DHT Holdings, Inc.
Form 424B3
February 03, 2011
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The information in this prospectus supplement and the accompanying prospectus is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus Supplement dated February 3, 2011

PROSPECTUS SUPPLEMENT

(To prospectus dated June 14, 2010)

8,000,000 Shares

DHT HOLDINGS, INC.

Common Stock

We are offering 8,000,000 shares of our common stock pursuant to this prospectus supplement.

Our common stock is quoted on The New York Stock Exchange under the symbol DHT. The last reported sale price of our common stock on February 2, 2011 was $5.12 per share.

Investing in our common stock involves risk. Before buying any shares you should carefully read the sections entitled Risk Factors beginning on page S-4 of this prospectus supplement and page 11 of the accompanying prospectus.

The underwriters are offering the shares of common stock as set forth under Underwriting.

	Per Share	Total
Public offering price	$	$

Underwriting discount	$	$
Proceeds before expenses to DHT Holdings, Inc.	$	$

We have granted the underwriters an option to purchase up to an additional 1,200,000 shares from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement to cover overallotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus are truthful or complete. Any representation to the contrary is a criminal offense.

The shares of common stock will be ready for delivery on or about , 2011.

UBS Investment Bank **BofA Merrill Lynch** **Citi**

Dahlman Rose & Company

The date of this prospectus supplement is , 2011.

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This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and certain other matters. The second part, the accompanying prospectus, gives more general information about securities we may offer from time to time. Generally, when we refer to the prospectus, we are referring to both parts of this document combined. To the extent the description of our securities in this prospectus supplement differs from the description of our securities in the accompanying prospectus, you should rely on the information in this prospectus supplement.

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. The distribution of this prospectus and sale of these securities in certain jurisdictions may be restricted by law. Persons in possession of this prospectus supplement or the accompanying prospectus are required to inform themselves about and observe any such restrictions. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement is accurate as of the date on the front cover of this prospectus supplement only. Our business, financial condition, results of operations and prospects may have changed since that date.

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SUMMARY

Before investing in our common stock, you should carefully read this prospectus supplement, the accompanying prospectus and the documents incorporated herein by reference for a more complete understanding of our business and this offering. You should pay special attention to the sections entitled Risk Factors beginning on page S-4 of this prospectus supplement and page 11 of the accompanying prospectus. Unless we specify otherwise, all references and data in this prospectus supplement to our business, our vessels and our fleet refer to the seven vessels comprising our initial fleet (our Initial Vessels) that we acquired simultaneously with the closing of our initial public offering, or IPO, on October 18, 2005 and the two Suezmax tankers, or Suezmaxes, that we acquired subsequent to our IPO. Unless we specify otherwise, all references in this prospectus supplement to we, our, us and our company refer to DHT Holdings, Inc. and its subsidiaries. The shipping industry s functional currency is the U.S. dollar. All of our revenues and most of our operating costs are in U.S. dollars. All references in this prospectus supplement to $ and dollars refer to U.S. dollars.

Our Company

We operate a fleet of crude oil tankers. As of February 3, 2011, our fleet consisted of three very large crude carriers, or VLCCs, which are tankers ranging in size from 200,000 to 320,000 deadweight tons, or dwt, two Suezmaxes, which are tankers ranging in size from 130,000 to 170,000 dwt, and four Aframax tankers, or Aframaxes, which are tankers ranging in size from 80,000 to 120,000 dwt. Our fleet principally operates on international routes and had a combined carrying capacity of 1,656,921 dwt and an average age of approximately 11 years as of February 3, 2011.

We acquired our Initial Vessels from subsidiaries of Overseas Shipholding Group, Inc., or OSG, on October 18, 2005 in exchange for cash and shares of our common stock and have time chartered these seven vessels back to certain subsidiaries of OSG. Each time charter for our Initial Vessels may be renewed by the charterer on one or more successive occasions for periods of one, two or three years, up to an aggregate of four, six or eight years, depending on the vessel, from the initial expiration date. In addition, on December 4, 2007 and January 28, 2008, we acquired our two Suezmaxes, the *Overseas Newcastle* and the *Overseas London*, respectively, in exchange for cash and have bareboat chartered these vessels to certain subsidiaries of OSG.

Our strategy is to employ our vessels in a combination of charters with stable cash flow and market exposure. In addition, as of December 31, 2010, the majority of our charter arrangements include a profit sharing component that gives us the opportunity to earn additional hire when vessel earnings exceed the basic hire amounts set forth in the charters. As of February 3, 2011, seven of the nine vessels in our fleet were operated in the Tankers International Pool, the Suezmax International Pool and the Aframax International Pool and we expect our potential to earn additional hire will benefit from the higher utilization rates realized by these pools. In a pooling arrangement, the net revenues generated by all of the vessels in a pool are aggregated and distributed to pool members pursuant to a pre-arranged weighting system that recognizes each vessel s earnings capacity based on its cargo capacity, speed and consumption, and actual on-hire performance.

Recent Developments

In December 2010, we acquired a VLCC built in 1999 at the Daewoo shipyard for $55.0 million. We expect the vessel will be delivered during the first quarter of 2011. We expect to employ the vessel in the Tankers International Pool. This vessel has a carrying capacity of approximately 307,000 dwt.

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Corporate Information

DHT Maritime, Inc., or Maritime, was incorporated under the name of Double Hull Tankers, Inc., or Double Hull, in April 2005 under the laws of the Marshall Islands. In June 2008, Double Hull s stockholders voted to approve an amendment to Double Hull s articles of incorporation to change its name to DHT Maritime, Inc. On February 12, 2010, DHT Holdings, Inc. was incorporated under the laws of the Marshall Islands. On March 1, 2010, Maritime effected a series of transactions, or the 2010 Transactions, that resulted in DHT Holdings, Inc. becoming the publicly held parent company of Maritime. As a result, DHT Holdings, Inc. became the successor issuer to Maritime pursuant to Rule 12g-3(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. In connection with the 2010 Transactions, each stockholder of Maritime common stock on March 1, 2010 received one share of DHT Holdings, Inc. common stock for each share of Maritime common stock held by such stockholder on such date. Following the 2010 Transactions, shares of Maritime no longer trade on The New York Stock Exchange, or the NYSE. Instead, shares of DHT Holdings, Inc. common stock now trade on the NYSE under the ticker symbol DHT, which is the same ticker symbol under which Maritime was quoted.

Our principal executive offices are located at 26 New Street, St. Helier, Jersey, Channel Islands, JE2 3RA and our telephone number at that address is +44 (0) 1534 639759. Our website address is *www.dhtholdings.com*. The information on our website is not a part of this prospectus. We own each of the vessels in our fleet through wholly-owned subsidiaries incorporated under the laws of the Marshall Islands.

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The Offering

Issuer	DHT Holdings, Inc., a Marshall Islands corporation.
Common stock offered in this offering	8,000,000 shares. 9,200,000 shares if the underwriters exercise their overallotment option in full.
Common stock to be outstanding after this offering	56,921,961 shares, assuming no exercise by the underwriters of their overallotment option.

58,121,961 shares, assuming exercise by the underwriters of their overallotment option in full.

Use of proceeds	We estimate that the net proceeds from this offering, after deducting the underwriting discount and estimated expenses relating to this offering payable by us, will be approximately $38.5 million. This amount is based on an assumed public offering price of $5.12, the last reported sale price of our common stock on the NYSE on February 2, 2011, assuming no exercise of the underwriters overallotment option. We plan to use the net proceeds of this offering for general corporate purposes, which may include, without limitation, vessel acquisitions, business acquisitions or other strategic alliances, reduction of outstanding borrowings, capital expenditures and working capital.
NYSE Symbol	DHT
Risk Factors	See Risk Factors beginning on page S-4 of this prospectus supplement and page 11 of the accompanying prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.

RISK FACTORS

An investment in shares of our common stock involves a high degree of risk. You should carefully consider the risk factors below, those appearing under the heading Risk Factors in our annual report on Form 20-F for the year ended December 31, 2009, as amended by Amendment No. 1 to Form 20-F filed with the Commission on January 31, 2011 (the 2009 Form 20-F), incorporated herein by reference, as well as the other information contained in this prospectus supplement, the accompanying base prospectus and the other documents incorporated herein by reference, before making an investment in our common stock. Some of the risks relate principally to us and our business and the industry in which we operate. Other risks relate principally to the securities market and ownership of our shares. If any of the circumstances or events described below, in the 2009 Form 20-F, or elsewhere in this prospectus actually arise or occur, our business, financial condition, results of operations and cash flows could be materially and adversely affected. In such a case, the market price of our common stock could decline and you could lose all or part of your investment.

Risks Relating To Our Company

Our vessels may call on ports located in countries that are subject to restrictions imposed by the United States government, which could negatively affect the trading price of our shares of common stock.

From time to time on charterers instructions, our vessels have called and may again call on ports located in countries subject to sanctions and embargoes imposed by the United States government and countries identified by the United States government as state sponsors of terrorism. The U.S. sanctions and embargo laws and regulations vary in their application, as they do not all apply to the same covered persons or proscribe the same activities, and such sanctions and embargo laws and regulations may be amended or strengthened over time. In 2010, the U.S. enacted the Comprehensive Iran Sanctions Accountability and Divestment Act (CISADA), which expanded the scope of the former Iran Sanctions Act. Among other things, CISADA expands the application of the prohibitions to non-U.S. companies, such as our company, and introduces limits on the ability of companies and persons to do business or trade with Iran when such activities relate to the investment, supply or export of refined petroleum or petroleum products.

Although we believe that we are in compliance with all applicable sanctions and embargo laws and regulations, and intend to maintain such compliance, there can be no assurance that we will be in compliance in the future, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Any such violation could result in fines or other penalties and could result in some investors deciding, or being required, to divest their interest, or not to invest, in our company. Additionally, some investors may decide to divest their interest, or not to invest, in our company simply because we do business with companies that do business in sanctioned countries. Moreover, our charterers may violate applicable sanctions and embargo laws and regulations as a result of actions that do not involve us or our vessels, and those violations could in turn negatively affect our reputation. Investor perception of the value of our common stock may also be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

When a tanker changes ownership and/or technical management, it may lose customer approvals.

Many major users of seaborne oil transportation services will require vetting of a vessel before it is approved to service their account. This represents a risk to our company as it may be difficult to efficiently employ the vessel until such vettings are in place.

Certain adverse U.S. federal income tax consequences could arise for U.S. stockholders.

A foreign corporation will be treated as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain

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types of passive income or (2) at least 50% of the average value of the corporation s assets produce or are held for the production of those types of passive income. For purposes of these tests, passive income includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute passive income. U.S. stockholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC. In particular, U.S. holders who are individuals would not be eligible for the maximum 15% preferential tax rate on qualified dividends.

Based on our operations we believe that it is more likely than not that we are not currently a PFIC. In this regard, we intend to treat the gross income we derive or are deemed to derive from our time chartering activities as services income, rather than rental income. Accordingly, we believe that it is more likely than not that our income from our time chartering activities does not constitute passive income, and that the assets we own and operate in connection with the production of that income do not constitute passive assets.

There are legal uncertainties involved in determining whether the income derived from time chartering activities constitutes rental income or income earned in connection with the performance of services. The U.S. Court of Appeals for the Fifth Circuit has held that, for purposes of a different set of rules under the Internal Revenue Code of 1986, as amended, or the Code, income derived from certain time chartering activities should be treated as rental income rather than services income. In recent guidance, however, the Internal Revenue Service, or the IRS, states that it disagrees with the holding of the Fifth Circuit case, and specifies that time charters should be treated as services income. We have not sought, and we do not expect to seek, an IRS ruling on this matter. As a result, the IRS or a court could disagree with the position that we are not a PFIC. No assurance can be given that this result will not occur. In addition, although we intend to conduct our affairs in a manner to avoid, to the extent possible, being classified as a PFIC with respect to any taxable year, no assurance can be given that the nature of our operations will not change in the future, or that we can avoid PFIC status in the future.

If the IRS were to find that we are or have been a PFIC for any taxable year, our U.S. stockholders will face adverse U.S. tax consequences. Under the PFIC rules, unless those stockholders make an election available under the Code, such stockholders would be liable to pay U.S. federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of our common stock, as if the excess distribution or gain had been recognized ratably over the stockholder s holding period of our common stock. The 15% maximum tax rate for individuals would not be available for this calculation. See Tax Considerations for a more comprehensive discussion of the U.S. federal income tax consequences to U.S. stockholders if we are treated as a PFIC.

In addition, even if we are not a PFIC, under legislation which was proposed (but not enacted) in a previous session of Congress, dividends of a corporation incorporated in a country without a comprehensive income tax system paid to U.S. individuals would not be eligible for the 15% tax rate. Although the term comprehensive income tax system is not defined in the proposed legislation, we believe this rule would apply to us, and therefore that dividends paid by us would not be eligible for the 15% tax rate, because we are incorporated in the Marshall Islands.

Risks Relating To Our Industry

Vessel values and charter rates are volatile. Significant decreases in values or rates could adversely affect our financial condition and results of operations.

The tanker industry historically has been highly cyclical. If the tanker industry is depressed in the future when our charters expire or at a time when we may want to sell a vessel, our earnings and available cash flow

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may decrease. Our ability to re-charter our vessels on the expiration or termination of the charters and the charter rates payable under any renewal or replacement charters will depend upon, among other things, the conditions in the tanker market at that time. Fluctuations in charter rates and vessel values result from changes in the supply and demand for tanker capacity and changes in the supply and demand for oil and oil products. Vessel values rose in the beginning of 2010, but began to decline again as the spot freight market decreased over the summer due primarily to the re-entry into the trading fleet of several tankers that had been in floating storage.

Acts of piracy on ocean-going vessels have recently increased in frequency, which could adversely affect our business and results of operations.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea and the Gulf of Aden off the coast of Somalia. Throughout 2008 and 2009, the frequency of piracy incidents against commercial shipping vessels increased significantly, particularly in the Gulf of Aden. For example, in November 2008, the M/V Sirius Star, a tanker not affiliated with us, was captured by pirates in the Indian Ocean while carrying crude oil estimated to be worth $100 million at the time of its capture. If these pirate attacks result in regions in which our vessels are deployed being characterized as war risk zones by insurers, as the Gulf of Aden temporarily was categorized in May 2008, premiums payable for insurance coverage could increase significantly and such coverage may be more difficult to obtain. In addition, crew costs, including costs in connection with employing onboard security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, including the payment of any ransom we may be forced to make, which could have a material adverse effect on us. In addition, any of these events may result in a loss of revenues, increased costs and decreased cash flows to our customers, which could impair their ability to make payments to us under our charters.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the underwriting discount and estimated expenses relating to this offering payable by us, will be approximately $38.5 million. This amount is based on an assumed public offering price of $5.12 per share, the last reported sale price of our common stock on the NYSE on February 2, 2011, assuming no exercise of the underwriters overallotment option. We plan to use the net proceeds of this offering for general corporate purposes, which may include, without limitation, vessel acquisitions, business acquisitions or other strategic alliances, reduction of outstanding borrowings, capital expenditures and working capital.

Assuming the number of shares offered by us, as set forth on the cover page of this prospectus supplement, remains the same, after deducting underwriting discounts and commissions and other estimated offering expenses payable by us, a $0.50 increase (decrease) in the assumed public offering price of $5.12 per share (the last reported sale price of our common stock on the NYSE on February 2, 2011) would increase (decrease) our expected net proceeds by approximately $3.8 million.

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CAPITALIZATION

The following table sets forth, as of December 31, 2010, our historical capitalization and our as adjusted capitalization, which is adjusted to give effect to the issuance and sale of 8,000,000 shares of our common stock pursuant to this offering at an assumed public offering price of $5.12 per share, the last reported sale price of our common stock on the NYSE on February 2, 2011.

The table below is derived from, and should be read in conjunction with, our consolidated financial statements and the notes thereto contained in our interim report on Form 6-K filed with the U.S. Securities and Exchange Commission, or the Commission, on January 31, 2011 (our January 2011 6-K) and incorporated herein by reference. You should also read this table in conjunction with the section of our January 2011 6-K entitled Management s Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2010.

($ in thousands)	**As of December 31, 2010**	
	Historical	**As Adjusted(1)(2)**
Cash and cash equivalents	$ 58,569	$ 97,112
Current installments of long-term debt		
Long-term debt	265,231	265,231
Preferred stock, $0.01 per value, 1,000,000 shares authorized, no shares issued and outstanding		
Common stock, $0.01 par value, 100,000,000 shares authorized, 48,921,961 shares issued and outstanding (Historical), 56,921,961 (As Adjusted)	487	567
Paid-in additional capital	240,537	279,000
Retained earnings/(deficit)	(42,188)	(42,188)
Accumulated other comprehensive income (loss)	(2,495)	(2,495)
Total stockholders equity	196,341	234,884
Total capitalization	$ 461,572	$ 500,115

(1) Assuming the number of shares offered by us, as set forth on the cover page of this prospectus supplement, remains the same, after deducting the estimated underwriting discounts and commissions and other estimated offering expenses totaling $2,417, a $0.50 increase (decrease) in the assumed public offering price of $5.12 per share (the last reported sale price of our common stock on the NYSE on February 2, 2011) would increase (decrease) our total capitalization and total stockholders equity by approximately $3.8 million.

(2) Does not include any adjustment for the cash dividend of $0.10 per share declared by us for the fourth quarter of 2010, payable on February 11, 2011, for shareholders of record as of February 4, 2011.

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PRICE RANGE OF COMMON STOCK AND DIVIDENDS

Our common stock is listed for trading on the NYSE and is traded under the symbol DHT. As of December 31, 2010, there were 48,921,961 shares of our common stock outstanding.

The following tables sets forth, for the periods indicated, the high and low closing sales prices for our common stock, as reported on the NYSE composite transaction tape, and quarterly dividend paid per share of our common stock. The last reported sale price of our common stock on the NYSE on February 2, 2011 was $5.12 per share.

	Price Range		Dividend
	High	Low	per Share
Year ended December 31, 2009			
First Quarter	6.74	3.84	0.25
Second Quarter	5.77	3.70	
Third Quarter	5.38	3.65	
Fourth Quarter	4.23	3.39	
Year ended December 31, 2010			
First Quarter	4.22	3.51	0.10
Second Quarter	4.89	3.84	0.10
Third Quarter	4.39	3.78	0.10
Fourth Quarter	4.82	4.07	0.10
Year ending December 31, 2011			
First Quarter(1)	5.12	4.68	

	Price Range	
	High	Low
Year ended:		
December 31, 2010	4.89	3.51
Month ended:		
August 31, 2010	4.25	3.82
September 30, 2010	4.13	3.78
October 31, 2010	4.30	4.07
November 30, 2010	4.74	4.32
December 31, 2010	4.82	4.31
January 31, 2011	5.11	4.68

(1) For the period commencing January 1, 2011 through February 2, 2011.

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ENVIRONMENTAL REGULATION

Government regulation significantly affects the ownership and operation of our tankers. They are subject to international conventions, national, state and local laws and regulations in force in the countries in which our tankers may operate or are registered. Under both the old and new ship management agreements for our Initial Vessels and under the bareboat charters for our Suezmaxes, Tanker Management and the bareboat charterers, respectively, have assumed technical management responsibility for our fleet, including compliance with all government and other regulations. If our ship management agreements with Tanker Management terminate, we would attempt to hire another party to assume this responsibility, including compliance with the regulations described herein and any costs associated with such compliance. However, in such event, we may be unable to hire another party to perform these and other services, and we may incur substantial costs to comply with environmental requirements.

A variety of governmental and private entities subject our tankers to both scheduled and unscheduled inspections. These entities include the local port authorities (U.S. Coast Guard, harbor master or equivalent), classification societies, flag state administration (country of registry) and charterers, particularly terminal operators and oil companies. Certain of these entities require us to obtain permits, licenses and certificates for the operation of our tankers. Failure to maintain necessary permits or approvals could require us to incur substantial costs or temporarily suspend operation of one or more of our tankers.

We believe that the heightened level of environmental and quality concerns among insurance underwriters, regulators and charterers is leading to greater inspection and safety requirements on all tankers and may accelerate the scrapping of older tankers throughout the industry. Increasing environmental concerns have created a demand for tankers that conform to the stricter environmental standards. With respect to our Initial Vessels and our Suezmaxes, Tanker Management and the bareboat charterers, respectively, are required to maintain operating standards for all of our tankers emphasizing operational safety, quality maintenance, continuous training of our officers and crews and compliance with U.S. and international regulations. We believe that the operation of our vessels is in substantial compliance with applicable environmental laws and regulations; however, because such laws and regulations are frequently changed and may impose increasingly stringent requirements, we cannot predict the ultimate cost of complying with these requirements, or the impact of these requirements on the resale value or useful lives of our tankers. In addition, a future serious marine incident that results in significant oil pollution or otherwise causes significant adverse environmental impact, such as the recent Deepwater Horizon oil spill in the Gulf of Mexico, could result in additional legislation or regulation that could negatively affect our profitability.

International Maritime Organization

In April 2001, the IMO adopted regulations under the International Convention for the Prevention of Pollution from Ships, or MARPOL, requiring new tankers of 5,000 dwt and over, contracted for construction since July 6, 1993, to have double hull, mid-deck or equivalent design. At that time, the regulations also required the phase-out of non-double hull tankers by 2015, with tankers having double sides or double bottoms permitted to operate until the earlier of 2017 or when the vessel reaches 25 years of age. Existing single hull tankers were required to be phased out unless retrofitted with double hull, mid-deck or equivalent design no later than 30 years after delivery. These regulations were adopted by over 150 nations, including many of the jurisdictions in which our tankers operate. Subsequent amendments to the MARPOL regulations accelerated the phase out of single hull tankers to 2005 for Category I vessels and 2010 for Category II and III vessels. Category I vessels are crude oil tankers of 20,000 dwt and above and product tankers of 30,000 dwt and above that are pre-MARPOL Segregated Ballast Tanks, or SBT tankers. Category II tankers are crude oil tankers of 20,000 dwt and above and product tankers of 30,000 dwt and above that are post-MARPOL SBT tankers. Category III tankers are tankers above 5,000 dwt, but below the deadweight specified for Category I and II tankers above. The IMO may adopt additional regulations in the future that could further restrict the operation of single hull vessels. All of our tankers are double-hulled and are thus not subject to phase-out under existing IMO regulations.

