UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark one)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2005

OR

o **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 **0-12699**

ACTIVISION, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-4803544**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3100 Ocean Park Blvd., Santa Monica, CA	**90405**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Preferred Stock Purchase Rights
Common Stock, par value $.000001 per share
(Title of Class)

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 for 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 ☒ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No o

The aggregate market value of the Common Stock of the registrant held by non-affiliates of the registrant on September 30, 2004 was $1,866,783,013.

The number of shares of the registrant's Common Stock outstanding as of May 31, 2005 was 201,767,960.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K, with respect to the 2005 Annual Meeting of Shareholders, are incorporated by reference into Part III of this Annual Report.

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PART I

Item 1. BUSINESS

(a) General

Activision, Inc. ("Activision" or "we") is a leading international publisher of interactive entertainment software products. We have built a company with a diverse portfolio of products that spans a wide range of categories and target markets and that is used on a variety of game hardware platforms and operating systems. We have created, licensed and acquired a group of highly recognizable brands, which we market to a variety of consumer demographics. Our fiscal 2005 product portfolio included such best-selling products as *Spider-Man 2: The Movie ("Spider-Man 2")*, *Shrek 2*, *Tony Hawk's Underground 2 ("THUG 2")*, *Call of Duty: Finest Hour*, *Shark Tale*, *DOOM 3* and *X-Men Legends*.

Our products cover diverse game categories including action/adventure, action sports, racing, role-playing, simulation, first-person action and strategy. Our target customer base ranges from casual players to game enthusiasts, children to adults and mass-market consumers to "value" buyers. We currently offer our products primarily in versions that operate on the Sony PlayStation 2 ("PS2"), Nintendo GameCube ("GameCube") and Microsoft Xbox ("Xbox") console systems, Nintendo Game Boy Advance ("GBA"), Sony PlayStation Portable ("PSP") and Nintendo Dual Screen ("NDS") hand-held devices and the personal computer ("PC"). The installed base for this current generation of hardware platforms is significant and growing and the fiscal 2005 release of two new handheld devices, NDS, which was released worldwide, and PSP, which was released in North America, will also help expand the software market. We successfully executed our strategy of having a high-quality product presence at the launch of the NDS and PSP and are currently developing additional titles for the PSP and the NDS while continuing to develop games for the GBA.

We also intend to develop titles for the next-generation console systems which are being developed by Sony, Nintendo and Microsoft. Microsoft recently unveiled its next-generation console, the Xbox 360, which is expected to be released in November 2005. We are currently developing four titles for release on the Xbox 360, *Tony Hawk's American Wasteland*, *Call of Duty 2*, *Quake IV* and *GUN*. Sony and Nintendo also recently unveiled their next-generation consoles, the PlayStation 3 and Revolution, respectively, and both are expected to be released in calendar 2006. Our publishing business involves the development, marketing, and sale of products directly, by license or through our affiliate label program with certain third-party publishers. Our

distribution business consists of operations in Europe that provide logistical and sales services to third-party publishers of interactive entertainment software, our own publishing operations and manufacturers of interactive entertainment hardware.

We were originally incorporated in California in 1979. In December 1992, we reincorporated in Delaware. In June 2000, we reorganized into the current holding company organizational structure.

In April 2003, the Board of Directors approved a three-for-two split of our outstanding common shares effected in the form of a 50% stock dividend. The split was paid on June 6, 2003 to shareholders of record as of May 16, 2003. In February 2004, the Board of Directors approved a three-for-two split of our outstanding common shares effected in the form of a 50% stock dividend. The split was paid on March 15, 2004 to shareholders of record as of February 23, 2004. In February 2005, the Board of Directors approved a four-for-three split of our outstanding common shares effected in the form of a 33-1/3% stock dividend. The split was paid March 22, 2005 to shareholders of record as of March 7, 2005. The par value of our common stock was maintained at the pre-split amount of $.000001. All share and per share data have been restated as if the stock splits had occurred as of the earliest period presented.

(b) Business Combinations

We have completed a number of acquisitions of both software development companies and interactive entertainment product distribution companies. During fiscal 2005, we continued to enhance our internal product development capabilities with the acquisition of a game developer, Vicarious Visions, Inc. See the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for additional information regarding the accounting treatment of this and prior acquisitions. During the first quarter of fiscal 2006, we acquired two additional game developers, Toys for Bob, Inc. and Beenox, Inc.

(c) Financial Information About Industry Segments

We have two reportable segments: publishing and distribution. Publishing relates to the development (both internally and externally), marketing and sale of DVD, CD, UMD and cartridge-based interactive entertainment software products owned or controlled by us directly, by license or through our affiliate label program with certain third-party publishers. Distribution primarily refers to logistical and sales services provided by our European distribution subsidiaries to third-party publishers of interactive entertainment software, our own publishing operations and manufacturers of interactive entertainment hardware. See Note 10 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for certain financial information regarding reporting segment and geographic areas required by Item 1.

(d) Narrative Description of Business

Our objective is to be a worldwide leader in the development, publishing and distribution of quality interactive entertainment software products that deliver a highly satisfying consumer entertainment experience. Our business strategy, the key components of our business operations and the risk factors that could impact our business are detailed below.

Strategy

Create, Acquire and Maintain Strong Brands. We focus development and publishing activities principally on products that are, or have the potential to become, franchise properties with sustainable consumer appeal and brand recognition. It is our experience that these products can then serve as the basis for sequels, prequels and related new products that can be released over an extended period of time. We believe that the publishing and distribution of products based in large part on franchise properties enhances predictability of revenues and the probability of high unit volume sales and operating profits. We have entered into a series of strategic relationships with the owners of intellectual property pursuant to which we have acquired the rights to publish products based on franchises such as Marvel Comics' properties, including Spider-Man, X-Men, Iron Man and Fantastic Four. Additionally, we have a multi-year, multi-property, publishing agreement with DreamWorks LLC that grants us the exclusive rights to publish video games based on DreamWorks Animation SKG's theatrical release "Shrek 2," which was released in the first quarter of fiscal 2005, "Shark Tale," which was released in the second quarter of fiscal 2005, "Madagascar," which was released in the first quarter of fiscal 2006, as well as the upcoming computer-animated film "Over the Hedge" and all of their respective sequels, including "Shrek 3." We also have a strategic relationship with professional skateboarder Tony Hawk through an exclusive multi-year agreement to develop video games using his name and likeness. Through fiscal 2005, we have released six successful titles in the Tony Hawk franchise. We also have created a number of successful internally developed intellectual properties such as the True Crime and Call of Duty franchise properties. We believe that our fiscal 2006 release, *GUN*, also has the potential to join this list of franchise properties.

Execute Disciplined Product Selection and Development Processes. The success of our publishing business depends, in significant part, on our ability to develop high quality games that will generate high unit volume sales. Our publishing units have implemented a formal control process for the selection, development, production and quality assurance of our products. We apply this process, which we refer to as the "Greenlight Process," to all of our products, whether externally or internally developed. The Greenlight Process includes in-depth reviews of each project at six important stages of development by a team that includes many of our highest-ranking operating managers and coordination between our sales and marketing personnel and development staff at each step in the process.

We develop our products using a combination of our internal development resources and external development resources acting under contract with us. We typically select our external developers based on their track record and expertise in producing products in the same category. One developer will often produce the same game for multiple platforms and will produce sequels to the original game. We believe that selecting and using development resources in this manner allows us to leverage the particular expertise of our internal and external development resources, which we believe adds to the quality of our products.

Create and Maintain Diversity in Product Mix, Platforms and Markets. We believe that maintaining a diversified mix of products can reduce our operating risks and enhance profitability. Therefore, we develop and publish products spanning a wide range of product categories, including action/adventure, action sports, racing, role-playing, simulation, first-person action and strategy. We also develop products designed for target audiences ranging

from casual players to game enthusiasts, children to adults and mass-market consumers to "value" buyers. Presently, we concentrate on developing, publishing and distributing products that operate on PS2, GameCube and Xbox console systems, GBA, PSP, and NDS hand-held devices and the PC. We intend to develop products for the next-generation console systems: Microsoft Xbox 360, Sony PlayStation 3 and Nintendo Revolution. We typically offer our products for use on multiple platforms in order to reduce the risks associated with any single platform, leverage our costs over a larger installed hardware base and increase unit sales.

Continue to Improve Profitability. We continually strive to manage risk and increase our operating leverage and efficiency with the goal of increased profitability. We believe the key factor affecting our future profitability will be the success rate of our product releases. Therefore, our product selection and development process includes, as a significant component, periodic evaluations of the expected commercial success of products under development. Through this process, for titles that we determine to be less promising, corrections are made in the development process or, if necessary, they are discontinued before we incur additional development costs. In addition, we believe our focus on cross platform releases and branded products will contribute to improved profitability.

We continue to focus on increasing our margins. We have, for example, acquired certain experienced and specialized developers in instances where we can enhance profitability through the elimination of royalty obligations. Additionally, we often rely on independent third-party interactive entertainment software developers to develop some of our software products, thereby taking advantage of specialized independent developers without incurring the fixed overhead obligations associated with increased internally employed staff.

Our sales and marketing staff work with our studio resources to increase the visibility of new product launches and to coordinate the timing and promotion of product releases. Our finance and sales and marketing personnel work together to improve inventory management and receivables collections. We have instituted broad, objective-based reward programs that provide incentives to management and staff throughout the organization to produce results that meet our financial objectives.

Grow Through Continued Strategic Acquisitions and Alliances. The interactive entertainment industry has been consolidating, and we believe that success in this industry will be driven in part by the ability to take advantage of scale. Specifically, smaller companies are more capital constrained, enjoy less predictability of revenues and cash flow, lack product diversity and must spread fixed costs over a smaller revenue base. Several industry leaders are emerging that combine the entrepreneurial and creative spirit of the industry with professional management, the ability to access the capital markets and the ability to maintain favorable relationships with developers, intellectual property owners and retailers. Through numerous completed acquisitions since 1997, we believe that we have successfully diversified our operations, our channels of distribution, our development talent pool and our library of titles, and have emerged as one of the industry's leaders. We intend to continue to evaluate the expansion of our resources through acquisitions, strategic relationships and key license transactions. We intend to continue expanding our intellectual property library through key license transactions and strategic relationships with intellectual property owners and to continue to evaluate opportunities to increase our development capacity through the acquisition of or investment in selected experienced software development firms.

Products

Historically we have been best known for our action/adventure, strategy and simulation products. We have also been successful in the superheroes and skateboarding categories with our release of titles based on the Spider-Man and X-Men properties, as well as the Tony Hawk franchise. We have also been successful in the racing and first person action categories through two original intellectual properties, True Crime and Call of Duty, both of which we plan on continuing as successful long-term franchises. In addition, we have established ourselves as a leader in the "value" software publishing business with products under our Cabela's, Rapala's and Greg Hasting's Paintball licenses, as well as with products distributed on behalf of our "value" affiliate label partners. Products published by us in this category are generally developed by third-parties, often under contract with us, and are marketed under the Activision Value Publishing name. Value software is typically less sophisticated and less complex, both in terms of the development process and consumer gameplay.

Hardware Licenses. Our products currently are being developed or published primarily for PS2, Xbox and GameCube console systems; GBA, PSP and NDS hand-held devices; and PCs. We also intend to develop products for the next-generation console systems: Microsoft Xbox 360, Sony PlayStation 3 and Nintendo Revolution. In order to maintain general access to the console systems and hand-held devices marketplace, we have maintained licenses for PS2, GameCube and Xbox console systems and GBA, PSP and NDS hand-held devices with the owners of each such

platform. Each license allows us to create multiple products for the applicable platform, subject to certain approval rights which are reserved by each licensor. Each license also requires that we pay the licensor a per unit royalty for each unit manufactured. In contrast, we are not required to obtain any license for the development and production of products for PCs.

Intellectual Property Rights. Many of our current and planned releases are based on intellectual property and other character or story rights licensed from third-parties, as well as a combination of characters, worlds and concepts derived from our extensive library of titles, and original characters and concepts owned and created by us. When publishing products based on licensed intellectual property rights, we generally seek to capitalize on the name recognition, marketing efforts and goodwill associated with the underlying property. For intellectual property owned by Activision, we generally attempt to establish such properties as sustainable, long-term game franchises.

In acquiring intellectual property rights from third-parties, we seek to obtain rights to publish titles across a variety of platforms, to include the ability to produce multiple titles and to retain rights over an extended period of time. In past years, we have been able to enter into a series of long-term or multi-product agreements with owners of various intellectual properties that are well known throughout the world and to create products based on these recognizable characters, story lines or concepts. These agreements typically provide us with exclusive publishing rights for a specific period of time and, in some cases, for specified platforms and, in other cases, with renewal rights upon the satisfaction of certain conditions. The scope of our licensing activities includes theatrical motion pictures, television shows, animated films and series, comic books, literary works, sports personalities and events and celebrities. We intend to continue expanding relationships with our existing intellectual property partners and to enter into agreements with other intellectual property owners for additional recognizable properties, characters, story lines and concepts. However, we may not be able to maintain or expand our existing relationships or to seek out and sustain new long-term relationships of similar caliber in the future.

Product Development and Support

We develop and produce titles using a model in which a core group of creative, production and technical professionals, in coordination with our marketing and finance departments, have responsibility for the entire development and production process including the supervision and coordination of internal and external resources. This team assembles the necessary creative elements to complete a title using, where appropriate, outside programmers, artists, animators, scriptwriters, musicians and songwriters, sound effects and special effects experts, and sound and video studios. We believe that this model allows us to supplement internal expertise with top quality external resources on an as-needed basis.

