



## Activision Reports Record Third Quarter and Nine Month Fiscal 2004 Results

### **Q3 Net Revenues Increase 34% and Diluted E.P.S. Grows 88% Company Has Three Top-Five Holiday Games According to NPD Company Provides Record Outlook for FY 2005 Net Revenues of \$1 Billion**

SANTA MONICA, Calif., Jan. 28 /PRNewswire-FirstCall/ -- Activision, Inc. (Nasdaq: ATVI) today announced record financial results for the third quarter and nine months ended December 31, 2003.

Net revenues for the third quarter were \$508.5 million or 34% higher, as compared to \$378.7 million for the fiscal year 2003 third quarter. Net income for the third quarter rose to \$77.0 million, a 74% increase, compared with net income of \$44.3 million for the previous third quarter. Diluted earnings per share grew 88% to \$0.79 per diluted share, compared to \$0.42 per diluted share reported for the last fiscal third quarter.

For the nine-month period ended December 31, 2003, the company announced record net revenues of \$784.8 million, as compared to net revenues of \$739.1 million reported for the nine-month period last fiscal year. The company also announced record earnings per diluted share for the nine-month period of \$0.74, as compared to earnings per diluted share of \$0.71 for the same period last year.

Activision increased its net revenues and earnings per diluted share outlook for fiscal year 2004 to \$910 million in net revenues and earnings per diluted share of \$0.72 from the company's prior outlook of \$870 million and diluted earnings per share of \$0.56. The company also increased its fourth quarter outlook to \$125 million in net revenues and a loss per share of \$0.02 from its previous outlook of \$114 million in net revenues and a loss per share of \$0.05.

Activision also provided its outlook for fiscal year 2005, beginning in April 2004, of \$1 billion in net revenues, an increase of 10% over the prior year and earnings per diluted share of \$0.90, which represents a 25% increase year over year. For the first quarter of FY 2005, the company expects net revenues of \$170 million and earnings per diluted share of \$0.05.

Robert Kotick, Chairman and CEO of Activision, Inc. commented, "I am very pleased to announce that the company delivered record results for the third quarter and first nine months of fiscal 2004. Our three holiday titles, Tony Hawk's Underground, True Crime: Streets of L.A.<sup>™</sup> and Call of Duty<sup>™</sup>, were all top-five selling games for the holiday season and represent some of the highest quality, most innovative products that we have ever created. The success of our two new original properties, True Crime: Streets of L.A. and Call of Duty, and the new direction for the Tony Hawk brand have resulted in three new franchises from which we expect to develop a variety of games for multiple platforms for years to come."

Kotick continued, "We have one of the strongest balance sheets in our industry and ended the quarter with \$552 million in cash and short-term investments, low inventories and \$796 million in shareholders' equity. We believe that our fiscal year 2005 financial results will be driven by our robust and exciting slate that includes Spider-Man 2<sup>™</sup>, Shrek 2<sup>™</sup>, Doom 3<sup>™</sup>, Shark Tale<sup>™</sup>, Lemony Snicket's A Series of Unfortunate Events<sup>™</sup>, Call of Duty: Finest Hour<sup>™</sup>, Rome: Total War<sup>™</sup> and a sequel to the best-selling game Tony Hawk's Underground. Our planned product slate combined with the growing installed base of console hardware should enable us to continue to expand the scale and scope of our business."

#### Business Highlights

Activision's third quarter results were driven by solid performance of its titles across all platforms worldwide. During the quarter, the company ranked as the #2 U.S. publisher overall on the console platforms, according to NPD Funworld, due to strong consumer response to Tony Hawk's Underground and True Crime: Streets of L.A. Between October and December, Activision released five new titles: Tony Hawk's Underground, an all-new Tony Hawk experience; True Crime: Streets of L.A., a driving, fighting and shooting game featuring Snoop Dogg and an original soundtrack featuring more than 50 West Coast hip hop artists; Call of Duty, a World War II based first-person action game; Empires: Dawn of the Modern World<sup>™</sup>, a real time strategy game spanning five eras from the Medieval Age to World War II; and an all new title in the Cabela's franchise, Cabela's Dangerous Hunts<sup>™</sup>.

Activision continued its market leadership position in both the sports and first-person action genres with Tony Hawk's Underground and Call of Duty. The company was the only publisher to have an original intellectual property, True Crime: Streets of L.A., rank as a top-five console/handheld title for the holiday season.