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In September 1997, the IMO adopted Annex VI to the International Convention for the Prevention of Pollution from Ships to address air pollution from ships. Annex VI, which became effective in May 2005, sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions. All of our vessels are currently compliant with these regulations. In July 2010, the IMO amendments to Annex VI regarding emissions of sulfur oxide, nitrogen oxide particulate matter and ozone depleting substances came into effect. The new standards seek to reduce air pollution from vessels by, among other things, establishing a series of progressive standards to further limit the sulfur content of fuel oil, which would be phased in by 2020, and by establishing new tiers of nitrogen oxide emission standards for new marine diesel engines, depending on their date of installation. Additionally, more stringent emission standards could apply in coastal areas designated as Emission Control Areas, or ECAs. The United States ratified these Annex VI amendments in October 2008, thereby rendering its emissions standards equivalent to IMO requirements. Please see the discussion of the U.S. Clean Air Act under U.S. Requirements below for information on the ECA designated in North America and the Hawaiian Islands.

Under the International Safety Management Code, or ISM Code, promulgated by the IMO, the party with operational control of a vessel is required to develop an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and describing procedures for responding to emergencies. Tanker Management and the charterers of the *Overseas Newcastle* and the *Overseas London* will rely upon their respective safety management systems.

The ISM Code requires that vessel operators obtain a safety management certificate for each vessel they operate. This certificate evidences compliance by a vessel s management with code requirements for a safety management system. No vessel can obtain a certificate unless its operator has been awarded a document of compliance, issued by each flag state, under the ISM Code. All requisite documents of compliance have been obtained with respect to the operators of all our vessels and safety management certificates have been issued for all our vessels for which the certificates are required by the IMO. These documents of compliance and safety management certificates are renewed as required.

Noncompliance with the ISM Code and other IMO regulations may subject the ship-owner or charterer to increased liability, lead to decreases in available insurance coverage for affected vessels and result in the denial of access to, or detention in, some ports. For example, the U.S. Coast Guard and European Union authorities have indicated that vessels not in compliance with the ISM Code will be prohibited from trading in U.S. and European Union ports.

Many countries have ratified and follow the liability plan adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage of 1969, or the 1969 Convention. Some of these countries have also adopted the 1992 Protocol to the 1969 Convention, or the 1992 Protocol. Under both the 1969 Convention and the 1992 Protocol, a vessel s registered owner is strictly liable, subject to certain affirmative defenses, for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil, subject to certain complete defenses. These conventions also limit the liability of the shipowner under certain circumstances. As these conventions calculate liability in terms of a basket of currencies, the figures in this section are converted into U.S. dollars based on currency exchange rates on February 3, 2010. Under the 1969 Convention, except where the owner is guilty of actual fault, its liability is limited to $207 per gross ton (a unit of measurement for the total enclosed spaces within a vessel) with a maximum liability of $21.8 million. Under the 1992 Protocol, the owner s liability is limited except where the pollution damage results from its personal act or omission, committed with the intent to cause such damage, or recklessly and with knowledge that such damage would probably result. Under the 2000 amendments to the 1992 Protocol, which became effective on November 1, 2003, liability is limited to approximately $7.0 million plus $980 for each

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additional gross ton over 5,000 for vessels of 5,000 to 140,000 gross tons, and approximately $139.5 million for vessels over 140,000 gross tons, subject to the exceptions discussed above for the 1992 Protocol.

In addition, IMO adopted an International Convention for the Control and Management of Ships Ballast Water and Sediments, or BWM Convention, in February 2004. The BWM Convention provides for a phased introduction of mandatory ballast water exchange requirements, to be replaced in time with mandatory concentration limits. The BWM Convention will not become effective until 12 months after it has been adopted by 30 states, the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world s merchant shipping. The Convention has not yet entered into force because a sufficient number of states have failed to adopt it. However, the IMO s Marine Environment Protection Committee passed a resolution in March 2010 encouraging the ratification of the Convention and calling upon those countries that have already ratified to encourage the installation of ballast water management systems. If mid-ocean ballast exchange or ballast water treatment requirements become mandatory, the cost of compliance could increase for ocean carriers, and these costs may be material.

IMO regulations also require owners and operators of vessels to adopt Shipboard Oil Pollution Emergency Plans, or SOPEPs. Periodic training and drills for response personnel and for vessels and their crews are required. In addition to SOPEPs, Tanker Management and the charterers of the *Overseas Newcastle* and the *Overseas London* have adopted Shipboard Marine Pollution Emergency Plans for our vessels, which cover potential releases not only of oil but of any noxious liquid substances.

U.S. Requirements

The United States regulates the tanker industry with an extensive regulatory and liability regime for environmental protection and cleanup of oil spills, consisting primarily of the OPA, and the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA. OPA affects all owners and operators whose vessels trade with the United States or its territories or possessions, or whose vessels operate in the waters of the United States, which include the U.S. territorial sea and the 200 nautical mile exclusive economic zone around the United States. CERCLA applies to the discharge of hazardous substances (other than oil) whether on land or at sea. Both OPA and CERCLA impact our business operations.

Under OPA, vessel owners, operators and bareboat or demise charterers are responsible parties who are liable, without regard to fault, for all containment and clean-up costs and other damages, including property and natural resource damages and economic loss without physical damage to property, arising from oil spills and pollution from their vessels.

Effective July 31, 2009, the U.S. Coast Guard adjusted the limits of OPA liability to the greater of $2,000 per gross ton or $17.088 million for any double-hull tanker, such as our vessels, that is over 3,000 gross tons (subject to periodic adjustment for inflation). CERCLA, which applies to owners and operators of vessels, contains a similar liability regime and provides for cleanup, removal and natural resource damages. Liability under CERCLA for a release or incident involving a release of hazardous substances is limited to the greater of $300 per gross ton or $5 million for vessels carrying a hazardous substance as cargo and the greater of $300 per gross ton or $0.5 million for any other vessel. These OPA and CERCLA limits of liability do not apply if an incident was directly caused by violation of applicable U.S. federal safety, construction or operating regulations or by a responsible party s gross negligence, willful misconduct, refusal to report the incident or refusal to cooperate and assist in connection with oil removal activities. In addition, in response to the oil spill in the Gulf of Mexico resulting from the explosion of the Deepwater Horizon drilling rig, bills have been introduced in both houses of the U.S. Congress to increase the limits of OPA liability for all vessels.

OPA specifically permits individual U.S. coastal states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for oil spills.

OPA also requires owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the limit of their potential strict liability under the Act. The U.S. Coast Guard has enacted regulations requiring evidence of financial responsibility consistent with the aggregate limits of liability described above for OPA and CERCLA. Under the regulations, evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance, guaranty or an alternative method subject to approval by the Director of the U.S. Coast Guard National Pollution Funds Center. Under OPA regulations, an owner or operator of more than one tanker is required to demonstrate evidence of financial responsibility for the entire fleet in an amount equal only to the financial responsibility requirement of the tanker having the greatest maximum strict liability under OPA and CERCLA. Tanker Management and the charterers of the *Overseas Newcastle* and the *Overseas London* have provided the requisite guarantees and received certificates of financial responsibility from the U.S. Coast Guard for each of our tankers required to have one.

With respect to our Initial Vessels and our Suezmaxes, Tanker Management and the bareboat charterers, respectively, have arranged insurance for each of our tankers with pollution liability insurance in the amount of $1 billion. However, a catastrophic spill could exceed the insurance coverage available, in which event there could be a material adverse effect on our business, on the charterer s business, which could impair the charterer s ability to make payments to us under our charters, and on Tanker Management s business, which could impair Tanker Management s ability to manage our Initial Vessels.

Under OPA, oil tankers as to which a contract for construction or major conversion was put in place after June 30, 1990 are required to have double hulls. In addition, oil tankers without double hulls will not be permitted to come to U.S. ports or trade in U.S. waters starting in 2015. All of our vessels have double hulls.

OPA also amended the federal Water Pollution Control Act, or Clean Water Act, to require owners and operators of vessels to adopt vessel response plans for reporting and responding to oil spill scenarios up to a worst case scenario and to identify and ensure, through contracts or other approved means, the availability of necessary private response resources to respond to a worst case discharge. In addition, periodic training programs and drills for shore and response personnel and for vessels and their crews are required.

Vessel response plans for our tankers operating in the waters of the United States have been approved by the U.S. Coast Guard. In addition, the U.S. Coast Guard has announced it intends to propose similar regulations requiring certain vessels to prepare response plans for the release of hazardous substances. With respect to our Initial Vessels and our Suezmaxes, Tanker Management and the bareboat charterers, respectively, are responsible for ensuring our vessels comply with any additional regulations.

The U.S. Clean Water Act, or CWA, prohibits the discharge of oil or hazardous substances in U.S. navigable waters unless authorized by a duly-issued permit or exemption, and imposes strict liability in the form of penalties for any unauthorized discharges. The CWA also imposes substantial liability for the costs of removal and remediation and damages and complements the remedies available under OPA and CERCLA. Furthermore, most U.S. states that border a navigable waterway have enacted laws that impose strict liability for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws may be more stringent than U.S. federal law.

The EPA regulates the discharge of ballast water and other substances in U.S. waters under the CWA. Effective February 6, 2009, EPA regulations require vessels 79 feet in length or longer (other than commercial fishing and recreational vessels) to comply with a Vessel General Permit authorizing ballast water discharges and other discharges incidental to the operation of vessels. The Vessel General Permit imposes technology and water-quality based effluent limits for certain types of discharges and establishes specific inspection, monitoring, recordkeeping and reporting requirements to ensure the effluent limits are met. U.S. Coast Guard regulations adopted under the U.S. National Invasive Species Act, or NISA, also impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering or operating in U.S. waters, and in 2009 the Coast Guard proposed new ballast water management standards and practices, including limits

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regarding ballast water releases. Compliance with the EPA and the U.S. Coast Guard regulations could require the installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial cost, and/or otherwise restrict our vessels from entering U.S. waters.

The U.S. Clean Air Act of 1970, as amended by the Clean Air Act Amendments of 1977 and 1990, or the CAA, requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. Our vessels are subject to vapor control and recovery requirements for certain cargoes when loading, unloading, ballasting, cleaning and conducting other operations in regulated port areas and emission standards for so-called Category 3 marine diesel engines operating in U.S. waters. The marine diesel engine emission standards are currently limited to new engines beginning with the 2004 model year. In April 2010, the EPA adopted new emission standards for Category 3 marine diesel engines equivalent to those adopted in the amendments to Annex VI to MARPOL. The emission standards apply in two stages: near-term standards for newly-built engines will apply beginning in 2011, and long-term standards requiring an 80% reduction in nitrogen dioxides (NOx) will apply beginning in 2016. Compliance with these standards may cause us to incur costs to install control equipment on our vessels.

The CAA also requires states to draft State Implementation Plans, or SIPs, designed to attain national health-based air quality standards. Several SIPs regulate emissions resulting from vessel loading and unloading operations by requiring the installation of vapor control equipment. As indicated above, our vessels operating in covered port areas are already equipped with vapor recovery systems that satisfy these existing requirements. Under regulations that became effective in July 2009, vessels sailing within 24 miles of the California coastline whose itineraries call for them to enter any California ports, terminal facilities, or internal or estuarine waters must use marine gas oil with a sulfur content equal to or less than 1.5% and marine diesel oil with a sulfur content equal to or less than 0.5%. Effective January 1, 2012, all marine fuels must have sulfur content equal to or less than 0.1% (1,000 ppm).

The MEPC has designated the area extending 200 miles from the United States and Canadian territorial sea baseline adjacent to the Atlantic/Gulf and Pacific coasts and the eight main Hawaiian Islands as an ECA under the MARPOL Annex VI amendments. The new ECA will enter into force in August 2012, whereupon fuel used by all vessels operating in the ECA cannot exceed 1.0% sulfur, dropping to 0.1% sulfur in 2015. From 2016, NOx after-treatment requirements will also apply. If other ECAs are approved by the IMO or other new or more stringent requirements relating to emissions from marine diesel engines or port operations by vessels are adopted by the EPA or the states where we operate, compliance with these regulations could entail significant capital expenditures or otherwise increase the costs of our operations.

European Union Tanker Restrictions

The European Union has adopted legislation that will: (1) ban manifestly sub-standard vessels (defined as those over 15 years old that have been detained by port authorities at least twice in a six month period) from European waters and create an obligation of port states to inspect vessels posing a high risk to maritime safety or the marine environment; and (2) provide the European Union with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies. In addition, European Union regulations enacted in 2003 now prohibit all single hull tankers from entering into its ports or offshore terminals.

The European Union has implemented regulations requiring vessels to use reduced sulfur content fuel for their main and auxiliary engines. The EU Directive 2005/EC/33 (amending Directive 1999/32/EC) introduced parallel requirements in the European Union to those in MARPOL Annex VI in respect of the sulfur content of marine fuels. In addition, it has introduced a 0.1% maximum sulfur requirement for fuel used by ships at berth in EU ports from January 1, 2010.

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The sinking of the oil tanker Prestige in 2002 has led to the adoption of other environmental regulations by certain European Union Member States. It is difficult to predict what legislation or additional regulations, if any, may be promulgated by the European Union in the future.

Greenhouse Gas Regulation

Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, or UNFCCC, which entered into force in 2005 and pursuant to which adopting countries have been required to implement national programs to reduce greenhouse gas emissions. A new treaty could be adopted in the future, however, that includes restrictions on shipping emissions. In addition, the IMO is, however, evaluating mandatory measures to reduce greenhouse gas emissions from international shipping, which may include market-based instruments or a carbon tax. In addition, the European Union has indicated that it intends to consider an expansion of the existing European Union emissions trading scheme to include emissions of greenhouse gases from marine vessels, if such emissions were not regulated through the IMO (or the UNFCCC) by December 31, 2010, which did not occur. In the United States, the EPA promulgated regulations in May 2010 that regulate certain emissions of greenhouse gases. Although these regulations do not cover greenhouse gas emissions from vessels, the EPA may decide in the future to regulate such emissions and has already been petitioned by the California Attorney General and a coalition of environmental groups to regulate greenhouse gas emissions from ocean going vessels. Other federal and state regulations relating to the control of greenhouse gas emissions may follow, including climate change initiatives that are being considered in the U.S. Congress. Any passage of climate control legislation or other regulatory initiatives by the IMO, EU, the U.S. or other countries where we operate, or any treaty adopted at the international level to succeed the Kyoto Protocol, that restrict emissions of greenhouse gases could require us to make significant financial expenditures that we cannot predict with certainty at this time.

Vessel Security Regulations

As of July 1, 2004, all ships involved in international commerce and the port facilities that interface with those ships must comply with the new International Code for the Security of Ships and of Port Facilities, or ISPS Code. The ISPS Code, which was adopted by the IMO in December 2002, provides a set of measures and procedures to prevent acts of terrorism, which threaten the security of passengers and crew and the safety of ships and port facilities. All of our vessels have obtained an International Ship Security Certificate, or ISSC, from a recognized security organization approved by the vessel s flag state and each vessel has developed and implemented an approved Ship Security Plan.

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TAX CONSIDERATIONS

The following is a discussion of the material Marshall Islands and U.S. federal income tax considerations relevant to the acquisition, ownership and disposition of our common stock. This discussion does not purport to deal with the tax consequences of owning common stock to all categories of investors, some of which (such as financial institutions, regulated investment companies, real estate investment trusts, tax-exempt organizations, insurance companies, persons holding our common stock as part of a hedging, integrated, conversion or constructive sale transaction or a straddle, traders in securities that have elected the mark-to-market method of accounting for their securities, persons liable for alternative minimum tax, persons who are investors in pass-through entities, dealers in securities or currencies and investors whose functional currency is not the United States dollar) may be subject to special rules.

WE RECOMMEND THAT YOU CONSULT YOUR OWN TAX ADVISORS CONCERNING THE OVERALL TAX CONSEQUENCES ARISING IN YOUR OWN PARTICULAR SITUATION UNDER UNITED STATES FEDERAL, STATE, LOCAL OR FOREIGN LAW OF THE OWNERSHIP OF OUR COMMON STOCK.

Marshall Islands Tax Considerations

The following are the material Marshall Islands tax consequences of our activities to us and stockholders of our common stock. We are incorporated in the Marshall Islands. Under current Marshall Islands law, we are not subject to tax on income or capital gains, and no Marshall Islands withholding tax will be imposed upon payments of dividends by us to our stockholders.

United States Federal Income Tax Considerations

This discussion is based on the Code, Treasury regulations issued thereunder, published administrative interpretations of the IRS and judicial decisions as of the date hereof, all of which are subject to change at any time, possibly on a retroactive basis.

Taxation of Operating Income: In General

Our subsidiaries have elected to be treated as disregarded entities for U.S. federal income tax purposes. As a result, for purposes of the discussion below, our subsidiaries are treated as branches rather than as separate corporations.

Unless exempt from United States federal income taxation under the rules contained in Section 883 of the Code (discussed below), a foreign corporation is subject to United States federal income taxation on its shipping income that is treated as derived from sources within the United States, referred to as United States source shipping income. For these purposes shipping income means any income that is derived from the use of vessels, from the hiring or leasing of vessels for use on a time, voyage or bareboat charter basis, from the participation in a pool, partnership, strategic alliance, joint operating agreement, code sharing arrangement or other joint venture it directly or indirectly owns or participates in that generates such income, or from the performance of services directly related to those uses. For tax purposes, United States source shipping income includes (i) 50% of shipping income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States and (ii) 100% of shipping income that is attributable to transportation that both begins and ends in the United States.

Shipping income attributable to transportation exclusively between non-United States ports will be considered to be 100% derived from sources outside the United States. Shipping income derived from sources outside the United States will not be subject to any United States federal income tax.

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In the absence of exemption from tax under Section 883, our gross United States source shipping income would be subject to a 4% tax imposed without allowance for deductions, as described below. We have not, nor do we believe we will, engage in transportation that produces income which is considered to be 100% from sources within the United States.

Exemption of operating income from United States federal income taxation

Under Section 883 of the Code and the regulations thereunder, we will be exempt from United States federal income taxation on our United States source shipping income if:

1. we are organized in a foreign country (the country of organization) that grants an equivalent exemption to corporations organized in the United States; and

2. either

   (A) more than 50% of the value of our stock is owned, directly or indirectly, by individuals who are residents of our country of organization or of another foreign country that grants an equivalent exemption to corporations organized in the United States, referred to as the 50% Ownership Test, or

   (B) our stock is primarily and regularly traded on an established securities market in our country of organization, in another country that grants an equivalent exemption to United States corporations, or in the United States, referred to as the Publicly-Traded Test.

The Marshall Islands, the jurisdiction where we and our ship-owning subsidiaries are incorporated, grants an equivalent exemption to United States corporations. Therefore, we will be exempt from United States federal income taxation with respect to our United States source shipping income if either the 50% Ownership Test or the Publicly-Traded Test is met. Because shares of our common stock are traded on the NYSE, it is difficult to satisfy the 50% Ownership Test due to the widely-held ownership of our stock.

As to the Publicly-Traded Test, the regulations under Code Section 883 provide, in pertinent part, that stock of a foreign corporation will be considered to be primarily traded on an established securities market in a country if the number of shares of each class of stock that is traded during any taxable year on all established securities markets in that country exceeds the number of shares in each such class that is traded during that year on established securities markets in any other single country. We believe that our common stock, which is, and will continue to be, the sole class of our issued and outstanding stock, is, and will continue to be, primarily traded on the NYSE, which is an established securities market for these purposes.

The Publicly-Traded Test also requires our common stock to be regularly traded on an established securities market. Under the regulations, our common stock is considered to be regularly traded on an established securities market if one or more classes of our stock representing more than 50% of our outstanding shares, by both total combined voting power of all classes of stock entitled to vote and total value, are listed on the market, referred to as the listing threshold. The regulations further require that with respect to each class of stock relied upon to meet the listing threshold, (i) such class of stock is traded on the market, other than in minimal quantities, on at least 60 days during the taxable year or 1/6 of the days in a short taxable year; and (ii) the aggregate number of shares of such class of stock traded on such market during the taxable year is at least 10% of the average number of shares of such class of stock outstanding during such year (as appropriately adjusted in the case of a short taxable year). We believe we satisfy, and will continue to satisfy, the trading frequency and trading volume tests. However, even if we do not satisfy both tests, the regulations provide that the trading frequency and trading volume tests will be deemed satisfied if our common stock is traded on an established market in the United States and such stock is regularly quoted by dealers making a market in such stock. We believe this is and will continue to be the case.

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Notwithstanding the foregoing, a class of our stock will not be considered to be regularly traded on an established securities market for any taxable year in which 50% or more of the vote and value of the outstanding shares of such class are owned, actually or constructively under certain stock attribution rules, on more than half the days during the taxable year by persons who each own 5% or more of the value of such class of our outstanding stock, referred to as the 5 Percent Override Rule.

In order to determine the persons who actually or constructively own 5% or more of our stock, or 5% Stockholders, we are permitted to rely on those persons that are identified on Schedule 13G and Schedule 13D filings with the Commission as having a 5% or more beneficial interest in our common stock. In addition, an investment company identified on a Schedule 13G or Schedule 13D filing which is registered under the Investment Company Act of 1940, as amended, will not be treated as a 5% Stockholder for such purposes.

