



## Activision Reports First Quarter Fiscal 2007 Results; Company Delivers Better-Than-Expected Q1 Results

SANTA MONICA, Calif., Aug 03, 2006 (BUSINESS WIRE) -- Activision, Inc. (Nasdaq: ATVI) today announced results for the first fiscal quarter ended June 30, 2006.

Net revenues were \$188 million, as compared to \$241 million reported for the first quarter last fiscal year. For the first quarter, the company reported a net loss of \$18 million, or a loss per share of \$0.06 including equity-based compensation, as compared to the company's previous outlook of a loss per share of \$0.11. Excluding the impact of equity-based compensation, the company had a loss per share of \$0.05, as compared to the company's previous outlook of a loss per share of \$0.10. For the previous year's first quarter, the company reported a net loss of \$3.6 million, or a loss per share of \$0.01. A reconciliation of the company's non-GAAP financial measures to the most comparable GAAP financial measures appears at the end of this press release.

Robert Kotick, Chairman and CEO of Activision, Inc. commented, "Activision delivered better-than-expected results for the first quarter and our balance sheet remains one of the strongest in the industry. We are excited about our strong launch lineup for the PlayStation 3 and Nintendo Wii, as well as our solid slate for the Xbox 360. While there is still uncertainty with respect to the opportunities next-generation consoles will provide this fiscal year, we remain confident about the long-term industry prospects and our ability to realize superior returns for our shareholders."

### Business Highlights

Activision's results for the quarter were driven by the release of Over the Hedge for the PlayStation(R) 2 computer entertainment system, Xbox(R) video game system, Nintendo(R) GameCube(TM), PC, Nintendo Game Boy(R) Advance(TM) and Nintendo DS and X-Men: The Official Game for the Xbox 360(TM) video game and entertainment system from Microsoft, PlayStation 2 computer entertainment system, Xbox video game system, Nintendo GameCube, PC, Nintendo Game Boy Advance and Nintendo DS.

-- According to The NPD Group, Call of Duty(R) 2 remains the #1 Xbox 360 game to date.

-- In April, Activision was awarded the rights to the James Bond license through 2014. Since the initial release of Dr. No in 1962, James Bond films have grossed more than \$3.6 billion theatrically worldwide, and approximately 30 million units of video games based on the world of James Bond have been sold to date. Bond is one of the most successful franchises in film history and continues to have popular global appeal.

-- In May, the company announced an exclusive multi-year agreement with Mattel, Inc. to distribute video games based on the Barbie(R) brand. The video games are expected to be available at retail stores worldwide this fall.

-- In June, Activision acquired video game publisher RedOctane, Inc., the publisher of the popular Guitar Hero(TM) franchise. The acquisition provides Activision with an early leadership position in music-based gaming, which the company expects will be one of the fastest growing genres in the coming years. Guitar Hero ranked as the #4 best-selling title overall for the month of June and has remained a top-10 selling title for calendar 2006, according to The NPD Group.

-- In June, Activision opened a publishing office in Seoul, Korea, one of the fastest growing gaming markets in Asia, through the acquisition of CSR Entertainment's software distribution operations. The new office will enable Activision to fully leverage its product portfolio in the territory, particularly the upcoming online multiplayer action game Enemy Territory: Quake Wars, the prequel to id Software's legendary QUAKE II(R).

### Company Outlook

For the second quarter of fiscal 2007, Activision expects net revenues of \$130 million and a loss per share of \$0.13, which excludes equity-based compensation of \$0.01 per share.

For fiscal 2007, Activision is raising its net revenues outlook to \$1.075 billion. The company expects earnings per diluted share of \$0.15, which excludes equity-based compensation of \$0.05.

Activision also reaffirmed its fiscal year 2008 outlook. The company expects net revenues to exceed \$1.6 billion.

#### Non-GAAP Financial Measures

To supplement Activision's consolidated financial statements presented in accordance with GAAP, the company provides non-GAAP net income (loss) and non-GAAP net income (loss) per share data which is defined as net income (loss) excluding expenses related to stock options, employee stock purchase plan, and restricted stock under Statement of Financial Accounting Standards No. 123 (revised 2004), "Share Based Payment" and the associated tax benefit.

