



## Activision Reports Record Third Quarter and Nine Month Fiscal 2005 Results

- Q3 Net Revenues Increase 34% Year Over Year -
- Net Revenues for Nine Months Grow 53% -
- Company Increases Net Revenue and E.P.S. Outlook for FY 2005 -
- Company Expects Net Revenue, E.P.S. and Operating Margin Growth for FY 2006 -

SANTA MONICA, Calif., Feb 07, 2005 /PRNewswire-FirstCall via COMTEX/ -- Activision, Inc. (Nasdaq: ATVI) today announced record financial results for the third quarter and nine months ended December 31, 2004.

Net revenues for the third quarter were \$680.1 million or 34% higher, as compared to \$508.5 million for the third quarter of fiscal year 2004. Net income for the third quarter rose to \$97.3 million, a 26% increase, compared with net income of \$77.0 million for the previous fiscal third quarter. Diluted earnings per share grew 19% to \$0.63 per diluted share, compared to \$0.53 per diluted share reported for the prior fiscal third quarter.

For the nine-month period ended December 31, 2004, the company announced record net revenues of \$1.2 billion, an increase of 53%, as compared to net revenues of \$784.8 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 \$0.87, an increase of 78%, as compared to earnings per diluted share of \$0.49 for the same period last fiscal year.

Activision increased its net revenues and earnings per diluted share outlook for fiscal year 2005 to \$1.352 billion in net revenues and earnings per diluted share of \$0.87 from the company's prior outlook of \$1.265 billion in net revenues and diluted earnings per share of \$0.81. The company's revised outlook represents a 43% increase in net revenues and a 61% increase in earnings per diluted share year over year.

The company also increased its outlook for the fourth quarter of fiscal year 2005 to \$150 million in net revenues from \$128 million, despite moving id Software's DOOM 3 for the Xbox and the DOOM 3 PC expansion pack to fiscal 2006. For the fourth quarter, the company expects earnings per diluted share of \$0.01. During the quarter, Activision plans to release Spider-Man 2 (TM) and Tony Hawk's Underground 2 Remix for the PSP simultaneously with the North American release of the new handheld platform, as well as, three titles from LucasArts that will be released in Europe -- Star Wars(R) Knights of the Old Republic(R) II: The Sith Lords(TM), Mercenaries(TM) and Star Wars Republic Commando(TM). In addition, Shrek 2(TM) will be first of the company's fiscal 2005 games to enter Sony Computer Entertainment America's "Greatest Hits," Microsoft's "Platinum Family Hits" and Nintendo of America's "Player's Choice" programs.

Robert Kotick, Chairman and CEO of Activision, Inc., commented, "For the first nine months of fiscal year 2005, net revenues have already exceeded net revenues in fiscal 2004, resulting in 13 consecutive years of revenue growth for Activision. We ended the quarter with more than \$713 million in cash and short term investments and for the trailing 12 months, our free cash flow was \$107 million and return on invested capital was 46%. Our results to date were driven by the release of over 10 one million-unit selling games. Four of these titles sold in excess of two million units. These proven franchises should allow us to continue improving our market position domestically and internationally."

Kotick continued, "As we look toward the future, we are very excited about the opportunities ahead. The combination of our product slate, the emerging opportunities created by new hardware technologies and the ever increasing installed base of current console hardware should enable us to continue expanding our net revenues, earnings and operating margin. In fiscal 2006, we will release the strongest game slate in our history which includes new versions of our top-selling fiscal 2005 franchises -- Tony Hawk, Spider-Man, Shrek, Call of Duty, DOOM, and X-Men, as well as games based on True Crime, Fantastic Four, Madagascar, Quake, The Movies, and an original new property from Neversoft, the development team behind the Tony Hawk series."

### Business Highlights

Activision's third quarter results were driven by solid performance of its titles across all platforms worldwide. During the quarter, the company had five top 10-best selling games in the U.S., according to NPD -- Call of Duty: Finest Hour(TM), which has established itself as a new console franchise for the company, Tony Hawk's Underground 2, DOOM 3(TM), Rome: Total War (TM) and Spider-Man 2 for the Nintendo DS.