In the event the 5 Percent Override Rule is triggered, the 5 Percent Override Rule will nevertheless not apply if we can establish that among the closely-held group of 5% Stockholders, there are sufficient 5% Stockholders that are considered to be qualified stockholders for purposes of Section 883 to preclude non-qualified 5% Stockholders in the closely-held group from owning 50% or more of each class of our stock for more than half the number of days during the taxable year.

We believe that we have satisfied and will continue to satisfy the Publicly-Traded Test and that the 5 Percent Override Rule has not been and will not be applicable to us. However, no assurance can be given that this will be the case in the future.

In any year that the 5 Percent Override Rule is triggered with respect to us, we are eligible for the exemption from tax under Section 883 only if we can nevertheless satisfy the Publicly-Traded Test (which requires, among other things, showing that the exception to the 5 Percent Override Rule applies) or if we can satisfy the 50% Ownership Test. In either case, we would have to satisfy certain substantiation requirements regarding the identity of our stockholders in order to qualify for the Section 883 exemption. These requirements are onerous and there is no assurance that we would be able to satisfy them.

To the extent the benefits of Section 883 are unavailable, our United States source shipping income, to the extent not considered to be effectively connected with the conduct of a United States trade or business, as described below, would be subject to a 4% tax imposed by Section 887 of the Code on a gross basis, without the benefit of deductions. Since under the sourcing rules described above, no more than 50% of our shipping income would be treated as being United States source shipping income, the maximum effective rate of United States federal income tax on its shipping income would never exceed 2% under the 4% gross basis tax regime.

To the extent the benefits of the Section 883 exemption are unavailable and our United States source shipping income is considered to be effectively connected with the conduct of a United States trade or business, as described below, any such effectively connected United States source shipping income, net of applicable deductions, would be subject to the United States federal corporate income tax currently imposed at rates of up to 35%. In addition, we may be subject to the 30% branch profits taxes on earnings effectively connected with the conduct of such trade or business, as determined after allowance for certain adjustments, and on certain interest paid or deemed paid attributable to the conduct of our United States trade or business.

Our United States source shipping income would be considered effectively connected with the conduct of a United States trade or business only if:

- we had, or were considered to have, a fixed place of business in the United States involved in the earning of United States source shipping income; and

- substantially all of our United States source shipping income was attributable to regularly scheduled transportation, such as the operation of a vessel that followed a published schedule with repeated sailings at regular intervals between the same points for voyages that begin or end in the United States.

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We do not have, nor will we permit circumstances that would result in having, any vessel sailing to or from the United States on a regularly scheduled basis. Based on the foregoing and on the expected mode of our shipping operations and other activities, we believe that none of our United States source shipping income is or will be effectively connected with the conduct of a United States trade or business.

United States taxation of gain on sale of vessels

Regardless of whether we qualify for exemption under Section 883, we will not be subject to United States federal income taxation with respect to gain realized on a sale of a vessel, provided the sale is considered to occur outside of the United States under United States federal income tax principles. In general, a sale of a vessel will be considered to occur outside of the United States for this purpose if title to the vessel, and risk of loss with respect to the vessel, pass to the buyer outside of the United States. It is expected that any sale of a vessel will be considered to occur outside of the United States.

United States Federal Income Taxation of United States Holders

As used herein, the term United States Holder means a beneficial owner of common stock that

- is an individual United States citizen or resident, a United States corporation or other United States entity taxable as a corporation, an estate the income of which is subject to United States federal income taxation regardless of its source, or a trust if a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust,
- owns our common stock as a capital asset, and
- owns less than 10% of our common stock for United States federal income tax purposes.

If a partnership holds our common stock, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner in a partnership holding our common stock, we suggest that you consult your tax advisor.

Distributions

Subject to the discussion of passive foreign investment companies, or PFICs, below, any distributions made by us with respect to our common stock to a United States Holder will generally constitute dividends to the extent of its current or accumulated earnings and profits, as determined under United States federal income tax principles. Distributions in excess of such earnings and profits will be treated first as a nontaxable return of capital to the extent of the United States Holder s tax basis in his common stock on a dollar-for-dollar basis and thereafter as capital gain. Because we are not a United States corporation, United States Holders that are corporations will not be entitled to claim a dividends received deduction with respect to any distributions they receive from us. Dividends paid with respect to our common stock will generally be treated as passive income for purposes of computing allowable foreign tax credits for United States foreign tax credit purposes.

Dividends paid on our common stock to a United States Holder who is an individual, trust or estate (a United States Non-Corporate Holder) will generally be treated as qualified dividend income that is taxable to such United States Non-Corporate Holder at a preferential maximum tax rate of 15% (through 2012) provided that (1) the common stock is readily tradable on an established securities market in the United States (such as the NYSE); (2) we are not a PFIC for the taxable year during which the dividend is paid or the immediately preceding taxable year (see discussion below); (3) the United States Non-Corporate Holder has owned the common stock for more than 60 days in the 121-day period beginning 60 days before the date on which the common stock becomes ex-dividend; and (4) the United States Non-Corporate Holder is not under an obligation to make related payments with respect to positions in substantially similar or related property. Special rules may

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apply to any extraordinary dividend generally, a dividend in an amount which is equal to or in excess of 10% of a stockholder s adjusted basis in a share of common stock paid by us. If we pay an extraordinary dividend on our common stock that is treated as qualified dividend income, then any loss derived by a United States Non-Corporate Holder from the sale or exchange of such common stock will be treated as long-term capital loss to the extent of such dividend. There is no assurance that any dividends paid on our common stock will be eligible for these preferential rates in the hands of a United States Non-Corporate Holder, although we believe that they will be so eligible provided that we are not a PFIC, as discussed below. Any dividends out of earnings and profits we pay which are not eligible for these preferential rates will be taxed at ordinary income rates in the hands of a United States Non-Corporate Holder.

In addition, even if we are not a PFIC, under legislation which was proposed (but not enacted) in a previous session of Congress, dividends of a corporation incorporated in a country without a comprehensive income tax system paid to United States Non-Corporate Holders would not be eligible for the 15% tax rate. Although the term comprehensive income tax system is not defined in the proposed legislation, we believe this rule would apply to us because we are incorporated in the Marshall Islands.

Sale, exchange or other disposition of common stock

Provided that we are not a PFIC for any taxable year, a United States Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of our common stock in an amount equal to the difference between the amount realized by the United States Holder from such sale, exchange or other disposition and the United States Holder s tax basis in such stock. Such gain or loss will be treated as long-term capital gain or loss if the United States Holder s holding period is greater than one year at the time of the sale, exchange or other disposition. Such capital gain or loss will generally be treated as United States source income or loss, as applicable, for United States foreign tax credit purposes. Long-term capital gains of United States Non-Corporate Holders are eligible for reduced rates of taxation. A United States Holder s ability to deduct capital losses against ordinary income is subject to certain limitations.

PFIC status and significant tax consequences

Special United States federal income tax rules apply to a United States Holder that holds stock in a foreign corporation classified as a PFIC for United States federal income tax purposes. In particular, United States Non-Corporate Holders will not be eligible for the 15% tax rate on qualified dividends. In general, we will be treated as a PFIC with respect to a United States Holder if, for any taxable year in which such holder held our common stock, either

- at least 75% of our gross income for such taxable year consists of passive income (e.g., dividends, interest, capital gains and rents derived other than in the active conduct of a rental business), or

- at least 50% of the average value of our assets during such taxable year consists of passive assets (i.e., assets that produce, or are held for the production of, passive income).

Income earned, or deemed earned, by us in connection with the performance of services would not constitute passive income. By contrast, rental income would generally constitute passive income unless we were treated under specific rules as deriving our rental income in the active conduct of a trade or business.

Based on our operations we believe that it is more likely than not that we are not currently and will not be a PFIC. In this regard, we intend to treat the gross income we derive or are deemed to derive from our time chartering activities as services income, rather than rental income. Accordingly, we believe that it is more likely than not that our income from our time chartering activities does not constitute passive income, and that the assets we own and operate in connection with the production of that income do not constitute passive assets.

There are legal uncertainties involved in determining whether the income derived from time chartering activities constitutes rental income or income earned in connection with the performance of services. The U.S. Court of Appeals for the Fifth Circuit has held that, for purposes of a different set of rules under the Code, income derived from certain time chartering activities should be treated as rental income rather than services income. In recent guidance, however, the IRS states that it disagrees with the holding of the Fifth Circuit case, and specifies that time charters should be treated as services income. We have not sought, and we do not expect to seek, an IRS ruling on this matter. As a result, the IRS or a court could disagree with our position. No assurance can be given that this result will not occur. In addition, although we intend to conduct our affairs in a manner to avoid, to the extent possible, being classified as a PFIC with respect to any taxable year, we cannot assure you that the nature of our operations will not change in the future, or that we can avoid PFIC status in the future.

Under recently enacted legislation, if we were to be treated as a PFIC for any taxable year, a United States Holder would be required to file an annual report with the IRS for that year with respect to such holder s common stock. In addition, as discussed more fully below, a United States Holder would be subject to different taxation rules depending on whether the United States Holder made an election to treat us as a Qualified Electing Fund, which election is referred to as a QEF election. As an alternative to making a QEF election, a United States Holder should be able to make a mark-to-market election with respect to our common stock, as discussed below.

Taxation of United States Holders making a timely QEF election

If we were a PFIC and a United States Holder made a timely QEF election, which United States Holder is referred to as an Electing Holder, the Electing Holder would report each year for United States federal income tax purposes its pro rata share of our ordinary earnings and our net capital gain (which gain shall not exceed our earnings and profits for the taxable year), if any, for our taxable year that ends with or within the taxable year of the Electing Holder, regardless of whether or not distributions were received from us by the Electing Holder. Any such ordinary income would not be eligible for the preferential tax rates applicable to qualified dividend income as discussed above. The Electing Holder s adjusted tax basis in the common stock would be increased to reflect taxed but undistributed earnings and profits. Distributions of earnings and profits that had been previously taxed would, pursuant to this election, result in a corresponding reduction in the adjusted tax basis in the common stock and would not be taxed again once distributed. An Electing Holder would not, however, be entitled to a deduction for its pro rata share of any losses that we incurred with respect to any year. An Electing Holder would generally recognize capital gain or loss on the sale, exchange or other disposition of our common stock. A United States Holder would make a QEF election with respect to any year that we are a PFIC by filing one copy of IRS Form 8621 with his United States federal income tax return. If we were treated as a PFIC for any taxable year, we would provide each United States Holder with all necessary information in order to make the QEF election described above. Even if a United States Holder makes a QEF election for one of our taxable years, if we were a PFIC for a prior taxable year during which the holder was a stockholder and for which the holder did not make a timely QEF election, different and more adverse tax consequences would apply.

Taxation of United States Holders making a mark-to-market election

Alternatively, if we were treated as a PFIC for any taxable year and, as we believe, our stock is treated as marketable stock, a United States Holder would be allowed to make a mark-to-market election with respect to our common stock, provided the United States Holder completes and files IRS Form 8621 in accordance with the relevant instructions and related Treasury regulations. If that election is made, the United States Holder generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of the common stock at the end of the taxable year over such holder s adjusted tax basis in the common stock. The United States Holder would also be permitted an ordinary loss in respect of the excess, if any, of the United States Holder s adjusted tax basis in the common stock over its fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

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A United States Holder s tax basis in his common stock would be adjusted to reflect any such income or loss amount. Gain realized on the sale, exchange or other disposition of our common stock would be treated as ordinary income, and any loss realized on the sale, exchange or other disposition of the common stock would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included by the United States Holder in income.

Taxation of United States Holders not making a timely QEF or mark-to-market election

Finally, if we were treated as a PFIC for any taxable year, a United States Holder who does not make either a QEF election or a mark-to-market election for that year, referred to as a Non-Electing Holder, would be subject to special rules with respect to (1) any excess distribution (i.e., the portion of any distributions received by the Non-Electing Holder on our common stock in a taxable year in excess of 125% of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if shorter, the Non-Electing Holder s holding period for the common stock), and (2) any gain realized on the sale, exchange or other disposition of our common stock. Under these special rules:

- the excess distribution or gain would be allocated ratably over the Non-Electing Holder s aggregate holding period for the common stock;
- the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we were a PFIC during the Non-Electing Holder s holding period, would be taxed as ordinary income; and
- the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

These penalties would not apply to a qualified pension, profit sharing or other retirement trust or other tax-exempt organization that did not borrow money or otherwise utilize leverage in connection with its acquisition of our common stock. If we were a PFIC and a Non-Electing Holder who was an individual died while owning our common stock, such holder s successor generally would not receive a step-up in tax basis with respect to such stock. Certain of these rules would apply to a United States Holder who made a QEF election for one of our taxable years if we were a PFIC in a prior taxable year during which the holder was a stockholder and for which the holder did not make a QEF election.

United States Federal Income Taxation of Non-United States Holders

A beneficial owner of common stock (other than a partnership) that is not a United States Holder is referred to herein as a Non-United States Holder.

Dividends on common stock

Non-United States Holders generally will not be subject to United States federal income tax or withholding tax on dividends received from us with respect to our common stock, unless that dividend income is effectively connected with the Non-United States Holder s conduct of a trade or business in the United States. If the Non-United States Holder is entitled to the benefits of a United States income tax treaty with respect to those dividends, that income is taxable only if it is attributable to a permanent establishment maintained by the Non-United States Holder in the United States.

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Sale, exchange or other disposition of common stock

Non-United States Holders generally will not be subject to United States federal income tax or withholding tax on any gain realized upon the sale, exchange or other disposition of our common stock, unless:

- the gain is effectively connected with the Non-United States Holder s conduct of a trade or business in the United States (and, if the Non-United States Holder is entitled to the benefits of an income tax treaty with respect to that gain, that gain is attributable to a permanent establishment maintained by the Non-United States Holder in the United States); or
- the Non-United States Holder is an individual who is present in the United States for 183 days or more during the taxable year of disposition and other conditions are met.

If the Non-United States Holder is engaged in a United States trade or business for United States federal income tax purposes, the income from the common stock, including dividends and the gain from the sale, exchange or other disposition of the stock, that is effectively connected with the conduct of that trade or business will generally be subject to regular United States federal income tax in the same manner as discussed in the previous section relating to the taxation of United States Holders. In addition, if you are a corporate Non-United States Holder, your earnings and profits that are attributable to the effectively connected income, which are subject to certain adjustments, may be subject to an additional branch profits tax at a rate of 30%, or at a lower rate as may be specified by an applicable income tax treaty.

Backup Withholding and Information Reporting

In general, dividend payments, or other taxable distributions, made within the United States to you will be subject to information reporting requirements if you are a non-corporate United States Holder. Such payments or distributions may also be subject to backup withholding tax if you are a non-corporate United States Holder and you:

- fail to provide an accurate taxpayer identification number;
- are notified by the Internal Revenue Service that you have failed to report all interest or dividends required to be shown on your federal income tax returns; or
- in certain circumstances, fail to comply with applicable certification requirements.

Non-United States Holders may be required to establish their exemption from information reporting and backup withholding by certifying their status on IRS Form W-8BEN, W-8ECI or W-8IMY, as applicable.

If you are a Non-United States Holder and you sell our common stock to or through a United States office of a broker, the payment of the proceeds is subject to both United States backup withholding and information reporting unless you certify that you are a non-United States person, under penalties of perjury, or you otherwise establish an exemption. If you sell our common stock through a non-United States office of a non-United States broker and the sales proceeds are paid to you outside the United States, then information reporting and backup withholding generally will not apply to that payment. However, United States information reporting requirements, but not backup withholding, will apply to a payment of sales proceeds, even if that payment is made to you outside the United States, if you sell our common stock through a non-United States office of a broker that is a United States person or has some other contacts with the United States. Such information reporting requirements will not apply, however, if the broker has documentary evidence in its records that you are a non-United States person and certain other conditions are met, or you otherwise establish an exemption.

Backup withholding tax is not an additional tax. Rather, you generally may obtain a refund of any amounts withheld under backup withholding rules that exceed your income tax liability by filing a refund claim with the IRS.

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Additional Reporting Requirements

Recently adopted legislation imposes, for taxable years beginning after March 18, 2010, new U.S. return disclosure obligations (and related penalties for failure to disclose) on United States individuals that hold certain specified foreign financial assets (which include stock in a foreign corporation). United States Holders are urged to consult with their own tax advisor regarding the possible implications of this legislation on their investment in our common stock.

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OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

We estimate the expenses in connection with the issuance and distribution of our common stock in this offering, other than underwriting discounts and commissions, will be as follows:

Securities and Exchange Commission Registration Fee	$14,260
Financial Industry Regulatory Authority, Inc. Filing Fee	20,500
Printing and Engraving Expenses	35,000
Legal Fees and Expenses	125,000
Accountants Fees and Expenses	25,000
Transfer Agent s Fees and Expenses	3,500
The New York Stock Exchange Listing Fee	38,400
Miscellaneous Costs	5,000
Total	$ 266,660

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UNDERWRITING

We intend to offer the shares of common stock through the underwriters named below. UBS Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Citigroup Global Markets Inc. are acting as joint bookrunning managers of the offering and are acting as representatives of the underwriters named below. Subject to the terms and conditions stated in the purchase agreement among us and the underwriters dated the date of this prospectus supplement, we have agreed to sell to the underwriters, and the underwriters severally have agreed to purchase from us, the number of shares of our common stock set forth opposite their names below.

Underwriter	Number of Shares
UBS Securities LLC	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Citigroup Global Markets Inc.	
Dahlman Rose & Company, LLC	
Total	8,000,000

The purchase agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters have agreed to purchase all the shares of common stock offered by us (other than those covered by the overallotment option described below) if they purchase any shares.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. If we are unable to provide this indemnification, we will contribute to payments the underwriters may be required to make in respect of those liabilities.

Commissions and Discounts

The representatives have advised us that the underwriters propose initially to offer the shares to the public at the public offering price on the cover page of this prospectus supplement and to dealers at that price less a concession not in excess of $ per share. The underwriters may allow, and the dealers may reallow, a discount not in excess of $ per share to other dealers. After the offering, the public offering price, concession and discount may be changed.

The following table shows the public offering price, underwriting discount and proceeds before expenses to us. The information assumes either no exercise or full exercise by the underwriters of their overallotment option.

	Per Share	Without Option	With Option
Public offering price	$	$	$
Underwriting discount	$	$	$
Proceeds, before expenses, to DHT Holdings, Inc.	$	$	$

The expenses of the offering, not including the underwriting discount (and assuming no exercise of the overallotment option), are estimated at $266,660 and are payable by us.

Overallotment Option

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to 1,200,000 additional shares of common stock at the public offering price less the underwriting discount. The underwriters may exercise the option solely for the purpose of covering overallotments, if any, in connection with this offering. To the extent the option is exercised, each underwriter must purchase a number of additional shares approximately proportionate to that underwriter s initial purchase commitment.

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No Sales of Similar Securities

We, our executive officers and our directors have entered into lock-up agreements with the underwriters. Under these agreements, we and each of these persons may not, without the prior written approval of UBS Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Citigroup Global Markets Inc., subject to limited exceptions, (1) sell, offer to sell, contract or agree to sell, hypothecate, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of, directly or indirectly, or file (or participate in the filing of) a registration statement in respect of, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position with respect to, any common stock or any securities convertible into or exercisable or exchangeable for common stock, or warrants or other rights to purchase common stock or any such securities, (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of common stock or any securities convertible into or exercisable or exchangeable for common stock, or warrants or other rights to purchase common stock or any such securities, whether any such transaction is to be settled by delivery of common stock or such other securities, in cash or otherwise or (3) publicly announce an intention to effect any transaction specified in clauses (1) or (2) above. These restrictions will be in effect for a period of 90 days after the date of this prospectus supplement. However, in the event that either (1) during the period that begins on the date that is 15 calendar days plus 3 business days before the last day of the 90 day lock-up period and ends on the last day of the 90 day lock-up period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the 90 day lock-up period, we announce that we will release earnings results during the 16 day period beginning on the last day of the 90 day lock-up period, then in either case the expiration of the 90 day lock-up period will be extended until the expiration of the date that is 15 calendar days plus 3 business days after the date of the release of the earnings results or the material news or the occurrence of the material event, as applicable, unless UBS Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Citigroup Global Markets Inc. waive, in writing, such an extension. At any time and without public notice, UBS Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Citigroup Global Markets Inc. may in their discretion release all or some of the securities from these lock-up agreements.

This lock-up provision only applies to common stock or any securities convertible into or exercisable or exchangeable for common stock, or warrants or other rights to purchase common stock or any such securities. It also applies to common stock or such other securities owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition.

NYSE Listing

Our common stock is listed on the NYSE under the symbol DHT.

Price Stabilization, Short Positions and Penalty Bids

In connection with this offering, the underwriters may purchase and sell shares of our common stock in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of our common stock in excess of the number of shares to be purchased by underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of our common stock in the open market after the distribution has been completed in order to cover short positions. A short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of shares in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the underwriters repurchase shares originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of preventing or retarding a decline in the market price of our common stock. They may also cause the price of our common stock to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the NYSE or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

Electronic Distribution

A prospectus in electronic format may be made available on the website maintained by the underwriters. The underwriters may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations. In addition, shares may be sold by the underwriters to securities dealers who resell shares to online brokerage account holders.

Other than the prospectus in electronic format, the information on the underwriters respective websites and any information contained in any other website maintained by any of the underwriters are not part of this prospectus supplement or the accompanying prospectus or the registration statement of which this prospectus supplement and the accompanying prospectus form a part, has not been approved and/or endorsed by us or the underwriters in their capacity as underwriters and should not be relied upon by investors.

