SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 1998

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File Number 000-12699

ACTIVISION, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	94-2606438
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3100 OCEAN PARK BOULEVARD, SANTA MONICA, CA	90405
(Address of principal executive offices)	(Zip Code)

(310) 255-2000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /X/ No / /

The number of shares of the registrant's Common Stock outstanding as of February 12, 1999 was 22,497,192.

ACTIVISION, INC.

INDEX

Page No.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets as of December 31, 1998 and March 31, 1998 3

Condensed Consolidated Statements of Operations for the quarters and nine months ended December 31, 1998 and 1997 4

Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 1998 and 1997 5

Notes to Condensed Consolidated Financial Statements for the quarter and nine months ended December 31, 1998 6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 10

Item 3. Quantitative and Qualitative Disclosure of Market Risk 16

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 17

Item 6. Exhibits and Reports on Form 8-K 17

SIGNATURE 18

PART I--FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

ACTIVISION, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(in thousands except share data)

	December 31, 1998	March 31, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 51,490	$ 73,378
Accounts receivable, net of allowances of $18,611 and $12,122, respectively	154,099	69,812
Inventories, net	37,250	14,920
Prepaid royalties and capitalized software costs	38,244	12,444
Prepaid expenses and other current assets	8,285	1,922
Deferred income taxes	2,944	3,852
Total current assets	292,312	176,328
Prepaid royalties and capitalized software costs	5,800	--
Property and equipment, net	11,206	10,628
Deferred income taxes	4,665	4,665

Other assets	5,708	2,313
Excess purchase price over identifiable assets acquired, net	22,279	23,473
Total assets	$ 341,970	$ 217,407
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of notes payable to bank	$ 12,303	$ 781
Accounts payable	109,411	40,150
Accrued expenses	39,460	14,860
Total current liabilities	161,174	55,791
Notes payable to bank, less current portion	872	1,235
Convertible subordinated notes	60,000	60,000
Other liabilities	43	88
Total liabilities	222,089	117,114
Shareholders' equity:		
Common stock, $.000001 par value, 50,000,000 shares authorized, 22,856,673 and 22,518,547 shares issued and 22,356,673 and 22,018,547 outstanding, respectively	--	--
Additional paid-in capital	104,213	91,799
Retained earnings	20,802	13,680
Accumulated other comprehensive income	144	92
Less: Treasury stock, cost of 500,000 shares	(5,278)	(5,278)
Total shareholders' equity	119,881	100,293
Total liabilities and shareholders' equity	$ 341,970	$ 217,407

The accompanying notes are an integral part of these condensed consolidated financial statements.

ACTIVISION, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(in thousands except per share data)

	Quarter ended December 31,		Nine Months ended December 31,	
	1998	1997	1998	1997
Net revenues	$193,537	$122,141	$311,599	$201,670
Costs and expenses:				
Cost of sales--product costs	107,693	59,528	182,752	101,653
Cost of sales--royalties and software amortization	23,828	17,550	32,412	25,436
Product development	3,985	8,045	13,612	21,963
Sales and marketing	26,040	16,400	49,452	31,960
General and administrative	5,265	3,586	13,832	8,416
Amortization of intangible assets	398	404	1,190	1,159
Merger expenses	--	1,474	600	1,474
Total costs and expenses	167,209	106,987	293,850	192,061

Operating income	26,328	15,154	17,749	9,609
Interest expense, net	(854)	(232)	(2,017)	(377)
Net income before income tax provision	25,474	14,922	15,732	9,232
Income tax provision	9,452	5,644	5,748	3,531
Net income	$ 16,022	$ 9,278	$ 9,984	$ 5,701
Basic net income per share	$ 0.72	$ 0.43	$ 0.45	$ 0.26
Diluted net income per share	$ 0.64	$ 0.41	$ 0.44	$ 0.25
Number of shares used in computing basic net income per share	22,188	21,481	22,051	21,196
Number of shares used in computing diluted net income per share	26,073	22,928	22,888	22,394

The accompanying notes are an integral part of these condensed consolidated financial statements.

ACTIVISION, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows

	For the months ended December 31, (in thousands)	
	1998	1997
	Increase (Decrease) in Cash	
Cash flows from operating activities:		
Net income	$ 9,984	$ 5,701
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Deferred income taxes	1,126	410
Depreciation and amortization	4,838	3,871
Change in assets and liabilities:		
Accounts receivable	(76,278)	(52,934)
Inventories	(16,185)	(9,367)
Prepaid royalties and capitalized software costs	(21,589)	(1,291)
Other assets	(5,928)	(3,389)
Accounts payable	61,598	57,482
Accrued liabilities	14,187	14,416
Other liabilities	(1,357)	(5)
Net cash (used in)/provided by operating activities	(29,604)	14,894
Cash flows from investing activities:		
Cash paid by Combined Distribution (Holdings) Limited to acquire CentreSoft Limited (net of cash acquired)	-	(1,043)
Adjustment for effect of poolings on prior periods	-	(1,641)
Cash acquired in pooling transactions	653	-
Cash used in purchase acquisitions	-	(246)
Capital expenditures	(2,787)	(6,197)