Management believes that the presentation of these non-GAAP financial measures provide investors with additional useful information to measure the company's financial performance. These non-GAAP financial measures are not determined in accordance with generally accepted accounting principles (GAAP) and should be considered in addition to, not as a substitute for or superior to, financial measures determined in accordance with GAAP. The limitations of non-GAAP net income (loss) are that, it does not include certain costs, and the term non-GAAP net income (loss) does not have a standardized meaning. Therefore, other companies may use the same or similarly named measure but exclude different items, which may not provide investors a comparable view of the company's performance in relation to other companies in the same industry.

Management compensates for this limitation by presenting the most comparable GAAP measure, net income, directly ahead of non-GAAP net income (loss) in this earnings release and by providing a reconciliation that shows and describes the adjustments made. Management does not believe these limitations are material, particularly when such measure is disclosed with its most comparable GAAP financial measure, net income (loss). A reconciliation of GAAP net income (loss) to non-GAAP net income (loss) is provided in the accompanying tables.

#### Conference Call

Today at 4:30 p.m. EDT, Activision's management will host a conference call and Webcast to discuss its first quarter fiscal 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 a live Webcast or to listen to the call live by dialing into (719) 457-2679 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 \$1.47 billion for the fiscal year ended March 31, 2006.

Activision maintains operations in the U.S., Canada, the United Kingdom, France, Germany, Italy, Spain, Japan, Australia, Scandinavia, the Netherlands and South Korea. 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, sales of the company's titles during the remainder of fiscal 2007, consumer spending trends, the seasonal and cyclical nature of the interactive game market, the company's ability to predict consumer preferences among competing hardware platforms including next-generation hardware, software pricing, product returns and price protection, product delays, retail acceptance of our products, delays in hardware launches, industry competition, rapid changes in technology and industry standards, protection of proprietary rights, litigation and an informal SEC inquiry, 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. 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.

	Quarter ended June 30,	
	2006	2005
Net revenues	\$188,069	\$241,093
Costs and expenses:		
Cost of sales - product costs	108,623	136,754
Cost of sales - software royalties and amortization	19,250	14,576
Cost of sales - intellectual property licenses	9,916	20,940
Product development	25,422	17,802
Sales and marketing	36,194	46,318
General and administrative	21,450	18,151
<b>Total operating expenses</b>	<b>220,855</b>	<b>254,541</b>
Operating loss	(32,786)	(13,448)
Investment income, net	8,275	7,348
Loss before income tax benefit	(24,511)	(6,100)
Income tax benefit	(6,685)	(2,515)
<b>Net loss</b>	<b>\$(17,826)</b>	<b>\$(3,585)</b>
Basic loss per share	\$(0.06)	\$(0.01)
Weighted average common shares outstanding	278,335	269,141
Diluted loss per share	\$(0.06)	\$(0.01)
Weighted average common shares outstanding assuming dilution	278,335	269,141

Share and earnings per share data have been restated to reflect our four-for-three stock split for shareholders of record as of October 10, 2005, paid October 24, 2005.

ACTIVISION, INC. AND SUBSIDIARIES  
RECONCILIATION OF GAAP NET LOSS TO NON-GAAP NET LOSS  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except earnings per share data)

	Quarter ended June 30, 2006		
	GAAP	Equity-Based Compensation Adjustment(a)	Non-GAAP
Net revenues	\$188,069	\$-	\$188,069
Costs and expenses:			
Cost of sales - product costs	108,623	-	108,623
Cost of sales - software royalties and amortization	19,250	25	19,225
Cost of sales - intellectual property licenses	9,916	-	9,916