Other Relationships

From time to time, the underwriters and their affiliates have, directly or indirectly, provided investment and commercial banking or financial advisory services to us, for which they have received fees and commissions, and expect to provide these services to us and others in the future, for which they expect to receive fees and commissions.

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NOTICE TO INVESTORS

Notice To Prospective Investors In The European Economic Area

In relation to each Member State of the European Economic Area, or EEA, which has implemented the Prospectus Directive (each, a Relevant Member State), with effect from, and including, the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date), an offer to the public of our securities which are the subject of the offering contemplated by this prospectus may not be made in that Relevant Member State, except that, with effect from, and including, the Relevant Implementation Date, an offer to the public in that Relevant Member State of our securities may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

a) to legal entities which are authorized or regulated to operate in the financial markets, or, if not so authorized or regulated, whose corporate purpose is solely to invest in our securities;

b) to any legal entity which has two or more of: (1) an average of at least 250 employees during the last (or, in Sweden, the last two) financial year(s); (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last (or, in Sweden, its last two) annual or consolidated accounts;

c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representative for any such offer; or

d) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of our securities shall result in a requirement for the publication by us or any underwriter or agent of a prospectus pursuant to Article 3 of the Prospectus Directive.

As used above, the expression offered to the public in relation to any of our securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and our securities to be offered so as to enable an investor to decide to purchase or subscribe for our securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The EEA selling restriction is in addition to any other selling restrictions set out in this prospectus.

Notice To Prospective Investors In The United Kingdom

This prospectus is only being distributed to and is only directed at: (1) persons who are outside the United Kingdom; (2) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order); or (3) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons falling within (1)-(3) together being referred to as relevant persons). The shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such shares will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this prospectus or any of its contents.

Notice To Prospective Investors In Switzerland

The Prospectus does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations (CO) and the shares will not be listed on the SIX Swiss Exchange. Therefore, the Prospectus may not comply with the disclosure standards of the CO and/or the listing rules (including any prospectus schemes) of the SIX Swiss Exchange. Accordingly, the shares may not be offered to the public in or

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from Switzerland, but only to a selected and limited circle of investors who do not subscribe to the shares with a view to distribution.

Notice To Prospective Investors In Greece

The securities offered hereby have not been approved by the Hellenic Capital Markets Commission for distribution and marketing in Greece. This document and the information contained herein do not and shall not be deemed to constitute an invitation to the public in Greece to purchase our securities. The securities offered hereby may not be advertised, distributed, offered or in any way sold in Greece except as permitted by Greek law.

Notice To Prospective Investors In Australia

This prospectus is not a formal disclosure document and has not been, nor will be, lodged with the Australian Securities and Investments Commission. It does not purport to contain all information that an investor or their professional advisers would expect to find in a prospectus or other disclosure document (as defined in the Corporations Act 2001 (Australia)) for the purposes of Part 6D.2 of the Corporations Act 2001 (Australia) or in a product disclosure statement for the purposes of Part 7.9 of the Corporations Act 2001 (Australia), in either case, in relation to the securities offered hereby.

The securities offered hereby are not being offered in Australia to retail clients as defined in sections 761G and 761GA of the Corporations Act 2001 (Australia). This offering is being made in Australia solely to wholesale clients for the purposes of section 761G of the Corporations Act 2001 (Australia) and, as such, no prospectus, product disclosure statement or other disclosure document in relation to the securities offered hereby has been, or will be, prepared.

This prospectus does not constitute an offer in Australia other than to wholesale clients. By submitting an application for our securities, you represent and warrant to us that you are a wholesale client for the purposes of section 761G of the Corporations Act 2001 (Australia). If any recipient of this prospectus is not a wholesale client, no offer of, or invitation to apply for, our securities shall be deemed to be made to such recipient and no applications for our securities will be accepted from such recipient. Any offer to a recipient in Australia, and any agreement arising from acceptance of such offer, is personal and may only be accepted by the recipient. In addition, by applying for our securities you undertake to us that, for a period of 12 months from the date of issue of the securities offered hereby, you will not transfer any interest in the securities offered hereby to any person in Australia other than to a wholesale client.

Notice To Prospective Investors In Hong Kong

Our securities may not be offered or sold in Hong Kong, by means of this prospectus or any document other than (i) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (ii) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong). No advertisement, invitation or document relating to our securities may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere) which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the securities offered hereby which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

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Notice To Prospective Investors In Japan

Our securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and our securities will not be offered or sold, directly or indirectly, in Japan, or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan, or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Notice To Prospective Investors In Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore, and in Singapore the offer and sale of our securities is made pursuant to exemptions provided in Sections 274 and 275 of the Securities and Futures Act, Chapter 289 of Singapore (SFA). Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of our securities may not be circulated or distributed, nor may our securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor as defined in Section 4A of the SFA pursuant to Section 274 of the SFA, (ii) to a relevant person as defined in Section 275(2) of the SFA pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with the conditions (if any) set forth in the SFA. Moreover, this document is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. Prospective investors in Singapore should consider carefully whether an investment in our securities is suitable for them.

Where our securities are subscribed or purchased under Section 275 of the SFA by a relevant person:

a) by a corporation (which is not an accredited investor as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

b) for a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of which is an individual who is an accredited investor,

shares of that corporation or the beneficiaries rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the shares under Section 275 of the SFA, except:

(1) to an institutional investor (for corporations under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

(2) where no consideration is given for the transfer; or

(3) where the transfer is by operation of law.

In addition, investors in Singapore should note that the securities acquired by them are subject to resale and transfer restrictions specified under Section 276 of the SFA, and they, therefore, should seek their own legal advice before effecting any resale or transfer of their securities.

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Notice To Prospective Investors In The Dubai International Financial Centre

This prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (DFSA). This prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus nor taken steps to verify the information set forth herein and has no responsibility for the prospectus. The securities to which this prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the securities offered hereby should conduct their own due diligence on such securities. If you do not understand the contents of this prospectus you should consult an authorized financial advisor.

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LEGAL MATTERS

The validity of our common stock offered hereby and certain other matters relating to Marshall Islands law will be passed upon for us by Reeder & Simpson P.C. Certain other legal matters relating to United States law will be passed upon for us by Cravath, Swaine & Moore LLP, New York, New York. Certain legal matters will be passed upon for the underwriters by Seward & Kissel, LLP.

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EXPERTS

The consolidated financial statements of DHT Holdings, Inc. as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010 appearing in DHT Holdings, Inc. s Report on Form 6-K filed with the Commission on January 31, 2011, and the effectiveness of DHT Holdings, Inc. s internal control over financial reporting as of December 31, 2010, have been audited by Ernst & Young AS, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of DHT Maritime, Inc. as of December 31, 2009 and 2008 and January 1, 2008, and for each of the two years in the period ended December 31, 2009, appearing in Amendment no. 1 to DHT Holdings, Inc. s Annual Report on Form 20-F/A filed with the Commission on January 31, 2011, and the effectiveness of DHT Maritime, Inc. s internal control over financial reporting as of December 31, 2009, have been audited by Ernst & Young AS, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We filed with the Commission a registration statement on Form F-3 under the Securities Act of 1933, as amended, with respect to the offer and sale of securities pursuant to this prospectus. This prospectus supplement and the accompanying prospectus, filed as a part of the registration statement, do not contain all of the information set forth in the registration statement. The registration statement includes and incorporates by reference additional information and exhibits. Statements made in this prospectus supplement or the accompanying prospectus concerning the contents of any contract, agreement or other document filed as an exhibit to the registration statement are summaries of all of the material terms of such contracts, agreements or documents, but do not repeat all of their terms. Reference is made to each such exhibit for a more complete description of the matters involved and such statements shall be deemed qualified in their entirety by such reference. The registration statement and the exhibits and schedules thereto filed with the Commission may be inspected, without charge, and copies may be obtained at prescribed rates, at the public reference facility maintained by the Commission at its principal office at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the public reference facility by calling 1-800-SEC-0330. The Commission also maintains a website (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission. For further information pertaining to the common stock offered by this prospectus supplement and the accompanying prospectus and DHT Holdings, Inc., reference is made to the registration statement.

We are subject to the information and periodic reporting requirements of the Exchange Act and we file periodic reports and other information with the Commission. These periodic reports and other information are available for inspection and copying at the Commission s public reference facilities and the web site of the Commission referred to above. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements to stockholders, but we are required to furnish certain proxy statements to stockholders under NYSE rules. Those proxy statements are not expected to conform to Schedule 14A of the proxy rules promulgated under the Exchange Act. In addition, as a foreign private issuer, we are exempt from the rules under the Exchange Act relating to short swing profit reporting and liability.

The Commission allows us to incorporate by reference information that we file with it. This means that we can disclose important information to you by referring you to those filed documents. The information incorporated by reference is considered to be a part of this prospectus, and information that we file later with the Commission prior to the termination of this offering will also be considered to be part of this prospectus and will automatically update and supersede previously filed information, including information contained in this document.

We incorporate by reference the documents listed below and any future filings made with the Commission under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act: (i) our 2009 Form 20-F, (ii) our interim report on Form 6-K, filed with the Commission on January 31, 2011, which contains audited consolidated financial statements for the most recent fiscal year for which those statements have been filed and (iii) our registration statement on Form 8-A, filed with the Commission on October 7, 2005.

We are also incorporating by reference all subsequent annual reports on Form 20-F that we file with the Commission and certain interim reports on Form 6-K that we furnish to the Commission after the date of this prospectus (but only if such interim reports state that they are incorporated by reference into this prospectus) until we file a post-effective amendment indicating that the offering of the securities made by this prospectus has been terminated. In all cases, you should rely on the later information over different information included in this prospectus supplement or the accompanying prospectus.

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We will provide, free of charge upon written or oral request, to each person to whom this prospectus is delivered, including any beneficial owner of the securities, a copy of any or all of the information that has been incorporated by reference into this prospectus, but which has not been delivered with the prospectus. Requests for such information should be made to us at the following address:

26 New Street

St. Helier

Jersey JE2 3RA

Channel Islands

Phone: +44 (0) 1534 639759

Email: *info@dhtholdings.com*

You should assume that the information appearing in this prospectus supplement and any accompanying prospectus, as well as the information we previously filed with the Commission and incorporated by reference, is accurate as of the dates on the front cover of those documents only. Our business, financial condition and results of operations and prospects may have changed since those dates.

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Prospectus

$200,000,000

Through this prospectus, we may periodically offer:

- our common stock;
- our preferred stock; and
- our debt securities.

We may from time to time offer and sell the securities directly or through agents, underwriters or broker-dealers at prices and on terms to be determined at the time of sale. These sales may be made on The New York Stock Exchange or other national security exchanges on which our common stock is then traded, in the over-the-counter market or in negotiated transactions. See the section entitled Plan of Distribution on page 13 of this prospectus. To the extent required, the names of any agent, underwriter or broker-dealer and applicable commissions or discounts and any other required information with respect to any particular offer will be set forth in a prospectus supplement, which will accompany this prospectus. The prices and other terms of the securities that we will offer will be determined at the time of their offering and will be described in a prospectus supplement. A prospectus supplement may also add, update or change information contained in this prospectus.

Our common stock is listed on The New York Stock Exchange under the symbol DHT.

Investing in our securities involves risk. Before buying any securities you should carefully read the section entitled Risk Factors on page 11 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is June 14, 2010.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with additional or different information. We are not making an offer of these securities in any jurisdiction or state where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the cover of this prospectus.

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LEGAL MATTERSGrand Theft Auto V and our NBA 2K franchise, where the majority of the sales price will be allocated to the offline software and recognized upon transfer of control to our customers, and the remaining amounts allocated to the game related service performance obligation and recognized over the estimated service period.

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- For performance obligations that are satisfied over time, we have determined that the estimated service period is the time period in which an average user plays our software products (“user life”) which faithfully depicts the timing of satisfying our performance obligation. Previously, our estimated service period was based on the economic game life.

- Under the New Revenue Accounting Standard, we are able to recognize revenue to the extent it is probable that a significant reversal will not occur even if we do not have a right to invoice as of the reporting date. Contract assets are classified within Prepaid expenses and other on the Condensed Consolidated Balance Sheet.

- The classification of allowances for estimated price protection, reserves for returns and other allowances as refund liabilities. Such allowances were previously recorded as contra-Accounts receivable and now are classified within Accrued expenses and other current liabilities on the Consolidated Balance Sheet.

As a result of adopting the New Revenue Accounting Standard the following adjustments were made to our Consolidated Balance Sheet at April 1, 2018, which also reflect the changes related to income tax accounts included in Prepaid expenses and other, Other assets, Accrued expenses and other current liabilities, and Other long-term liabilities:

	March 31, 2018	Adjustments	April 1, 2018
ASSETS			
Accounts receivable, net	$247,649	$ 53,940	$301,589
Software development costs and licenses	33,284	(11,096)	22,188
Deferred cost of goods sold	117,851	(89,867)	27,984
Prepaid expenses and other	133,454	33,620	167,074
Deferred cost of goods sold, net of current portion	26,719	(25,687)	1,032
Other assets	56,887	51,430	108,317
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accrued expenses and other current liabilities	$914,748	$ 69,678	$984,426
Deferred revenue	777,152	(230,144)	547,008
Non-current deferred revenue	355,589	(336,456)	19,133
Other long-term liabilities	158,285	34,336	192,621
Retained earnings	73,516	470,273	543,789
Accumulated other comprehensive loss	(15,732)	4,653	(11,079)

Recently Issued Accounting Pronouncements

Accounting for Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements on fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 is effective for fiscal years, and interim periods within those fiscal years, beginning December 15, 2019 (April 1, 2020 for the Company), with early adoption permitted. Certain disclosures in ASU 2018-13 are required to be applied on a retrospective basis and others on a prospective basis. We are currently evaluating the potential impact of adopting this guidance 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 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, which will consist primarily of a balance sheet gross up of our operating leases, mostly for office space.

Revenue Recognition

Refer to Note 1 to our Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018 for our revenue recognition accounting policy as it relates to revenue transactions prior to April 1, 2018. The revenue recognition accounting policy described below relates to revenue transactions from April 1, 2018 and thereafter, which are accounted for in accordance with Topic 606.

We derive revenue primarily from the sale of our interactive entertainment content, principally for console gaming systems such as the Sony Computer Entertainment, Inc. ("Sony") PlayStation®4 ("PS4") and PlayStation®3 ("PS3"), Microsoft Corporation ("Microsoft") Xbox One® ("Xbox One") and Xbox 360® ("Xbox 360"), the Nintendo Switch, and personal computers ("PC"), including smartphones and tablets. Our interactive entertainment content consists of full game software products that may contain offline gameplay, online gameplay, or a combination of offline and online gameplay. We may also sell separate downloadable add-on content to supplement our full game software products. Certain of our software products provide customers with the option to acquire virtual currency or make in-game purchases.

We determine revenue recognition by:

- identifying the contract, or contracts, with the customer;
- identifying the performance obligations in the contract;
- determining the transaction price;
- allocating the transaction price to performance obligations in the contract; and
- recognizing revenue when, or as, we satisfy performance obligations by transferring the promised goods or services.

We recognize revenue in the amount that reflects the consideration we expect to receive in exchange for the sales of software products and game related services when control of the promised products and services is transferred to our customers and our performance obligations under the contract have been satisfied. Revenue is recorded net of transaction taxes assessed by governmental authorities such as sales, value-added and other similar taxes.

Our software products are sold as full games, which typically provide access to the main game content, primarily for console and PC. Generally our full game software products deliver a license of our intellectual property that provides a functional offline gaming experience (i.e., one that does not require an Internet connection to access the main game content or other significant game related services). We recognize revenue related to the license of our intellectual property that provides offline functionality at the time control of the products have been transferred to our customers. In addition, some of our full game software products that provide a functional offline gaming experience may also include significant game related services delivered over time, such as online functionality that is dependent upon online support services and/or additional free content updates. For full game sales that offer offline functionality and significant game related services we evaluate whether the license of our intellectual property and the game related services are distinct and separable. This evaluation is performed for each software product sold. If we determine that our software products contain a license of intellectual property separate from the game related services (i.e. multiple performance obligations), we estimate a standalone selling price for each identified performance obligation. We allocate the transaction price to each performance obligation using a relative standalone selling price method (the transaction price is allocated to a performance obligation based on the proportion of the standalone selling price of each performance obligation to the sum of the standalone selling prices for all performance obligations in the contract). For the portion of the transaction price allocable to the license, revenue is recognized when the customer takes control of the product. For the portion of the transaction price allocated to game related services, revenue is recognized ratably over the estimated service period for the related software product. We also defer related product costs and recognize the costs as the revenues are recognized.

Certain of our full game software products are delivered primarily as an online gaming experience with substantially all gameplay requiring online access to our game related services. We recognize revenue for full game software products that are dependent on our game related services over an estimated service period. For our full game online software products we also defer related product costs and recognize the costs as the revenue is recognized.

In addition to sales of our full game software products, certain of our software products provide customers with the option to acquire virtual currency or make in-game purchases. Revenue from the sale of virtual currency and in-game purchases is deferred and recognized ratably over the estimated service period, which is the user life.
We also sell separate downloadable add-on content to supplement our full game software products. Revenue from the sale of separate downloadable add-on content is evaluated for revenue recognition on the same basis as our full game software products.
Certain software products are sold to customers with a "street date" (the earliest date these products may be sold by retailers). For these products, we recognize revenue on the later of the street date or the sale date as this is generally when we have transferred control of our software products. In addition, some of our software products are sold as digital downloads.
Revenue from digital downloads is generally recognized when the download is made available to the end user by a third-party digital storefront. For the sale of physical software products, the recognition of revenue allocated to game related services does not begin until the product is sold-through by our customer to the end user. We currently estimate sell-through to the end user for all our titles to be approximately two months after we have sold-in the software products to our retailers. Determining the estimated sell-through period is subjective and requires significant management judgment and estimates.
Our payment terms and conditions vary by customer and typically provide net 30 to 60 day terms. In instances where the timing of revenue recognition differs from the timing of invoicing, we do not adjust the promised amount of consideration for the effects of a significant financing component when we expect, at contract inception, that the period between our transfer of a promised product or service to our customer and payment for that product or service will be one year or less.

In certain countries, we use third-party licensees to distribute and host our games in accordance with license agreements, for which the licensees typically pay us a fixed minimum guarantee and sales-based royalties. These arrangements typically include multiple performance obligations, such as an upfront license of intellectual property and rights to future updates. Based on the allocated transaction price, we recognize revenue associated with the minimum guarantee when we transfer control of the upfront license of intellectual property (generally upon commercial launch) and the remaining portion ratably over the contractual term in which we provide the licensee with future update rights. Royalty payments in excess of the minimum guarantee are generally recognized when the licensed product is sold by the licensee.

Contract Balances
We generally record a receivable related to revenue when we have an unconditional right to invoice and receive payment, and we record deferred revenue when cash payments are received or due in advance of our performance, even if amounts are refundable. Contract assets generally consist of arrangements for which we have recognized revenue to the extent it is probable that significant reversal will not occur but do not have a right to invoice as of the reporting date. Contract assets are recorded within Prepaid expenses and other on our Consolidated Balance Sheet. Our allowance for doubtful accounts are typically immaterial and, if required, are based on our best estimate of probable losses inherent in our accounts receivable balance.
Deferred revenue is comprised primarily of unsatisfied revenue related to the portion of the transaction price allocable to game related services of our full game software products. These sales are typically invoiced at the beginning of the contract period, and revenue is recognized ratably over the estimated service period. Deferred revenue may also include amounts related to software products with future street dates.
Refer to Note 2 - Revenue from Contracts with Customers for further information, including changes in deferred revenue during the period.
Principal Agent Considerations
We offer certain software products via third party digital storefronts, such as Microsoft's Xbox Live, Sony's PlayStation Network, Valve's Steam, Apple's App Store, and the Google Play Store. For sales of our software products via third party digital storefronts, we determine whether or not we are acting as the principal in the sale to the

end user, which we consider in determining if revenue should be reported based on the gross transaction price to the end user or based on the transaction price net of fees retained by the third-party digital storefront. An entity is the principal if it controls a good or service before it is transferred to the customer. Key indicators that we use in evaluating these sales transactions include, but are not limited to, the following:

- the underlying contract terms and conditions between the various parties to the transaction;
- which party is primarily responsible for fulfilling the promise to provide the specified good or service; and
- which party has discretion in establishing the price for the specified good or service.

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Based on our evaluation of the above indicators, for sales arrangements via Microsoft's Xbox Live, Sony's PlayStation Network, and Valve's Steam, we have determined we are not the principal in the sales transaction to the end user and therefore we report revenue based on the consideration received from the digital storefront. For sales arrangements via Apple's App Store and the Google Play Store, we have determined that we are the principal to the end user and thus report revenue on a gross basis and mobile platform fees are reported within Cost of goods sold.

Shipping and Handling

Shipping and handling costs are incurred to move physical software products to customers. We recognize all shipping and handling costs as an expense in Cost of goods sold because we are responsible for delivery of the product to our customers prior to transfer of control to the customer.

Estimated Service Period

For performance obligations satisfied over time, we have determined that the estimated service period is the time period in which an average user plays our software products ("user life") which faithfully depicts the timing of satisfying our performance obligation. We consider a variety of data points when determining and subsequently reassessing the estimated service period for players of our software products. Primarily, we review the weighted average number of days between players' first and last days played online. We also consider known online trends, the service periods of our previously released software products, and, to the extent publicly available, the service periods of our competitors' software products that are similar in nature to ours. We believe this provides a reasonable depiction of the transfer of our game related services to our customers, as it is the best representation of the period during which our customers play our software products. Determining the estimated service period is subjective and requires significant management judgment and estimates. Future usage patterns may differ from historical usage patterns, and therefore the estimated service period may change in the future. The estimated service periods for players of our current software products are generally between 9 and 15 months depending on the software product.