Net cash used in investing activities	(2,134)	(9,127)
Cash flows from financing activities:		
Proceeds from issuance of common stock pursuant to employee stock option plan	3,478	3,961
Proceeds from issuance of common stock pursuant to employee stock purchase plan	389	230
Note payable to bank, net	(1,479)	1,371
Proceeds from borrowings on line-of-credit	10,006	8,800
Payments on line-of-credit	(2,600)	(8,800)
Proceeds from issuance of subordinated convertible notes	-	60,000
Dividends paid	-	(1,258)
Other	-	51
Net cash provided by financing activities	9,794	64,355
Effect of exchange rate changes on cash and cash equivalents	56	137
Net decrease in cash and cash equivalents	(21,888)	70,259
Cash and cash equivalents at beginning of period	73,378	21,358
Cash and cash equivalents at end of period	$ 51,490	$ 91,617
Non-cash activities:		
Warrants issued to third party developers	$ 3,368	$ -
Stock issued in exchange for licensing rights	$ -	$ 431
Tax benefit derived from stock option exercises	$ 653	$ 521
Stock issued in purchase acquisition	$ -	$ 136
Preferred stock converted to common stock in pooling transaction	$ -	$ 1,286
Redeemable preferred stock converted to common stock in pooling transaction	$ -	$ 214
Conversion of subordinated loan stock debentures to common stock in pooling transaction	$ -	$ 3,216
Supplemental cash flow information:		
Cash paid for income taxes	$ 4,868	$ 2,607
Cash paid for interest	$ 2,775	$ 696

The accompanying notes are an integral part of these condensed consolidated financial statements.

ACTIVISION, INC.
Notes to Condensed Consolidated Financial Statements
For the Quarter Ended December 31, 1998

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of Activision, Inc. and its subsidiaries (the "Company"). The information furnished is unaudited and reflects all adjustments which, in the opinion of management, are necessary to provide a fair statement of the results for the interim periods presented. The financial statements should be read in conjunction with the financial statements included in the Company's Annual Report on Form 10-K for the year ended March 31, 1998 as filed with the Securites and Exchange Commission.

Certain amounts in the condensed consolidated financial statements have been reclassified to conform with the current period's presentation. These reclassifications had no impact on previously reported working capital or results of operations.

2. PREPAID ROYALTIES AND CAPITALIZED SOFTWARE COSTS

Prepaid royalties include payments made to independent software developers under development agreements and license fees paid to intellectual property rights holders for use of their trademarks or copyrights. Intellectual property rights which have alternative future uses are capitalized. Capitalized software costs represent certain costs incurred for product development that are not recoupable against future royalties.

The Company accounts for prepaid royalties relating to development agreements and capitalized software costs in accordance with the Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed". Software development costs and prepaid royalties are capitalized once technological feasibility is established. Technological feasibility is evaluated on a product by product basis. For products where proven game engine technology exists, this may occur early in the development cycle. Software development costs are expensed if and when they are deemed unrecoverable. Amounts related to software development which are not capitalized are charged immediately to product development expense.

The following criteria is used to evaluate recoverability of software development costs: historical performance of comparable products; the commercial acceptance of prior products released on a given game engine; orders for the product prior to its release; estimated performance of a sequel product based on the performance of the product on which the sequel is based; and actual development costs of a product as compared to the Company's budgeted amount.

Capitalized software development costs are amortized to cost of sales on a straight-line basis over the estimated product life (generally one year or less) commencing upon product release, or on the ratio of current revenues to total projected revenues, whichever amortization amount is greater. Prepaid royalties are amortized to cost of sales commencing upon product release at the contractual royalty rate based on actual net product sales, or on the ratio of current revenues to total projected revenues, whichever amortization amount is greater. For products that have been released, management evaluates the future recoverability of capitalized amounts on a quarterly basis.

As of December 31, 1998, prepaid royalties and unamortized capitalized software costs totaled $44.0 million (including $5.8 million classified as non-current) and $6.6 million, respectively. As of March 31, 1998, prepaid royalties and unamortized capitalized software costs totaled $10.7 million and $1.7 million, respectively. At March 31, 1998, all prepaid royalties and unamortized capitalized software costs were classified as current.

3. REVENUE RECOGNITION

Product Sales

The Company recognizes revenues from the sale of its products upon shipment. Subject to certain limitations, the Company permits customers to obtain exchanges or return products within certain specified periods, and provides price protection on certain unsold merchandise. Revenues from product sales are reflected net of the allowance for returns and price protection.

Software Licenses

For those license agreements which provide the customers the right to multiple copies in exchange for guaranteed amounts, revenues are recognized at delivery of the product master or the first copy. Per copy royalties on sales which exceed the guarantee are recognized as earned.