Other highlights from the fiscal third quarter are as follows:

- \* According to NPD Funworld, Tony Hawk's Underground was the #2 best selling U.S. console/handheld title in aggregate across all platforms. Additionally, the Tony Hawk franchise reigned as the #1 franchise from a third-party publisher.
- \* True Crime: Streets of L.A. was the #4 best selling U.S. console/handheld title in aggregate across all platforms, according to NPD Funworld. True Crime: Streets of L.A. rose up the charts after having launched on November 4.
- \* According to NPD Intellect, Call of Duty was the #1 best selling PC game in the U.S. for the calendar fourth quarter. Additionally, the game ranked as the #5 best selling PC game for calendar 2003, despite having launched on October 29. On October 30, Activision announced that it had acquired Infinity Ward, the developer of Call of Duty.
- \* The Cabela's franchise was the #1 best-selling hunting series for calendar 2003 according to NPD. During the holiday season, Activision launched Cabela's Dangerous Hunts for PlayStation(R)2 computer entertainment system and the Xbox(R) video game system from Microsoft.

Looking ahead to the fourth quarter of fiscal year 2004, Activision's slate includes Pitfall: The Lost Expedition™, an action adventure game for the PlayStation2 computer entertainment system, Xbox video game system from Microsoft, Nintendo® GameCube™ and Nintendo® Game Boy® Advance; MTX: Mototrax™, a comprehensive motocross game for the PlayStation2 computer entertainment system and Xbox video game system from Microsoft; and Tenchu: Return From Darkness™, the acclaimed stealth ninja series for the Xbox video game system from Microsoft.

Headquartered in Santa Monica, California, Activision, Inc. is a leading worldwide developer, publisher and distributor of interactive entertainment and leisure products. Founded in 1979, Activision posted net revenues of \$864 million for the fiscal year ended March 31, 2003. Activision maintains operations in the U.S., Canada, the United Kingdom, France, Germany, Italy, Japan, Australia, Scandinavia and the Netherlands. More information about Activision and its products can be found on the company's World Wide Web site, which is located at <http://www.activision.com>.

Note: The statements made in this press release that are not historical facts are forward-looking statements. Although the company believes that its plans, intentions and expectations reflected in such forward-looking statements are reasonable, a number of important factors could cause our actual future results to differ materially from those expressed in any such forward-looking statements.

Such factors include, without limitation, product delays, retail acceptance of our products, industry competition, rapid changes in technology and industry standards, protection of proprietary rights, maintenance of relationships with key personnel, vendors and third-party developers, international economic and political conditions, integration of recently acquired subsidiaries and identification of suitable future acquisition opportunities.

These important factors and other factors that potentially could affect the company's financial results are described in our filings with the Securities and Exchange Commission, including the company's most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q.

(Tables to Follow)

ACTIVISION, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except earnings per share data)

Quarter ended		Nine months ended	
December 31,		December 31,	
2003	2002	2003	2002
	Restated		Restated

Net revenues	\$508,511	\$378,685	\$784,759	\$739,115
Costs and expenses:				
Cost of sales - product costs	235,301	204,881	384,302	369,004
Cost of sales - software royalties and amortization	23,680	33,503	50,575	67,396
Cost of sales - intellectual property licenses	9,464	14,918	27,008	32,704
Product development	50,354	13,758	79,828	38,768
Sales and marketing	58,503	33,875	102,025	84,644
General and administrative	14,248	10,989	35,847	37,308
Total operating expenses	391,550	311,924	679,585	629,824
Operating income	116,961	66,761	105,174	109,291
Investment income, net	1,464	2,533	4,125	6,554
Income before provision for income taxes	118,425	69,294	109,299	115,845
Provision for income taxes	41,444	24,947	38,248	41,708
Net income	\$76,981	\$44,347	\$71,051	\$74,137

Basic earnings per share	\$0.87	\$0.44	\$0.80	\$0.77
Weighted average common shares outstanding	88,763	100,209	88,325	96,839

Diluted earnings per share	\$0.79	\$0.42	\$0.74	\$0.71
Weighted average common shares outstanding assuming dilution	97,351	106,223	95,786	104,822

Share and earnings per share data have been restated to reflect our three-for-two stock split for shareholders of record as of May 16, 2003, paid June 6, 2003.