In addition, we often seek out and engage independent third-party developers to create products on our behalf. Such products are sometimes owned by us, and usually we have unlimited rights to commercially exploit these products. In other circumstances, the third-party developer may retain ownership of the intellectual property and/or technology included in the product and reserve certain exploitation rights. We typically select these independent third-party developers based on their expertise in developing products in a specific category and use the same developer to produce the same game for multiple platforms. Each of our third-party developers is under contract with us for specific or multiple titles. From time to time, we also acquire the license rights to publish and/or distribute software products that are or will be independently created by third-party developers. In such cases, the agreements with such developers provide us with exclusive publishing and/or distribution rights for a specific period of time, often for specified platforms and territories. In either case, we often have the ability to publish and/or distribute sequels, conversions, enhancements and add-ons to the product initially being produced by the independent developer and frequently have the right to engage the services of the original developer with regard to the development of such products.

In consideration for the services that the independent third-party developer provides, it receives a royalty generally based on net sales of the product that it has developed. Typically, the developer also receives an advance, which we recoup from the royalties otherwise payable to the developer. The advance generally is paid in “milestone” stages. The payment at each stage is tied to the completion and delivery of a detailed performance milestone. Working with an independent developer allows us to reduce our fixed development costs, share development risks with the third-party developer, take advantage of the third-party developer’s expertise in connection with certain categories of products or certain platforms, and gain access to proprietary development technologies.

From time to time, we may make a capital investment and hold a minority interest in a third-party developer in connection with interactive entertainment software products to be developed by such developer for us, which we

believe helps to create a closer relationship between us and the developer. We account for those capital investments over which we have the ability to exercise significant influence using the equity method. For those investments over which we do not have the ability to exercise significant influence, we account for our investment using the cost method. There can be no assurance that we will realize long-term benefits from such investments or that we will continue to carry such investments at their current value.

“Greenlight Process”

We have adopted and implemented a rigorous procedure for the selection, development, production and quality assurance of our internally and externally produced interactive entertainment software titles. The process, known internally as the “Greenlight Process,” involves six phases throughout the development and production phases of a title, each of which includes a number of specific performance milestones. The six phases of the “Greenlight Process” are the concept, assessment, prototype, first playable, alpha and beta. This procedure is designed to enable us to manage and control production and development budgets and timetables, to identify and address production and technical issues at the earliest opportunity, and to coordinate marketing and quality control strategies throughout the production and development phases, all in an environment that fosters creativity. Checks and balances are intended to be provided through the structured interaction of the project team with our creative, technical, marketing and quality assurance/customer support personnel, as well as our legal, accounting and finance departments. In order to maintain the competitiveness of our products and to take advantage of increasingly sophisticated technology associated with hardware platforms, our development process includes a significant amount of time for play-testing new products and extensive product quality evaluations.

Product Support

We provide various forms of product support to both our internally and externally developed titles. Our quality assurance personnel are involved throughout the development and production of each title published by us. We subject all such products to extensive testing before release to ensure compatibility with all appropriate hardware systems and configurations and to minimize the number of bugs and other defects found in the products. To support our products after release, we provide online access to our customers on a 24-hour basis as well as telephone operator help lines during regular business hours. The customer support group tracks customer inquiries, and we use this data to help improve the development and production processes.

Publishing Activities

Marketing

Our marketing efforts include online activities (such as the creation of World Wide Web pages to promote specific titles), public relations, print and broadcast advertising, coordinated in-store and industry promotions (including merchandising and point of purchase displays), participation in cooperative advertising programs, direct response vehicles, and product sampling through demonstration software distributed through the Internet or on compact discs. From time to time, we also receive marketing support from hardware manufacturers and retailers in connection with their own promotional efforts. In addition, certain of our products contain software that enables customers to “electronically register” their purchases with us online.

We believe that certain of our franchise properties have loyal and devoted audiences who purchase our sequels as a result of dedication to the property and satisfaction from previous product purchases. We therefore market these sequels both toward the established market as well as broader audiences. In addition, in marketing titles based on licensed properties, we believe that we derive benefits from the continued exploitation of these licensed properties and the marketing and promotional activities of the property owners.

Sales and Distribution

North America. Our products are available for sale or rental in thousands of retail outlets domestically. Our North American customers include Best Buy, Blockbuster, Circuit City, Electronics Boutique, GameStop, Target, Toys "R" Us and Wal-Mart. Our largest customer, Wal-Mart, accounted for approximately 23% and 20% of our consolidated net revenues for fiscal 2005 and 2004, respectively.

In the United States and Canada, our products are sold primarily on a direct basis to mass-market retailers, consumer electronics stores, discount warehouses and game specialty stores. We believe that a direct relationship

with retail accounts results in more effective inventory management, merchandising and communications than would be possible through indirect relationships. We have implemented electronic data interchange linkages with many of our retailers to facilitate the placing and shipping of orders. We sell our products to a limited number of distributors.

International. Our products are sold internationally on a direct-to-retail basis, through third-party distribution and licensing arrangements, and through our wholly-owned European distribution subsidiaries. We conduct our international publishing activities through offices in the United Kingdom, Germany, France, Italy, Spain, the Netherlands, Canada, Sweden, Australia and Japan. Whenever practicable, we seek to maximize our worldwide revenues and profits by releasing high quality foreign language releases concurrently with English language releases and by continuing to expand the number of direct selling relationships we maintain with key retailers in major territories.

Affiliate Labels. In addition to our own products, we distribute a select number of interactive entertainment products that are developed and marketed by other third-party publishers through our "affiliate label" programs in North America and Europe. The distribution of other publishers' products allows us to increase the efficiencies of our sales force and provides us with the ability to better ensure adequate shelf presence at retail stores for all of the products that we distribute. Distributing other publishers' titles mitigates the risk associated with a particular title or titles published by us failing to achieve expectations. Services provided by us under our affiliate label program include order solicitation, in-store marketing, logistics and order fulfillment, sales channel management, as well as other accounting and general administrative functions. Our current affiliate label partners include LucasArts, as well several affiliate label partners in our "value" business. Each affiliate label relationship is unique and may pertain only to distribution in certain geographic territories such as the United States or Europe and may be further limited only to specific titles or titles for specific platforms.

See Note 10 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for certain financial information regarding reporting segments and geographic areas required by Item 1.

Distribution

We distribute interactive entertainment hardware and software products in Europe through our European distribution subsidiaries, Centresoft in the United Kingdom, NBG in Germany and CD Contact in the Benelux countries. These subsidiaries act as wholesalers in the distribution of products and also provide packaging, logistical and sales services, and in some cases, product localization for certain vendors. They provide services to our publishing operations and to various third-party publishers, including Sony, Nintendo and Microsoft. Centresoft is Sony's exclusive distributor of PlayStation products to the independent channel in the United Kingdom. In the fiscal year ended March 31, 2005, sales for Sony, Nintendo and Microsoft accounted for approximately 18%, 4% and 3%, respectively, of our worldwide distribution net revenues.

We entered into the distribution business to obtain distribution capacity in Europe for our own products, while supporting the distribution infrastructure with third-party sales, and to diversify our operations into the European market. Centresoft and our other distribution subsidiaries operate in accordance with strict confidentiality procedures in order to provide independent services to various third-party publishers.

Emerging Technologies

We are actively supporting emerging platforms (wireless devices, closed and open online networks and interactive television) by publishing and licensing key brands, such as *Shrek 2*, *Tony Hawk's Underground 2* and *Call of Duty* for these emerging platforms. We also develop and optimize many of our titles for consoles that support online play, such as PS2, Xbox Live, and the up-coming next-generation consoles, Microsoft Xbox 360, Sony PlayStation 3, and Nintendo Revolution. We have published and licensed rights to various brands, such as *Spider-Man 2: The Movie*, *Shrek 2*, *Call of Duty* and *X-Men Legends*, for various hand-held wireless devices, such as Nokia's N-Gage wireless platform, as well as many traditional wireless handsets. We believe that more of our brands can be successfully published for wireless and online platforms, as well as exploited through other emerging technologies, as they continue to evolve.

Manufacturing

We prepare a set of master program copies, documentation and packaging materials for our products for each hardware platform on which the product will be released. Except with respect to products for use on the Sony,

Nintendo and Microsoft systems, our disk duplication, packaging, printing, manufacturing, warehousing, assembly and shipping are performed by third-party subcontractors.

To maintain protection over their hardware technologies, Sony, Nintendo and Microsoft generally specify or control the manufacturing and assembly of finished products. We deliver the master materials to the licensor or its approved replicator, which then manufactures finished goods and delivers them to us for distribution under our label. At the time our product unit orders are filled by the manufacturer, we become responsible for the costs of manufacturing and the applicable per unit royalty on such units, even if the units do not ultimately sell.

To date, we have not experienced any material difficulties or delays in the manufacture and assembly of our products or material returns due to product defects.

Competition

The interactive entertainment software industry is intensely competitive and new interactive entertainment software products and platforms are regularly introduced. Our competitors vary in size from small companies with limited resources to very large corporations with significantly greater financial, marketing and product development resources than we have. Due to their greater resources, certain of our competitors can spend more money and time on developing and testing products, undertake more extensive marketing campaigns, adopt more aggressive pricing policies, pay higher fees to licensors for desirable motion picture, television, sports and character properties and pay more to third-party software developers than we can. In addition, competitors with larger product lines and popular titles typically have greater leverage with retailers, distributors and other customers who may be willing to promote titles with less consumer appeal in return for access to such competitor's most popular titles. We believe that the main competitive factors in the interactive entertainment software industry include: product features and playability; brand name recognition; compatibility of products with popular platforms; access to distribution channels; quality of products; ease of use; price; marketing support; and quality of customer service.

We compete primarily with other publishers of personal computer and video game console interactive entertainment software. Significant third-party software competitors currently include, among others: Atari, Inc.; Capcom Co. Ltd.; Eidos PLC; Electronic Arts Inc.; Konami Company Ltd.; Namco Ltd.; Sega Enterprises, Ltd.; Take-Two Interactive Software, Inc.; THQ Inc.; Ubi Soft Entertainment; and Vivendi Universal Publishing. In addition, integrated video game console hardware and software companies such as Sony Computer Entertainment, Nintendo Co. Ltd. and Microsoft Corporation compete directly with us in the development of software titles for their respective platforms.

Employees

As of March 31, 2005, we had 1,728 employees, including 984 in product development, 154 in North American publishing, 138 in international publishing, 121 in operations, corporate finance and administration, and 331 in European distribution activities.

As of March 31, 2005, 234 of our full-time employees were subject to term employment agreements with us. These agreements generally commit such employees to employment terms of between one and five years from the commencement of their respective agreements. Most of the employees subject to such agreements are executive officers or key members of the product development, sales or marketing divisions. These individuals perform services for us as executives, directors, producers, associate producers, computer programmers, game designers, sales directors and marketing product managers. The execution by us of employment agreements with such employees, in our experience, reduces our turnover during the development, production and distribution phases of our entertainment software products and allows us to plan more effectively for future development and marketing activities.

None of our employees are subject to a collective bargaining agreement except for the employees of our German distribution subsidiary who are allowed by German law to belong to an organized labor council. To date, we have not experienced any labor-related work stoppages.

Factors Affecting Future Performance

In connection with the Private Securities Litigation Reform Act of 1995 (the "Litigation Reform Act"), we are hereby disclosing certain cautionary information to be used in connection with written materials (including this Annual Report on Form 10-K) and oral statements made by or on behalf of our 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. You are 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. These forward-looking statements are subject to business and economic risk and reflect management's current expectations and are inherently uncertain and difficult to predict. The discussion below highlights some of the more important risks identified by management, but should not be assumed to be the only factors that could affect future performance. You are cautioned that we do not have a policy of updating or revising forward-looking statements, and thus you should not assume that silence by management over time means that actual events are bearing out as estimated in such forward-looking statements.

We depend on a relatively small number of brands for a significant portion of our revenues and profits.

A significant portion of our revenues is derived from products based on a relatively small number of popular brands each year, and these products are responsible for a disproportionate amount of our profits. In addition, many of these products have substantial production or acquisition costs and marketing budgets. In fiscal 2005, 37% of our consolidated net revenues (48% of worldwide publishing net revenues) was derived from three brands, which accounted for 16%, 11% and 10%, respectively, of consolidated net revenues (21%, 14% and 13%, respectively, of worldwide publishing net revenues). In fiscal 2004, 35% of our consolidated net revenues (49% of worldwide publishing net revenues) was derived from three brands, which accounted for 17%, 14% and 4%, respectively, of consolidated net revenues (24%, 20% and 5%, respectively, of worldwide publishing net revenues). In fiscal 2003, two brands accounted for 38% of our consolidated net revenues (52% of worldwide publishing net revenues), one of which accounted for 20% and the other of which accounted for 18% of consolidated net revenues (27% and 25%, respectively, of worldwide publishing net revenues). We expect that a limited number of popular brands will continue to produce a disproportionately large amount of our revenues and profits. Due to this dependence on a limited number of brands, the failure to achieve anticipated results by one or more products based on these brands may significantly harm our business and financial results.

Our future success depends on our ability to release popular products.

The life of any one game product is relatively short, in many cases less than one year. It is therefore important for us to be able to continue to develop many high quality new products that are popularly received. We focus our development and publishing activities principally on products that are, or have the potential to become, franchise brand properties. If we are unable to do this, our business and financial results may be negatively affected.

If we are unable to maintain or acquire licenses to intellectual property, we may publish fewer "hit" titles and our revenue may decline.

Many of our products are based on intellectual property and other character or story rights acquired or licensed from third-parties. These license and distribution agreements are limited in scope and time, and we may not be able to renew key licenses when they expire or to include new products in existing

licenses. The loss of a significant number of our intellectual property licenses or of our relationships with licensors, or inability to obtain additional licenses of significant commercial value could have a material adverse effect on our ability to develop new products and therefore on our business and financial results. Additionally, the failure of intellectual property acquired by us to be popularly received could impact the market acceptance of our products in which the intellectual property is included. Such lack of market acceptance could result in the write-off of the unrecovered portion of acquired intellectual property assets, which could cause material harm to our business and financial results. Furthermore, the competition for these licenses and distribution agreements is often intense. Competition for these licenses may also drive up the advances, guarantees and royalties that we must pay to the licensor, which could increase our costs.