Between October and December, Activision released five new games: Tony Hawk's Underground 2, an all-new Tony Hawk experience for PlayStation(R) 2 computer entertainment system, Xbox(R) video game system from Microsoft, Nintendo(R) Game Cube, Nintendo Game Boy(R) Advance and PC; Call of Duty: Finest Hour, a World War II first-person action game for the PlayStation 2 computer entertainment system, Xbox video game system from Microsoft and Nintendo Game Cube; Lemony Snicket's: A Series of Unfortunate Events(TM) for the PlayStation 2 computer entertainment system, Xbox video game system from Microsoft, Nintendo Game Cube, Nintendo Game Boy Advance and PC; Vampire(R): The Masquerade Bloodlines(TM) for the PC and Spider-Man 2 for the Nintendo DS.

Other business highlights include:

- \* On January 20, 2005, Activision announced that the company further strengthened its next-generation development capabilities through the acquisition of game developer Vicarious Visions, the creative studio behind the #1 best-selling third-party Nintendo(R) DS title, Spider-Man 2. Vicarious Visions' proven proprietary Alchemy(TM) middleware technology and tools will be combined with Activision's next-generation tools and libraries to further enhance the company's overall development efforts.
- \* For calendar 2004, Activision had a number of top-selling titles:
  - \* Spider-Man 2 was the #1 movie-based game in the U.S., according to NPD Funworld. For the calendar year, the Spider-Man franchise sold more than seven million units worldwide. Spider-Man 2 for the Nintendo DS was the #1 best-selling third-party title for the platform in the U.S. for the calendar year, according to NPD Funworld.
  - \* Tony Hawk's Underground 2 was the #9 best-selling title in the U.S., according to NPD Funworld. The Tony Hawk brand sold more than six million units worldwide in the calendar year.
  - \* The Call of Duty franchise sold more than four and a half million units worldwide in the calendar year and was the best-selling game franchise based on a new intellectual property.
  - \* Shrek 2 was the #1 best-selling children's video game in the U.S., according to NPD Funworld. The Shrek 2 franchise sold more than four million units worldwide in the calendar year.
  - \* According to NPD Techworld, Activision was the fastest growing top-10 U.S. PC publisher for calendar 2004. The company had a 10% PC market share, the highest in its history, and was the only publisher to have three top-10 games for the year -- DOOM 3, Call of Duty(TM) and Rome: Total War.

#### Company Outlook

Activision also provided its outlook for fiscal year 2006, which begins in April 2005, of \$1.43 billion in net revenues and earnings per diluted share of \$0.91. For the first quarter of fiscal year 2006, the company expects net revenues of \$215 million and earnings per diluted share of \$0.02. Diluted earnings per share does not include the impact of adopting FASB 123(R), which relates to the expensing of stock options and other share-based payments.

#### Non-GAAP Financial Measures

The company's press release includes the non-GAAP financial measures of "free cash flow" and "return on invested capital." A reconciliation of these non-GAAP financial measures to the most comparable GAAP financial measure appears at the end of this press release.

#### Conference Call

Today at 4:30 p.m. EDT, Activision's management will host a conference call and Webcast to discuss its third quarter fiscal

year 2005 results and outlook. The company welcomes all members of the financial and media communities to visit the "Investor Relations" area of [www.activision.com](http://www.activision.com) to listen to the conference call via live Webcast or to listen to the call live by dialing into (913) 981-4910 in the U.S.

## About Activision

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 \$948 million for the fiscal year ended March 31, 2004.

Activision maintains operations in the U.S., Canada, the United Kingdom, France, Germany, Italy, Japan, Australia, Scandinavia, Spain 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 [www.activision.com](http://www.activision.com).