The American Institute of Certified Public Accountants Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), is effective for all transactions entered into subsequent to March 31, 1998. The adoption of SOP 97-2 did not have a material impact on the Company's financial position, results of operations or liquidity. The American Institute of Certified Public Accountants Statement of Position 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions" ("SOP 98-9"), is effective for all transactions entered into subsequent to March 15, 1999. The Company believes the adoption of SOP 98-9 will not have a material impact on the Company's financial position, results of operations or liquidity.

4. COMPREHENSIVE INCOME

SFAS No. 130, "Reporting Comprehensive Income", was adopted by the Company as of April 1, 1998. SFAS 130 requires any changes in shareholders' equity that do not result directly from transactions with shareholders be reported separately in the financial statements, net of any tax effect, as other comprehensive income. For the Company, other comprehensive income includes only foreign currency translation adjustments. Total comprehensive income for the quarter and nine months ended December 31, 1998 and 1997 is as follows:

	Quarter Ended December 31,		Nine Months Ended December 31,	
	1998	1997	1998	1997
	(in thousands)		(in thousands)	
Net income	$ 16,022	$ 9,278	$ 9,984	$ 5,701
Foreign currency translation adjustments (net of tax)	51	374	138	137
Total comprehensive income	$ 16,073	$ 9,652	$ 10,122	$ 5,838

5. COMPUTATION OF EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed as net income divided by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock-based compensation plans, including stock options, warrants and other convertible securities using the treasury stock method.

The following table sets forth the computation of basic and diluted earnings per share:

	Quarter ended December 31,		Nine months ended December 31,	
	(in thousands)		(in thousands)	
	1998	1997	1998	1997
NUMERATOR:				
Net income	$ 16,022	$ 9,278	$ 9,984	$ 5,701
Less dividends paid	-	(35)	-	(116)
Numerator for basic earnings per share-income available to common stockholders	$ 16,022	$ 9,243	$ 9,984	$ 5,585
Effect of dilutive securities:				
Interest add-back on convertible debt (net of tax)	666	70	-	70
Numerator for diluted earnings per share-income available to common stockholders after assumed conversions	$ 16,688	$ 9,313	$ 9,984	$ 5,655
DENOMINATOR:				
Denominator for basic earnings per share-weighted average shares	22,188	21,482	22,051	21,196
Effect of dilutive securities:				
Employee stock options	706	1,100	837	852
Convertible debentures	3,179	346	-	346
Dilutive common shares	3,885	1,446	837	1,198

Denominator for diluted earnings per share-adjusted weighted average shares and assumed conversions	26,073	22,928	22,888	22,394
Basic earnings per share	$ 0.72	$ 0.43	$ 0.45	$ 0.26
Diluted earnings per share	$ 0.64	$ 0.41	$ 0.44	$ 0.25

For the quarter and nine months ended December 31, 1998, options to purchase 1,915,000 and 3,506,000 shares, respectively, of the Company's common stock were outstanding but were not included in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the common shares during such periods. For the nine months ended December 31, 1998, shares issuable upon the conversion of convertible debentures and interest on such convertible debentures were not included in the calculation as the effect would have been antidilutive.

For the quarter and nine months ended December 31, 1997, options to purchase 793,000 and 1,397,000 shares, respectively, of the Company's common stock were outstanding but were not included in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the common shares during such periods.

6. NEW ACCOUNTING PRONOUNCEMENT

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. Although the Company currently does not have derivative instruments, or hedge foreign currency risk, the Company intends to monitor its risk in this regard and investigate various ways to manage that risk. If and when the Company decides to participate in hedging activities and/or purchase other derivative financial instruments, SFAS 133 will be adopted.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION AND ANALYSIS CONTAINS FORWARD LOOKING STATEMENTS REGARDING FUTURE EVENTS OR THE FUTURE FINANCIAL PERFORMANCE OF THE COMPANY THAT INVOLVE CERTAIN RISKS AND UNCERTAINTIES DISCUSSED IN THE COMPANY'S ANNUAL REPORT ON FORM 10-K UNDER "FACTORS AFFECTING FUTURE PERFORMANCE." ACTUAL EVENTS OR THE ACTUAL FUTURE RESULTS OF THE COMPANY MAY DIFFER MATERIALLY FROM ANY FORWARD LOOKING STATEMENT DUE TO SUCH RISKS AND UNCERTAINTIES.

OVERVIEW

The Company is a leading international publisher, developer and distributor of interactive entertainment software. The Company currently focuses its publishing, development and distribution efforts on products designed for personal computers ("PCs") as well as the Sony PlayStation and the Nintendo 64 console systems. In selecting titles for acquisition or development, the Company pursues a combination of internally and externally developed titles, products based on proven technology and those based on newer technology, and PC and console products.