Transitions in console platforms could have a material impact on the market for interactive entertainment software.

When new console platforms are announced or introduced into the market, consumers typically reduce their purchases of game console entertainment software products for current console platforms in anticipation of new platforms becoming available. During these periods, sales of our game console entertainment software products may be expected to slow or even decline until new platforms are introduced and achieve wide consumer acceptance. In fiscal 2005, Nintendo released its latest portable game system, the NDS, and Sony released the PSP in North America. We began selling games for each of these hand-held platforms concurrently with their respective launches and are

currently developing additional titles for the PSP and NDS. The introduction of the PSP and NDS may have a negative effect on the sale of our GBA titles. We also intend to develop titles for the next-generation console systems being developed by Sony, Nintendo and Microsoft. Microsoft recently unveiled their next-generation console, the Xbox 360, which is expected to be released in November 2005. Sony and Nintendo also recently unveiled their next-generation consoles, the PlayStation 3 and Revolution, respectively, and both are expected to be released in calendar 2006. Delays in the launch, shortages, technical problems or lack of consumer acceptance of the next-generation platforms could adversely affect our sales of products for these platforms. In addition, as console hardware moves through its life cycle, hardware manufacturers typically enact price reductions, and decreasing prices may put downward pressure on our software prices.

We must make significant expenditures to develop products for new platforms which may not be successful or released when anticipated.

The interactive entertainment software industry is subject to rapid technological change. New technologies could render our current products or products in development obsolete or unmarketable. We must continually anticipate and assess the emergence and market acceptance of new interactive entertainment hardware platforms well in advance of the time the platform is introduced to consumers. New platforms have historically required the development of new software and also have the effect of undermining demand for products based on older technologies. Because product development cycles are difficult to predict, we must make substantial product development and other investments in a particular platform well in advance of introduction of the platform and we may be required to realign our product portfolio and development efforts in response to market changes. If the platforms for which we develop new software products or modify existing products are not released on a timely basis, do not attain significant market penetration, if we develop products for a delayed or unsuccessful platform or if we cancel development of products in response to market changes, we may not be able to recover in revenues our development costs, which could be significant, and our business and financial results could be significantly harmed.

We are exposed to seasonality in the purchases of our products.

The interactive entertainment software industry is highly seasonal, with the highest levels of consumer demand occurring during the year end holiday buying season. As a result, our net revenues, gross profits and operating income have historically been highest during the second half of the calendar year. Additionally, in a platform transition period, sales of game console software products can be significantly affected by the timeliness of introduction of game console platforms by the manufacturers of those platforms, such as Sony, Nintendo and Microsoft. The timing of hardware platform introduction is also often tied to holidays and is not within our control. If a hardware platform is released unexpectedly close to the holidays, this would result in a shortened holiday buying season and could negatively impact the sales of our products. Further, delays in development, licensor approvals or manufacturing can also affect the timing of the release of our products, causing us to miss key selling periods such as the year end holiday buying season.

We depend on skilled personnel.

Our success depends to a significant extent on our ability to identify, hire and retain skilled personnel. The software industry is characterized by a high level of employee mobility and aggressive recruiting among competitors for personnel with technical, marketing, sales, product development and management skills. We may not be able to attract and retain skilled personnel or may incur significant costs in order to do so. If we are unable to attract additional qualified employees or retain the services of key personnel, our business and financial results could be negatively impacted.

Our platform licensors are our chief competitors and frequently control the manufacturing of and have broad approval rights over our video game products.

Generally, when we develop interactive entertainment software products for hardware platforms offered by Sony, Nintendo or Microsoft, the products are manufactured exclusively by that hardware manufacturer or their approved replicator.

Our agreements with these manufacturers include certain provisions, such as approval rights over all products and related promotional materials and the ability to change the fee they charge for the manufacturing of products, that allow them substantial influence over our costs and the release schedule of our products. In addition, since each of the manufacturers is also a publisher of games for its own hardware platforms and manufactures products for all of its

other licensees, a manufacturer may give priority to its own products or those of our competitors in the event of insufficient manufacturing capacity. Accordingly, Sony, Nintendo or Microsoft could cause unanticipated delays in the release of our products as well as increases to our development, manufacturing, marketing or distribution costs, which could materially harm our business and financial results.

In addition, as online capabilities for video game platforms emerge, our platform licensors will control our ability to provide online game capabilities for our console platform products and will in large part establish the financial terms on which these services are offered to consumers. Currently, both

Microsoft and Sony provide online capabilities for Xbox and PS2 products, respectively. In each case, compatibility code and the consent of the licensor are required for us to include online capabilities in our products. In addition, the business model for Microsoft's and Sony's online businesses for their video game products may compete with our online business. As these capabilities become more significant, the failure or refusal of our licensors to approve our products, or the successful deployment by these licensors of services competitive to ours, may harm our business.

Our platform licensors set the royalty rates and other fees that we must pay to publish games for their platforms, and therefore have significant influence on our costs.

We pay a licensing fee to the hardware manufacturer for each copy of a product manufactured for that manufacturer's game platform. In the next year, we expect our platform licensors to introduce new hardware platforms into the market. In order to publish products for new hardware platforms, we must take a license from the platform licensor which gives the platform licensor the opportunity to set the fee structure that we must pay in order to publish games for that platform. Similarly, the platform licensors have retained the flexibility to change their fee structures for online gameplay and features for their consoles and the manufacturing of products. The control that platform licensors have over the fee structures for their future platforms and online access makes it difficult for us to predict our costs and profitability in the medium to long term. Because publishing products for console systems is the largest portion of our business, any increase in fee structures would have a significant negative impact on our business model and profitability.

If our products contain defects, our business could be harmed significantly.

Software products as complex as the ones we publish may contain undetected errors when first introduced or when new versions are released. Despite extensive testing prior to release, we cannot be certain that errors will not be found in new products or releases after shipment, that could result in loss of or delay in market acceptance. This loss or delay could significantly harm our business and financial results.

Inadequate intellectual property protections could prevent us from enforcing or defending our proprietary technology.

We regard our software as proprietary and rely on a combination of copyright, trademark and trade secret laws, employee and third-party nondisclosure agreements and other methods to protect our proprietary rights. We own or license various copyrights and trademarks. Although we provide "shrink-wrap" license agreements or limitations on use with our software, it is uncertain to what extent these agreements and limitations are enforceable. We are aware that some unauthorized copying occurs within the computer software industry, and if a significantly greater amount of unauthorized copying of our interactive entertainment software products were to occur, it could cause material harm to our business and financial results.

Policing unauthorized use of our products is difficult, and software piracy is a persistent problem, especially in some international markets. Further, the laws of some countries where our products are or may be distributed either do not protect our products and intellectual property rights to the same extent as the laws of the United States, or are poorly enforced. Legal protection of our rights may be ineffective in such countries. Moreover, as we leverage our software products using emerging technologies such as the Internet and online services, our ability to protect our intellectual property rights and to avoid infringing intellectual property rights of others may diminish. We cannot be certain that existing intellectual property laws will provide adequate protection for our products in connection with these emerging technologies.

We may be subject to intellectual property claims.

As the number of interactive entertainment software products increases and the features and content of these products continue to overlap, software developers increasingly may become subject to infringement claims. Many of our products are highly realistic and feature materials that are based on real world examples, which may inadvertently

infringe upon the intellectual property rights of others. Our products often utilize complex, cutting edge technology that may become subject to the intellectual property rights of others. Although we believe that we make reasonable efforts to ensure that our products do not violate the intellectual property rights of others, it is possible that third-parties still may claim infringement. From time to time, we receive communications from third-parties regarding such claims. Existing or future infringement claims against us, whether valid or not, may be time consuming and expensive to defend.

Intellectual property litigation or claims could force us to do one or more of the following:

- Cease selling, incorporating or using products or services that incorporate the challenged intellectual property;
- Obtain a license from the holder of the infringed intellectual property, which if available at all, may not be available on commercially favorable terms; or
- Redesign the effected interactive entertainment software products, which could cause us to incur additional costs, delay introduction and possibly reduce commercial appeal of our products.

Any of these actions may cause material harm to our business and financial results.

We rely on independent third-parties to develop some of our software products.

We rely on independent third-party interactive entertainment software developers to develop some of our software products. Since we depend on these developers, in the aggregate, we remain subject to the following risks:

- Continuing strong demand for developers' resources, combined with the recognition they receive in connection with their work, may cause developers who worked for us in the past either to work for our competitors in the future or to renegotiate our agreements with them on terms less favorable for us;
- Limited financial resources and business expertise and inability to retain skilled personnel may force developers out of business prior to completing our products or require us to fund additional costs; and

- Our competitors may acquire the businesses of key developers or sign them to exclusive development arrangements. In either case, we would not be able to continue to engage such developers' services for our products, except for those that they are contractually obligated to complete for us.

Increased competition for skilled third-party software developers also has compelled us to agree to make significant advance payments on royalties to game developers. If the products subject to these arrangements do not generate sufficient revenues to recover these royalty advances, we would have to write-off unrecovered portions of these payments, which could cause material harm to our business and financial results. Typically, we pay developers a royalty based on a percentage of net revenues, less agreed upon deductions, but in a few cases, we have agreed to pay developers fixed per unit product royalties after royalty advances are fully recouped. To the extent that sales prices of products on which we have agreed to pay a fixed per unit royalty are marked down, our profitability could be adversely affected.

We operate in a highly competitive industry.

The interactive entertainment software industry is intensely competitive and new interactive entertainment software products and platforms are regularly introduced. Our competitors vary in size from small companies with limited resources to very large corporations with significantly greater financial, marketing and product development resources than we have. Due to these greater resources, certain of our competitors can spend more money and time on developing and testing products, undertake more extensive marketing campaigns, adopt more aggressive pricing policies, pay higher fees to licensors for desirable motion picture, television, sports and character properties and pay more to third-party software developers than we can. We believe that the main competitive factors in the interactive entertainment software industry include: product features and playability; brand name recognition; compatibility of products with popular platforms; access to distribution channels; quality of products; ease of use; price; marketing support; and quality of customer service.

We compete primarily with other publishers of personal computer and video game console interactive entertainment software. Significant third-party software competitors currently include, among others: Atari, Inc.; Capcom Co. Ltd.; Eidos PLC; Electronic Arts Inc.; Konami Company Ltd.; Namco Ltd.; Sega Enterprises, Ltd.; Take-Two Interactive Software, Inc.; THQ Inc.; Ubi Soft Entertainment; and Vivendi Universal Publishing. In addition, integrated video game console hardware and software companies such as Sony Computer Entertainment, Nintendo Co. Ltd. and Microsoft Corporation compete directly with us in the development of software titles for their respective platforms.

We also compete with other forms of entertainment and leisure activities. For example, we believe that the overall growth in the use of the Internet and online services by consumers may pose a competitive threat if customers and potential customers spend less of their available time using interactive entertainment software and more using the Internet and online services.

We may face difficulty obtaining access to retail shelf space necessary to market and sell our products effectively.

Retailers of our products typically have a limited amount of shelf space and promotional resources, and there is intense competition among consumer interactive entertainment software products for high quality retail shelf space and promotional support from retailers. To the extent that the number of products and platforms increases, competition for shelf space may intensify and may require us to increase our marketing expenditures. Retailers with limited shelf space typically devote the most and highest quality shelf space to those products expected to be best sellers. We cannot be certain that our new products will consistently achieve such "best seller" status. Due to increased competition for limited shelf space, retailers and distributors are in an increasingly better position to negotiate favorable terms of sale, including price discounts, price protection, marketing and display fees and product return policies. Our products constitute a relatively small percentage of any retailer's sales volume. We cannot be certain that retailers will continue to purchase our products or to provide our products with adequate levels of shelf space and promotional support on acceptable terms. A prolonged failure in this regard may significantly harm our business and financial results.

Our sales may decline substantially without warning and in a brief period of time because we do not have long-term contracts for the sale of our products.

In the United States and Canada, we primarily sell our products on a direct basis to mass-market retailers, consumer electronics stores, discount warehouses and game specialty stores. Our products are sold internationally on a direct-to-retail basis, through third-party distribution and licensing arrangements and through our wholly-owned European distribution subsidiaries. Our sales are made primarily on a purchase order basis without long-term agreements or other forms of commitments. Our largest customer, Wal-Mart, accounted for approximately 23% and 20% of our consolidated net revenues for fiscal 2005 and 2004, respectively. The loss of, or significant reduction in sales to, any of our principal retail customers or distributors could significantly harm our business and financial results.

We may permit our customers to return our products and to receive pricing concessions which could reduce our net revenues and results of operations.

We are exposed to the risk of product returns and price protection with respect to our distributors and retailers. Return policies allow distributors and retailers to return defective, shelf-worn and damaged products in accordance with terms granted. Price protection, when granted and applicable, allows customers a credit against amounts they owe us with respect to merchandise unsold by them. We may permit product returns from, or grant price protection to, our customers under certain conditions. The conditions our customers must meet to be granted the right to return products or price protection are, among other things, compliance with applicable payment terms, delivery to us of weekly inventory and sell-through reports, and consistent participation in the launches of our premium title releases. We may also consider other factors, including the facilitation of slow-moving inventory and other market factors. When we offer price protection, we offer it with respect to a particular product to all of our retail customers; however, only those customers who meet the conditions detailed above can avail themselves of such price protection. We also offer a 90-day limited warranty to our end users that our products will be free from manufacturing defects. Although we maintain a reserve for returns and price protection, and although we may place limits on product returns and price protection, we could be forced to accept substantial product returns and provide substantial price protection to maintain our relationships with retailers and our access to distribution channels. Product returns and price protection that exceed our reserves could significantly harm our business and financial results.