Revenue Arrangements with Multiple Performance Obligations

Our contracts with customers often include promises to transfer multiple products and services. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together requires significant judgment as we typically do not have observable standalone selling prices for our game related service performance obligations. For software products in which the software license has offline functionality and benefits from meaningful game related services, which may include online functionality that is dependent on our online support services and/or additional free content updates, we believe we have separate performance obligations for the license of the intellectual property and the game related services. Significant judgment and estimates are also required to determine the standalone selling price for each distinct performance obligation and whether a discount needs to be allocated based on the relative standalone selling price of our products and services.

To estimate the standalone selling price for each performance obligation, we consider, to the extent available, a variety of data points such as past selling prices of the product or other similar products, competitor pricing, and our market data. If observable pricing is not available, we use an expected cost plus margin approach taking into account relevant costs including product development, post-release support, marketing and licensing costs. This evaluation is performed on a product by product basis.

Price Protection and Allowances for Returns

We grant price protection and accept returns in connection with our distribution arrangements. Following reductions in the price of our physical software products, we grant price protection to permit customers to take credits against amounts they owe us with respect to merchandise unsold by them. Our customers must satisfy certain conditions to entitle them to receive price protection or return products, including compliance with applicable payment terms and confirmation of field inventory levels.

At contract inception and at each subsequent reporting period, we make estimates of future price protection and product returns related to current period software product revenue. We estimate the amount of future price protection and returns for software products based upon, among other factors, historical experience and performance of the titles in similar genres, historical performance of the hardware platform, customer inventory levels, analysis of sell-through

rates, sales force and retail customer feedback, industry pricing, market conditions, and changes in demand and acceptance of our products by consumers.

Revenue is recognized after deducting the estimated price protection and allowances for returns, which are accounted for as variable consideration. Price protection and allowances for returns are considered refund liabilities and are reported within Accrued expenses and other current liabilities on our Consolidated Balance Sheet.

Sales Incentives

We enter into various sales incentive arrangements with our customers, such as rebates, discounts, and cooperative marketing. These incentives are considered adjustments to the transaction price of our software products and are reflected as reductions to revenue. Sales incentives incurred by us for distinct goods or services received, such as the appearance of our products in a customer's national circular ad, are included in Selling and marketing expense if there is a separate identifiable benefit and the benefit's fair value can be established. Otherwise, such sales incentives are reflected as a reduction to revenue and are considered refund liabilities, which are reported within Accrued expenses and other current liabilities in our Consolidated Balance Sheet.

Significant Estimates

Significant management judgment and estimates must be used in connection with many of the determinations described above, such as estimating the fair value allocation to distinct and separable performance obligations, the service period over which to defer recognition of revenue, the time it takes our physical products to sell-through to end users, and the amounts of future price protection and allowance for returns. We believe we can make reliable estimates. However, actual results may differ from initial estimates due to changes in circumstances, market conditions, and assumptions. Adjustments to estimates are recorded in the period in which they become known.

2. REVENUE FROM CONTRACTS WITH CUSTOMERS

Impacts on financial statement line items

Our adoption of the New Revenue Accounting Standard had the following impact on our Condensed Consolidated Statement of Operations for the three months ended September 30, 2018:

	Amounts as reported	Amounts without adoption of New Revenue Accounting Standard	Increase (decrease) due to adoption of New Revenue Accounting Standard
Net revenue	$492,667	$457,441	$35,226
Cost of goods sold	234,880	193,483	41,397
Gross profit	257,787	263,958	(6,171)
Selling and marketing	94,165	94,165	—
General and administrative	67,320	67,320	—
Research and development	60,565	60,565	—
Depreciation and amortization	9,751	9,751	—
Total operating expenses	231,801	231,801	—
Income from operations	25,986	32,157	(6,171)
Interest and other, net	4,975	4,935	40
Income before income taxes	30,961	37,092	(6,131)
Provision for (benefit from) income taxes	5,594	(29,670)	35,264
Net income	$25,367	$66,762	$(41,395)
Earnings per share:			
Basic earnings per share	$0.22	$0.59	$(0.37)
Diluted earnings per share	$0.22	$0.58	$(0.36)

Our adoption of the New Revenue Accounting Standard had the following impact on our Condensed Consolidated Statement of Operations for the six months ended September 30, 2018:

	Amounts as reported	Amounts without adoption of New Revenue Accounting Standard	Increase (decrease) due to adoption of New Revenue Accounting Standard
Net revenue	$880,649	$ 859,422	$ 21,227
Cost of goods sold	366,245	350,572	15,673
Gross profit	514,404	508,850	5,554
Selling and marketing	152,471	152,471	—
General and administrative	135,055	135,055	—
Research and development	111,277	111,277	—
Business reorganization	(242)	(242)	—
Depreciation and amortization	19,011	19,011	—
Total operating expenses	417,572	417,572	—
Income from operations	96,832	91,278	5,554
Interest and other, net	11,576	10,948	628
Income before income taxes	108,408	102,226	6,182
Provision for (benefit from) income taxes	11,348	(31,640)	42,988
Net income	$97,060	$ 133,866	$ (36,806)
Earnings per share:			
Basic earnings per share	$0.86	$ 1.18	$ (0.32)
Diluted earnings per share	$0.84	$ 1.16	$ (0.32)

Our adoption of the New Revenue Accounting Standard had the following impact on our Condensed Consolidated Balance Sheet as of September 30, 2018:

	Amounts as reported	Amounts without adoption of New Revenue Accounting Standard	Increase (decrease) due to adoption of New Revenue Accounting Standard
ASSETS			
Accounts receivable, net	$534,633	$ 488,622	$ 46,011
Software development costs and licenses	36,912	50,027	(13,115)
Deferred cost of goods sold	20,957	116,211	(95,254)
Prepaid expenses and other	162,647	98,421	64,226
Deferred cost of goods sold, net of current portion	489	10,837	(10,348)
Other assets	80,810	64,931	15,879

LIABILITIES AND STOCKHOLDERS' EQUITY

Accrued expenses and other current liabilities	$853,467	$837,242	$16,225
Deferred revenue	559,024	924,793	(365,769)
Non-current deferred revenue	15,407	213,397	(197,990)
Other long-term liabilities	205,554	83,459	122,095
Retained earnings	640,849	207,382	433,467
Accumulated other comprehensive loss	(37,199)	(36,572)	(627)

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Our adoption of the New Revenue Accounting Standard accelerated the revenue recognition of prior period game sales into retained earnings, which may result in increased cash taxes paid on our Consolidated Statement of Cash Flows for the fiscal year ending March 31, 2019.

Disaggregation of revenue

Product revenue

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

Service and other revenue

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

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

	Three Months Ended September 30, 2018	Six Months Ended September 30, 2018
Net revenue recognized:		
Service and other	$ 313,194	$ 622,381
Product	179,473	258,268
Total net revenue	$ 492,667	$ 880,649

Full game and other revenue

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

Recurrent consumer spending revenue

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

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

	Three Months Ended September 30, 2018	Six Months Ended September 30, 2018
Net revenue recognized:		
Recurrent consumer spending	$ 240,599	$ 481,629
Full game and other	252,068	399,020
Total net revenue	$ 492,667	$ 880,649

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, 2018	Six Months Ended September 30, 2018
Net revenue recognized:		
United States	$ 279,306	$ 500,717
International	213,361	379,932
Total net revenue	$ 492,667	$ 880,649

Platform

Net revenue by platform was as follows:

	Three Months Ended September 30, 2018	Six Months Ended September 30, 2018
Net revenue recognized:		
Console	$ 372,240	$ 666,970
PC and other	120,427	213,679
Total net revenue	$ 492,667	$ 880,649

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, 2018	Six Months Ended September 30, 2018
Net revenue recognized:		
Digital online	$ 358,371	$ 673,418
Physical retail and other	134,296	207,231
Total net revenue	$ 492,667	$ 880,649

Deferred Revenue

We record deferred revenue when payments are due or received in advance of the fulfillment of our associated performance obligations. The opening balance and ending balance of deferred revenue, including current and non-current balances as of April 1, 2018 and September 30, 2018 were $566,141 and $574,431, respectively. For the six months ended September 30, 2018, the additions to our deferred revenue balance were primarily due to cash payments received or due in advance of satisfying our performance obligations, while the reductions to our deferred revenue balance were primarily due to the recognition of revenue upon fulfillment of our performance obligations, both of which were in the ordinary course of business.

During the six months ended September 30, 2018, $424,129 of revenue was recognized that was included in the deferred revenue balance at the beginning of the period. As of September 30, 2018, the aggregate amount of contract

revenue allocated to unsatisfied performance obligations is $574,431. We expect to recognize approximately $559,024 of this balance as revenue over the next 12 months, and the remainder thereafter.

As of September 30, 2018 and April 1, 2018, our contract asset balances were $64,226 and $69,522, respectively.

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3. MANAGEMENT AGREEMENT

In March 2014, we entered into an amended management services agreement, (the "2014 Management Agreement"), with ZelnickMedia Corporation ("ZelnickMedia") pursuant to which ZelnickMedia provided us with certain management, consulting and executive level services. The 2014 Management Agreement became effective April 1, 2014. The 2014 Management Agreement provided 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 November 2017, we entered into a new management agreement, (the "2017 Management Agreement"), with ZelnickMedia pursuant to which ZelnickMedia continues to provide financial and management consulting services to the Company through March 31, 2024. The 2017 Management Agreement became effective January 1, 2018 and supersedes and replaces the 2014 Management Agreement, except as otherwise contemplated by the 2017 Management Agreement. 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 $2,524 during the three months ended September 30, 2018 and 2017, respectively, and $3,410 and $3,861 during the six months ended September 30, 2018 and 2017, respectively. We recorded stock-based compensation expense for restricted stock units granted to ZelnickMedia, which is included in General and administrative expenses of $5,682 and $13,863 during the three months ended September 30, 2018 and 2017, respectively, and $10,199 and $19,877 during the six months ended September 30, 2018 and 2017, respectively.

In connection with the 2017 Management Agreement and 2014 Management Agreement, we have granted restricted stock units as follows:

	Six Months Ended September 30,	
	2018	2017
Time-based	86	66
Market-based(1)	79	122
Performance-based(1)		
New IP	—	21
Major IP	—	20
IP	27	—
Recurrent Consumer Spending ("RCS")	26	—
Total—Performance-based	53	41
Total Restricted Stock Units	218	229

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

Time-based restricted stock units granted in 2018 will vest on April 13, 2020, and those granted in 2017 will vest on April 4, 2019, 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 2018 are eligible to vest on April 13, 2020, and those granted in 2017 are eligible to vest on April 4, 2019, 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 2018 are eligible to vest on April 13, 2020, and those granted in 2017 are eligible to vest on April 4, 2019, in each case provided that the 2017 Management Agreement has not been terminated prior to such vesting date. The 2017 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," respectively, measured

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over a two-year period. The 2018 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 447 and 602 as of September 30, 2018 and March 31, 2018, respectively. 340 restricted stock units previously granted to ZelnickMedia vested and 33 restricted stock units were forfeited by ZelnickMedia during the six months ended September 30, 2018.

4. FAIR VALUE MEASUREMENTS

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

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

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Observable inputs other than quoted prices included in Level 1, such as quoted prices for markets that are not active or other inputs that are observable or can be corroborated by observable market data.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

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

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	September 30, 2018	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	$151,696	$151,696	$—	$ —	Cash and cash equivalents
Bank-time deposits	23,910	23,910	—	—	Cash and cash equivalents
Commercial paper	29,061	—	29,061	—	Cash and cash equivalents
Money market funds	368,240	368,240	—	—	Restricted cash
Corporate bonds	317,049	—	317,049	—	Short-term investments
Bank-time deposits	183,059	183,059	—	—	Short-term investments
US Treasuries	53,305	53,305	—	—	Short-term investments
Commercial paper	9,539	—	9,539	—	Short-term investments
Foreign currency forward contracts	311	—	311	—	Prepaid expenses and other
Private equity	1,823	—	—	1,823	Other assets
Foreign currency forward contracts	(74)	—	(74)	—	Accrued expenses and other current liabilities
Cross-currency swap	(6,817)	—	(6,817)	—	Accrued expenses and other current liabilities
Total recurring fair value measurements, net	$1,131,102	$780,210	$349,069	$ 1,823	

	March 31, 2018	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	$516,626	$516,626	$—	$ —	Cash and cash equivalents
Bank-time deposits	21	21	—	—	Cash and cash equivalents
Commercial paper	10,796	—	10,796	—	Cash and cash equivalents
Corporate bonds	308,716	—	308,716	—	Short-term investments
US Treasuries	59,725	59,725	—	—	Short-term investments
Commercial paper	25,422	—	25,422	—	Short-term investments
Mutual funds	4,880	—	4,880	—	Short-term investments
Bank-time deposits	216,663	216,663	—	—	Short-term investments
Foreign currency forward contracts	12	—	12	—	Prepaid expenses and other
Private equity	1,205	—	—	1,205	Other assets
Foreign currency forward contracts	(43)		(43)		Accrued expenses and other current liabilities
Cross-currency swap	(15,659)		(15,659)		

					Accrued expenses and other current liabilities
Total recurring fair value measurements, net	$1,128,364	$793,035	$334,124	$ 1,205	

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, 2018.

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5. SHORT-TERM INVESTMENTS

Our Short-term investments consisted of the following:

	September 30, 2018			
		Gross Unrealized		
	Cost or Amortized Cost	Gains	Losses	Fair Value
Short-term investments				
Bank time deposits	$183,059	$—	$—	$183,059
Available-for-sale securities:				
Corporate bonds	317,795	36	(782)	317,049
US Treasuries	53,516	—	(211)	53,305
Commercial paper	9,539	—	—	9,539
Total Short-term investments	$563,909	$36	$(993)	$562,952

	March 31, 2018			
		Gross Unrealized		
	Cost or Amortized Cost	Gains	Losses	Fair Value
Short-term investments				
Bank time deposits	$216,663	$—	$—	$216,663
Available-for-sale securities:				
Corporate bonds	310,387	16	(1,687)	308,716
US Treasuries	59,970	—	(245)	59,725
Commercial paper	25,422	—	—	25,422
Mutual funds	4,876	16	(12)	4,880
Total Short-term investments	$617,318	$32	$(1,944)	$615,406

Based on our review of investments with unrealized losses, we did not consider these investments to be other-than-temporarily impaired as of September 30, 2018 or March 31, 2018. We do not intend to sell any of our investments with unrealized losses, nor is it more likely than not that we will be required to sell those investments.

The following table summarizes the contracted maturities of our short-term investments at September 30, 2018:

	September 30, 2018	
	Amortized Cost	Fair Value
Short-term investments		
Due in 1 year or less	$488,070	$487,300
Due in 1 - 2 years	75,839	75,652
Total short-term investments	$563,909	$562,952

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.

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Foreign currency forward contracts

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

	September 30, 2018	March 31, 2018
Forward contracts to sell foreign currencies	$ 345,710	$ 67,580
Forward contracts to purchase foreign currencies	10,329	4,359

For the three months ended September 30, 2018 and 2017, we recorded a loss of $247 and $6,102, respectively, and for the six months ended September 30, 2018 and 2017, we recorded a gain of $2,157 and a loss of $14,705, respectively, related to foreign currency forward contracts in Interest and other, net in our Condensed Consolidated Statements of Operations. Our foreign currency exchange forward contracts are not designated as hedging instruments under hedge accounting and are used to reduce the impact of foreign currency on certain balance sheet exposures and certain revenue and expense. These instruments are generally short-term in nature, with typical maturities of less than one year, and are subject to fluctuations in foreign exchange rates.

Cross-currency swaps

We entered into a cross-currency swap agreement in August 2017 related to an intercompany loan that has been designated and accounted for as a cash flow hedge of foreign currency exchange risk. The intercompany loan is related to the acquisition of Social Point. As of September 30, 2018, the notional amount of the cross-currency swap is $129,000. This cross-currency swap mitigates the exposure to fluctuations in the U.S. dollar-euro exchange rate related to the intercompany loan. The critical terms of the cross-currency swap agreement correspond to the intercompany loan and both mature at the same time in 2027; as such, there was no ineffectiveness during the period. Changes in the fair value of this cross-currency swap are recorded in Accumulated other comprehensive income (loss) and offset the change in value of interest and principal payment as a result of changes in foreign exchange rates. Resulting gains or losses from the cross-currency swap are reclassified from Accumulated other comprehensive income (loss) to earnings to completely offset foreign currency transaction gains and losses recognized on the intercompany loan. We recognize the difference between the U.S. dollar interest payments received from the swap counterparty and the U.S. dollar equivalent of the euro interest payments made to the swap counterparty in Interest and other, net on our Consolidated Statement of Operations. There are no credit-risk related contingent features associated with these swaps.

7. INVENTORY

Inventory balances by category were as follows:

	September 30, 2018	March 31, 2018
Finished products	$ 33,022	$ 13,940
Parts and supplies	7,519	1,222
Inventory	$ 40,541	$ 15,162

Estimated product returns included in inventory at September 30, 2018 and March 31, 2018 were $259 and $373, respectively.

8. SOFTWARE DEVELOPMENT COSTS AND LICENSES

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

	September 30, 2018		March 31, 2018	
	Current	Non-current	Current	Non-current
Software development costs, internally developed	$27,123	$ 631,357	$19,338	$ 515,761
Software development costs, externally developed	2,416	162,178	4,275	122,270
Licenses	7,373	585	9,671	1,338
Software development costs and licenses	$36,912	$ 794,120	$33,284	$ 639,369

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During the three months ended September 30, 2018 and 2017, we recorded $0 and $276, respectively, and during the six months ended September 30, 2018 and 2017, we recorded $0 and $960, respectively, of software development impairment charges (a component of Cost of goods sold).

9. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following:

	September 30, 2018	March 31, 2018
Software development royalties	$ 525,979	$ 600,512
Business reorganization (see Notes 13 and 14)	66,533	72,074
Licenses	64,044	43,261
Compensation and benefits	49,947	57,499
Refund liability	46,012	—
Marketing and promotions	21,475	19,731
Deferred acquisition payments	—	25,000
Other	79,477	96,671
Accrued expenses and other current liabilities	$ 853,467	$ 914,748

10. DEBT

Credit Agreement

In December 2017, we entered into a Seventh Amendment to our Second Amended and Restated Credit Agreement (as amended, the "Credit Agreement"). The Credit Agreement provides for borrowings of up to $100,000 which may be increased by up to $100,000 pursuant to the terms of the Credit Agreement and which is secured by substantially all of our assets and the equity of our subsidiaries. The Credit Agreement expires on August 18, 2019. Revolving loans under the Credit Agreement bear interest at our election of (a) 0.25% to 0.75% above a certain base rate (5.25% at September 30, 2018) or (b) 1.25% to 1.75% above the LIBOR Rate (approximately 2.24% at September 30, 2018), with the margin rate subject to the achievement of certain average liquidity levels. We are also required to pay a monthly fee on the unused available balance, ranging from 0.25% to 0.375% based on availability. We had no outstanding borrowings at September 30, 2018 and March 31, 2018.

Availability under the Credit Agreement is unrestricted when liquidity, as defined in the Credit Agreement, is at least $300,000. When liquidity is below $300,000 availability under the Credit Agreement is restricted by our United States and United Kingdom based accounts receivable and inventory balances. The Credit Agreement also allows for the issuance of letters of credit in an aggregate amount of up to $5,000.

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

	September 30, 2018	March 31, 2018
Available borrowings	$ 98,335	$ 98,335
Outstanding letters of credit	1,664	1,664

We recorded interest expense and fees related to the Credit Agreement of $111 and $111, respectively for the three months ended September 30, 2018 and 2017 and $221 and $221 for the six months ended September 30, 2018 and 2017, respectively. The Credit Agreement contains covenants that substantially limit our, and our subsidiaries', ability to create, incur, assume or be liable for indebtedness; dispose of assets outside the ordinary course of business; acquire, merge or consolidate with or into another person or entity; create, incur or allow any lien on any of their respective properties; make investments; or pay dividends or make distributions (each subject to certain limitations); or optionally prepay any indebtedness (subject to certain exceptions, including an exception permitting the redemption of our unsecured convertible senior notes upon the meeting of certain minimum liquidity requirements). In addition, the Credit Agreement provides for certain events of default such as nonpayment of principal and interest, breaches of representations and warranties, noncompliance with covenants, acts of insolvency, default on indebtedness held by third parties and default on certain material contracts (subject to certain limitations and cure periods). The Credit

Agreement also contains a requirement that we maintain an interest coverage ratio of more than one to one for the trailing twelve-month period, if certain average liquidity levels fall below $30,000.

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1.00% Convertible Notes Due 2018

On June 18, 2013, we issued $250,000 aggregate principal amount of 1.00% Convertible Notes due 2018 (the "1.00% Convertible Notes"). The 1.00% Convertible Notes were issued at 98.5% of par value for proceeds of $246,250. Interest on the 1.00% Convertible Notes was payable semi-annually in arrears on July 1st and January 1st of each year, commencing on January 1, 2014. The 1.00% Convertible Notes matured on July 1, 2018, unless earlier repurchased by the Company or converted. We also granted the underwriters a 30-day option to purchase up to an additional $37,500 principal amount of 1.00% Convertible Notes to cover overallotments, if any. On July 17, 2013, we closed our public offering of $37,500 principal amount of our 1.00% Convertible Notes as a result of the underwriters exercising their overallotment option in full on July 12, 2013, bringing the total proceeds to $283,188. The 1.00% Convertible Notes were convertible at an initial conversion rate of 46.4727 shares of our common stock per $1 principal amount of 1.00% Convertible Notes (representing an initial conversion price of approximately $21.52 per share of common stock for a total of approximately 13,361 underlying conversion shares) subject to adjustment in certain circumstances.