ACTIVISION, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands)

	December 31, 2003	March 31, 2003
ASSETS		
Current assets:		
Cash, cash equivalents and short-term investments	\$551,677	\$406,954
Accounts receivable, net	241,929	15,822
Inventories	35,506	19,577
Software development	43,469	26,791
Intellectual property licenses	26,614	8,906
Deferred income taxes	36,170	38,290
Other current assets	14,217	10,565
Total current assets	949,582	526,905
Software development	27,394	35,281
Intellectual property licenses	22,882	36,943
Property and equipment, net	26,375	22,265
Deferred income taxes	--	10,322
Other assets	844	5,081
Goodwill	74,214	68,019
Total assets	\$1,101,291	\$704,816

LIABILITIES AND SHAREHOLDERS' EQUITY  
Current liabilities:

Current portion of long-term debt	\$--	\$147
Accounts payable	170,936	45,602
Accrued expenses	128,687	58,656
Total current liabilities	299,623	104,405
Long-term debt, less current portion	--	2,671
Deferred income taxes	5,381	--
Total liabilities	305,004	107,076
Shareholders' equity:		
Common stock	--	--
Additional paid-in capital	731,345	592,295
Retained earnings	201,615	130,564
Treasury stock	(144,128)	(121,685)
Accumulated other comprehensive income (loss)	7,455	(3,434)
Total shareholders' equity	796,287	597,740
Total liabilities and shareholders' equity	\$1,101,291	\$704,816

ACTIVISION, INC. AND SUBSIDIARIES

FINANCIAL INFORMATION

For the Quarter and Nine Months Ended December 31, 2003 and 2002

(Amounts in thousands)

	Quarter Ended		Percent Increase (Decrease)		
	December 31, 2003	December 31, 2002			
	Amount	% of Total	Amount	% of Total	
Geographic Revenue Mix					
United States	\$252,114	50%	\$179,643	47%	40%
International	256,397	50%	199,042	53%	29%
Total net revenues	\$508,511	100%	\$378,685	100%	34%

Activity/Platform Mix

Publishing:

Console	\$304,996	80%	\$211,993	83%	44%
Hand-held	13,367	3%	19,574	7%	-32%
PC	64,558	17%	25,162	10%	157%
Total publishing	\$382,921	75%	\$256,729	68%	49%

Distribution:

Console	\$102,979	82%	\$108,535	89%	-5%
Hand-held	6,917	6%	6,058	5%	14%
PC	15,694	12%	7,363	6%	113%
Total distribution	\$125,590	25%	\$121,956	32%	3%
Total net revenues	\$508,511	100%	\$378,685	100%	34%

	Nine Months Ended		Percent Increase (Decrease)		
	December 31, 2003	December 31, 2002			
	Amount	% of Total	Amount	% of Total	
Geographic Revenue Mix					

United States	\$381,303	49%	\$380,045	51%	0%
International	403,456	51%	359,070	49%	12%
Total net revenues	\$784,759	100%	\$739,115	100%	6%
Activity/Platform Mix					
Publishing:					
Console	\$439,499	77%	\$409,919	77%	7%
Hand-held	22,150	4%	45,061	8%	-51%
PC	107,473	19%	81,992	15%	31%
Total publishing	\$569,122	73%	\$536,972	73%	6%
Distribution:					
Console	\$171,509	79%	\$172,241	85%	0%
Hand-held	14,559	7%	11,798	6%	23%
PC	29,569	14%	18,104	9%	63%
Total distribution	\$215,637	27%	\$202,143	27%	7%
Total net revenues	\$784,759	100%	\$739,115	100%	6%

ACTIVISION, INC. AND SUBSIDIARIES

FINANCIAL INFORMATION

For the Quarter and Nine Months Ended December 31, 2003 and 2002

	Quarter Ended Dec. 31, 2003	Quarter Ended Dec. 31, 2002	Nine Months Ended Dec. 31, 2003	Nine Months Ended Dec. 31, 2002
Publishing Net Revenues				
PC	17%	10%	19%	15%
Console	80%	83%	77%	77%
PlayStation 2	48%	48%	44%	42%
Microsoft Xbox	20%	13%	22%	13%
Nintendo GameCube	10%	12%	8%	13%
PlayStation	2%	10%	3%	8%
Nintendo 64	0%	0%	0%	1%
Hand-held	3%	7%	4%	8%
Game Boy Advance	3%	6%	4%	7%
Game Boy Color	0%	1%	0%	1%
Total publishing net revenues	100%	100%	100%	100%

SOURCE Activision, Inc.