We may be burdened with payment defaults and uncollectible accounts if our distributors or retailers cannot honor their credit arrangement with us.

Distributors and retailers in the interactive entertainment software industry have from time to time experienced significant fluctuations in their businesses, and a number of them have failed. The insolvency or business failure of any significant retailer or distributor of our products could materially harm our business and financial results. We typically make sales to most of our retailers and some distributors on unsecured credit, with terms that vary depending upon the customer's credit history, solvency, credit limits and sales history, as well as whether we can obtain sufficient credit insurance. Although, as in the case with most of our customers, we have insolvency risk insurance to protect against our customers' bankruptcy, insolvency or liquidation, this insurance contains a significant deductible and a co-payment obligation, and the policy does not cover all instances of non-payment. In addition, although we maintain a reserve for uncollectible receivables, the reserve may not be sufficient in every circumstance. As a result, a payment default by a significant customer could significantly harm our business and financial results.

We may not be able to maintain our distribution relationships with key vendors.

Our CD Contact, NBG and Centresoft subsidiaries distribute interactive entertainment software and hardware products and provide related services in the Benelux countries, Germany and the United Kingdom, respectively, and via export in other European countries for a variety of entertainment software publishers, many of which are our competitors, and hardware manufacturers. These services are generally performed under limited term contracts. Although we expect to use reasonable efforts to retain these vendors, we may not be successful in this regard. The cancellation or non-renewal of one or more of these contracts could significantly harm our business and financial results. Sony, Nintendo and Microsoft products accounted for approximately 18%, 4% and 3%, respectively, of our worldwide distribution net revenues for fiscal 2005.

Our international revenues may be subject to regulatory requirements as well as currency fluctuations.

Our international revenues have accounted for a significant portion of our total revenues. International sales and licensing accounted for 50%, 53% and 50% of our consolidated net revenues in fiscal 2005, 2004 and 2003, respectively. We expect that international revenues will continue to account for a significant portion of our total revenues in the future. International sales may be subject to unexpected regulatory requirements, tariffs and other barriers. Additionally, foreign sales that are made in local currencies may fluctuate. We have and may continue to engage in limited currency hedging activities. Currency exchange rates fluctuations may in the future have a material negative impact on revenues from international sales and licensing and thus our business and financial results.

Our business, our products and our distribution are subject to increasing regulation in key territories of content, consumer piracy and online delivery. If we do not successfully respond to these regulations, our business may suffer.

Legislation is continually being introduced that may affect both the content of our products and their distribution. For example, privacy laws in the United States and Europe impose various restrictions on our web sites. Those rules vary by territory although the Internet recognizes no geographical boundaries. In addition, many foreign countries have laws that permit governmental entities to censor the content and advertising of interactive entertainment software. Other countries, such as Germany, have adopted laws regulating content both in packaged goods and those transmitted over the Internet that are stricter than current United States laws.

In the United States, federal and several state governments are considering content restrictions on products such as ours, as well as restrictions on distribution of such products. We may be required to modify our products or alter our marketing strategies to comply with new regulations, which could delay the release of our products in those countries. Due to the uncertainties regarding such regulations, confusion in the marketplace may occur, and we are unable to predict what effect, if any, such regulations would have on our business. In addition, a number of state legislative bodies in states such as Illinois, California, New York and Washington introduced various forms of legislation designed to regulate and control sales of video games deemed inappropriate for sales to minors. While we believe that such legislation is in violation of the First Amendment prohibition on restraints on free speech and therefore unconstitutional and will continue to support the efforts of our industry in opposing the introduction and adoption of such laws, in the event such legislation is adopted and enforced, the sales of our products in states with such laws may be negatively affected.

In addition to such regulations, certain retailers have in the past declined to stock some of our products because they believed that the content of the packaging artwork or the products would be offensive to the retailer's

customer base. Although to date these actions have not caused material harm to our business, we cannot assure you that similar actions by our distributors or retailers in the future would not cause material harm to our business.

Our products may be subject to legal claims.

In prior fiscal years, two lawsuits, *Linda Sanders, et al. v. Meow Media, Inc., et al.*, United States District Court for the District of Colorado, and *Joe James, et al. v. Meow Media, Inc., et al.*, United States District Court for the Western District of Kentucky, Paducah Division, have been filed against numerous video game companies, including us, by the families of victims who were shot and killed by teenage gunmen in attacks perpetrated at schools. These lawsuits alleged that the video game companies manufactured and/or supplied these teenagers with violent video games, teaching them how to use a gun and causing them to act out in a violent manner. These lawsuits have been dismissed. Similar additional lawsuits may be filed in the future. Although our general liability insurance carrier agreed to defend us in such lawsuits in the past, it is uncertain whether the insurance carrier would do so in the future, or if it would cover all or any amounts which we might be liable for if such future lawsuits are not decided in our favor. If such future lawsuits are filed and ultimately decided against us and our insurance carrier does not cover the amounts we are liable for, it could have a material adverse effect on our business and financial results. Payment of significant claims by insurance carriers may make such insurance coverage materially more expensive or unavailable in the future, thereby exposing our business to additional risk.

We may face limitations on our ability to find suitable acquisition opportunities or to integrate additional acquired businesses.

We intend to pursue additional acquisitions of companies, properties and other assets that can be purchased or licensed on acceptable terms and which we believe can be operated or exploited profitably. Some of these transactions could be material in size and scope. Although we continue to search for additional acquisition opportunities, we may not be successful in identifying suitable acquisitions. As the interactive entertainment software industry continues to consolidate, we face significant competition in seeking and consummating acquisition opportunities. We may not be able to consummate potential acquisitions or an acquisition may not enhance our business or may decrease rather than increase our earnings. In the future, we may issue additional shares of our common stock in connection with one or more acquisitions, which may dilute our existing shareholders. Future acquisitions could

also divert substantial management time and result in short-term reductions in earnings or special transaction or other charges. In addition, we cannot guarantee that we will be able to successfully integrate the businesses that we may acquire into our existing business. Our shareholders may not have the opportunity to review, vote on or evaluate future acquisitions.

Our shareholder rights plan, charter documents and other agreements may make it more difficult to acquire us without the approval of our Board of Directors.

We have adopted a shareholder rights plan under which one right entitling the holder to purchase two nine-hundredths (2/900) of a share, as adjusted on account of stock dividends made since the plan's adoption, of our Series A Junior Preferred Stock price at an exercise price of $8.89 per share, subject to adjustment and as adjusted on account of stock dividends made since the plan's adoption, is attached to each outstanding share of common stock. Such shareholder rights plan makes an acquisition of control in a transaction not approved by our Board of Directors more difficult. Our Amended and Restated By-laws have advance notice provisions for nominations for election of nominees to the Board of Directors which may make it more difficult to acquire control of us. Our long-term incentive plans provide, in the discretion of a committee, for acceleration of stock options following a change in control under certain circumstances, which has the effect of making an acquisition of control more expensive. In addition, some of our officers have severance compensation agreements that provide for substantial cash payments and accelerations of other benefits in the event of a change in control. These agreements and arrangements may also inhibit a change in control.

Our reported financial results could be affected if significant changes in current accounting principles are adopted.

Recent actions and public comments from the Securities and Exchange Commission have focused on the integrity of financial reporting generally. Similarly, Congress has considered a variety of bills that could affect certain accounting principles. The Financial Accounting Standards Board, Public Company Accounting and Oversight Board and other regulatory accounting agencies have recently adopted several new accounting standards, such as accounting for stock options, some of which represent a significant change from current practices. Changes in our accounting for stock options could materially increase our reported expenses.

Our stock price is highly volatile.

The trading price of our common stock has been and could continue to be subject to wide fluctuations in response to many factors, including:

- Quarter to quarter variations in results of operations;
- Our announcements of new products;
- Our competitors' announcements of new products;
- Our product development or release schedule;
- General conditions in the computer, software, entertainment, media or electronics industries and in the economy;
- Timing of the introduction of new platforms and delays in the actual release of new platforms;
- Hardware manufacturers' announcements of price reductions in hardware platforms;
- Changes in earnings estimates or buy/sell recommendations by analysts; and
- Investor perceptions and expectations regarding our products, plans and strategic position and those of our competitors and customers.

In addition, the public stock markets experience extreme price and trading volume volatility, particularly in high technology sectors of the market. This volatility has significantly affected the market prices of securities of many technology companies for reasons often unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of our common stock.

We seek to manage our business with a view to achieving long-term results, and this could have a negative effect on short-term trading.

We focus on creation of shareholder value over time, and we intend to make decisions that will be consistent with this long-term view. As a result, some of our decisions, such as whether to make or discontinue operating investments, manage our balance sheet and capital structure, or pursue or discontinue strategic initiatives, may be in conflict with the objectives of short-term traders. Further, this could adversely affect our quarterly or other short-term results of operations.

We do not pay cash dividends on our common stock.

We have not paid any cash dividends on our common stock nor do we anticipate paying cash dividends in the near future.

Financial Information about Foreign and Domestic Operations and Export Sales

See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 10 of Notes to Consolidated Financial Statements included in Item 8.

Available Information

Our website is located at http://www.activision.com. Furthermore, our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge and through our website. The information found on our website is not a part of, and is not incorporated by reference into, this or any other report we file with or furnish to the SEC.

Item 2. PROPERTIES

Our principal corporate and administrative offices are located in approximately 114,700 square feet of leased space in a building located at 3100 Ocean Park Boulevard, Santa Monica, California 90405. The following is a listing of the principal offices maintained by us on May 31, 2005:

PROPERTY	LOCATION	SQ FT	OWNERSHIP	LEASE EXPIRATION
Corporate Offices	Santa Monica, CA, USA	114,700	Lease	April 2007
Product Development Facilities				
Beenox, Inc.	Quebec City, Quebec, Canada	2,700	Lease	January 2006
Infinity Ward, Inc.	Encino, CA, USA	17,600	Lease	August 2005
Luxoflux, Inc.	Santa Monica, CA, USA	12,400	Lease	January 2009
Neversoft Entertainment, Inc.	Encino, CA, USA	27,400	Lease	July 2005
Neversoft Entertainment, Inc.	Woodland Hills, CA, USA	53,300	Lease	September 2014
Raven Studios	Madison, WI, USA	21,400	Lease	June 2005
Shaba Games, Inc.	San Francisco, CA, USA	23,300	Lease	February 2008
Toys For Bob, Inc.	Novato, CA, USA	5,100	Lease	July 2006
Treyarch Corporation	Santa Monica, CA, USA	55,000	Lease	November 2009
Vicarious Visions, Inc.	Mountain View, CA, USA	3,100	Lease	January 2006
Vicarious Visions, Inc.	Troy, NY, USA	14,600	Lease	January 2006
Z-Axis, Ltd.	Foster City, CA, USA	24,000	Lease	August 2007
Publishing Facilities				
Australia Publishing	Sydney, Australia	7,300	Lease	July 2006
France Publishing	Bezons, France	3,800	Lease	December 2006
German Publishing	Burglengenfeld, Germany	2,200	Own	N/A
Japan Publishing	Tokyo, Japan	2,300	Lease	March 2006
United Kingdom Publishing	Slough, UK	8,200	Lease	September 2005
Value Publishing	Eden Prairie, MN, USA	14,000	Lease	May 2008
Italy Publishing	Legnano, Italy	2,700	Lease	October 2008
Spain Publishing	Madrid, Spain	3,300	Lease	April 2006
Distribution Facilities				
German Distribution	Burglengenfeld, Germany	55,700	Own	N/A
Netherlands Distribution-offices	Breda, the Netherlands	4,200	Lease	January 2007
Netherlands Distribution-warehouse	Venlo, the Netherlands	44,600	Own	N/A
United Kingdom Distribution	Birmingham, UK	182,089	Lease	May 2011-2018

Our publishing operations additionally lease facilities in Canada, Minnesota, New York, Texas and Sweden for purposes of sales and branch offices.

Item 3. LEGAL PROCEEDINGS

On March 5, 2004, a class action lawsuit was filed against us and certain of our current and former officers and directors. The complaint, which asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 based on allegations that our revenues and assets were overstated during the period between February 1, 2001 and December 17, 2002, was filed in the United States District Court, Central District of California by the Construction Industry and Carpenters Joint Pension Trust for Southern Nevada purporting to represent a class of purchasers of Activision stock. Five additional purported class actions have subsequently been filed by Gianni Angeloni, Christopher Hinton, Stephen Anish, the Alaska Electrical Pension Fund and Joseph A. Romans asserting the same claims. Consistent with the Private Securities Litigation Reform Act ("PSLRA"), the court appointed lead plaintiffs consolidating the six putative securities class actions into a single case. In an Order dated May 16, 2005, the court dismissed the consolidated complaint because the plaintiffs failed to satisfy the heightened pleading standards of the PSLRA. The court did, however, give the lead plaintiffs leave to file an amended consolidated complaint within 30 days of the order. We do not know whether the lead plaintiffs will file an amended consolidated complaint, but in the event that one is filed, we intend to vigorously defend the case at such time.

In addition, on March 12, 2004, a shareholder derivative lawsuit captioned *Frank Capovilla, Derivatively on Behalf of Activision, Inc. v. Robert Kotick, et al.* was filed, purportedly on behalf of Activision, which in large measure asserts the identical claims set forth in the federal class action lawsuit. That complaint was filed in California Superior Court for the County of Los Angeles. Also, on March 22, 2005, a new derivative lawsuit captioned *Ramalingham Balamohan, Derivatively on Behalf of Nominal Defendant Activision, Inc. v. Robert Kotick, et al.* was filed in the Federal Court of Los Angeles. This

complaint makes the same allegations as the previous complaints, but it names all the current directors as defendants. We strongly deny allegations in both derivative cases and will vigorously defend these cases. In the California derivative case, Activision, as nominal defendant, filed a motion to stay all proceedings. The case, and all motion practice and responsive pleadings, has been held in abeyance pending a status conference with the court. In the Federal derivative case, plaintiff filed a notice of dismissal of the action, without prejudice on or about June 3, 2005.