Activision distributes its products worldwide through its direct sales force, through its distribution subsidiaries CentreSoft Ltd. ("CentreSoft"), CD Contact Data GmbH ("CD Contact") and NBG EDV Handels und Verlags GmbH ("NBG"), and through third party distributors and licensees.

The Company recognizes revenues from the sale of its products upon shipment. Subject to certain limitations, the Company permits customers to obtain exchanges and returns within certain specified periods and provides price protection on certain unsold merchandise. Revenues from product sales are reflected after deducting the estimated allowance for returns and price protection. With respect to license agreements which provide customers the right to multiple copies in exchange for guaranteed amounts, revenues are recognized upon delivery of the product master or the first copy. Per copy royalties on sales which exceed the guarantee are recognized as earned. The American Institute of Certified Public Accountants Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), provides guidance on applying generally accepted accounting principles in recognizing revenues on software transactions. SOP 97-2 is effective for all transactions entered into subsequent to March 31, 1998. The Company has adopted SOP 97-2 and such adoption did not have a material impact on the Company's financial position, results of operations or liquidity. Effective December 15, 1998, the American Institute of Certified Public Accountants Statement of Position 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions" ("SOP 98-9"), was issued and is effective for transactions entered into after March 15, 1999. SOP 98-9 deals with the determination of vendor specific objective evidence of fair value in multiple element arrangements such as maintenance agreements sold in conjunction with software packages. The Company does not believe this will have a material impact on the Company's financial position, results of operations or liquidity.

Cost of sales - product costs represents the cost to acquire, manufacture and distribute PC and console games. Manufacturers of the Company's PC software are located worldwide and are readily available. Console CDs and cartridges are manufactured by the respective video game console manufacturers, Sony and Nintendo, who often require significant lead time to fulfill the Company's orders.

Cost of sales - royalties and software amortization is related to amounts due developers, product owners and other royalty participants as a result of product sales, as well as amortization of capitalized software development costs. The costs incurred by the Company to develop products are accounted for in accordance with accounting standards which provide for the capitalization of certain software development costs once technological feasibility is established and such costs are determined to be recoverable. Various contracts are maintained with developers, product owners or other royalty participants which state a royalty rate, territory and term of agreement, among other items. Upon a product's release, prepaid royalties and license fees are charged to royalty expense based on the contractual royalty rate. The capitalized software costs are then amortized to cost of sales - royalties and software amortization on a straight-line basis over the estimated product life commencing upon product release or on the ratio of current revenues to total projected revenues, whichever amortization amount is greater.

For products that have been released, management evaluates the future recoverability of prepaid royalties and capitalized software costs on a quarterly basis. Prior to a product's release, the Company expenses, as part of product development costs, capitalized costs when, in management's estimate, such amounts are not recoverable. The following criteria is used to evaluate recoverability: historical performance of comparable products; the commercial acceptance of prior products released on a given game engine; orders for the product prior to its release;

estimated performance of a sequel product based on the performance of the product on which the sequel is based; and actual development costs of a product as compared to the Company's budgeted amount.

The following table sets forth certain consolidated statements of operations data for the periods indicated as a percentage of total net revenues and also breaks down net revenues by territory, activity, platform and channel:

QUARTER ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,	
1998	1997	1998	1997