During the three months ended September 30, 2018, 1.00% Convertible Notes with an aggregate principal amount of $5,183 were settled.

The following table provides the components of interest expense related to our 1.00% Convertible Notes:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
Cash interest expense (coupon interest expense)	$ —	$ 130	$ 1	$ 579
Non-cash amortization of discount on 1.00% Convertible Notes	—	8,678	91	13,915
Amortization of debt issuance costs	—	263	3	423
Total interest expense related to 1.00% Convertible Notes	$ —	$ 9,071	$ 95	$ 14,917

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11. EARNINGS (LOSS) 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,	
	2018	2017	2018	2017
Computation of Basic earnings (loss) per share:				
Net income (loss)	$25,367	$(2,736)	$97,060	$57,540
Less: net income allocated to participating securities	—	—	—	(487)
Net income (loss) for basic earnings per share calculation	$25,367	$(2,736)	$97,060	$57,053
Total weighted average shares outstanding—basic	113,735	109,430	113,339	107,232
Less: weighted average participating shares outstanding	—	—	—	(908)
Weighted average common shares outstanding—basic	113,735	109,430	113,339	106,324
Basic earnings (loss) per share	$0.22	$(0.03)	$0.86	$0.54
Computation of Diluted earnings (loss) per share:				
Net income (loss)	$25,367	$(2,736)	$97,060	$57,540
Less: net income allocated to participating securities	—	—	—	(478)
Net income (loss) for diluted earnings per share calculation	$25,367	$(2,736)	$97,060	$57,062
Weighted average common shares outstanding—basic	113,735	109,430	113,339	106,324
Add: dilutive effect of common stock equivalents	2,360	—	2,462	3,032
Weighted average common shares outstanding—diluted	116,095	109,430	115,801	109,356
Less: weighted average participating shares outstanding	—	—	—	(908)
Weighted average common shares outstanding- diluted	116,095	109,430	115,801	$108,448
Diluted earnings (loss) per share	$0.22	$(0.03)	$0.84	$0.53

Certain of our unvested stock-based awards (including restricted stock units and restricted stock awards) are considered participating securities since these securities have non-forfeitable rights to dividends or dividend equivalents during the contractual period of the award and thus requires the two-class method of computing EPS. As of September 30, 2018, we have no material participating securities.

The calculation of EPS for common stock under the two-class method shown above excludes income attributable to the participating securities from the numerator and excludes the dilutive effect of those awards from the denominator. We incurred a net loss for the three months ended September 30, 2017; therefore, the basic and diluted weighted average shares for that period exclude the effect of the unvested share-based awards that are considered participating securities and all common stock equivalents because their effect would be antidilutive. For the three months ended September 30, 2017 we had 2,145 of unvested share-based awards that were excluded from the EPS calculation due to the net loss for the period.

We define common stock equivalents as stock-based awards and common stock related to the 1.00% Convertible Notes (see Note 10) outstanding during the period. Common stock equivalents are measured using the treasury stock method, except for the Convertible Notes, which were assessed for their effect on diluted EPS using the more dilutive of the treasury stock method or the if-converted method. Under the provisions of the if-converted method, the 1.00% Convertible Notes are assumed to be converted and included in the denominator of the EPS calculation and the interest expense, net of tax, recorded in connection with the Convertible Notes is added back to the numerator.

During the six months ended September 30, 2018, 1,628 restricted stock awards vested, we granted 1,047 unvested restricted stock awards, and 46 unvested restricted stock awards were forfeited.

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12. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Six Months Ended September 30, 2018				
	Foreign currency translation adjustments	Unrealized gain (loss) on forward contracts	Unrealized gain (loss) on cross-currency swap	Unrealized gain (loss) on available-for-sales securities	Total
Balance at March 31, 2018	$(4,287)	$ 600	$ (10,191)	$ (1,854)	$(15,732)
Other comprehensive (loss) income before reclassifications	(24,335)	—	9,054	890	(14,391)
Amounts reclassified from accumulated other comprehensive loss	—	—	(7,076)	—	(7,076)
Balance at September 30, 2018	$(28,622)	$ 600	$ (8,213)	$ (964)	$(37,199)

	Six Months Ended September 30, 2017				
	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, 2017	$(47,666)	$ 600	$ —	$ (76)	$(47,142)
Other comprehensive income before reclassifications	23,776	—	(5,781)	111	18,106
Amounts reclassified from accumulated other comprehensive loss	—	—	564	—	564
Balance at September 30, 2017	$(23,890)	$ 600	$ (5,217)	$ 35	$(28,472)

13. COMMITMENTS AND CONTINGENCIES

We have entered into various agreements in the ordinary course of business that require substantial cash commitments over the next several years. Other than agreements entered into in the ordinary course of business and in addition to the agreements requiring known cash commitments as reported in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended March 31, 2018, we did not have any significant changes to our commitments since March 31, 2018.

Legal and Other Proceedings

We are, or may become, subject to demands and claims (including intellectual property 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.

On April 11, 2016, we filed a declaratory judgment action in the United States District Court for the Southern District of New York seeking, among other things, a judicial declaration that Leslie Benzies, the former president of one of our subsidiaries with whom we had been in ongoing discussions regarding his separation of employment, is not entitled to any minimum allocation or financial parity with any other person under the applicable royalty plan. We believe we will prevail in this matter, although there can be no assurance of the outcome. On April 12, 2016, Mr. Benzies filed a complaint in the Supreme Court of the State of New York, New York County against us, and certain of our subsidiaries and employees. We removed this case to the United States District Court for the Southern

District of New York, but the case was subsequently remanded to state court. The complaint claims damages of at least $150,000 and contains allegations of breach of fiduciary duty; fraudulent inducement and fraudulent concealment; aiding and abetting breach of fiduciary duty; breach of various contracts; breach of implied duty of good faith and fair dealing; tortious interference with contract; unjust enrichment; reformation; constructive trust; declaration of rights; constructive discharge; defamation and fraud. We have asserted counterclaims for breach of contract, theft of trade secrets, and misappropriation.

As a result of amended pleadings, motion practice and appeals to date, twelve of Mr. Benzies' claims have been dismissed. His remaining claims include breach of various contracts, constructive discharge, breach of implied duty of good faith and fair dealing, and tortious interference with contract. Our federal court action has been stayed pending the conclusion of the state court

action. We believe that we have meritorious defenses to the remaining claims, and we intend to vigorously defend against them and to pursue our counterclaims.

We have accrued what we believe to be an adequate amount for this matter, which amounts are classified as Business reorganization within Accrued expenses and other current liabilities in our Condensed Consolidated Balance Sheets (see Note 9). We do not believe that the ultimate outcome of such litigation, even if in excess of our current accrual, will have a material adverse effect on our business, financial condition or results of operations.

14. BUSINESS REORGANIZATION

In the first quarter of fiscal 2018, we announced and initiated actions to implement a strategic reorganization at one of our labels (the "2018 Plan"). In connection with this initiative, we recognized a credit to business reorganization expense of $242 during the six months ended September 30, 2018 due to a true-up of estimates for employee separation costs. Through September 30, 2018, we paid $5,299 related to these reorganization activities. As of September 30, 2018, $598 remained accrued for in Accrued expenses and other current liabilities and $4,708 in Other non-current liabilities. Although we may record additional expense or benefit in future periods to true-up estimates, we do not expect to incur additional reorganization costs in connection with the 2018 Plan.

15. INCOME TAXES

On December 22, 2017, the United States (“U.S.”) enacted comprehensive tax legislation commonly referred to as the "Tax Cuts and Jobs Act” (herein referred to as the "Act”). The Act makes broad and complex changes to the U.S. tax code, which could materially affect us. The Act reduced the U.S. federal corporate tax rate from 35% to 21%, effective January 1, 2018 and requires companies to pay a one-time transition tax on the previously untaxed earnings of certain foreign subsidiaries. In addition, the Act makes other changes that may affect us. These changes include but are not limited to (1) a Base Erosion Anti-abuse Tax (BEAT), which is a new minimum tax, (2) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries, (3) a new provision that taxes global intangible low-taxed income (GILTI), (4) the repeal of the domestic production activity deduction, and (5) other base broadening provisions.

The SEC issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which provides guidance on accounting for the Act’s impact. SAB 118 provides a measurement period, which should not extend beyond one year from the Act enactment date, during which a company acting in good faith may complete the accounting for the impact of the Act under ASC 740. In accordance with SAB 118, the income tax effects of the Act must be reflected in the reporting period in which the accounting under ASC Topic 740 is complete. To the extent the accounting for certain income tax effects of the Act is incomplete, we can determine a reasonable estimate for those effects and record a provisional estimate.

We continue to evaluate the potential impact of the Act, and the amounts recorded in the fiscal year ended March 31, 2018 represented provisional estimates for certain identified income tax effects, for which the accounting is incomplete but a reasonable estimate was determined. Additional information and further analysis is required to determine the untaxed earnings of certain foreign subsidiaries and to evaluate the complexities of the new tax law along with additional interpretative guidance that may be issued. The impact of the Act may differ from these estimates, possibly materially, due to changes in interpretations and assumptions we have made, guidance that may be issued and actions we may take as a result of the Act. We expect to continue to analyze the Act and its impacts and record any adjustments to provisional estimates no later than the third quarter of the fiscal year ending March 31, 2019. We continue to review whether the Act will affect our existing intention to indefinitely reinvest earnings of our foreign subsidiaries and therefore have not recorded any tax liabilities associated with the repatriation of foreign earnings.

The Act subjects a U.S. shareholder to current tax on GILTI earned by foreign subsidiaries. The FASB Staff Q&A Topic No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election either to recognize deferred taxes for temporary differences that are expected to reverse as GILTI in future years or provide for the tax expense related to GILTI resulting from those items in the year the tax is incurred. We have elected to recognize the resulting tax on GILTI as a period expense in the period the tax is incurred. We have estimated the effect in our estimated annual effective rate based on current tax guidance. The actual tax expense we

record for GILTI may differ from this estimate.

The provision for income taxes for the three months ended September 30, 2018 is based on our projected annual effective tax rate for fiscal year 2018, adjusted for specific items that are required to be recognized in the period in which they are incurred. The provision for income taxes was $5,594 for the three months ended September 30, 2018 as compared to a benefit from income taxes of $11,552 for the prior year period.

When compared to the statutory rate of 21%, the effective tax rate of 18.1% for the three months ended September 30, 2018 was primarily due to a tax benefit of $5,075 as a result of changes in our valuation allowance relating to temporary items

and tax carryforwards anticipated to be utilized, a tax benefit of $2,230 as a result of tax credits anticipated to be utilized, and a net tax benefit of $1,375 for excess tax benefits from employee stock compensation, partially offset by tax provision of $6,143 due to the geographic mix of earnings. To a lesser extent, our rate was also affected by the Act due to a net tax provision of $1,000.

The provision for income taxes for the six months ended September 30, 2018 is based on our projected annual effective tax rate for fiscal year 2019, adjusted for specific items that are required to be recognized in the period in which they are incurred. The provision for income taxes was $11,348 for the six months ended September 30, 2018 as compared to a benefit from income taxes of $24,417 for the prior year period.

When compared to the statutory rate of 21%, the effective tax rate of 10.5% for the six months ended September 30, 2018 was primarily due to a tax benefit of $10,575 as a result of changes in our valuation allowance relating to temporary items and tax carryforwards anticipated to be utilized, a tax benefit of $8,848 as a result of tax credits anticipated to be utilized, and a net tax benefit of $6,918 for excess tax benefits from employee stock compensation, partially offset by tax provision of $10,638 due to the geographic mix of earnings. To a lesser extent, our rate was also affected by the Act due to a net tax provision of $3,391.

We anticipate that additional excess tax benefits from employee stock compensation, tax credits, changes in valuation allowance, and changes as a result of the Act may arise in future periods, which could have a significant impact on our effective tax rate.

The accounting for share-based compensation will increase or decrease our effective tax rate based upon the difference between our share-based compensation expense and the deductions taken on our tax return, which depends upon the stock price at the time of the employee award vesting. Because 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.

On June 21, 2018, the U.S. Supreme Court issued its decision in South Dakota v. Wayfair, which overturned previous case law that precluded states from requiring retailers to collect and remit sales tax on sales made to in-state customers unless the retailer had physical presence in the state. Although this case is limited to sales tax collection obligations, we continue to monitor the potential impact of this decision on our state income tax footprint.

The ultimate amount of tax payable in a given financial statement period may be materially affected by sudden or unforeseen changes in tax laws, changes in the mix and level of earnings by taxing jurisdictions, or changes to existing accounting rules or regulations. For example, on July 24, 2018, the Ninth Circuit Court of Appeals issued an opinion in Altera Corp. v. Commissioner requiring related parties in an intercompany cost-sharing arrangement to share expenses related to stock compensation. On August 7, 2018, the opinion was withdrawn to allow time for a reconstituted panel to confer. We are monitoring this case and any impact the final opinion could have on our financial statements.

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

16. 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, the Company's financial performance and other conditions. The program does not require us to repurchase shares and may be suspended or discontinued at any time for any reason.

During the six months ended September 30, 2018, we repurchased 1,597 shares of our common stock in the open market for $153,515, including commissions of $16, as part of the program. We have repurchased a total of 8,281 shares of our common stock under the program, and, as of September 30, 2018, 5,937 shares of our common stock

remain available for repurchase under the share repurchase program.

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 the Company's 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 those contained herein, in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2018, in the section entitled "Risk Factors," and the Company's 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. The Company undertakes 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, 2018.

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 our two wholly-owned labels Rockstar Games and 2K, as well as our Private Division label and Social Point, a leading developer of mobile games. Our products are currently designed for console gaming systems such as Sony's PlayStation®4 ("PS4") and PlayStation®3 ("PS3"), Microsoft's Xbox One® ("Xbox One") and Xbox 360® ("Xbox 360"), the Nintendo Switch, and personal computers ("PC"), 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, racing, role-playing, shooter, sports and strategy, which we distribute worldwide. We believe that our commitment to creativity and innovation is a distinguishing strength, enabling us to differentiate our products in the marketplace by combining advanced technology with compelling storylines and characters that provide unique gameplay experiences for consumers. We have created, acquired, or licensed a group of highly recognizable brands to match the broad consumer demographics that we serve, ranging from adults to children and game enthusiasts to casual gamers.

Another cornerstone of our strategy is to support the success of our products in the marketplace through innovative marketing programs and global distribution on platforms and through channels that are relevant to our target audience.

Our revenue is primarily derived from the sale of internally developed software titles and software titles developed by third parties. Operating margins are dependent in part upon our ability to release new, commercially successful software products and to manage effectively their development costs. We have internal development studios located in Australia, Canada, China, Czech Republic, Hungary, India, Spain, 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 by leveraging our existing titles as well as by developing new brands. We believe that Rockstar 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 285 million units. The latest installment, Grand Theft Auto V, has sold in over 100 million units worldwide and includes access to Grand Theft

Auto Online. Rockstar Games is also well known for developing brands in other genres, including the L.A. Noire, Bully, and Manhunt franchises. Rockstar Games continues to expand on our established franchises by developing sequels, offering downloadable episodes, content, and virtual currency, and releasing titles for smartphones and tablets.

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 externally developed

brands, such as Borderlands and Evolve. 2K's realistic sports simulation titles include our flagship NBA 2K series, which continues to be the top-ranked NBA basketball video game, and the WWE 2K professional wrestling series. Our Private Division label is dedicated to bringing titles from top independent developers to market. Private Division will publish several upcoming titles based on new IP from renowned industry creative talent, including the previously announced Ancestors: The Humankind Odyssey from Panache Digital Game, a studio led by the creator of the Assassin's Creed franchise Patrice Désilets; an unannounced role-playing game ("RPG") currently codenamed Project Wight from The Outsiders, a studio formed by ex-DICE developers David Goldfarb and Ben Cousins; an unannounced RPG from Obsidian Entertainment led by Tim Cain and Leonard Boyarsky, co-creators of Fallout; and an unannounced sci-fi first-person shooter from V1 Interactive, a studio founded by Halo co-creator Marcus Lehto. Additionally, Private Division is the publisher of Kerbal Space Program.

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

We are continuing to execute on our growth initiatives in Asia, where our strategy is to broaden the distribution of our existing products and expand our online gaming presence, especially in China and South Korea. 2K has secured a multi-year license from the NBA to develop an online version of the NBA simulation game in China, Taiwan, South Korea, and Southeast Asia. NBA 2K Online, our free-to-play NBA simulation game, which was co-developed by 2K and Tencent, is the top online PC sports game in China with over 37 million registered users. On August 2, 2018, 2K and Tencent commercially launched NBA 2K Online 2 in China. The title is based on the console edition of NBA 2K and includes an array of new features.

In February 2017, we expanded our relationship with the NBA through the creation of the NBA 2K League, a new, professional competitive gaming league. Launched in May 2018, this groundbreaking competitive gaming league is jointly owned by us and the NBA and consists of teams operated by several NBA franchises. The NBA 2K League follows a professional sports league format; the inaugural season included head-to-head competition throughout a regular season, followed by a bracketed playoff system and a finals match-up that was held in August 2018. The NBA 2K League has announced that four additional teams (owned by the NBA's Atlanta Hawks, Brooklyn Nets, Los Angeles Lakers, and Minnesota Timberwolves) will join next season, bringing the NBA 2K League's total to 21 teams.

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 41.8% of our net revenue for the six months ended September 30, 2018. The timing of our Grand Theft Auto product releases may affect our financial performance on a quarterly and annual basis.

Economic Environment and Retailer Performance. We continue to monitor economic conditions 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. 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 75.4% and 71.7% of net revenue during the six months ended September 30, 2018 and 2017, respectively. As of September 30, 2018 and March 31, 2018, our five largest customers comprised 62.8% and 65.4% 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 48.1% and 53.2% of such balance at September 30, 2018 and March 31, 2018, respectively. We had two customers who accounted for 31.1% and 17.0%, respectively, of our gross accounts receivable as of September 30, 2018 and two customers who accounted for 37.7% and 15.5%, respectively, of our gross accounts receivable as of March 31, 2018. The economic environment has affected our customers in the past, and may do so in the future. Bankruptcies or consolidations of our large retail customers could seriously hurt our business, due to uncollectible accounts receivables and the concentration of purchasing power among the remaining

large retailers. 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 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 software products made for video game consoles manufactured by third parties, such as Sony's PS4 and PS3, Microsoft's Xbox One and Xbox 360, and the Nintendo Switch, which comprised 75.7% of our net revenue by product platform for the six months ended September 30, 2018. The success of our business is dependent upon the consumer acceptance and continued growth in the installed base of these platforms. When new hardware platforms are introduced, demand for software used on older platforms typically declines, which may negatively affect our business during the market transition to the new consoles. 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 emerging platforms such as tablets, smartphones and online games.

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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 websites we own and others owned by third parties). 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 via the Internet. Our "Results of Operations" discloses that net revenue from digital online channels comprised 76.5% of our net revenue by distribution channel for the six months ended September 30, 2018. We expect online delivery of games and game offerings to continue to grow and to become an increasing part of our business over the long-term.