On July 11, 2003, we were informed by the staff of the Securities and Exchange Commission that the Securities and Exchange Commission has commenced a non-public formal investigation captioned "In the Matter of Certain Video Game Manufacturers and Distributors." The investigation appears to be focused on certain accounting practices common to the interactive entertainment industry, with specific emphasis on revenue recognition. In connection with this inquiry, the Securities and Exchange Commission submitted to us a request for information. We responded to this inquiry on September 2, 2003. To date, we have not received a request from the Securities and Exchange Commission for any additional information. The Securities and Exchange Commission staff also informed us that other companies in the video game industry received similar requests for information. The Securities and Exchange Commission has advised us that this request for information should not be construed as an indication from the Securities and Exchange Commission or its staff that any violation of the law has occurred, nor should it reflect negatively on any person, entity or security. We have cooperated and intend to continue to cooperate fully with the Securities and Exchange Commission in the conduct of this inquiry.

On June 30, 2003, we terminated our Star Trek Merchandising License Agreement with Viacom Consumer Products, Inc. and filed a complaint in the Superior Court of the State of California for breach of contract and constructive trust against Viacom Consumer Products and Viacom International, Inc. ("Viacom"). On August 15, 2003, Viacom filed its response to our complaint as well as a cross-complaint alleging, among other matters, a breach of contract by Activision and seeking claimed damages in excess of $50 million. On February 23, 2005, we reached an agreement with Viacom that settled the legal disputes. As a result of the settlement, all pending lawsuits filed by each party in the Superior Court in Los Angeles regarding this matter have been dismissed by court order dated March 18, 2005. The settlement had no material impact on the financial results of Activision's operations.

In addition, we are party to other routine claims and suits brought by us and against us in the ordinary course of business, including disputes arising over the ownership of intellectual property rights, contractual claims and collection matters. In the opinion of management, after consultation with legal counsel, the outcome of such routine claims will not have a material adverse effect on our business, financial condition, results of operations or liquidity.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On April 4, 2005, we held a Special Meeting of Stockholders in Santa Monica, California. One item was submitted to a vote of the stockholders: To approve an amendment to the Company's Amended and Restated Certificate of Incorporation, as amended, to increase the number of authorized shares of common stock from 225,000,000 to 450,000,000.

The amendment to the Company's Amended and Restated Certificate of Incorporation, as amended, to increase the number of authorized shares of common stock from 225,000,000 to 450,000,000 was approved. Set forth below are the results of the voting:

For	Against	Abstain
132,454,455	5,528,569	75,370

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the Nasdaq National Market under the symbol "ATVI."

The following table sets forth for the periods indicated the high and low reported sale prices for our common stock. As of May 31, 2005, there were approximately 2,808 holders of record of our common stock.

	High	Low
Fiscal 2004		
First Quarter ended June 30, 2003	$ 6.75	$ 4.51
Second Quarter ended September 30, 2003	7.19	5.43
Third Quarter ended December 31, 2003	9.55	5.79
Fourth Quarter ended March 31, 2004	12.13	8.54
Fiscal 2005		
First Quarter ended June 30, 2004	$ 12.82	$ 10.31
Second Quarter ended September 30, 2004	12.30	9.12
Third Quarter ended December 31, 2004	15.38	9.36
Fourth Quarter ended March 31, 2005	18.71	13.59

On May 31, 2005, the last reported sales price of our common stock was $15.80.

Cash Dividends

We paid no cash dividends in our fiscal years 2005 or 2004 nor do we anticipate paying any cash dividends at any time in the foreseeable future. We expect that earnings will be retained for the continued growth and development of the business. Future dividends, if any, will depend upon our earnings, financial condition, cash requirements, future prospects and other factors deemed relevant by our Board of Directors.

Stock Splits

In April 2003, the Board of Directors approved a three-for-two split of our outstanding common shares effected in the form of a 50% stock dividend. The split was paid on June 6, 2003 to shareholders of record as of May 16, 2003. In February 2004, the Board of Directors approved a second three-for-two split of our outstanding common shares effected in the form of a 50% stock dividend. The split was paid on March 15, 2004 to shareholders of

record as of February 23, 2004. In February 2005, the Board of Directors approved a four-for-three split of our outstanding common shares effected in the form of a 33-1/3% stock dividend. The split was paid on March 22, 2005 to shareholders of record as of March 7, 2005. The par value of our common stock was maintained at the pre-split amount of $.000001. All share and per share data have been restated as if the stock splits had occurred as of the earliest period presented.

On March 7, 2005, in connection with our stock split, all shares of common stock held as treasury stock were formally cancelled and restored to the status of authorized but unissued shares of common Stock.

Buyback Program

During fiscal 2003, our Board of Directors authorized a buyback program under which we can repurchase up to $350.0 million of our common stock. Under the program, shares may be purchased as determined by management, from time to time and within certain guidelines, in the open market or in privately negotiated transactions, including privately negotiated structured stock repurchase transactions and through transactions in the options markets. Depending on market conditions and other factors, these purchases may be commenced or suspended at any time or from time to time without prior notice.

Under the buyback program, we did not repurchase any shares of our common stock in the year ended March 31, 2005. We repurchased approximately 2.5 million shares of our common stock for $12.4 million and 21.6 million

shares of our common stock for $101.4 million, in the years ended March 31, 2004 and 2003, respectively. In addition, approximately 2.3 million shares of common stock were acquired in the year ended March 31, 2004 as a result of the settlement of $10.0 million of structured stock repurchase transactions entered into in fiscal 2003. As of March 31, 2005, we had no outstanding structured stock repurchase transactions. Structured stock repurchase transactions are settled in cash or stock based on the market price of our common stock on the date of the settlement. Upon settlement, we either have our capital investment returned with a premium or receive shares of our common stock, depending, respectively, on whether the market price of our common stock is above or below a pre-determined price agreed in connection with each such transaction.

Shareholders' Rights Plan

On April 18, 2000, our Board of Directors approved a shareholders rights plan (the "Rights Plan"). Under the Rights Plan, each common shareholder at the close of business on April 19, 2000 received a dividend of one right for each share of common stock held. Each right represents the right to purchase two nine-hundredths (2/900) of a share, as adjusted on account of stock dividends made since the plan's adoption, of our Series A Junior Preferred Stock at an exercise price of $8.89, as adjusted on account of stock dividends made since the plan's adoption. Initially, the rights are represented by our common stock certificates and are neither exercisable nor traded separately from our common stock. The rights will only become exercisable if a person or group acquires 15% or more of the common stock of Activision, or announces or commences a tender or exchange offer which would result in the bidder's beneficial ownership of 15% or more of our common stock.

In the event that any person or group acquires 15% or more of our outstanding common stock, each holder of a right (other than such person or members of such group) will thereafter have the right to receive upon exercise of such right, in lieu of shares of Series A Junior Preferred Stock, the number of shares of common stock of Activision having a value equal to two times the then current exercise price of the right. If we are acquired in a merger or other business combination transaction after a person has acquired 15% or more of our common stock, each holder of a right will thereafter have the right to receive upon exercise of such right a number of the acquiring company's common shares having a market value equal to two times the then current exercise price of the right. For persons who, as of the close of business on April 18, 2000, beneficially own 15% or more of the common stock of Activision, the Rights Plan "grandfathers" their current level of ownership, so long as they do not purchase additional shares in excess of certain limitations.

We may redeem the rights for $.01 per right at any time until the first public announcement of the acquisition of beneficial ownership of 15% of our common stock. At any time after a person has acquired 15% or more (but before any person has acquired more than 50%) of our common stock, we may exchange all or part of the rights for shares of common stock at an exchange ratio of one share of common stock per right. The rights expire on April 18, 2010.

Securities Authorized for Issuance Under Equity Compensation Plans

Information for our equity compensation plans in effect as of March 31, 2005 is as follows (amounts in thousands, except per share amounts):

	(a)	(b)	(c)
Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights**	**Weighted-average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))**
Equity compensation plans approved by security holders	12,468	$ 6.86	312
Equity compensation plans not approved by security holders	24,813	$ 6.23	16,437
Total	37,281	$ 6.44	16,749

See Note 14 of the Notes to Consolidated Financial Statements included in Item 8 for the material features of each equity compensation plan that was adopted without security holder approval.

Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table summarizes certain selected consolidated financial data, which should be read in conjunction with our Consolidated Financial Statements and Notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein. The selected consolidated financial data presented below as of and for each of the fiscal years in the five-year period ended March 31, 2005 are derived from our audited consolidated financial statements except basic and diluted earnings per share and basic and diluted weighted average shares outstanding which have been restated for the effect of our stock splits. The Consolidated Balance Sheets as of March 31, 2005 and 2004 and the Consolidated Statements of Operations and Consolidated Statements of Cash Flows for each of the fiscal years in the three-year period ended March 31, 2005, and the report thereon, are included elsewhere in this Form 10-K.

(In thousands, except per share data)

	Year ended March 31,				
		Restated (1)			
	2005 (2)	2004 (2)	2003 (2)	2002 (2)	2001
Statement of Operations Data:					
Net revenues	$ 1,405,857	$ 947,656	$ 864,116	$ 786,434	$ 620,183
Cost of sales – product costs	658,949	475,541	440,977	435,725	324,907
Cost of sales – intellectual property licenses and software royalties and amortization	185,997	91,606	124,196	99,006	89,702
Income from operations	184,571	109,817	94,847	80,574	39,807
Income before income tax provision	197,663	115,992	103,407	83,120	32,544
Net income	138,335	77,715	66,180	52,238	20,507
Basic earnings per share	0.74	0.44	0.34	0.34	0.18
Diluted earnings per share	0.66	0.40	0.32	0.29	0.17
Basic weighted average common shares outstanding	187,517	177,665	192,479	151,955	111,895
Diluted weighted average common shares outstanding	209,145	193,191	207,310	178,366	123,300
Cash Provided By (Used In):					
Operating activities	215,309	67,403	90,975	111,792	81,565
Investing activities	(143,896)	(170,155)	(301,547)	(8,701)	(8,631)
Financing activities	72,654	117,569	64,090	50,402	2,547

	As of March 31,				
	2005 (2)	2004 (2)	2003 (2)	2002 (2)	2001
Balance Sheet Data:					
Working capital	$ 915,413	$ 675,796	$ 422,500	$ 333,199	$ 182,980
Cash, cash equivalents and short-term investments	840,864	587,649	406,954	279,007	125,550
Capitalized software development and intellectual property licenses	127,340	135,201	107,921	56,742	42,205
Goodwill	91,661	76,493	68,019	35,992	10,316
Total assets	1,306,963	968,817	704,816	556,887	359,957
Long-term debt	—	—	2,671	3,122	63,401
Shareholders' equity	1,099,912	832,738	597,740	430,091	181,306

(1) Consolidated financial information for fiscal years 2004-2001 has been restated for the effect of our four-for-three stock split effected in the form of a 33-1/3% stock dividend to shareholders of record as of March 7, 2005, paid March 22, 2005.

(2) Effective April 1, 2001, we adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangibles." SFAS No. 142 addresses financial accounting and reporting requirements for acquired goodwill and other intangible assets. Under SFAS No. 142, goodwill is deemed to have an indefinite useful life and should not be amortized but rather tested at least annually for impairment. In accordance with SFAS No. 142, we have not amortized goodwill during the years ended March 31, 2005, 2004, 2003 and 2002.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Our Business

We are a leading international publisher of interactive entertainment software products. We have built a company with a diverse portfolio of products that spans a wide range of categories and target markets and that is used on a variety of game hardware platforms and operating systems. We have created, licensed and acquired a group of highly recognizable brands, which we market to a variety of consumer demographics. Our fiscal 2005 product portfolio included such best-selling products as *Spider-Man 2: The Movie ("Spider-Man 2"), Shrek 2, Tony Hawk's Underground 2 ("THUG 2"), Call of Duty: Finest Hour, Shark Tale, DOOM 3* and *X-Men Legends*.

Our products cover diverse game categories including action/adventure, action sports, racing, role-playing, simulation, first-person action and strategy. Our target customer base ranges from casual players to game enthusiasts, children to adults and mass-market consumers to "value" buyers. We currently offer our products primarily in versions that operate on the Sony PlayStation 2 ("PS2"), Nintendo GameCube ("GameCube") and Microsoft Xbox ("Xbox") console systems, Nintendo Game Boy Advance ("GBA"), Sony PlayStation Portable ("PSP") and Nintendo Dual Screen ("NDS") hand-held devices and the personal computer ("PC"). The installed base for this current generation of hardware platforms is significant and growing and the fiscal 2005 release of two new handheld devices, NDS, which was released worldwide, and PSP, which was released in North America, will also help expand the software market. We successfully executed our strategy of having a high-quality product presence at the launch of the NDS and PSP with one title based on the Spider-Man franchise at the launch of the NDS and two titles based on the Spider-Man and Tony Hawk franchises for the launch of the PSP. We are currently developing additional titles for the PSP and the NDS while continuing to develop games for the GBA given its large and growing base.