	(in thousands)				(in thousands)			
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
STATEMENTS OF OPERATIONS DATA:								
Net revenues:	$193,537	100.0%	$122,141	100.0%	$311,599	100.0%	$201,670	100.0%
Costs and expenses:								
Cost of sales - product costs	107,693	55.6%	59,528	48.8%	182,752	58.6%	101,653	50.4%
Cost of sales - royalties and software amortization	23,828	12.3%	17,550	14.4%	32,412	10.4%	25,436	12.6%
Product development	3,985	2.1%	8,045	6.6%	13,612	4.4%	21,963	10.9%
Sales and marketing	26,040	13.5%	16,400	13.4%	49,452	15.9%	31,960	15.8%
General and administrative	5,265	2.7%	3,586	2.9%	13,832	4.4%	8,416	4.2%
Amortization of intangible assets	398	0.2%	404	0.3%	1,190	0.4%	1,159	0.6%
Merger expenses	-	-	1,474	1.2%	600	0.2%	1,474	0.7%
Total costs and expenses	167,209	86.4%	106,987	87.6%	293,850	94.3%	192,061	95.2%
Operating income	26,328	13.6%	15,154	12.4%	17,749	5.7%	9,609	4.8%
Interest expense, net	(854)	(0.4%)	(232)	(0.2%)	(2,017)	(0.7%)	(377)	(0.2%)
Net income before provision for income taxes	25,474	13.2%	14,922	12.2%	15,732	5.0%	9,232	4.6%
Income tax provision	9,452	4.9%	5,644	4.6%	5,748	1.8%	3,531	1.8%
Net income	$ 16,022	8.3%	$ 9,278	7.6%	$ 9,984	3.2%	$ 5,701	2.8%
NET REVENUES BY TERRITORY:								
North America	$ 69,472	35.9%	$ 42,329	34.7%	$106,623	34.2%	$ 67,468	33.5%
International	124,065	64.1%	79,812	65.3%	204,976	65.8%	134,202	66.5%
Total net revenues	$193,537	100.0%	$122,141	100.0%	$311,599	100.0%	$201,670	100.0%
ACTIVITY/PLATFORM MIX:								
Publishing:								
Console	$ 47,242	48.7%	$ 11,640	19.2%	$ 71,014	49.2%	$ 15,585	15.5%
PC	49,704	51.3%	49,037	80.8%	73,214	50.8%	85,212	84.5%
Total publishing net revenues	$ 96,946	50.1%	$ 60,677	49.7%	$144,228	46.3%	$100,797	50.0%
Distribution:								
Console	$ 63,482	65.7%	$ 37,400	60.8%	$116,624	69.7%	$ 60,195	59.7%
PC	33,109	34.3%	24,064	39.2%	50,747	30.3%	40,678	40.3%
Total distribution net revenues	96,591	49.9%	61,464	50.3%	167,371	53.7%	100,873	50.0%
Total net revenues	$193,537	100.0%	$122,141	100.0%	$311,599	100.0%	$201,670	100.0%
NET REVENUES BY CHANNEL:								
Retailer/Reseller	$185,030	95.6%	$ 114,321	93.6%	$296,003	95.0%	$181,568	90.0%
OEM, licensing, on-line and other	8,507	4.4%	7,820	6.4%	15,596	5.0%	20,102	10.0%
Total net revenues	$193,537	100.0%	$ 122,141	100.0%	$311,599	100.0%	$201,670	100.0%

RESULTS OF OPERATIONS

The results of operations for the quarter and nine months ended December 31, 1998 include results of operations for Head Games Publishing Inc. ("Head Games") and CD Contact Data GmbH ("CD Contact"), two recently acquired companies, which were treated as immaterial poolings. The results of operations for the quarter and nine months ended December 31, 1997 have not been restated to reflect such acquisitions. Net revenues for the quarter and nine months ended December 31, 1998 included $8.0 million and $13.0 million, respectively, from Head Games' operations, which have been included since April 1, 1998. Net revenues for the quarter and nine months ended December 31, 1998 included $19.1 million and $31.6 million, respectively, from CD Contact's operations, which have been included since July 1, 1998.

NET REVENUES

Net revenues for the quarter ended December 31, 1998 increased 58.5%

from the same period last year, from $122.1 million to $193.5 million. North America and international net revenues for the quarter ended December 31, 1998 increased 64.7%, from $42.3 million to $69.5 million and 55.5%, from $79.8 million to $124.1 million, respectively. The increase in overall net revenues was composed of a 125.9% increase in console net revenues, from $49.0 million to $110.7 million, and a 13.3% increase in PC net revenues, from $73.1 million to $82.8 million. Approximately $27.1 million, or 38.0%, of the increase in net revenues in the current period was attributable to the immaterial poolings discussed above.

Net revenues for the nine months ended December 31, 1998 increased 54.5% from the same period last year, from $201.7 million to $311.6 million. North America and international net revenues for the nine months ended December 31, 1998 increased 57.9%, from $67.5 million to $106.6 million, and 52.8%, from $134.2 million to $205.0 million, respectively. The increase in overall net revenues was composed of a 147.5% increase in console net revenues, from $75.8 million to $187.6 million, offset by a 1.5% decrease in PC net revenues, from $125.9 million to $124.0 million. Approximately $44.6 million, or 40.6%, of the increase in net revenues for the nine month period ended December 31, 1998 was attributable to the immaterial poolings discussed above.

Publishing console net revenues for the quarter and nine months ended December 31, 1998 increased 306.9%, from $11.6 million to $47.2 million, and 355.1%, from $15.6 million to $71.0 million, respectively, over the prior year. The increases in such periods were primarily attributable to the initial release of Tenchu (Playstation), Vigilante 8 (Playstation), Asteroids (Playstation), Apocalypse (Playstation), Nightmare Creatures (Nintendo 64), and Activision Classics (Playstation). Publishing PC net revenues for the quarter and nine months ended December 31, 1998 increased 1.4%, from $49.0 million to $49.7 million and decreased 14.1%, from $85.2 to $73.2 million, respectively. The increase in publishing PC net revenues for the quarter ending December 31, 1998 was primarily attributable to the acquisition of Head Games, as discussed above. The decrease in publishing PC net revenues for the nine month period was primarily attributable to the initial release of Quake II (PC) in the prior comparable period, partially offset by the acquisition of Head Games, as discussed above. PC initial releases during the quarter ended December 31, 1998 included Sin, Asteroids and Cabela's Big Game Hunter 2.

