

"Hot Coffee" Still Burning Take Two

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US analysts have warned that Take Two may face investigations from the Federal Trade Commission and the Securities and Exchange Commission after the company reduced its Q3 revenue guidance by \$40 million in the wake of the Hot Coffee scandal.

Commenting in a research note yesterday, Banc of America Securities analyst Gary Cooper said that "regulatory risks remain for Take Two" and described a class action lawsuit over the matter as "inevitable."

"Some political figures are agitating for an FTC investigation on the grounds of indecency and/or false advertising related to GTA San Andreas and the original product rating," he said, going on to note that the company has not created an exchange or return programme for the 12 million already sold copies of San Andreas, something which the FTC could push it to do.

It's not just the Federal Trade Commission which may look at Take Two now, however; Cooper warned that several stock transactions over the past few weeks could also come under scrutiny from the Securities and Exchange Commission.

"Several TTWO insiders, including Chief Operating Officer Gary Lewis sold common shares recently," he noted. "Lewis sold 20,000 shares on July 13th and filed to sell 40,000 shares on July 19th. The SEC could choose to investigate these sales. It remains unclear as to when the ESRB investigation began."

It's not just these investigations which concern Banc of America Securities, however; in the firm's research note, Cooper also questions whether there could be more far-reaching effects for the GTA franchise as a whole.

"Lots of stakeholders are upset," he commented, "from retailers to 1st party platform providers to the game-rating agency to politicians and regulatory authorities. Rockstar and TTWO might now face a dilemma about the adult-content and risqué nature of GTA."

"Will the company soften GTA content?" he asks. "It seems unlikely to us that this will happen. Still, pressures will mount and scrutiny will intensify surrounding the next release of GTA, which is scheduled for October of 2006."

However, Wedbush Morgan Securities' Michael Pachter doesn't agree that the scandal will have a major impact on Grand Theft Auto going forward.

"We do not expect this issue to recur," Pachter said today.

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