We also intend to develop titles for the next-generation console systems which are being developed by Sony, Nintendo and Microsoft. Microsoft recently unveiled their next-generation console, the Xbox 360, which is expected to be released in November 2005. We are currently developing four titles for release on the Xbox 360, *Tony Hawk's American Wasteland*, *Call of Duty 2*, *Quake IV* and *GUN*. Sony and Nintendo recently unveiled their next-generation consoles, the PlayStation 3 and Revolution, respectively, and both are expected to be released in calendar 2006. Though there are still many unknowns relating to these new platforms, our aim is to have a significant presence at the launch of each new platform while being careful not to move away too quickly from the current generation platforms given their large and still growing installed base.

Our publishing business involves the development, marketing and sale of products directly, by license or through our affiliate label program with certain third-party publishers. In the United States and Canada, we primarily sell our products on a direct basis to mass-market retailers, consumer electronics stores, discount warehouses and game specialty stores. We conduct our international publishing activities through offices in the United Kingdom ("UK"), Germany, France, Italy, Spain, the Netherlands, Australia, Sweden, Canada and Japan. Our products are sold internationally on a direct-to-retail basis, through third-party distribution and licensing arrangements and through our wholly-owned European distribution subsidiaries. Our distribution business consists of operations located in the UK, the Netherlands and Germany that provide logistical and sales services to third-party publishers of interactive entertainment software, our own publishing operations and manufacturers of interactive entertainment hardware.

Our profitability is directly affected by the mix of revenues from our publishing and distribution businesses. Operating margins realized from our publishing business are substantially higher than margins realized from our distribution business. Operating margins in our publishing business are affected by our ability to release highly successful or "hit" titles. Though many of these titles have substantial production or acquisition costs and marketing budgets, once a title recoups these costs, incremental net revenues directly and positively impact our operating margin. Operating margins in our distribution business are affected by the mix of hardware and software sales, with software producing higher margins than hardware.

Our Focus

With respect to future game development, we will continue to focus on our "big propositions," products that are backed by strong brands and high quality development, for which we will provide significant marketing support.

Our fiscal 2006 "big propositions" will include well-established brands, which are backed by high-profile intellectual property and/or highly anticipated motion picture releases. Examples of these brands are our superheroes

and skateboarding brands. We have a long-term relationship with Marvel Enterprises through an exclusive licensing agreement. This agreement grants us the exclusive rights to develop and publish video games based on Marvel's comic book franchises Spider-Man, X-Men, Fantastic 4 and Iron Man. Through our long-term relationship with Marvel Enterprises, we expect our fiscal 2006 releases to include titles based on Marvel's Spider-Man, Fantastic 4 and X-Men. The video game release of *Fantastic 4* is scheduled for June 2005 just prior to the theatrical release of "Fantastic 4." We will also be developing and publishing video games based on New Line Cinema's upcoming feature film "Iron Man," which is expected to be released in calendar 2007. In addition, through our licensing agreement with Spider-Man Merchandising, LLP, we will be developing and publishing video games based on Columbia Pictures/Marvel Enterprises, Inc.'s upcoming feature film "Spider-Man 3," which is expected to be released in May 2007. In addition, we have an exclusive licensing agreement with professional skateboarder Tony Hawk. The agreement grants us exclusive rights to develop and publish video games using Tony Hawk's name and likeness. Through fiscal 2005, we have released six successful titles in the Tony Hawk franchise with cumulative net revenues of $958.1 million, including the most recent, *THUG 2*, which was released in the third quarter of fiscal 2005. We will continue to promote our skateboarding franchise with the release in fiscal 2006 of *Tony Hawk's American Wasteland*.

We also continue to develop a number of original intellectual properties which are developed and owned by Activision. For example, in the third quarter of fiscal 2005 we released the highly successful *Call of Duty: Finest Hour*, on multiple console platforms. This title was ranked by NPD Funworld ("NPD") as one of the top-five best selling games in December 2004 and was the third game based upon this original property following the *Call of Duty* and *Call of Duty: United Offensive* titles for the PC. The highly successful title *True Crime: Streets of L.A.*, released in the third quarter of fiscal 2004, is another title based upon original intellectual property. We expect to develop a variety of games on multiple platforms based on these two original properties. We also expect to establish our fiscal 2006 release, *GUN*, as a source of recurring revenues.

We will also continue to evaluate and exploit emerging brands that we believe have potential to become successful game franchises. For example, we have a multi-year, multi-property, publishing agreement with DreamWorks LLC that grants us the exclusive rights to publish video games based on DreamWorks Animation SKG's theatrical release "Shrek 2," which was released in the first quarter of fiscal 2005, "Shark Tale," which was released in the second quarter of fiscal 2005, "Madagascar," which was released in the first quarter of fiscal 2006, as well as upcoming computer-animated films "Over the Hedge," and all of their respective sequels, including "Shrek 3."

In addition to acquiring or creating high profile intellectual property, we have also continued our focus on establishing and maintaining relationships with talented and experienced software development teams. We have strengthened our internal development capabilities through the acquisition of several development companies with talented and experienced teams including, most recently, the acquisitions of Vicarious Visions Inc. in January 2005, Toys For Bob, Inc. in April 2005 and Beenox, Inc. in May 2005. We have development agreements with other top-level, third-party developers such as id Software and Lionhead Studios.

We are utilizing these developer relationships, new intellectual property acquisitions, new original intellectual property creations and our existing library of intellectual property to further focus our game development on product lines that will deliver significant, lasting and recurring revenues and

operating profits.

Critical Accounting Policies

We have identified the policies below as critical to our business operations and the understanding of our financial results. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 1 to the Notes to the Consolidated Financial Statements included in Item 8. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition. We recognize revenue from the sale of our products upon the transfer of title and risk of loss to our customers. Certain products are sold to customers with a street date (the date that products are made widely available for sale by retailers). For these products we recognize revenue no earlier than the street date. Revenue from product sales is recognized after deducting the estimated allowance for returns and price protection. With respect to license agreements that provide customers the right to make multiple copies in exchange for

guaranteed amounts, revenue is recognized upon delivery of such copies. Per copy royalties on sales that exceed the guarantee are recognized as earned. In addition, in order to recognize revenue for both product sales and licensing transactions, persuasive evidence of an arrangement must exist and collection of the related receivable must be probable. Revenue recognition also determines the timing of certain expenses, including cost of sales — intellectual property licenses and cost of sales — software royalties and amortization.

Sales incentives or other consideration given by us to our customers is accounted for in accordance with the Financial Accounting Standards Board's Emerging Issues Task Force ("EITF") Issue 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." In accordance with EITF Issue 01-9, sales incentives and other consideration that are considered adjustments of the selling price of our products, such as rebates and product placement fees, are reflected as reductions of revenue. Sales incentives and other consideration that represent costs incurred by us for assets or services received, such as the appearance of our products in a customer's national circular ad, are reflected as sales and marketing expenses.

Allowances for Returns, Price Protection, Doubtful Accounts and Inventory Obsolescence. In determining the appropriate unit shipments to our customers, we benchmark our titles using historical and industry data. We closely monitor and analyze the historical performance of our various titles, the performance of products released by other publishers and the anticipated timing of other releases in order to assess future demands of current and upcoming titles. Initial volumes shipped upon title launch and subsequent reorders are evaluated to ensure that quantities are sufficient to meet the demands from the retail markets but at the same time, are controlled to prevent excess inventory in the channel.

We may permit product returns from, or grant price protection to, our customers under certain conditions. In general, price protection refers to the circumstances when we elect to decrease the wholesale price of a product by a certain amount and, when granted and applicable, allows customers a credit against amounts owed by such customers to Activision with respect to open and/or future invoices. The conditions our customers must meet to be granted the right to return products or price protection are, among other things, compliance with applicable payment terms, delivery to us of weekly inventory and sell-through reports, and consistent participation in the launches of our premium title releases. We may also consider other factors, including the facilitation of slow-moving inventory and other market factors. Management must make estimates of potential future product returns and price protection related to current period product revenue. We estimate the amount of future returns and price protection for current period product revenue utilizing historical experience and information regarding inventory levels and the demand and acceptance of our products by the end consumer. The following factors are used to estimate the amount of future returns and price protection for a particular title: historical performance of titles in similar genres, historical performance of the hardware platform, historical performance of the brand, console hardware life cycle, Activision sales force and retail customer feedback, industry pricing, weeks of on-hand retail channel inventory, absolute quantity of on-hand retail channel inventory, Activision warehouse on-hand inventory levels, the title's recent sell-through history (if available), marketing trade programs and competing titles. The relative importance of these factors varies among titles depending upon, among other items, genre, platform, seasonality and sales strategy. Significant management judgments and estimates must be made and used in connection with establishing the allowance for returns and price protection in any accounting period. Based upon historical experience we believe our estimates are reasonable. However, actual returns and price protection could vary materially from our allowance estimates due to a number of reasons including, among others, a lack of consumer acceptance of a title, the release in the same period of a similarly themed title by a competitor, or technological obsolescence due to the emergence of new hardware platforms. Material differences may result in the amount and timing of our revenue for any period if management makes different judgments or utilizes different estimates in determining the allowances for returns and price protection.

Similarly, management must make estimates of the uncollectibility of our accounts receivable. In estimating the allowance for doubtful accounts, we analyze the age of current outstanding account balances, historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in our customers' payment terms and their economic condition, as well as whether we can obtain sufficient credit insurance. Any significant changes in any of these criteria would impact management's estimates in establishing our allowance for doubtful accounts.

We value inventory at the lower of cost or market. We regularly review inventory quantities on hand and in the retail channel and record a provision for excess or obsolete inventory based on the future expected demand for our products. Significant changes in demand for our products would impact management's estimates in establishing our inventory provision.

Software Development Costs. Software development costs include payments made to independent software developers under development agreements, as well as direct costs incurred for internally developed products.

We account for software development costs in accordance with Statement of Financial Accounting Standard ("SFAS") No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." Software development costs are capitalized once technological feasibility of a product is established and such costs are determined to be recoverable. Technological feasibility of a product encompasses both technical design

documentation and game design documentation. For products where proven technology exists, this may occur early in the development cycle. Technological feasibility is evaluated on a product-by-product basis. Prior to a product's release, we expense, as part of cost of sales — software royalties and amortization, capitalized costs when we believe such amounts are not recoverable. Capitalized costs for those products that are cancelled or abandoned are charged to product development expense in the period of cancellation. Amounts related to software development which are not capitalized are charged immediately to product development expense. We evaluate the future recoverability of capitalized amounts on a quarterly basis. The recoverability of capitalized software development costs is evaluated based on the expected performance of the specific products for which the costs relate. Criteria used to evaluate expected product performance include: historical performance of comparable products using comparable technology; orders for the product prior to its release; and estimated performance of a sequel product based on the performance of the product on which the sequel is based.

Commencing upon product release, capitalized software development costs are amortized to cost of sales — software royalties and amortization based on the ratio of current revenues to total projected revenues, generally resulting in an amortization period of six months or less. For products that have been released in prior periods, we evaluate the future recoverability of capitalized amounts on a quarterly basis. The primary evaluation criterion is actual title performance.

Significant management judgments and estimates are utilized in the assessment of when technological feasibility is established, as well as in the ongoing assessment of the recoverability of capitalized costs. In evaluating the recoverability of capitalized costs, the assessment of expected product performance utilizes forecasted sales amounts and estimates of additional costs to be incurred. If revised forecasted or actual product sales are less than and/or revised forecasted or actual costs are greater than the original forecasted amounts utilized in the initial recoverability analysis, the net realizable value may be lower than originally estimated in any given quarter, which could result in an impairment charge.

Intellectual Property Licenses. Intellectual property license costs represent license fees paid to intellectual property rights holders for use of their trademarks, copyrights, software, technology or other intellectual property or proprietary rights in the development of our products. Depending upon the agreement with the rights holder, we may obtain the rights to use acquired intellectual property in multiple products over multiple years, or alternatively, for a single product.

We evaluate the future recoverability of capitalized intellectual property licenses on a quarterly basis. The recoverability of capitalized intellectual property license costs is evaluated based on the expected performance of the specific products in which the licensed trademark or copyright is to be used. As many of our intellectual property licenses extend for multiple products over multiple years, we also assess the recoverability of capitalized intellectual property license costs based on certain qualitative factors such as the success of other products and/or entertainment vehicles utilizing the intellectual property, whether there are any future planned theatrical releases or television series based on the intellectual property and the rights holder's continued promotion and exploitation of the intellectual property. Prior to the related product's release, we expense, as part of cost of sales — intellectual property licenses, capitalized intellectual property costs when we believe such amounts are not recoverable. Capitalized intellectual property costs for those products that are cancelled or abandoned are charged to product development expense in the period of cancellation. Criteria used to evaluate expected product performance include: historical performance of comparable products using comparable technology; orders for the product prior to its release; and estimated performance of a sequel product based on the performance of the product on which the sequel is based.

Commencing upon the related product's release, capitalized intellectual property license costs are amortized to cost of sales — intellectual property licenses based on the ratio of current revenues for the specific product to total projected revenues for all products in which the licensed property will be utilized. As intellectual property license contracts may extend for multiple years, the amortization of capitalized intellectual property license costs relating to such contracts may extend beyond one year. For intellectual property included in products that have been released

and unreleased products, we evaluate the future recoverability of capitalized amounts on a quarterly basis. The primary evaluation criterion is actual title performance.

Significant management judgments and estimates are utilized in the assessment of the recoverability of capitalized costs. In evaluating the recoverability of capitalized costs, the assessment of expected product performance utilizes forecasted sales amounts and estimates of additional costs to be incurred. If revised forecasted or actual product sales are less than, and/or revised forecasted or actual costs are greater than, the original forecasted amounts utilized in the initial recoverability analysis, the net realizable value may be lower than originally estimated in any given quarter, which could result in an impairment charge. Additionally, as noted above, as many of our intellectual property licenses extend for multiple products over multiple years, we also assess the recoverability of capitalized intellectual property license costs based on certain qualitative factors such as the success of other products and/or entertainment vehicles utilizing the intellectual property, whether there are any future planned theatrical releases or television series based on the intellectual property and the rights holder's continued promotion and exploitation of the intellectual property. Material differences may result in the amount and timing of charges for any period if management makes different judgments or utilizes different estimates in evaluating these qualitative factors.