Note: The statements made in this press release that are not historical facts are "forward-looking" statements. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties. The company cautions readers of this press release that a number of important factors could cause Activision's 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. Readers of this press release are referred to such filings. The company may change its intention, belief or expectation, at any time and without notice, based upon any changes in such factors, in the company's assumptions or otherwise. The company undertakes no obligation to release publicly any revisions to its forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

(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,	
	2004	2003	2004	2003
Net revenues	\$680,094	\$508,511	\$1,201,996	\$784,759
Costs and expenses:				
Cost of sales - product costs	316,494	235,301	528,759	384,302
Cost of sales - software royalties and amortization	58,200	23,680	116,846	50,575
Cost of sales - intellectual property licenses	22,598	9,464	57,797	27,008
Product development	25,068	50,354	66,054	79,828
Sales and marketing	105,248	58,503	200,216	102,025
General and administrative	15,407	14,248	44,854	35,847
Total operating expenses	543,015	391,550	1,014,526	679,585
Operating income	137,079	116,961	187,470	105,174
Investment income, net	3,197	1,464	7,954	4,125
Income before provision for income taxes	140,276	118,425	195,424	109,299
Provision for income taxes	43,014	41,444	60,662	38,248
Net income	\$97,262	\$76,981	\$134,762	\$71,051

Basic earnings per share	\$0.70	\$0.58	\$0.97	\$0.54
Weighted average common shares outstanding	139,820	133,145	138,700	132,488
Diluted earnings per share	\$0.63	\$0.53	\$0.87	\$0.49
Weighted average common shares outstanding assuming dilution	155,592	146,027	154,418	143,679

Share and earnings per share data have been restated to reflect our three-for-two stock split for shareholders of record as of February 23, 2004, paid March 15, 2004.

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

	December 31, 2004	March 31, 2004
<b>ASSETS</b>		
Current assets:		
Cash, cash equivalents and short-term investments	\$713,180	\$587,649
Accounts receivable, net	344,894	62,577
Inventories	41,656	26,427
Software development	61,550	58,320
Intellectual property licenses	19,908	32,115
Deferred income taxes	13,689	26,127
Other current assets	17,424	18,660
Total current assets	1,212,301	811,875
Software development	13,384	28,386
Intellectual property licenses	11,624	16,380
Property and equipment, net	26,798	25,539
Deferred income taxes	--	9,064
Other assets	2,530	1,080
Goodwill	77,992	76,493
Total assets	\$1,344,629	\$968,817
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$156,376	\$72,874
Accrued expenses	155,057	63,205
Total current liabilities	311,433	136,079
Deferred income taxes	12,712	--
Total liabilities	324,145	136,079
Shareholders' equity:		
Common stock	--	--
Additional paid-in capital	803,753	758,626
Retained earnings	343,041	208,279
Treasury stock	(144,128)	(144,128)
Accumulated other comprehensive income	17,818	9,961
Total shareholders' equity	1,020,484	832,738
Total liabilities		

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equity \$1,344,629 \$968,817

ACTIVISION, INC. AND SUBSIDIARIES  
FINANCIAL INFORMATION  
For the Quarter and Nine Months Ended December 31, 2004 and 2003  
(Amounts in thousands)

	Quarter Ended				
	December 31, 2004		December 31, 2003		Percent Increase (Decrease)
	Amount	% of Total	Amount	% of Total	
<b>Geographic Revenue Mix</b>					
United States	\$344,342	51%	\$252,114	50%	37%
International	335,752	49%	256,397	50%	31%
Total net revenues	\$680,094	100%	\$508,511	100%	34%
<b>Activity/Platform Mix</b>					
<b>Publishing:</b>					
Console	\$382,400	75%	\$304,996	80%	25%
Hand-held	63,243	12%	13,367	3%	373%
PC	68,410	13%	64,558	17%	6%
Total publishing	\$514,053	76%	\$382,921	75%	34%
<b>Distribution:</b>					
Console	\$134,503	81%	\$102,979	82%	31%
Hand-held	7,923	5%	6,917	6%	15%
PC	23,615	14%	15,694	12%	50%
Total distribution	\$166,041	24%	\$125,590	25%	32%
Total net revenues	\$680,094	100%	\$508,511	100%	34%

