to such vesting date.

Market-based restricted stock units granted in 2016 are eligible to vest on April 1, 2018 and those granted in 2015 are eligible to vest on April 1, 2017, in each case provided that the 2014 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. Each reporting period, we re-measure the fair value of the unvested shares of market-based restricted stock units granted to ZelnickMedia.

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TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

(Dollars in thousands, except share and per share amounts)

2. MANAGEMENT AGREEMENT (Continued)

Performance-based restricted stock units granted in 2016 are eligible to vest on April 1, 2018 and those granted in 2015 are eligible to vest on April 1, 2017, in each case provided that the 2014 Management Agreement has not been terminated prior to such vesting date. Performance-based restricted stock units, of which 50% are tied to "New IP" and 50% to "Major IP" (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 individual product releases of "New IP" or "Major IP" 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). Each reporting period, we assess the performance metric and upon achievement of certain thresholds record an expense for the unvested portion of the shares of performance-based restricted stock units. Certain performance metrics, based on unit sales, have been achieved as of September 30, 2016 for the "Major IP" performance-based restricted stock units granted in 2016 and 2015.

The unvested portion of time-based, market-based and performance-based restricted stock units held by ZelnickMedia were 898,526 and 1,145,081 as of September 30, 2016 and March 31, 2016, respectively. In addition to the restricted stock units granted to ZelnickMedia, 591,912 restricted stock units vested and 27,578 restricted stock units were forfeited during the six months ended September 30, 2016.

3. FAIR VALUE MEASUREMENTS

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

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

Level 1 Quoted prices in active markets for identical assets or liabilities.

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

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

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TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

(Dollars in thousands, except share and per share amounts)

3. FAIR VALUE MEASUREMENTS (Continued)

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

	September 30, 2016	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	$ 487,184	$ 487,184	$	$	Cash and cash equivalents
Bank-time deposits	57,518	57,518			Cash and cash equivalents
Corporate bonds	206,519		206,519		Short-term investments
Bank-time deposits	198,072	198,072			Short-term investments
Foreign currency forward contracts	16		16		Prepaid expenses and other
Foreign currency forward contracts	(14)		(14)		Accrued and other current liabilities
Total recurring fair value measurements, net	$ 949,295	$ 742,774	$ 206,521	$	

	March 31, 2016	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	$ 562,726	$ 562,726	$	$	Cash and cash equivalents
Corporate bonds	205,250		205,250		Short-term investments
Bank-time deposits	265,570	265,570			Short-term investments
Foreign currency forward contracts	(137)		(137)		Accrued and other current liabilities
Total recurring fair value measurements, net	$ 1,033,409	$ 828,296	$ 205,113	$	

We did not have any transfers between Level 1 and Level 2 fair value measurements during the six months ended September 30, 2016.

Debt

As of September 30, 2016, the estimated fair value of our 1.75% Convertible Notes due 2016 (the "1.75% Convertible Notes") and 1.00% Convertible Notes due 2018 (the "1.00% Convertible Notes" and together with the 1.75% Convertible Notes, the "Convertible Notes") was

$589,200 and $603,951, respectively. The fair value was determined using Level 2 inputs, observable market data, for the Convertible Notes and their embedded option feature. See Note 9 for additional information regarding our Convertible Notes.

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TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

(Dollars in thousands, except share and per share amounts)

4. SHORT-TERM INVESTMENTS

Our short-term investments consisted of the following:

	September 30, 2016			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term investments				
Bank time deposits	$ 198,072	$	$	$ 198,072
Available-for-sale securities:				
Corporate bonds	206,383	207	(71)	206,519
Total short-term investments	$ 404,455	$ 207	$ (71)	$ 404,591

	March 31, 2016			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term investments				
Bank time deposits	$ 265,570	$	$	$ 265,570
Available-for-sale securities:				
Corporate bonds	205,166	131	(47)	205,250
Total short-term investments	$ 470,736	$ 131	$ (47)	$ 470,820

We consider various factors in the review of investments with an unrealized loss, including the credit quality of the issuer, the duration that the fair value has been less than the adjusted cost basis, the severity of the impairment, the reason for the decline in value and our intent to sell and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. Based on our review, we did not consider these investments to be other-than-temporarily impaired as of September 30, 2016 or March 31, 2016.

The following table summarizes the contracted maturities of our short-term investments at September 30, 2016:

	September 30, 2016	
	Amortized Cost	Fair Value
Short-term investments		
Due in 1 year or less	$ 350,866	$ 350,919
Due in 1 - 2 years	53,589	53,672
Total short-term investments	$ 404,455	$ 404,591

5. 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

TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

(Dollars in thousands, except share and per share amounts)

5. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

not enter into derivative financial contracts for speculative or trading purposes. We recognize derivative instruments as either assets or liabilities on our Condensed 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 Condensed Consolidated Statements of Cash Flows.

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

	September 30, 2016	March 31, 2016
Forward contracts to sell foreign currencies	**$ 157,808**	$ 54,529
Forward contracts to purchase foreign currencies	**4,204**	2,409

For the three months ended September 30, 2016 and 2015, we recorded a loss of $225 and a gain of $340, respectively, and for the six months ended September 30, 2016 and 2015, we recorded a gain of $573 and a loss of $322, respectively, related to foreign currency forward contracts in interest and other, net in our Condensed Consolidated Statements of Operations. Our derivative contracts are foreign currency exchange forward contracts that are not designated as hedging instruments under hedge accounting and are used to reduce the impact of foreign currency on certain balance sheet exposures and certain revenue and expense. These instruments are generally short term in nature, with typical maturities of less than one year, and are subject to fluctuations in foreign exchange rates.

6. INVENTORY

Inventory balances by category are as follows:

	September 30, 2016	March 31, 2016
Finished products	**$ 71,974**	$ 14,321
Parts and supplies	**5,587**	1,567
Inventory	**$ 77,561**	$ 15,888

Estimated product returns included in inventory at September 30, 2016 and March 31, 2016 were $627 and $527, respectively.

7. SOFTWARE DEVELOPMENT COSTS AND LICENSES

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

	September 30, 2016		March 31, 2016	
	Current	Non-current	Current	Non-current
Software development costs, internally developed	**$ 156,815**	**$ 229,942**	$ 131,378	$ 162,261
Software development costs, externally developed	**18,239**	**65,032**	46,888	45,703
Licenses	**3,575**	**5,366**	121	6,867
Software development costs and licenses	**$ 178,629**	**$ 300,340**	$ 178,387	$ 214,831

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TAKE-TWO INTERACTIVE SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

(Dollars in thousands, except share and per share amounts)

7. SOFTWARE DEVELOPMENT COSTS AND LICENSES (Continued)

Software development costs and licenses as of September 30, 2016 and March 31, 2016 included $413,878 and $343,450, respectively, related to titles that have not been released. During the three months ended September 30, 2016 and 2015 we recorded $2,526 and $423, respectively and during the six months ended September 30, 2016 and 2015, we recorded $11,594 and $2,133, respectively, of software development impairment charges (a component of cost of goods sold).

8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

September 30, 2016	March 31, 2016