Selected Consolidated Statements of Operations Data

The following table sets forth certain consolidated statements of operations data for the periods indicated as a percentage of consolidated net revenues and also breaks down net revenues by territory and platform, as well as operating income by business segment:

	Year ended March 31, (In thousands)					
	2005		2004		2003	
Net revenues	$ 1,405,857	100%	$ 947,656	100%	$ 864,116	100%
Costs and expenses:						
Cost of sales – product costs	658,949	47	475,541	50	440,977	51
Cost of sales – software royalties and amortization	123,800	9	59,744	6	79,194	9

Cost of sales – intellectual property licenses	62,197	5	31,862	3	45,002	5
Product development	86,543	6	97,859	10	56,971	7
Sales and marketing	230,058	16	128,221	14	100,646	12
General and administrative	59,739	4	44,612	5	46,479	5
Total costs and expenses	1,221,286	87	837,839	88	769,269	89
Income from operations	184,571	13	109,817	12	94,847	11
Investment income, net	13,092	1	6,175	—	8,560	1
Income before income tax provision	197,663	14	115,992	12	103,407	12
Income tax provision	59,328	4	38,277	4	37,227	4
Net income	$ 138,335	10%	$ 77,715	8%	$ 66,180	8%
Net Revenues by Territory:						
North America	$ 696,325	50%	$ 446,812	47%	$ 432,261	50%
Europe	675,074	48	479,224	51	413,125	48
Other	34,458	2	21,620	2	18,730	2
Total net revenues	$ 1,405,857	100%	$ 947,656	100%	$ 864,116	100%
Net Revenues by Segment/Platform Mix:						
Publishing:						
Console	$ 713,947	51%	$ 508,418	54%	$ 466,116	54%
Hand-held	138,695	10	24,945	2	49,966	6
PC	220,087	15	132,369	14	99,893	11
Total publishing net revenues	1,072,729	76	665,732	70	615,975	71
Distribution:						
Console	256,452	18	223,802	24	208,505	24
Hand-held	23,282	2	18,361	2	14,103	2
PC	53,394	4	39,761	4	25,533	3
Total distribution net revenues	333,128	24	281,924	30	248,141	29
Total net revenues	$ 1,405,857	100%	$ 947,656	100%	$ 864,116	100%
Operating Income by Segment:						
Publishing	$ 160,826	11%	$ 93,223	10%	$ 79,139	9%
Distribution	23,745	2	16,594	2	15,708	2
Total operating income	$ 184,571	13%	$ 109,817	12%	$ 94,847	11%

Results of Operations – Fiscal Years Ended March 31, 2005 and 2004

Net income for the year ended March 31, 2005 was $138.3 million or $0.66 per diluted share, as compared to $77.7 million or $0.40 per diluted share for the year ended March 31, 2004.

Net Revenues

We primarily derive revenue from sales of packaged interactive software games designed for play on video game consoles (such as the PS2, Xbox and GameCube), PCs and hand-held game devices (such as the GBA, NDS and PSP). We also derive revenue from our distribution business in Europe that provides logistical and sales services to third-party publishers of interactive entertainment software, our own publishing operations and third-party manufacturers of interactive entertainment hardware.

The following table details our consolidated net revenues by business segment and our publishing net revenues by territory for the years ended March 31, 2005 and 2004 (in thousands):

	Year Ended March 31,		Increase/	Percent
	2005	2004	(Decrease)	Change
Publishing net revenues				
North America	$ 696,325	$ 446,812	$ 249,513	56%
Europe	341,946	197,300	144,646	73%
Other	34,458	21,620	12,838	59%
Total international	376,404	218,920	157,484	72%
Total publishing net revenues	1,072,729	665,732	406,997	61%
Distribution net revenues	333,128	281,924	51,204	18%

Consolidated net revenues	$ 1,405,857	$ 947,656	$ 458,201	48%

Consolidated net revenues increased 48% from $947.7 million for the year ended March 31, 2004 to $1,405.9 million for the year ended March 31, 2005. This increase was principally generated by our publishing business. The increase in consolidated net revenues was driven by the following:

- Strong performances from our publishing business on the releases of our largest ever lineup of titles including: *Spider-Man 2*, *Call of Duty: Finest Hour*, *THUG 2*, *Shrek 2*, *X-Men Legends*, *Doom 3*, *Lemony Snicket's A Series of Unfortunate Events*, *Shark Tale*, *Cabela's Big Game Hunter 2005* and *Rome: Total War.* The strength of these titles combined with the significant sales and marketing investment led to over ten million-unit selling titles and achievement of our goal of having four multi-million-unit selling titles. We also had strong catalog sales from a number of our franchises including Tony Hawk, True Crime, Spider-Man and Call of Duty. As a result of the strong performance of our key fiscal 2005 releases, we were able to maintain the original price points for those titles for an extended period of time.

- Continued focus on international publishing expansion with the opening of offices in Spain and Italy and an increased focus on other territories contributing to an increase in International Publishing revenues of 72% over fiscal 2004.

- An increase in our hand-held platform presence growing consolidated hand-held revenues by $118.7 million or 274% from $43.3 million for the year ended March 31, 2004 to $162.0 million for the year ended March 31, 2005. This was driven by a significant increase in the number of GBA titles released from four titles in fiscal 2004 to eleven titles in fiscal 2005, and by the introduction of the PSP and NDS platforms, for which we released a combined total of three titles.

- International net revenues benefited from the strong year-over-year strengthening of the Euro ("EUR") and Great British Pound ("GBP") in relation to the U.S. dollar. We estimate that foreign exchange rates increased reported net revenues by approximately $55.3 million. Excluding the impact of changing foreign currency rates, our international net revenues increased 31% year-over-year.

North America Publishing Net Revenues (in thousands)

March 31, 2005	% of Consolidated Net Revenues	March 31, 2004	% of Consolidated Net Revenues	Increase/ (Decrease)	Percent Change
$ 696,325	50%	$ 446,812	47%	$ 249,513	56%

North America publishing net revenues increased 56% from $446.8 million for the year ended March 31, 2004, to $696.3 million for the year ended March 31, 2005. The increase reflects the strong performance of our fiscal 2005 slate of titles, strong catalog sales from a number of our franchises and a significant increase in our hand-held platform presence.

International Publishing Net Revenues (in thousands)

March 31, 2005	% of Consolidated Net Revenues	March 31, 2004	% of Consolidated Net Revenues	Increase/ (Decrease)	Percent Change
$ 376,404	26%	$ 218,920	23%	$ 157,484	72%

International publishing net revenues increased by 72% from $218.9 million for the year ended March 31, 2004, to $376.4 million for the year ended March 31, 2005. International publishing also saw strong results from our 2005 titles, as well as strong fourth quarter performance in our LucasArts affiliate business. In addition, we had strong catalog sales from a number of our franchises, including Spider-Man, Call of Duty, Tony Hawk, and True Crime. There also was a positive strengthening of the EUR and the GBP in relation to the U.S. dollar of approximately $29.0 million. Excluding the impact of changing foreign currency rates, our international publishing net revenues increased 59% year-over-year. In the coming year, we will continue to focus on expanding our international publishing capabilities. In fiscal 2006, we expect to increase our direct-selling efforts in five countries and materially expand our international marketing efforts.

Publishing Net Revenues by Platform

Publishing net revenues increased 61% from $665.7 million for the year ended March 31, 2004 to $1,072.7 million for the year ended March 31, 2005. The following table details our publishing net revenues by platform and as a percentage of total publishing net revenues for the years ended March 31, 2005 and 2004 (in thousands):

	Year Ended March 31, 2005	% of Publishing Net Revs	Year Ended March 31, 2004	% of Publishing Net Revs	Increase/ (Decrease)	Percent Change
Publishing Net Revenues						
PC	$ 220,087	21%	$ 132,369	20%	$ 87,718	66%
Console						
Sony PlayStation 2	417,310	39%	289,048	43%	128,262	44%
Microsoft Xbox	196,894	18%	145,111	22%	51,783	36%
Nintendo GameCube	96,936	9%	52,909	8%	44,027	83%
Other	2,807	—%	21,350	3%	(18,543)	(87)%

Total console	713,947	66%	508,418	76%	205,529	40%
Hand-held						
Game Boy Advance	101,642	9%	24,621	4%	77,021	313%
PlayStation Portable	19,200	2%	—	—%	19,200	100%
Nintendo Dual Screen	17,699	2%	—	—%	17,699	100%
Other	154	—%	324	—%	(170)	(52)%
Total hand-held	138,695	13%	24,945	4%	113,750	456%
Total publishing net revenues	$ 1,072,729	100%	$ 665,732	100%	$ 406,997	61%

Personal Computer Net Revenues (in thousands)

March 31, 2005	% of Publishing Net Revenues	March 31, 2004	% of Publishing Net Revenues	Increase/ (Decrease)	Percent Change
$ 220,087	21%	$ 132,369	20%	$ 87,718	66%

Net revenues from sales of titles for the PC increased 66% from $132.4 million for the year ended March 31, 2004 to $220.1 million for the year ended March 31, 2005. Driving the increase were the fiscal 2005 releases of *Doom 3* and *Rome: Total War* combined with continued strong sell through of our catalog title, *Call of Duty.* According to NPD, we were the only publisher to have three top-ten PC titles for calendar year 2004 — *Doom 3*, *Call of Duty* and *Rome: Total War.* Also contributing to the increase in net revenues from sales of titles for the PC was an increase in the total number of titles shipped from eight in fiscal 2004 to fifteen in fiscal 2005. We expect fiscal 2006 PC publishing net revenues as a percentage of total publishing net revenues to remain consistent with fiscal 2005.

Sony PlayStation 2 Net Revenues (in thousands)

March 31, 2005	% of Publishing Net Revenues	March 31, 2004	% of Publishing Net Revenues	Increase/ (Decrease)	Percent Change
$ 417,310	39%	$ 289,048	43%	$ 128,262	44%

Net revenues from sales of titles for the PS2 increased 44% from $289.0 million for the year ended March 31, 2004 to $417.3 million for the year ended March 31, 2005. The increase was primarily due to strong, worldwide sales of several of our fiscal 2005 releases including *THUG 2*, *Call of Duty: Finest Hour*, *X-Men Legends*, *Spider-Man 2*, *Shrek 2*, *Shark Tale*, *Lemony Snicket's A Series of Unfortunate Events* and *Cabela's Big Game Hunter 2005.* In fiscal 2005 we released thirteen titles for PS2 compared to ten in fiscal 2004 which included: *True Crime: Streets of L.A.*, *Tony Hawk's Underground*, *X2: Wolverine's Revenge*, *Return to Castle Wolfenstein*, *Cabela's Dangerous Hunts* and *Cabela's Deer Hunt 2004 Season.* We expect the installed base of PS2 to continue to grow, although at a slower rate than in previous years, due to the anticipated release of the next-generation system in calendar 2006. Given our slate of fiscal 2006 titles, as the installed base increases we expect our overall net revenues from PS2 sales to continue to increase over prior periods. In addition, Sony recently announced that they will be releasing their next-generation console, the PlayStation 3 ("PS3"), in calendar 2006. Given the initially low installed base, we expect the release of the PS3 to have little impact on fiscal 2006 net revenues.

Microsoft Xbox Net Revenues (in thousands)

March 31, 2005	% of Publishing Net Revenues	March 31, 2004	% of Publishing Net Revenues	Increase/ (Decrease)	Percent Change
$ 196,894	18%	$ 145,111	22%	$ 51,783	36%

Net revenues from sales of titles for the Xbox increased 36% from $145.1 million for the year ended March 31, 2004 to $196.9 million for the year ended March 31, 2005. Though the number of new Xbox titles remained relatively consistent from fiscal 2004 to fiscal 2005, we were able to increase our Xbox sales in both the North America and international markets. The increase was primarily due to strong worldwide sales of several of our Xbox titles including *THUG 2*, *Call of Duty: Finest Hour*, *X-Men Legends*, *Spider-Man 2*, *Shrek 2*, *Shark Tale*, *Greg Hastings' Tournament Paintball* and *Cabela's Big Game Hunter 2005.* The increase was also affected by an increased installed base of the Xbox due mainly to the price cuts on the Xbox hardware in calendar 2004. Given our slate of fiscal 2006 titles, as the installed base increases we expect our overall net revenues from Xbox sales to continue to increase over prior periods. We expect the growth of the installed base of Xbox hardware to continue to grow through the remainder of calendar 2005 with growth slowing as the release of Microsoft's next-generation system, the Xbox 360, which is expected to be released in November 2005. Consistent with our strategy of having a high-quality presence at the launch of each new platform, we are currently developing four titles, *Tony Hawk's American Wasteland*, *Call of Duty 2*, *Quake IV* and *GUN*, to be released concurrently with the launch of the Xbox 360. We expect that the potential release of the Xbox 360 will not have a material impact on our fiscal 2006 net revenues due to a number of factors, including an initially small installed base.