	Nine Months Ended				
	December 31, 2004		December 31, 2003		Percent Increase (Decrease)
	Amount	% of Total	Amount	% of Total	
<b>Geographic Revenue Mix</b>					
United States	\$627,238	52%	\$381,303	49%	64%
International	574,758	48%	403,456	51%	42%
Total net revenues	\$1,201,996	100%	\$784,759	100%	53%
<b>Activity/Platform Mix</b>					
<b>Publishing:</b>					
Console	\$647,069	69%	\$439,499	77%	47%
Hand-held	105,342	11%	22,150	4%	376%
PC	189,689	20%	107,473	19%	76%
Total publishing	\$942,100	78%	\$569,122	73%	66%
<b>Distribution:</b>					
Console	\$203,626	78%	\$171,509	79%	19%
Hand-held	15,134	6%	14,559	7%	4%
PC	41,136	16%	29,569	14%	39%

Total distribution	\$259,896	22%	\$215,637	27%	21%
Total net revenues	\$1,201,996	100%	\$784,759	100%	53%

ACTIVISION, INC. AND SUBSIDIARIES

FINANCIAL INFORMATION

For the Quarter and Nine Months Ended December 31, 2004 and 2003

	Quarter Ended Dec. 31, 2004	Quarter Ended Dec. 31, 2003	Nine Months Ended Dec. 31, 2004	Nine Months Ended Dec. 31, 2003
Publishing Net Revenues				
PC	13%	17%	20%	19%
Console	75%	80%	69%	77%
PlayStation 2	44%	48%	41%	44%
Microsoft Xbox	21%	20%	18%	22%
Nintendo GameCube	10%	10%	10%	8%
PlayStation	0%	2%	0%	3%
Hand-held	12%	3%	11%	4%
Game Boy Advance	10%	3%	10%	4%
Nintendo Dual Screen	2%	0%	1%	0%
Total publishing net revenues	100%	100%	100%	100%

ACTIVISION, INC. AND SUBSIDIARIES

Non-GAAP Disclosures

Free Cash Flow

(In thousands)

	Three Months Ended 12/31/04	Three Months Ended 9/30/04	Three Months Ended 6/30/04	Three Months Ended 3/31/04
Net Cash Provided by (Used In)				
Operating Activities	\$85,668	\$62,846	\$(52,136)	\$21,069
Less: Capital Expenditures	\$(3,587)	\$(2,562)	\$(1,881)	\$(2,521)
Free Cash Flow	\$82,081	\$60,284	\$(54,017)	\$18,548
Trailing Twelve Month Free Cash Flow	\$106,896	\$121,998	\$30,779	\$55,427

ACTIVISION, INC. AND SUBSIDIARIES

Non-GAAP Disclosures

Return on Invested Capital

(In thousands)

	Three Months Ended 12/31/04	Three Months Ended 9/30/04	Three Months Ended 6/30/04	Three Months Ended 3/31/04

NET OPERATING PROFIT AFTER  
TAXES

Net income	\$97,262	\$25,543	\$11,957	\$6,664
Less:				
Investment income	(3,197)	(2,645)	(2,112)	(2,051)
Tax effect on Investment income (B)	991	846	697	677
Net Operating Profit After Taxes	\$95,056	\$23,744	\$10,542	\$5,290
Trailing Twelve Month Net Operating Profit After Taxes	\$134,632	\$115,576	\$80,826	\$73,630

INVESTED CAPITAL

Total assets (A)	\$1,344,629	\$1,104,169	\$985,841	\$968,817
Less:				
Cash and short term investments (A)	713,180	606,087	539,146	587,649
Current liabilities (A)	311,433	216,342	132,092	136,079
Invested capital	\$320,016	\$281,740	\$314,603	\$245,089
Trailing Twelve Month Invested capital (A)	290,362	272,856	265,585	247,330
Return on Invested Capital	30%	8%	3%	2%
Trailing Twelve Month Return on Invested Capital	46%	42%	30%	30%

(A) Amounts for the trailing twelve months represent averages of the previous four fiscal quarters

(B) Tax effect represents investment income multiplied by our effective tax rate.

SOURCE Activision, Inc.

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