Distribution console net revenues for the quarter and nine months ended December 31, 1998 increased 69.8%, from $37.4 million to $63.5 million, and 93.7%, from $60.2 million to $116.6 million, respectively, over the prior year. These increases were attributable to the general increase in the Sony Playstation hardware and software markets as well as the effect of the acquisition of CD Contact, as discussed above. Distribution PC net revenues for the quarter and nine months ended December 31, 1998 increased 37.3%, from $24.1 million to $33.1 million and 24.6%, from $40.7 million to $50.7 million, respectively. These increases were primarily attributable to the acquisition of CD Contact, as discussed above.

COSTS AND EXPENSES

Cost of sales - product costs represented 55.6% and 48.8% of net revenues for the quarters ended December 31, 1998 and 1997, respectively. Cost of sales - product costs represented 58.6% and 50.4% of net revenues for the nine months ended December 31, 1998 and 1997, respectively. The increase in cost of sales product costs as a percentage of net revenues for both the 1998 quarter and the nine month period was due to the increase in the sales mix of console net revenues versus PC net revenues, as well as the decrease in the sales mix of OEM, licensing and other net revenues versus retailer/reseller net revenues.

Cost of sales - royalties and software amortization expense represented 12.3% and 14.4% of net revenues for the quarters ended December 31, 1998 and 1997, respectively. Cost of sales - royalties and software amortization expense represented 10.4% and 12.6% of net revenues for the nine months ended December 31, 1998 and 1997, respectively. The decrease in cost of sales - royalties and software amortization expense as a percentage of net revenues for both the 1998 quarter and nine month period was due to changes in the Company's product mix. More products with lower royalty rates were included in the 1998 product mix as compared to the prior year, resulting in an overall lower royalty rate as a percentage of net revenues.

Product development expenses for the quarter ended December 31, 1998 decreased 50.0% from the same period last year, from $8.0 million to $4.0 million. Product development expenses for the nine months ended December 31, 1998 decreased 38.2% from the same period last year, from $22.0 million to $13.6 million. The decreases in the amount of product development expenses for the quarter and nine months ended December 31, 1998 primarily were due to an increase in the capitalizable development costs relating to sequel products being developed on proven engine technologies which have been capitalized in accordance with SFAS 86.

As a percentage of net revenues, total product creation costs (i.e., royalties and software amortization expense plus product development expenses) decreased from 21.0% to 14.4% and from 23.5% to 14.8% during the quarter and nine months ended December 31, 1998, respectively. Such decreases were attributable to efficiencies gained in studio operations, as well as a decrease in the effective royalty rate as discussed above, and an increase in development costs capitalized under SFAS 86, as discussed above.

Sales and marketing expenses for the quarter ended December 31, 1998 increased 58.5% from the same period last year, from $16.4 million to $26.0 million. As a percentage of net revenues, sales and marketing expenses increased slightly from 13.4% to 13.5%. Sales and marketing expenses for the nine months ended December 31, 1998 increased 54.7% from the same period last year, from $32.0 million to $49.5 million. As a percentage of net revenues, sales and marketing expenses increased slightly from 15.8% to 15.9%. The increases in the amount of sales and marketing expenses for the 1998 quarter and nine month period primarily were due to a significant increase in television advertising and an increase in the number of products scheduled to be released during the current fiscal year. However, as a percentage of net revenues, such expenses have remained fairly consistent.

General and administrative expenses for the quarter ended December 31, 1998 increased 47.2% from the same period last year, from $3.6 million to $5.3 million. As a percentage of net revenues, general and administrative expenses decreased from 2.9% to 2.7%. General and administrative expenses for the nine months ended December 31, 1998 increased 64.3% from the same period last year, from $8.4 million to $13.8 million. As a percentage of net revenues, general and administrative expenses increased slightly from 4.2% to 4.4%. The period over period increase in the amount of general and administrative expenses for the 1998 quarter and nine month period primarily were due to an increase in worldwide administrative support needs and headcount related expenses. The decrease as a percentage of net revenues relates primarily to efficiencies gained in administrative operations.

OTHER INCOME (EXPENSE)

Net interest expense was $854,000 and $2,017,000 for the quarter and nine months ended December 31, 1998, compared to net interest expense of $232,000 and $377,000 for the same periods last year. These increases primarily were the result of interest costs associated with the Company's convertible subordinated notes issued in December 1997 and short term borrowings under bank line of credit agreements.