Product development	25,422	1,476	23,946
Sales and marketing	36,194	1,055	35,139
General and administrative	21,450	2,647	18,803
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Total operating expenses	220,855	5,203	215,652
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Operating loss	(32,786)	(5,203)	(27,583)
Investment income, net	8,275	-	8,275
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Loss before income tax benefit	(24,511)	(5,203)	(19,308)
Income tax benefit	(6,685)	(1,977)	(4,708)
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Net loss	\$(17,826)	\$(3,226)	\$(14,600)
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Basic loss per share	\$(0.06)	\$(0.01)	\$(0.05)
Weighted average common shares outstanding	278,335	278,335	278,335
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Diluted loss per share	\$(0.06)	\$(0.01)	\$(0.05)
Weighted average common shares outstanding assuming dilution	278,335	278,335	278,335
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(a) Includes expense related to stock options, employee stock purchase plan, and restricted stock under Statement of Financial Accounting Standards No. 123 (revised 2004), "Share Based Payment."  
See explanation above regarding the Company's practice on reporting non-GAAP financial measures.

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

	June 30, 2006	March 31, 2006
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ASSETS		
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Current assets:		
Cash, cash equivalents and short-term investments	\$792,576	\$944,960
Accounts receivable, net	65,361	28,782
Inventories	64,095	61,483
Software development	65,631	40,260
Intellectual property licenses	23,844	4,973
Deferred income taxes	12,245	9,664
Other current assets	40,229	25,933
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Total current assets	1,063,981	1,116,055
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Software development	13,072	20,359
Intellectual property licenses	73,100	82,073
Property and equipment, net	43,986	45,368
Deferred income taxes	58,504	53,813
Other assets	4,113	1,409
Goodwill	180,646	100,446
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Total assets	\$1,437,402	\$1,419,523
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LIABILITIES AND SHAREHOLDERS' EQUITY		
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Current liabilities:		
Accounts payable	\$73,344	\$88,994
Accrued expenses	88,264	103,169
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Total current liabilities	161,608	192,163
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Other liabilities	40,960	1,776
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Total liabilities	202,568	193,939
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Shareholders' equity:		
Common stock	-	-
Additional paid-in capital	862,678	823,735
Retained earnings	370,687	388,513
Accumulated other comprehensive income	1,469	16,369
Unearned compensation	-	(3,033)
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Total shareholders' equity	1,234,834	1,225,584
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Total liabilities and shareholders' equity	\$1,437,402	\$1,419,523
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ACTIVISION, INC. AND SUBSIDIARIES  
FINANCIAL INFORMATION  
For the Quarter Ended June 30, 2006 and 2005  
(Amounts in thousands)

	Quarter Ended		Quarter Ended		Percent Increase (Decrease)
	June 30, 2006		June 30, 2005		
	Amount	% of Total	Amount	% of Total	
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Geographic Revenue Mix					
North America	\$99,610	53%	\$112,320	46%	-11%
International	88,459	47%	128,773	54%	-31%
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Total net revenues	\$188,069	100%	\$241,093	100%	-22%
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Segment/Platform Mix					
Publishing:					
Console	\$90,189	48%	\$142,362	59%	-37%
Hand-held	26,584	14%	25,331	10%	5%
PC	17,989	10%	25,858	11%	-30%
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Total publishing net revenues	\$134,762	72%	\$193,551	80%	-30%
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Distribution:					
Console	\$28,788	15%	\$38,088	16%	-24%
Hand-held	18,213	10%	3,908	2%	366%
PC	6,306	3%	5,546	2%	14%
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Total distribution net revenues	\$53,307	28%	\$47,542	20%	12%
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Total net revenues	\$188,069	100%	\$241,093	100%	-22%
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ACTIVISION, INC. AND SUBSIDIARIES  
FINANCIAL INFORMATION  
For the Quarter Ended June 30, 2006 and 2005

	Quarter Ended June 30, 2006	Quarter Ended June 30, 2005
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Publishing Net Revenues		
PC	13%	14%
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Console	67%	73%
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Sony PlayStation 2	38%	34%
Nintendo GameCube	10%	5%
Microsoft Xbox	10%	34%
Microsoft Xbox 360	9%	0%
Hand-held	20%	13%
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Nintendo Game Boy Advance	10%	8%
Nintendo Dual Screen	8%	3%
Sony PlayStation Portable	2%	2%
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Total publishing net revenues	100%	100%
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SOURCE: Activision, Inc.

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