Product Releases

We released the following key titles during the six months ended September 30, 2018:

Title	Publishing Label	Internal or External Development	Platform(s)	Date Released
Grand Theft Auto V Premium Online Edition	Rockstar Games	Internal	PS4, Xbox One, PC	April 20, 2018
NBA 2K Online 2	2K	External	Tencent (China only)	August 2, 2018
The Golf Club 2019 Featuring PGA TOUR (Digital)	2K	External	PS4, Xbox One, PC	August 27, 2018
NBA 2K19 20th Anniversary Edition	2K	Internal	PS4, Xbox One, Nintendo Switch, PC	September 7, 2018
NBA 2K19 Standard Edition	2K	Internal	PS4, Xbox One, Nintendo Switch, PC	September 11, 2018

Product Pipeline

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

Title	Publishing Label	Internal or External Development	Platform(s)	Expected Release Date
WWE 2K19 Woooo! Deluxe Edition	2K	Internal/External	PS4, Xbox One, PC	October 5, 2018 (released)
WWE 2K19	2K	Internal/External	PS4, Xbox One, PC	October 9, 2018 (released)
NBA 2K Playgrounds 2	2K	External	PS4, Xbox One, Nintendo Switch, PC	October 16, 2018 (released)
Red Dead Redemption 2	Rockstar Games	Internal	PS4, Xbox One	October 26, 2018 (released)
Carnival Games	2K	Internal	PS4, Xbox One, Nintendo Switch	November 6, 2018 (released)
The Golf Club 2019 Featuring PGA TOUR (Physical)	2K	External	PS4, Xbox One, PC	November 13, 2018 (North America) November 16, 2018 (International)
Sid Meier's Civilization VI	2K	External	Nintendo Switch	November 16, 2018

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

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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, 2018.
During the six months ended September 30, 2018, there were no significant changes to the above critical accounting policies and estimates, with the exception of our adoption of Topic 606, Revenue from Contracts with Customers. Refer to Note 1 - Basis of Presentation and Significant Accounting Policies in the Notes to our Condensed Consolidated Financial Statements for disclosures regarding our updated revenue recognition accounting policies.
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,			
	2018	2017	Increase/ (decrease)	% Increase/ (decrease)	2018	2017	Increase/ (decrease)	% Increase/ (decrease)
Net Bookings	$583,421	$576,989	$ 6,432	1.1 %	$871,746	$925,294	$(53,548)	(5.8)%

For the three months ended September 30, 2018, Net Bookings increased by $6.4 million as compared to the prior year period primarily due to our NBA 2K franchise, partially offset by a decrease from Grand Theft Auto V. For the six months ended September 30, 2018, Net Bookings decreased by $53.5 million as compared to the prior year period primarily due to Grand Theft Auto V and Grand Theft Auto Online, partially offset by an increase from our NBA 2K franchise.
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:

	Three Months Ended September 30,				Six Months Ended September 30,			
(thousands of dollars)	2018		2017		2018		2017	
Net revenue	$492,667	100.0%	$443,562	100.0 %	$880,649	100.0 %	$861,778	100.0 %
Cost of goods sold	234,880	47.7 %	246,548	55.6 %	366,245	41.6 %	441,117	51.2 %
Gross profit	257,787	52.3 %	197,014	44.4 %	514,404	58.4 %	420,661	48.8 %
Selling and marketing	94,165	19.1 %	76,914	17.3 %	152,471	17.3 %	129,128	15.0 %
General and administrative	67,320	13.7 %	60,824	13.7 %	135,055	15.3 %	121,427	14.1 %
Research and development	60,565	12.3 %	49,999	11.3 %	111,277	12.6 %	92,268	10.7 %
Depreciation and amortization	9,751	2.0 %	18,883	4.3 %	19,011	2.2 %	26,626	3.1 %
Business reorganization	—	— %	1,713	0.4 %	(242)	— %	12,312	1.4 %
Total operating expenses	231,801	47.1 %	208,333	47.0 %	417,572	47.4 %	381,761	44.3 %
Income (loss) from operations	25,986	5.3 %	(11,319)	(2.6)%	96,832	11.0 %	38,900	4.5 %
Interest and other, net	4,975	1.0 %	(2,969)	(0.7)%	11,576	1.3 %	(5,777)	(0.7)%
Income (loss) before income taxes	30,961	6.3 %	(14,288)	(3.2)%	108,408	12.3 %	33,123	3.8 %
Provision for (benefit from) income taxes	5,594	1.1 %	(11,552)	(2.6)%	11,348	1.3 %	(24,417)	(2.8)%

Net income (loss)	$25,367	5.1 %	$(2,736)	(0.6)%	$97,060	11.0 %	$57,540	6.7 %

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	Three Months Ended September 30,				Six Months Ended September 30,			
	2018		2017		2018		2017	
Net revenue by geographic region:								
United States	$279,306	56.7%	$276,005	62.2%	$500,717	56.9%	$534,265	62.0%
International	213,361	43.3%	167,557	37.8%	379,932	43.1%	327,513	38.0%
Net revenue by platform:								
Console	$372,240	75.6%	$360,465	81.3%	$666,970	75.7%	$705,382	81.9%
PC and other	120,427	24.4%	83,097	18.7%	213,679	24.3%	156,396	18.1%
Net revenue by distribution channel:								
Digital online	$358,371	72.7%	$302,886	68.3%	$673,418	76.5%	$571,122	66.3%
Physical retail and other	134,296	27.3%	140,676	31.7%	207,231	23.5%	290,656	33.7%
Net revenue by content:								
Full game and other	$252,068	51.2%	$229,197	51.7%	$399,020	45.3%	$475,265	55.1%
Recurrent consumer spending	240,599	48.8%	214,365	48.3%	481,629	54.7%	386,513	44.9%

Three Months Ended September 30, 2018 Compared to September 30, 2017

(thousands of dollars)	2018	%	2017	%	Increase/ (decrease)	% Increase/ (decrease)
Net revenue	$492,667	100.0%	$443,562	100.0%	$49,105	11.1 %
Internal royalties	82,113	16.7 %	104,049	23.5 %	(21,936)	(21.1)%
Software development costs and royalties(1)	42,648	8.7 %	66,782	15.1 %	(24,134)	(36.1)%
Product costs	55,885	11.3 %	42,563	9.6 %	13,322	31.3 %
Licenses	54,234	11.0 %	33,154	7.5 %	21,080	63.6 %
Cost of goods sold	234,880	47.7 %	246,548	55.6 %	(11,668)	(4.7)%
Gross profit	$257,787	52.3 %	$197,014	44.4 %	$60,773	30.8 %

(1) Includes $7,688 and $28,065 of stock-based compensation expense in 2018 and 2017, respectively, in software development costs and royalties.

In general, the adoption of Topic 606 results in a more accelerated revenue pattern, primarily due to (i) the elimination of the requirement for vendor-specific objective evidence ("VSOE") of fair value when allocating between multiple performance obligations and (ii) the change of our estimated service period to a user life. However, the impact on a given period may differ from this general trend. See Note 1 and Note 2 to our Condensed Consolidated Financial Statements for further information.

For the three months ended September 30, 2018, net revenue increased by $49.1 million as compared to the prior year period. This increase included a $35.2 million increase in net revenue as a result of the adoption of Topic 606. This increase was also due to (i) an aggregate increase of $16.6 million from Grand Theft Auto V and Grand Theft Auto Online and (ii) an increase of $2.4 million from our NBA 2K franchise, partially offset by a $9.0 million decrease from XCOM 2 and a $2.7 million decrease from Mafia III.

Net revenue from console games increased by $11.8 million and accounted for 75.6% of our total net revenue for the three months ended September 30, 2018, as compared to 81.3% for the prior year period. The increase in net revenue from console games included a $2.3 million increase in net revenue as a result of the adoption of Topic 606. This increase is also due to higher net revenue from Grand Theft Auto Online, LA Noire, and our NBA 2K franchise. These increases were partially offset by lower net revenue from Grand Theft Auto V, Mafia III, and our WWE 2K franchise. Net revenue from PC and other increased by $37.3 million and accounted for 24.4% of our total net revenue for the three months ended September 30, 2018, as compared to 18.7% for the prior year period. The increase in net revenue from PC and other was due to a $32.9 million increase in net revenue as a result of the adoption of Topic 606. The remaining net increase in net revenue from PC and other as compared to the prior year period was due to higher

net revenue from Grand Theft Auto Online, our WWE 2K franchise, our Civilization franchise, and Monster Legends. These increases were partially offset by a decrease in net revenue from XCOM 2.
Net revenue from digital online channels increased by $55.5 million and accounted for 72.7% of our total net revenue for the three months ended September 30, 2018, as compared to 68.3% for the prior year period. The increase in net revenue from digital online channels included a $22.1 million increase in net revenue as a result of the adoption of Topic 606. The increase was

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also due to higher net revenue from Grand Theft Auto Online and Grand Theft Auto V, our NBA 2K franchise, our WWE 2K franchise, our Civilization franchise, Monster Legends, and Dragon City. These increases were partially offset by a decrease in net revenue from XCOM 2. Net revenue from physical retail and other channels decreased by $6.4 million and accounted for 27.3% of our total net revenue for the three months ended September 30, 2018, as compared to 31.7% for the same period in the prior year period. The decrease in net revenue from physical retail and other channels was partially offset by a $13.1 million increase as a result of the adoption of Topic 606. The remaining decrease was due to lower net revenue from Grand Theft Auto V, our NBA 2K franchise, Mafia III, Dragon City, and our WWE 2K franchise, partially offset by higher other net revenue from Grand Theft Auto Online.

Net revenue from recurrent consumer spending on our titles through virtual currency, add-on content, and in-game purchases increased by $26.2 million and accounted for 48.8% of net revenue for the three months ended September 30, 2018, as compared to 48.3% of net revenue for the prior year period. The increase in net revenue from recurrent consumer spending included a $1.9 million increase in net revenue as a result of the adoption of Topic 606. The increase is also due to higher net revenue from Grand Theft Auto Online, our NBA 2K franchise, our Civilization franchise, and our WWE 2K franchise. These increases were partially offset by a decrease in net revenue from XCOM 2 and Mafia III. Net revenue from full game and other increased by $22.9 million and accounted for 51.2% of net revenue for the three months ended September 30, 2018 as compared to 51.7% of net revenue for the prior year period. The increase in net revenue from full game and other was due to a $33.3 million increase as a result of the adoption of Topic 606. The overall increase was partially offset by lower net revenue from our NBA 2K franchise, XCOM 2, Dragon City, and our Civilization franchise.

Gross profit as a percentage of net revenue for the three months ended September 30, 2018 was 52.3% as compared to 44.4% for the prior year period. The increase was due primarily to a 5.4% increase in gross profit percentage as a result of the adoption of Topic 606. This increase was also due to lower internal royalties as a percentage of net revenue due to the timing of when royalties are earned and lower capitalized software cost amortization as a percentage of net revenue due to the timing of releases.

Net revenue earned outside of the United States increased by $45.8 million, and accounted for 43.3% of our total net revenue for the three months ended September 30, 2018, as compared to 37.8% in the prior year period. The increase in net revenue outside of the United States was primarily due to a $36.2 million increase as a result of the adoption of Topic 606. The increase is also due to higher net revenue from Grand Theft Auto Online, our NBA 2K franchise, our Civilization franchise, and Monster Legends, partially offset by a decrease in net revenue from XCOM 2 and Grand Theft Auto V. Changes in foreign currency exchange rates decreased net revenue by $1.2 million and decreased gross profit by $1.0 million for the three months ended September 30, 2018 as compared to the prior year period.

Operating Expenses

(thousands of dollars)	2018	% of net revenue	2017	% of net revenue	Increase/ (decrease)	% Increase/ (decrease)
Selling and marketing	$94,165	19.1 %	$76,914	17.3 %	$17,251	22.4 %
General and administrative	67,320	13.7 %	60,824	13.7 %	6,496	10.7 %
Research and development	60,565	12.3 %	49,999	11.3 %	10,566	21.1 %
Depreciation and amortization	9,751	2.0 %	18,883	4.3 %	(9,132)	(48.4)%
Business reorganization	—	— %	1,713	0.4 %	(1,713)	(100.0)%
Total operating expenses(1)	$231,801	47.1 %	$208,333	47.0 %	$23,468	11.3 %

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

	2018	2017
General and administrative	$12,926	$19,458
Selling and marketing	4,874	3,187
Research and development	4,854	8,301

Changes in foreign currency exchange rates decreased total operating expenses by $0.8 million for the three months ended September 30, 2018, as compared to the prior year period.

Selling and marketing

Selling and marketing expenses increased by $17.3 million for the three months ended September 30, 2018, as compared to the prior year period, due primarily to higher advertising expenses for our NBA 2K franchise, Grand Theft Auto Online, and

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Red Dead Redemption 2. The increase was also due to higher personnel expenses due to increased headcount, partially offset by lower advertising expenses for our WWE 2K franchise. The increase was also offset by a reduction of expense due to amortization of intangible assets in the prior period related to our acquisition of Social Point with no corresponding expense in the current period.

General and administrative

General and administrative expenses increased by $6.5 million for the three months ended September 30, 2018, as compared to the prior year period, due to (i) a reduction of expense in the prior period related to a true-up of the fair value of contingent consideration from our acquisition of Social Point, (ii) increases in personnel expenses for additional headcount, (iii) an increase in IT related expenses for cloud-based services, and (iv) increases in rent expense. These increases were partially offset by a decrease in stock compensation expense related primarily to our management agreement with ZelnickMedia as a result of our early adoption of ASU 2018-07 as of April 1, 2018.

General and administrative expenses for the three months ended September 30, 2018 and 2017 included occupancy expense (primarily rent, utilities and office expenses) of $5.4 million and $4.4 million, respectively, related to our development studios.

Research and development

Research and development expenses increased by $10.6 million for the three months ended September 30, 2018, as compared to the prior year period, primarily due to an increase in production and development expenses for titles for which technological feasibility has not been established.

Depreciation and Amortization

Depreciation and amortization expenses decreased by $9.1 million for the three months ended September 30, 2018 as compared to the prior year period due to the recognition of an $11.3 million impairment charge in September 2017, as a result of our decision not to proceed with further development of a certain in-process research and development intangible asset ("IPR&D") from our acquisition of Social Point. The decrease was partially offset by an increase in depreciation expense due primarily to the move to our new corporate headquarters in December 2017.

Business reorganization

During the three months ended September 30, 2018, business reorganization expense decreased $1.7 million as a result of a strategic reorganization at one of our labels in the prior year period, with no corresponding costs in the current year period.

Interest and other, net

Interest and other, net was income of $5.0 million for the three months ended September 30, 2018, as compared to expense of $3.0 million for the prior year period. The change was due primarily to higher interest income due to the nature of our investments and the rise in interest rates on those investments and lower expense related to our 1.00% Convertible Notes, which matured on July 1, 2018.

Provision for Income Taxes

The provision for income taxes for the three months ended September 30, 2018 is based on our projected annual effective tax rate for fiscal year 2019, adjusted for specific items that are required to be recognized in the period in which they are incurred. The provision for income taxes was $5.6 million for the three months ended September 30, 2018 as compared to a benefit from income taxes of $11.6 million for the prior year period.

When compared to the statutory rate of 21.0%, the effective tax rate of 18.1% for the three months ended September 30, 2018 was primarily due to a tax benefit of $5.1 million as a result of changes in our valuation allowance relating to temporary items and tax carryforwards anticipated to be utilized, a tax benefit of $2.2 million as a result of tax credits anticipated to be utilized, and a net tax benefit of $1.4 million for excess tax benefits from employee stock compensation, offset by a tax provision of $6.1 million due to the geographic mix of earnings. To a lesser extent, our rate was also affected by the Act due to a net tax provision of $1.0 million.

In the prior year period, when compared to the statutory rate of 35%, the effective tax rate of 80.9% was primarily due to a net tax benefit of $8.0 million for excess tax benefits from employee stock compensation, $2.5 million tax benefit related to the reduction in contingent consideration liability associated with the Social Point acquisition, offset by a

$5.0 million decrease in projected benefit related to tax credits.

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The change in the effective tax rate, when compared to the prior year period's effective tax rate, is primarily due to the impact of the Act's rate change on our projected annual effective tax rate, increased tax benefits from tax credits and changes in valuation allowance for temporary differences and tax credits anticipated to be utilized offset by decreased benefits from net tax benefits due to stock compensation and geographic mix of earnings. In addition, to a lesser extent, there was an increase in tax provision due to the Act with no corresponding items in the prior year period as the Act was enacted in December 2017.

We anticipate that additional excess tax benefits from employee stock compensation, tax credits, changes in valuation allowance, and changes as a result of the Act may arise in future periods, which could have a significant impact on our effective tax rate.

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.

On June 21, 2018, the U.S. Supreme Court issued its decision in South Dakota v. Wayfair, which overturned previous case law that precluded states from requiring retailers to collect sales tax on sales made to in-state customers unless the retailer had physical presence in the state. Although this case is limited to sales tax collection obligations, we continue to monitor the potential impact of this decision on our state income tax footprint.

The ultimate amount of tax payable in a given financial statement period may be materially affected by sudden or unforeseen changes in tax laws, changes in the mix and level of earnings by taxing jurisdictions, or changes to existing accounting rules or regulations. For example, on July 24, 2018, the Ninth Circuit Court of Appeals issued an opinion in Altera Corp. v. Commissioner requiring related parties in an intercompany cost-sharing arrangement to share expenses related to stock compensation. On August 7, 2018, the opinion was withdrawn to allow time for a reconstituted panel to confer. We are monitoring this case and any impact the final opinion could have on our financial statements.

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.

Net income (loss) and earnings (loss) per share

For the three months ended September 30, 2018, net income was $25.4 million, as compared to net loss of $2.7 million in the prior year period. Basic and diluted earnings per share for the three months ended September 30, 2018, was $0.22, as compared to basic and diluted loss per share of $(0.03) in the prior year period. Basic weighted average shares of 113.7 million were 4.3 million shares higher as compared to the prior year period, due primarily to the settlement of our 1.00% Convertible Notes by converting those notes to shares of our common stock using the stated conversion rate. See Note 11 to our Condensed Consolidated Financial Statements for additional information regarding earnings per share.

Six Months Ended September 30, 2018 Compared to September 30, 2017

(thousands of dollars)	2018	%	2017	%	Increase/ (decrease)	% Increase/ (decrease)
Net revenue	$880,649	100.0%	$861,778	100.0%	$18,871	2.2%
Internal royalties	135,280	15.4%	181,753	21.1%	(46,473)	(25.6)%
Product costs	94,026	10.7%	86,632	10.1%	7,394	8.5%
Software development costs and royalties(1)	72,436	8.2%	110,411	12.8%	(37,975)	(34.4)%
Licenses	64,503	7.3%	62,321	7.2%	2,182	3.5%
Cost of goods sold	366,245	41.6%	441,117	51.2%	(74,872)	(17.0)%
Gross profit	$514,404	58.4%	$420,661	48.8%	93,743	22.3%

(1) Includes $11,658 and $31,546 of stock-based compensation expense in 2018 and 2017, respectively, in software development costs and royalties.

For the six months ended September 30, 2018, net revenue increased by $18.9 million as compared to the prior year period. This increase included a $21.2 million increase in net revenue as a result of the adoption of Topic 606. This increase was also due to (i) an increase of $25.3 million from our NBA 2K franchise and (ii) an increase of $22.7 million from Grand Theft Auto Online.

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These increases were offset by (i) a decrease of $34.2 million in net revenue from Grand Theft Auto V, (ii) a decrease of $8.5 million in net revenue from Mafia III, and (iii) a decrease of $7.0 million in net revenue from XCOM 2.

Net revenue from console games decreased by $38.4 million and accounted for 75.7% of our total net revenue for the six months ended September 30, 2018, as compared to 81.9% for the prior year period. The decrease in net revenue from console games included a $32.2 million decrease in net revenue as the result of the adoption of Topic 606. This decrease was also due to lower net revenue from Grand Theft Auto V, Mafia III, our WWE 2K franchise, and Battleborn. These decreases were partially offset by higher net revenue from our NBA 2K franchise and Grand Theft Auto Online. Net revenue from PC and other increased by $57.3 million and accounted for 24.3% of our total net revenue for the six months ended September 30, 2018, as compared to 18.1% for the prior year period. The increase in net revenue from PC and other included a $53.5 million increase in net revenue as a result of the adoption of Topic 606. The increase is also due to an increase in net revenue from our NBA 2K franchise, Grand Theft Auto Online, our WWE 2K franchise, and Monster Legends. These increases were partially offset by a decrease in net revenue from XCOM 2 and Grand Theft Auto V.

Net revenue from digital online channels increased by $102.3 million and accounted for 76.5% of our total net revenue for the six months ended September 30, 2018, as compared to 66.3% for the prior year period. The increase in net revenue from digital online channels included a $55.2 million increase in net revenue as a result of the adoption of Topic 606. This increase was also due to higher net revenue from our NBA 2K franchise, Grand Theft Auto Online, Monster Legends, and Dragon City. These increases were partially offset by a decrease in net revenue from XCOM 2, Mafia III, and Grand Theft Auto V. Net revenue from physical retail and other channels decreased by $83.4 million and accounted for 23.5% of our total net revenues for the six months ended September 30, 2018, as compared to 33.7% for the same period in the prior year period. The decrease in net revenue from physical retail and other channels included a $33.9 million decrease in net revenue as the result of the adoption of Topic 606. This decrease was also due to a decrease in net revenue from Grand Theft Auto V, our NBA 2K franchise, Mafia III, our WWE 2K franchise, and Dragon City, partially offset by higher other net revenue from Grand Theft Auto Online.

Net revenue from recurrent consumer spending on our titles through virtual currency, add-on content, and in-game purchases increased by $95.1 million and accounted for 54.7% of net revenue for the six months ended September 30, 2018, as compared to 44.9% of net revenue for the prior year period. The increase in net revenue from recurrent consumer spending included a $43.7 million increase as a result of the adoption of Topic 606. This increase was also due to higher net revenues from our NBA 2K franchise, Grand Theft Auto Online, our Civilization franchise, Monster Legends, and Dragon City. These increases were partially offset by a decrease in net revenue from Mafia III and XCOM 2. Net revenue from full game and other decreased by $76.2 million and accounted for 45.3% of net revenue for the six months ended September 30, 2018 as compared to 55.1% of net revenue for the prior year period. The decrease in net revenue from full game and other included a $22.5 million decrease in net revenue as the result of the adoption of Topic 606. The decrease was also due to lower net revenue from Grand Theft Auto V, our Civilization franchise, our WWE 2K franchise, Battleborn, and Bioshock: The Collection, partially offset by an increase in net revenue from Grand Theft Auto Online.

Gross profit as a percentage of net revenue for the six months ended September 30, 2018 was 58.4% as compared to 48.8% for the prior year period. The increase was due primarily to a 0.8% increase in gross profit percentage as a result of the adoption of Topic 606. This increase was also due to lower internal royalties as a percentage of net revenue due to the timing of when royalties are earned and lower capitalized software cost amortization as a percentage of net revenue due to the timing of releases.

Net revenue earned outside of the United States increased by $52.4 million, and accounted for 43.1% of our total net revenue for the six months ended September 30, 2018, as compared to 38.0% in the prior year period. The increase in net revenue earned outside the United States included a $43.6 million increase in net revenue as the result of the adoption of Topic 606. The increase was also due to an increase in net revenue from our NBA 2K franchise and Grand Theft Auto Online, partially offset by a decrease in net revenue from Grand Theft Auto V. Changes in foreign currency exchange rates increased net revenue by $2.3 million and increased gross profit by $0.9 million for the six months ended September 30, 2018 as compared to the prior year period.