PROVISION FOR INCOME TAXES

The income tax provision of approximately $9,452,000 and $5,748,000 for the quarter and nine months ended December 31, 1998, respectively, reflects the Company's estimated effective income tax rate of approximately 37% for the fiscal year ending March 31, 1999. The realization of deferred tax assets primarily is dependent on the generation of future taxable income. Management believes that it is more likely than not that the Company will generate taxable income sufficient to realize the benefit of deferred tax assets recognized.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents decreased $21.9 million, from $73.4 million at March 31, 1998 to $51.5 million at December 31, 1998. Approximately $29.6 million in cash and cash equivalents were used in operating activities during the nine months ended December 31, 1998 compared to approximately $14.9 million in cash and cash equivalents provided by

operating activities during the nine months ended December 31, 1997. This change was primarily attributable to a substantial increase during the nine months ended December 31, 1998 in prepaid royalties and capitalized software costs incurred by the Company as a result of its execution of new license agreements granting the Company long term rights to the intellectual property of third parties, as well as the acquisition of publishing or distribution rights to products being developed by third parties. Also contributing to the change were increases in accounts receivable, inventory, accounts payable and accrued liabilities resulting from the Company's overall growth during the nine month period ended December 31, 1998.

In addition, approximately $2.1 million in cash and cash equivalents were used in investing activities. Capital expenditures totaled approximately $2.8 million during the nine months ended December 31, 1998.

Cash and cash equivalents provided by financing activities totaled approximately $9.8 million for the nine months ended December 31, 1998, which included approximately $3.5 million in proceeds from exercise of employee stock options and net borrowings of $7.4 million under the Company's lines of credit.

In connection with the Company's purchases of N64 hardware and software cartridges for distribution in North America and Europe, Nintendo requires the Company to provide irrevocable letters of credit prior to accepting purchase orders from the Company for the purchase of these cartridges. Furthermore, Nintendo maintains a policy of not accepting returns of N64 hardware and software cartridges. Because of these and other factors, the carrying of an inventory of N64 hardware and software cartridges entails significant capital and risk.

In December 1997, the Company completed the private placement of $60.0 million principal amount of 6 3/4% convertible subordinated notes due 2005 (the "Notes"). The Notes are convertible, in whole or in part, at the option of the holder at any time after December 22, 1997 (the date of original issuance) and prior to the close of business on the business day immediately preceding the maturity date, unless previously redeemed or repurchased, into common stock, $.000001 par value, of the Company, at a conversion price of $18.875 per share, (equivalent to a conversion rate of 52.9801 shares per $1,000 principal amount of Notes), subject to adjustment in certain circumstances. The Notes are redeemable, in whole or in part, at the option of the Company at any time on or after January 10, 2001, subject to premiums through December 31, 2003.

During the quarter ended December 31, 1998, the Company obtained a new revolving credit and letter of credit facility ("the New Facility") from a new bank that permits the Company to borrow funds and issue letters of credit against domestic accounts receivable up to $25 million. The New Facility expires in October 2000. As of December 31, 1998, the Company had an outstanding balance of approximately $5.3 million on this line of credit. In January 1999, the Company increased the New Facility to $40 million under substantially the same terms and conditions.

The Company's CentreSoft subsidiary has a revolving credit facility (the "Europe Facility") with its bank for approximately $11.5 million. The Europe Facility can be used for working capital requirements and expires in June 2000. The Company had no borrowings under the Europe Facility as of December 31, 1998. The Company's newly acquired subsidiary, CD Contact, has facilities (the "CD Contact Facilities") with its banks that permit borrowings up to approximately $25 million. Borrowings under the CD Contact Facilities are due on demand and totaled $6.5 million as of December 31, 1998.

The Company will use its working capital ($131.1 million at December 31, 1998), as well as the proceeds available from the New Facility, the Europe Facility and the CD Contact Facilities, to finance the Company's operational requirements for at least the next twelve months, including acquisitions of inventory and equipment, the funding of development, production, marketing and selling of new products, and the acquisition of intellectual property rights for future products from third parties.

The Company's management currently believes that inflation has not had a material impact on continuing operations.

YEAR 2000

Like many other software companies, the year 2000 computer issue creates risk for the Company. If internal computer and embedded systems do not

correctly recognize date information when the year changes to 2000, there could be an adverse impact on the Company's operations. The Company has initiated a comprehensive

plan to prepare its internal computer and embedded systems for the year 2000 and is currently implementing changes to alleviate any year 2000 incapabilities. As part of such plan, the Company has purchased software programs that have been independently developed by third parties which will test year 2000 compliance for the majority of the Company's systems.

All of the entertainment software products currently being shipped by the Company have been tested for year 2000 compliance and have passed these tests. In addition, all such products currently in development are being tested as part of the normal quality assurance testing process and are scheduled to be released fully year 2000 compliant. Notwithstanding the foregoing, the year 2000 computer issue could still affect the ability of consumers to use the PC products sold by the Company. For example, if the computer system on which a consumer uses the Company's products is not year 2000 compliant, such noncompliance could affect the consumer's ability to use such products.

Contingency plans currently are being developed to address the most material areas of exposure to the Company, such as adding network operating systems to back-up the Company's current network server and developing back-up plans for telecommunications with external offices and customers. In addition, a staffing plan currently is in development to manually handle orders should there be a failure of electronic data interchange connections with its customers and suppliers. Management believes that the items mentioned above constitute the greatest risk of exposure to the Company and that the plans currently being developed by the Company will be adequate for handling these items.

