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## Wal-Mart, Target pull 'Grand Theft Auto'

Video game ratings board changes rating of hit game; Take Two stops manufacturing, earnings get hit.

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 By Chris Morris, CNN/Money

LOS ANGELES (CNN/Money) - Wal-Mart said Wednesday it is pulling copies of "Grand Theft Auto: San Andreas" off store shelves after the video game industry's ratings board changed the rating on the game to "Adults Only". The ratings change will force Take Two Interactive to halt manufacturing on the game and cut its earnings forecast by nearly \$50 million.

The Electronic Software Ratings Board (ESRB) on Wednesday changed the rating of "GTA: San Andreas" from M (essentially the equivalent of the film industry's R rating) to AO (the film equivalent of NC-17), following the revelation of an unlockable sex mini-game in the title.

Wal-Mart spokesperson Karen Burk said the company is in the process of pulling the game from its shelves nationwide, which it expects to complete by end of day Thursday.

"We do not sell games that are rated AO," she said.

Burk also said the company would not commit at this time to selling a modified version of the game, which Take Two plans to distribute in the coming weeks. That decision, she said, would depend on whether there is customer interest.

Retailers will have the option to continue selling the game with a new AO ratings sticker (which Take Two will distribute in the next few weeks), to replace it with a modified version which will include enhanced security, preventing users from being able to modify the game to see the sexual content or to pull the game from shelves altogether. Target said it too was in the process of pulling the game from shelves. Wal-Mart and Target are among the nation's largest sellers of video games.

"We are removing the game from our shelves as soon as possible, and will block purchases of the game at point-of-sale until that removal is complete," said Lena Michaud, a spokesperson for Target.

They're likely not the only retailers pulling the game. The Interactive Electronic Merchants Association (a trade group representing video game retailers) issued a statement Wednesday saying "Our members intend to immediately cease all sales of the game until existing inventory can either be re-stickered with an AO (Adults Only) rating, or exchanged for new versions of the game that has the hidden content removed and the original M (Mature 17+) rating intact. Though not a policy, IEMA members generally do not carry AO-rated games any differently than we do not carry X-rated videos or DVDs, thus it is likely that our members will be removing all copies of the current version and re-stocking with the updated version."

As a result of the rating change, Take Two (Research) has lowered guidance for its third fiscal quarter earnings. The company now says net sales will only reach \$160 million to \$170 million this quarter, resulting in a net loss of 40-45 cents per share. Analyst had been expected in shares to lose just 6 cents per share.

Guidance for the fiscal year, which ends Oct. 31, is also being lowered to \$1.26 to \$1.31 billion in net sales and \$1.05 to \$1.12 in diluted earnings per share. Analysts had been expecting earnings of \$213 million or \$1.44 per share. Analysts said the company was likely warning investors of the most dire implications of the ratings change and the actual quarterly results might be better than the warning implies.

"They're likely banking on a worse case scenario of everything being returned and not exchanged by retailers," said P.J. McNealy of American Technology Research.

The virtual recall, though the company has been careful not to call it that, affects all versions of the game PlayStation 2, Xbox and PC. Take Two told analysts that today's decision would not have any impact on the planned PSP (PlayStation Portable) version of "Grand Theft Auto," which is planned for this fall.

"Take-Two and Rockstar Games have always worked to keep mature-themed video game content out of the hands of children and we will continue to work closely with the ESRB and community leaders to improve and better promote a reliable rating system to help consumers make informed choices about which video games are appropriate for each individual," said Paul Eibeler, Take-Two's President and Chief Executive Officer in a statement.

Wednesday's action comes after a user-made modification to the game, dubbed "Hot Coffee" allowed owners of the PC version of "San Andreas" to unlock a racy sex scene, which cannot be accessed in unaltered retail versions of the game. Take Two initially denied the footage was included in the game's source code, but has since backed off of that. It has since been discovered that the scenes are unlockable in the PlayStation 2 version of the game as well.

Following public knowledge of the modification, a number of public officials, including Sen. Hillary Rodham Clinton (D., N.Y.), and parents groups have called for federal inquiries and a recall of the game.

Take Two plans to offer a downloadable patch for the PC version of the game which will block the "Hot Coffee" mod. The company did not announce how it intends to address complaints about console versions already in homes.

"Grand Theft Auto: San Andreas" is one of the best selling games in the video game industry's history. Nearly 6 million copies have been sold since its October 2004 release, earning Take Two more than \$280 million, according to The NPD Group.

Gamer interest has spiked since word of the "Hot Coffee" modification surfaced. Nearly 130,000 users of Gamespot.com seek information on the game each day, according to Gamespot Trax, which tracks gamer interest in titles.

Take Two and Rockstar Studios, which developed the game, said they feel they have been unfairly targeted by anti-video game activists and may explore legal action against those who have profited from creating or distributing tools to alter the game. This would likely include the "Hot Coffee" modification.

"We are deeply concerned that the publicity surrounding these unauthorized modifications has caused the game to be misrepresented to the public and has detracted from the creative merits of this award winning product," said Eibeler.

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Take Two Interactive will halt manufacturing the violent game and has cut its earnings forecast by nearly \$50 million.

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