Operating Expenses

(thousands of dollars)	2018	% of net revenue	2017	% of net revenue	Increase/ (decrease)	% Increase/ (decrease)
Selling and marketing	$152,471	17.3 %	$129,128	15.0 %	$23,343	18.1 %
General and administrative	135,055	15.3 %	121,427	14.1 %	13,628	11.2 %
Research and development	111,277	12.6 %	92,268	10.7 %	19,009	20.6 %
Depreciation and amortization	19,011	2.2 %	26,626	3.1 %	(7,615)	(28.6)%
Business reorganization	(242)	— %	12,312	1.4 %	(12,554)	(102.0)%
Total operating expenses (1)	$417,572	47.4 %	$381,761	44.3 %	$35,811	9.4 %

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

	2018	2017
General and administrative	$24,444	$32,578
Selling and marketing	9,648	5,772
Research and development	9,191	10,766
Business reorganization	—	2,421

Changes in foreign currency exchange rates increased total operating expenses by $2.6 million for the six months ended September 30, 2018, as compared to the prior year period.

Selling and marketing

Selling and marketing expenses increased by $23.3 million for the six months ended September 30, 2018, as compared to the prior year period, due primarily to higher advertising expenses for our NBA 2K franchise, Red Dead Redemption 2, and Grand Theft Auto Online. The increase was also due to higher personnel expenses due to increased headcount. The increase was offset by a reduction of expense due to amortization of intangible assets in the prior period related to our acquisition of Social Point with no corresponding expense in the current period.

General and administrative

General and administrative expenses increased by $13.6 million for the six months ended September 30, 2018, as compared to the prior year period, due to (i) increases in personnel expenses for additional headcount, (ii) a reduction of expense in the prior period related to a true-up of the fair value of contingent consideration from our acquisition of Social Point, (iii) increases in IT related expenses for cloud-based services, and (iv) increases in rent expense. These increases were partially offset by a decrease in stock compensation expense related primarily to our management agreement with ZelnickMedia as a result of our early adoption of ASU 2018-07 as of April 1, 2018.

General and administrative expenses for the six months ended September 30, 2018 and 2017 included occupancy expense (primarily rent, utilities and office expenses) of $10.8 million and $8.7 million, respectively, related to our development studios.

Research and development

Research and development expenses increased by $19.0 million for the six months ended September 30, 2018, as compared to the prior year period, primarily due to an increase in production and development expenses for titles for which technological feasibility has not been established and increased personnel expenses due to increased headcount.

Depreciation and Amortization

Depreciation and amortization expenses for the six months ended September 30, 2018 decreased by $7.6 million, as compared to the prior year period, due primarily to the recognition of an $11.3 million impairment charge in September 2017, as a result of our decision not to proceed with further development of certain IPR&D from our acquisition of Social Point. The decrease was partially offset by an increase in depreciation expense primarily due to the move to our new corporate headquarters in December 2017.

Business reorganization

During the six months ended September 30, 2018, business reorganization expense decreased $12.6 million as a result of a strategic reorganization at one of our labels in the prior year period, with no corresponding costs in the current year period.

Interest and other, net

Interest and other, net was income of $11.6 million for the six months ended September 30, 2018, as compared to an expense of $5.8 million for the prior year period. The change was due primarily to higher interest income due to the nature of our investments and the rise in interest rates on those investments, and lower expense related to our 1.00% Convertible Notes, which matured on July 1, 2018.

Provision for Income Taxes

The provision for income taxes for the six months ended September 30, 2018 is based on our projected annual effective tax rate for fiscal year 2019, adjusted for specific items that are required to be recognized in the period in which they are incurred.

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The provision for income taxes was $11.3 million for the six months ended September 30, 2018 as compared to a benefit from income taxes of $24.4 million for the prior year period.

When compared to the statutory rate of 21.0%, the effective tax rate of 10.5% for the six months ended September 30, 2018 was primarily due to a tax benefit of $10.6 million as a result of changes in our valuation allowance relating to temporary items and tax carryforwards anticipated to be utilized, a tax benefit of $8.8 million as a result of tax credits anticipated to be utilized, and a net tax benefit of $6.9 million for excess tax benefits from employee stock compensation, offset by a tax provision of $10.6 million due to the geographic mix of earnings. To a lesser extent, our rate was also affected by the Act due to a net tax provision of $3.4 million.

In the prior year period, when compared to the statutory rate of 35%, the effective tax rate of (73.7)% was primarily due to a net tax benefit of $24.5 million for excess tax benefits from employee stock compensation, a tax benefit of $5.5 million as a result of tax credits anticipated to be utilized, a tax benefit of $5.4 million as a result of changes in our valuation allowance relating to temporary items and tax carryforwards anticipated to be utilized, and, to a lesser extent, the geographic mix of earnings.

The change in the effective tax rate, when compared to the prior year period's effective tax rate, is primarily due to the impact of the Act's rate change on our projected annual effective tax rate, reduced tax benefits from excess tax benefits due to stock compensation and geographic mix of earnings offset by increased benefits from tax credits and changes in valuation allowance for temporary differences and tax credits anticipated to be utilized. In addition, to a lesser extent, there was an increase in tax provision due to the Act with no corresponding items in the prior year period as the Act was enacted in December 2017.

We anticipate that additional excess tax benefits from employee stock compensation, tax credits, changes in valuation allowance, and changes as a result of the Act may arise in future periods, which could have a significant impact on our effective tax rate.

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.

On June 21, 2018, the U.S. Supreme Court issued its decision in South Dakota v. Wayfair, which overturned previous case law that precluded states from requiring retailers to collect and remit sales tax on sales made to in-state customers unless the retailer had physical presence in the state. Although this case is limited to sales tax collection obligations, we continue to monitor the potential impact of this decision on our state income tax footprint.

The ultimate amount of tax payable in a given financial statement period may be materially affected by sudden or unforeseen changes in tax laws, changes in the mix and level of earnings by taxing jurisdictions, or changes to existing accounting rules or regulations. For example, on July 24, 2018, the Ninth Circuit Court of Appeals issued an opinion in Altera Corp. v. Commissioner requiring related parties in an intercompany cost-sharing arrangement to share expenses related to stock compensation. On August 7, 2018, the opinion was withdrawn to allow time for a reconstituted panel to confer. We are monitoring this case and any impact the final opinion could have on our financial statements.

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.

Net income and earnings per share

For the six months ended September 30, 2018, net income was $97.1 million, as compared to $57.5 million in the prior year period. For the six months ended September 30, 2018, diluted earnings per share was $0.84 as compared to diluted earnings per share of $0.53 in the prior year period. Diluted weighted average shares of 115.8 million were 7.4

million shares higher as compared to the prior year period, due primarily to the settlement of our 1.00% Convertible Notes by converting those notes to shares of our common stock using the stated conversion rate and, to a lesser extent normal stock compensation activity including grants and forfeitures. See Note 11 to our Condensed Consolidated Financial Statements for additional information regarding earnings per share.

Liquidity and Capital Resources

Our primary cash requirements have been to fund (i) the development, manufacturing, and marketing of our published products, (ii) working capital, (iii) acquisitions, and (iv) capital expenditures. We expect to rely on cash and cash equivalents as

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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, 2018, we had $563.0 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.

Credit Agreement

In December 2017, we entered into a Seventh Amendment to our Second Amended and Restated Credit Agreement (as amended, the "Credit Agreement"). The Credit Agreement provides for borrowings of up to $100.0 million, which may be increased by up to $100.0 million pursuant to the terms of the Credit Agreement, and is secured by substantially all of our assets and the equity of our subsidiaries. The Credit Agreement expires on August 18, 2019. Revolving loans under the Credit Agreement bear interest at our election of (a) 0.25% to 0.75% above a certain base rate (5.25% at September 30, 2018), or (b) 1.25% to 1.75% above the LIBOR Rate (approximately 2.24% at September 30, 2018), with the margin rate subject to the achievement of certain average liquidity levels. We are also required to pay a monthly fee on the unused available balance, ranging from 0.25% to 0.375% based on availability. Availability under the Credit Agreement is unrestricted when liquidity is at least $300.0 million. When liquidity is below $300.0 million, availability under the Credit Agreement is restricted by our United States and United Kingdom based accounts receivable and inventory balances. The Credit Agreement also allows for the issuance of letters of credit in an aggregate amount of up to $5.0 million.

As of September 30, 2018, there was $98.3 million available to borrow under the Credit Agreement and we had $1.7 million of letters of credit outstanding. At September 30, 2018, we had no outstanding borrowings under the Credit Agreement.

The Credit Agreement contains covenants that substantially limit us and our subsidiaries' ability to: create, incur, assume or be liable for indebtedness; dispose of assets outside the ordinary course of business; acquire, merge or consolidate with or into another person or entity; create, incur or allow any lien on any of their respective properties; make investments; or pay dividends or make distributions (each subject to certain limitations); or optionally prepay any indebtedness (subject to certain exceptions, including an exception permitting the redemption of our unsecured convertible senior notes upon the meeting of certain minimum liquidity requirements). In addition, the Credit Agreement provides for certain events of default such as nonpayment of principal and interest, breaches of representations and warranties, noncompliance with covenants, acts of insolvency, default on indebtedness held by third parties and default on certain material contracts (subject to certain limitations and cure periods). The Credit Agreement also contains a requirement that we maintain an interest coverage ratio of more than one to one for the trailing twelve-month period, if certain average liquidity levels fall below $30.0 million.

1.00% Convertible Notes Due 2018

On June 18, 2013, we issued $250.0 million aggregate principal amount of 1.00% Convertible Notes due 2018. The 1.00% Convertible Notes were issued at 98.5% of par value for proceeds of $246.3 million. Interest on the 1.00% Convertible Notes was payable semi-annually in arrears on July 1st and January 1st of each year, commencing on January 1, 2014. The 1.00% Convertible Notes matured on July 1, 2018, unless earlier repurchased by the Company or converted. We did not have the right to redeem the 1.00% Convertible Notes prior to maturity. We also granted the underwriters a 30-day option to purchase up to an additional $37.5 million principal amount of 1.00% Convertible Notes to cover overallotments, if any. On July 17, 2013, we closed our public offering of $37.5 million principal amount of our 1.00% Convertible Notes as a result of the underwriters exercising their overallotment option in full on July 12, 2013, bringing the total proceeds to $283.2 million.

The 1.00% Convertible Notes were convertible at an initial conversion rate of 46.4727 shares of our common stock per $1,000 principal amount of 1.00% Convertible Notes (representing an initial conversion price of approximately $21.52 per share of common stock for a total of approximately 13,361 underlying conversion shares) subject to adjustment in certain circumstances.

During the three months ended September 30, 2018, 1.00% Convertible Notes with an aggregate principal amount of $5.2 million were settled.

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.

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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 and distributors. Our five largest customers accounted for 75.4% and 71.7% of net revenue during the three months ended September 30, 2018 and 2017, respectively. As of September 30, 2018 and March 31, 2018, five customers accounted for 62.8% and 65.4% of our gross accounts receivable, respectively. Customers that individually accounted for more than 10% of our gross accounts receivable balance comprised 48.1% and 53.2% of such balances at September 30, 2018 and March 31, 2018, respectively. We had two customers who accounted for 31.1% and 17.0% of our gross accounts receivable as of September 30, 2018, respectively, and two customers who accounted for 37.7% and 15.5% of our gross accounts receivable as of March 31, 2018, 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.
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.
As of September 30, 2018, the amount of cash and cash equivalents held outside of the U.S. by our foreign subsidiaries was $264.5 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 for the foreseeable future to have the ability to generate sufficient cash domestically to support ongoing operations.
On December 22, 2017, the U.S. enacted comprehensive tax legislation commonly referred to as the "Tax Cuts and Jobs Act" (herein referred to as the "Act"). The Act makes broad and complex changes to the U.S. tax code, which could materially affect us.
The Act includes a number of provisions, including international provisions, which generally establish a territorial-style system for taxing foreign-source income of domestic multinational corporations. We continue to review how the Act will affect our current intention to indefinitely reinvest undistributed earnings of our foreign subsidiaries and therefore have not recorded any tax liabilities associated with the repatriation of foreign earnings.
Our Board of Directors has authorized the repurchase of up to 14,218 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, the Company's financial performance and other conditions. The program may be suspended or discontinued at any time for any reason.
During the six months ended September 30, 2018, we repurchased 1,597 shares of our common stock in the open market for $153.5 million as part of the program. We have repurchased a total of 8,281 shares of our common stock under the program, and as of September 30, 2018, 5,937 shares of our common stock remain available for repurchase under the share repurchase program.
Our changes in cash flows were as follows:

	Six Months Ended September 30,	
(thousands of dollars)	2018	2017
Net cash (used in) provided by operating activities	$(206,035)	$132,352
Net cash provided by (used in) investing activities	19,689	(121,475)
Net cash used in financing activities	(217,467)	(86,125)
Effects of foreign currency exchange rates on cash and cash equivalents	(9,464)	12,761
Net change in cash, cash equivalents, and restricted cash	$(413,277)	$(62,487)

At September 30, 2018, we had $833.1 million of cash and cash equivalents and restricted cash, compared to $1,246.4 million at March 31, 2018. The decrease was due to (a) cash used in financing, which was primarily related to repurchases of common stock under our share repurchase program and tax payments related to net share settlements of our restricted stock awards, and (b) net cash used in operating activities, which was due primarily to investments in software development and licenses. Net

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cash provided by investing activities was primarily related to bank time deposits and net proceeds from available-for-sale securities, offset by purchases of fixed assets.

Contractual Obligations and Commitments

We have entered into various agreements in the ordinary course of business that require substantial cash commitments over the next several years. Other than agreements entered into in the ordinary course of business and in addition to the agreements requiring known cash commitments as reported in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended March 31, 2018, we did not have any significant changes to our commitments since March 31, 2018.

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

On April 11, 2016, we filed a declaratory judgment action in the United States District Court for the Southern District of New York seeking, among other things, a judicial declaration that Leslie Benzies, the former president of one of our subsidiaries with whom we had been in ongoing discussions regarding his separation of employment, is not entitled to any minimum allocation or financial parity with any other person under the applicable royalty plan. We believe we will prevail in this matter, although there can be no assurance of the outcome. On April 12, 2016, Mr. Benzies filed a complaint in the Supreme Court of the State of New York, New York County against us, and certain of our subsidiaries and employees. We removed this case to the United States District Court for the Southern District of New York, but the case was subsequently remanded to state court. The complaint claims damages of at least $150 million and contains allegations of breach of fiduciary duty; fraudulent inducement and fraudulent concealment; aiding and abetting breach of fiduciary duty; breach of various contracts; breach of implied duty of good faith and fair dealing; tortious interference with contract; unjust enrichment; reformation; constructive trust; declaration of rights; constructive discharge; defamation and fraud. We have asserted counterclaims for breach of contract, theft of trade secrets, and misappropriation.

As a result of amended pleadings, motion practice and appeals to date, twelve of Mr. Benzies' claims have been dismissed. His remaining claims include breach of various contracts, constructive discharge, breach of implied duty of good faith and fair dealing, and tortious interference with contract. Our federal court action has been stayed pending the conclusion of the state court action. We believe that we have meritorious defenses to the remaining claims, and we intend to vigorously defend against them and to pursue our counterclaims.

Off-Balance Sheet Arrangements

As of September 30, 2018 and March 31, 2018, 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, 2018 and 2017, 43.3% and 37.8%, respectively, and for the six months ended September 30, 2018 and 2017, 43.1% and 38.0%, respectively, of our net revenue was earned outside of the United States. We are subject to risks inherent in foreign trade, including increased credit risks, tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays and international political, regulatory and economic developments, all of which can have a significant 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 products are also seasonal, with peak shipments typically occurring in the fourth calendar quarter as a result of increased demand for products during the holiday season. For certain of our software products, we allocate a portion of the amount to be recognized as revenue over an estimated service period, which generally ranges from 9 to 15 months. As a result, the quarter in which we generate the highest

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net sales volume may be different from the quarter in which we recognize the highest amount of net revenues. 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, 2018, we had $563.0 million of short-term investments, which included $379.9 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 $462.3 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, 2018.

Historically, fluctuations in interest rates have not had a significant effect on our operating results. Under our Credit Agreement, outstanding balances bear interest at our election of (a) 0.25% to 0.75% above a certain base rate (5.25% at September 30, 2018), or (b) 1.25% to 1.75% above the LIBOR rate (approximately 2.24% at September 30, 2018), 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, 2018, there were no outstanding borrowings under our Credit Agreement, and our 1.00% Convertible Notes matured on July 1, 2018. For additional details on our Convertible Notes, see Note 10 to our Condensed Consolidated Financial Statements.

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 United States dollars using prevailing exchange rates at the relevant period end. Translation adjustments are included as a separate component of stockholders' equity. For the three months ended September 30, 2018 and 2017, our foreign currency translation adjustment was a gain of $2.5 million and $14.3 million, respectively, and for the six months ended September 30, 2018 and 2017, we recognized a foreign currency translation adjustment loss of $24.3 million and a gain of $23.8 million. For the three months ended September 30, 2018 and 2017, we recognized a foreign currency exchange transaction loss of $0.9 million and $0.6 million respectively, and for the six months ended September 30, 2018 and 2017, we recognized a foreign currency exchange transaction gain of $0.6 million and a loss of $1.7 million, respectively, included in interest and other, net in our Condensed Consolidated Statements of Operations.

Balance Sheet Hedging Activities

We use foreign currency forward contracts to mitigate foreign currency exchange rate risk associated with non-functional currency denominated cash balances and intercompany funding loans, non-functional currency denominated accounts receivable and non-functional currency denominated accounts payable. These transactions are not designated as hedging instruments and are accounted for as derivatives whereby the fair value of the contracts is reported as either assets or liabilities on our Condensed Consolidated Balance Sheets, and gains and losses resulting from changes in the fair value are reported in Interest and other, net, in our Condensed Consolidated Statements of Operations. We do not enter into derivative financial contracts for speculative or trading purposes. At September 30,

2018, we had $345.7 million of forward contracts outstanding to sell foreign currencies in exchange for U.S. dollars and $10.3 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, 2018, we had $67.6 million of forward contracts outstanding to sell foreign currencies in exchange for U.S. dollars and $4.4 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, 2018 and 2017, we recorded a loss of $0.2 million and a loss of $6.1 million, respectively, and for the six months ended September 30, 2018 and 2017, we recorded a gain of $2.2 million and a loss of $14.7 million, respectively. As of September 30, 2018, the fair

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value of these outstanding forward contracts was a gain of 0.2 million and was included in Prepaid expenses and other, and, as of March 31, 2018, the fair value of outstanding forward contracts was a loss of $0.0 million 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 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. For the three months ended September 30, 2018, 43.3% 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 4.3%, while a hypothetical 10% decrease in the value of the U.S. dollar against all currencies would increase revenues by 4.3%. 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, 2018, 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.

Limitations on Effectiveness of Controls and Procedures

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

On April 11, 2016, we filed a declaratory judgment action in the United States District Court for the Southern District of New York seeking, among other things, a judicial declaration that Leslie Benzies, the former president of one of our subsidiaries with whom we had been in ongoing discussions regarding his separation of employment, is not entitled to any minimum allocation or financial parity with any other person under the applicable royalty plan. We believe we will prevail in this matter, although there can be no assurance of the outcome. On April 12, 2016, Mr. Benzies filed a complaint in the Supreme Court of the State of New York, New York County against us, and certain of our subsidiaries and employees. We removed this case to the United States District Court for the Southern District of New York, but the case was subsequently remanded to state court. The complaint claims damages of at least $150 million and contains allegations of breach of fiduciary duty; fraudulent inducement and fraudulent concealment; aiding and abetting breach of fiduciary duty; breach of various contracts; breach of implied duty of good faith and fair dealing; tortious interference with contract; unjust enrichment; reformation; constructive trust; declaration of rights; constructive discharge; defamation and fraud. We have asserted counterclaims for breach of contract, theft of trade secrets, and misappropriation.

As a result of amended pleadings, motion practice and appeals to date, twelve of Mr. Benzies' claims have been dismissed. His remaining claims include breach of various contracts, constructive discharge, breach of implied duty of good faith and fair dealing, and tortious interference with contract. Our federal court action has been stayed pending the conclusion of the state court action. We believe that we have meritorious defenses to the remaining claims, and we intend to vigorously defend against them and to pursue our counterclaims.

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, 2018.

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

Issuer Purchases of Equity Securities

Share Repurchase Program—In January 2013, our Board of Directors authorized the repurchase of up to 7,500 shares of our common stock. On May 13, 2015, our Board of Directors approved an increase of 6,718 shares to our share repurchase program, increasing the total number of shares that we are permitted to repurchase 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 six months ended September 30, 2018, we repurchased 1,597 shares of our common stock in the open market for $153.5 million, including immaterial commissions, as part of the program. As of September 30, 2018, we have repurchased a total of 8,281 shares of our common stock under this program and 5,937 shares of common stock remain available for repurchase under our share repurchase program. We did not repurchase any shares of our common stock under this program during the three months ended September 30, 2018. The table below details that no share repurchases were made by us during the three months ended September 30, 2018:

Period	Shares purchased	Average price per share	Total number of shares purchased as part of publicly	Maximum number of shares that may yet be

			announced plans or programs	purchased under the repurchase program
July 1-31, 2018	—	$	——	5,937
August 1-31, 2018	—	$	——	5,937
September 1-30, 2018	—	$	——	5,937

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Item 6. Exhibits

Exhibits:

10.1	First Amendment to Lease, dated as of July 25, 2018 by and between Take-Two Interactive Software, Inc. and DOLP 1133 Properties II LLC
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	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Document

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2018 and March 31, 2018, (ii) Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2018 and 2017, (iii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended September 30, 2018 and 2017, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2018 and 2017; and (v) Notes to Condensed Consolidated Financial Statements (Unaudited).

SIGNATURES

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

TAKE-TWO INTERACTIVE SOFTWARE, INC.
(Registrant)

Date: November 7, 2018 By: /s/ STRAUSS ZELNICK
Strauss Zelnick
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: November 7, 2018 By: /s/ LAINIE GOLDSTEIN
Lainie Goldstein
Chief Financial Officer
(Principal Financial Officer)

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