The Company also is contacting critical suppliers of products and services to determine that the suppliers' operations and the products and services they provide are year 2000 compliant. To assist suppliers (particularly trading partners using electronic data interchange) in evaluating their year 2000 issues, the Company has developed a questionnaire which indicates the ability of each supplier to address year 2000 incompatibilities. All critical suppliers and trading partners of the Company have responded to the questionnaire and confirmed the expectation that they will continue providing services and products through the change to 2000.

The Company anticipates that year 2000 compliance testing on substantially all of its critical systems will be completed, and corresponding changes will be made, by mid-1999. The costs incurred by the Company to date related to this testing and modification process are less than $100,000. The Company expects that the total cost of its year 2000 compliance plan will not exceed $200,000. The total estimated cost does not include potential costs related to any systems used by the Company's customers, any third party claims, or the costs incurred by the Company when it replaces internal software and hardware in the normal course of its business. The overall cost of the Company's year 2000 compliance plan is a minor portion of the Company's total information technology budget and is not expected to materially delay the implementation of any other unrelated projects that are planned to be undertaken by the Company. In some instances, the installation schedule of new software and hardware in the normal course of business is being accelerated to also afford a solution to year 2000 compatibility issues. The total cost estimate for the Company's year 2000 compliance plan is based on management's current assessment of the projects comprising the plan and is subject to change as the projects progress.

Based on currently available information, management does not believe that the year 2000 issues discussed above related to the Company's internal systems or its products sold to customers will have a material adverse impact on the Company's financial condition or results of operations; however, the specific extent to which the Company may be affected by such matters is not certain. In addition, there can be no assurance that the failure by a supplier or another third party to ensure year 2000 compatibility would not have a material adverse effect on the Company.

EURO CONVERSION

On January 1, 1999, eleven of the fifteen member countries of the European Union adopted the "euro" as their common currency. The sovereign currencies of

the participating countries are scheduled to remain legal tender as denominations of the euro between January 1, 1999 and January 1, 2002. Beginning January 1, 2002, the participating countries will issue new euro-denominated bills and coins for use in cash transactions. No later than July 1, 2002, the participating countries will withdraw all bills and coins denominated in the sovereign currencies, so that the sovereign currencies no longer will be legal tender for any transactions, making conversion to the euro complete. The Company has performed an internal analysis of the possible implications of the euro conversion on the Company's business and financial condition, and has determined that the impact of the conversion will be

immaterial to its overall operations. The Company's wholly owned subsidiaries operating in participating countries represented 11.4% and 11.3% of the Company's consolidated net revenues for the quarter and nine months ended December 31, 1998, respectively.

FACTORS AFFECTING FUTURE PERFORMANCE

In connection with the Private Securities Litigation Reform Act of 1995 (the "Litigation Reform Act"), the Company has disclosed certain cautionary information to be used in connection with written materials (including this Quarterly Report on Form 10-Q) and oral statements made by or on behalf of its employees and representatives that may contain "forward-looking statements" within the meaning of the Litigation Reform Act. Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology. The listener or reader is cautioned that all forward-looking statements are necessarily speculative and there are numerous risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements. For discussion that highlights some of the more important risks identified by management, but which should not be assumed to be the only factors that could affect future performance, see the Company's Annual Report on Form 10-K which is incorporated herein by reference. The reader or listener is cautioned that the Company does not have a policy of updating or revising forward-looking statements and thus he or she should not assume that silence by management over time means that actual events are bearing out as estimated in such forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company transacts business in many different foreign currencies and may be exposed to financial market risk resulting from fluctuations in foreign currency exchange rates, particularly the British Pound sterling. However, due to the long-term stability of the pound, the Company has deemed it unnecessary to hedge against foreign currency devaluation at the present time. The volatility of the Pound (and all other applicable currencies) will be monitored frequently throughout the coming year and the Company may require the use of hedging programs, currency forward contracts, currency options and/or other derivative financial instruments commonly utilized to reduce financial market risks.

PART II. - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is party to routine claims and suits brought against it in the ordinary course of business including disputes arising over the ownership of intellectual property rights and collection matters. In the opinion of management, the outcome of such routine claims will not have a material adverse effect on the Company's business, financial condition or results of operations.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

27.1 Fiscal 1999 Quarter and Year to Date Financial Data Schedule

(b) Reports on Form 8-K

On October 8, 1998, the Company filed a Current Report on Form 8-K reporting the completion of the acquisition of CD Contact on September 29, 1998. The transaction was accounted for as a "pooling of interests".

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: February 12, 1999

ACTIVISION, INC.

/s/ Barry J. Plaga	Chief Financial Officer	February 12, 1999
(Barry J. Plaga)		

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