Nintendo GameCube Net Revenues (in thousands)

March 31, 2005	% of Publishing Net Revenues	March 31, 2004	% of Publishing Net Revenues	Increase/ (Decrease)	Percent Change
$ 96,936	9%	$ 52,909	8%	$ 44,027	83%

Net revenues from sales of titles for the Nintendo GameCube increased 83% from $52.9 million for the year ended March 31, 2004 to $96.9 million for the year ended March 31, 2005. The increase is primarily due to the increase in the number of GameCube new title releases from five in fiscal 2004 to eight in fiscal 2005. Also driving the increase in revenues was that the title slate in fiscal 2005 performed strongly as it was more targeted toward the demographic of the GameCube audience than the fiscal 2004 GameCube title slate. Our fiscal 2005 title slate was driven by new title releases of *Shrek 2*, *Spider-Man 2*, *Shark Tale*, *Lemony Snicket's A Series of Unfortunate Events*, *THUG 2* and *Call of Duty: Finest Hour.* Fiscal 2004 GameCube revenues were driven mainly by releases of *Tony Hawk's Underground* and *True Crime: Streets of L.A.* We expect the installed base of GameCube hardware to continue to grow given its current low price point; however, at a slower pace than previous years given the upcoming next-generation console transition. We also expect fiscal 2006 GameCube net revenues to increase over fiscal 2005 given our planned 2006 product slate. Nintendo recently announced that they will be releasing their next-generation console, the Revolution, in calendar 2006. Given the initially low installed base, we expect the release of the Revolution to have little initial impact on our net revenues.

Hand-held (in thousands)

March 31, 2005	% of Publishing Net Revenues	March 31, 2004	% of Publishing Net Revenues	Increase/ (Decrease)	Percent Change
$ 138,695	13%	$ 24,945	4%	$ 113,750	456%

Net revenues from sales of titles for the hand-held for the year ended March 31, 2005 increased 456% from the prior fiscal year, from $24.9 million to $138.7 million. This was driven mainly by a significant increase in the number of GBA titles released from four titles in fiscal 2004 to eleven titles in fiscal 2005 and the introduction of two new handheld devices, NDS, which was released worldwide, and PSP, which was released in North America. We successfully executed our strategy of having a high-quality presence at the launch of both the NDS and PSP platforms with one title based on the Spider-Man franchise at the launch of the NDS and two titles based on the Spider-Man and Tony Hawk franchises for the launch of the PSP. In addition to the increase in the number of GBA titles released, we implemented a customized marketing plan for the GBA platform and demographic to support a strong slate of new releases including *THUG 2*, *Shrek 2: Beg for Mercy!*, *Shark Tale*, *Lemony Snicket's A Series of Unfortunate Events*, *Spider-Man 2* and *Shrek 2* which were all targeted toward the demographic of the GBA audience.

We expect the overall hand-held market to grow significantly with the recent releases of the NDS and PSP. However, with the releases of the NDS and PSP we expect that market share for the GBA will eventually begin to decrease while the overall hand-held market will continue to expand with a growing installed base and broader demographic on the newer platforms. We expect to continue our focus on developing hand-held games for mass-market consumers for each of these hand-held platforms. Due to the expected increase in the overall hand-held market and our fiscal 2006 product slate, we expect net revenues from sales of titles for the hand-held to increase over fiscal 2005.

Overall

The platform mix of our future publishing net revenues will likely be impacted by a number of factors, including the ability of hardware manufacturers to continue to increase their installed hardware base, the introduction of new hardware platforms, as well as the timing of key product releases from our product release schedule. We expect that net revenues from console titles will continue to represent the largest component of our publishing net revenues with PS2 having the largest percentage of that business due to its larger installed hardware base. We expect net revenues from hand-held titles to remain the smallest component of our publishing net revenues. However, with the recent releases of the NDS and PSP platforms, we expect to see a continued increase in our hand-held business in comparison to prior periods. Our net revenues from PC titles will be primarily driven by our product release schedule.

A significant portion of our revenues and profits is derived from a relatively small number of popular titles and brands each year as revenues and profits are significantly affected by our ability to release highly successful or "hit" titles. For example, for the year ended March 31, 2005, 31% of our consolidated net revenues and 41% of worldwide publishing net revenues were derived from net revenues from our *Spider-Man 2*, *THUG 2* and *Call of Duty: Finest Hour* titles. Though many titles have substantial production or acquisition costs and marketing budgets, once a title recoups these costs, incremental net revenues directly and positively impact operating profits resulting in a disproportionate amount of operating income being derived from these select titles. We expect that a limited number of titles and brands will continue to produce a disproportionately large amount of our net revenues and profits.

Two factors that could affect future publishing and distribution net revenue performance are console hardware pricing and software pricing. As console hardware moves through its life cycle, hardware manufacturers typically enact price reductions. Reductions in the price of console hardware typically result in an increase in the installed base of hardware owned by consumers. Price cuts on Xbox, PS2 and GBA hardware were announced in March, May and September 2004, respectively. Historically, we have also seen that lower console hardware prices put downward pressure on software pricing. While we expect console software launch pricing for most genres to hold at $49.99 through the calendar 2005 holidays, we believe we could see additional software price declines thereafter.

Distribution Net Revenues (in thousands)

March 31, 2005	% of Consolidated Net Revenues	March 31, 2004	% of Consolidated Net Revenues	Increase/ (Decrease)	Percent Change
$ 333,128	24%	$ 281,924	30%	$ 51,204	18%

Distribution net revenues for the year ended March 31, 2005 increased 18% from the prior fiscal year, from $281.9 million to $333.1 million. Excluding the impact of the changing foreign currency rates, our distribution net revenues increased 9% year-over-year. About half of this increase was due to the positive impact of the year-over-year strengthening of the EUR and the GBP in relation to the U.S. dollar. The increase was primarily due to the continued growth in the industry wide software market, an increase in sales to mass merchants, as well as a change in the product mix. The mix of distribution net revenues between hardware and software sales varied year-over-year with approximately 13% of distribution net revenues from hardware sales in the year ended March 31, 2005 as compared to 28% in the prior fiscal year. This was mainly attributed to an increase in business with large, mass-market customers that generate a higher percentage of sales from software. In both fiscal years, hardware sales were principally comprised of sales of console hardware. The mix of future distribution net revenues will be driven by a number of factors including the occurrence of further hardware price reductions instituted by

hardware manufacturers, the introduction of new hardware platforms and our ability to establish and maintain distribution agreements with hardware manufacturers and third-party software publishers. We expect our fiscal 2006 distribution results to be in line with fiscal 2005.

Costs and Expenses

Cost of Sales – Product Costs (in thousands)

March 31, 2005	% of Consolidated Net Revenues	March 31, 2004	% of Consolidated Net Revenues	Increase/ (Decrease)	Percent Change
$ 658,949	47%	$ 475,541	50%	$ 183,408	39%

Cost of sales – product costs represented 47% and 50% of consolidated net revenues for the years ended March 31, 2005 and 2004, respectively. In absolute dollars, cost of sales — product costs increased 39% due to significantly higher sales in fiscal 2005 as compared to fiscal 2004. The primary factors affecting the reduction in the cost of sales — product costs as a percentage of consolidated net revenues were:

- Increased ability to maintain premium pricing on “big proposition” titles for the year ended March 31, 2005.
- An increase in publishing net revenues from sales of PC titles by 66% year-over-year. PC publishing revenues as a percent of publishing net revenues for the year also grew from 20% to 21%. PC titles typically have lower product costs associated with them.
- A lower percentage of revenues generated from our distribution business, which is a lower margin business, in fiscal 2005 as compared to fiscal 2004.

We expect cost of sales — product costs as a percentage of net revenues to slightly decrease as a percentage of revenue in fiscal 2006 as compared to fiscal 2005. This is primarily due to a lower percentage of revenue expected to be generated from our distribution business in fiscal 2006, which is a lower margin business. We may also continue to experience a benefit from changes in product mix in fiscal 2006 due to the focus on “big proposition” titles, for which we could benefit from higher retail pricing and manufacturing volume discounts.

Cost of Sales – Software Royalties and Amortization (in thousands)

March 31, 2005	% of Publishing Net Revenues	March 31, 2004	% of Publishing Net Revenues	Increase/ (Decrease)	Percent Change
$ 123,800	12%	$ 59,744	9%	$ 64,056	107%

Cost of sales – software royalties and amortization for the year ended March 31, 2005 increased as a percentage of publishing net revenues from the prior fiscal year, from 9% to 12%. In absolute dollars, cost of sales – software royalties and amortization for the year ended March 31, 2005 also increased from the prior fiscal year, from $59.7 million to $123.8 million. This increase was due to an increase in the number of titles released as well as an increase in the overall costs to develop games. This compares to fiscal 2004 in which a higher proportion of revenues were derived from internally developed titles with lower associated game development costs. In fiscal 2006, we expect cost of sales – software royalties and amortization to decrease as a percentage of publishing net revenues as compared to fiscal 2005 as our fiscal 2006 titles slate includes a higher percentage of internally developed titles.

Cost of Sales – Intellectual Property Licenses (in thousands)

March 31, 2005	% of Publishing Net Revenues	March 31, 2004	% of Publishing Net Revenues	Increase/ (Decrease)	Percent Change
$ 62,197	6%	$ 31,862	5%	$ 30,335	95%

Cost of sales – intellectual property licenses for the year ended March 31, 2005 increased in absolute dollars and as a percentage of publishing net revenues over the same period last year, from 5% to 6%. The increases in both absolute dollars and as a percentage of publishing net revenues were due to the release of more titles with associated licensed intellectual property as well as continued strong catalog sales of titles with associated licensed intellectual property compared to the titles released in fiscal 2004 for which a higher proportion of revenues was derived from titles that were internally developed with no associated intellectual property. In fiscal 2005 we released the following titles with associated intellectual property: *Spider-Man 2*, *Shrek 2*, *Shark Tale*, *X-Men Legends*, *THUG 2*, *Lemony Snicket’s A Series of Unfortunate Events* and *Doom 3*. In fiscal 2004, two of our top performing titles, *True Crime: Streets of L.A.* and *Call of Duty*, were based on our wholly-owned original intellectual property. In fiscal 2006, we expect cost of sales – intellectual property licenses to remain relatively flat as a percentage of publishing net revenues as compared to fiscal 2005.

Product Development (in thousands)

March 31, 2005	% of Publishing Net Revenues	March 31, 2004	% of Publishing Net Revenues	Increase/ (Decrease)	Percent Change
$ 86,543	8%	$ 97,859	15%	$ (11,316)	(12)%

Product development expenses for the year ended March 31, 2005 decreased as a percentage of publishing net revenues from the prior fiscal year, from 15% to 8%. In absolute dollars, product development expenses for the year ended March 31, 2005 also decreased from the prior fiscal year, from $97.9 million to $86.5 million. The decrease in product development as a percentage of publishing net revenues and in absolute dollars primarily resulted from a pre-tax charge of approximately $21 million taken in the third quarter of fiscal 2004 related to the cancellation of products which were believed to be unlikely to produce an acceptable level of return on our investment. Excluding the impact of the pre-tax charge, product development expenses for the year ended March 31, 2005 increased by approximately $9.7 million. This increase was attributable to higher game development costs as development time and team sizes as well as quality assurance time increased due to enhanced production values and to support more complex and robust gaming experiences. We expect product development costs to increase in absolute dollars due to next-generation development costs but stay constant as a percentage of revenues as we leverage the costs against bigger brands, sold in more markets, across more gaming devices.

Sales and Marketing (in thousands)

March 31, 2005	% of Consolidated Net Revenue	March 31, 2004	% of Consolidated Net Revenue	Increase/ (Decrease)	Percent Change
$ 230,058	16%	$ 128,221	14%	$ 101,837	79%

Sales and marketing expenses of $230.1 million and $128.2 million represented 16% and 14% of consolidated net revenues for the years ended March 31, 2005 and 2004, respectively. The increases in both absolute dollars and as a percentage of net revenues was primarily generated by our publishing business as a result of significant marketing programs, including television and in-theatre ad campaigns and in-store promotions, run in

support of our key fiscal 2005 “big proposition” title releases *Spider-Man 2*, *Shrek 2*, *Doom 3*, *Shark Tale*, *X-Men Legends*, *THUG 2*, *Call of Duty: Finest Hour* and *Lemony Snicket’s A Series of Unfortunate Events.* Our experience has shown that this increased spending will lengthen the product sales life cycle and add to the long-term prospects of the respective product lines.

General and Administrative (in thousands)

March 31, 2005	% of Consolidated Net Revenues	March 31, 2004	% of Consolidated Net Revenues	Increase/ (Decrease)	Percent Change
$ 59,739	4%	$ 44,612	5%	$ 15,127	34%

General and administrative expenses of $59.7 million and $44.6 million represented 4% and 5% of consolidated net revenues for the years ended March 31, 2005 and 2004, respectively. The increase in absolute dollars was primarily due to an increase in headcount and related costs to support business growth, as well as an increase in professional services fees to support Sarbanes-Oxley related compliance. The decrease as a percentage of consolidated net revenues was due mainly to the significant increase in sales volume.

Operating Income (in thousands)

	March 31, 2005	% of Segment Net Revs	March 31, 2004	% of Segment Net Revs	Increase/ (Decrease)	Percent Change
Publishing	$ 160,826	15%	$ 93,223	14%	$ 67,603	73%
Distribution	23,745	7	16,594	6	7,151	43
Consolidated	$ 184,571	13%	$ 109,817	12%	$ 74,754	68%

Publishing operating income for the year ended March 31, 2005 increased $67.6 million from the same period last year, from $93.2 million to $160.8 million. Excluding the impact of changes in foreign currency rates, publishing operating income for the year ended March 31, 2005 increased approximately $56.7 million from the same period last year. International publishing operating income for the year ended March 31, 2005 benefited from the positive impact of the year-over-year strengthening of the EUR and the GBP in relation to the U.S. dollar. The $56.7 million increase is primarily due to:

- Strong performance in both the North America and international markets of our fiscal 2005 title releases. The strong performance of the fiscal 2005 releases was driven by our largest lineup ever of big propositions, a record number of million-unit and multi-million unit titles and an increased hand-held presence.

Partially offset by:

- Increased sales and marketing spending.
- Increased cost of sales – product costs, cost of sales – software royalties and amortization, and cost of sales – intellectual property licenses.

Distribution operating income for the year ended March 31, 2005 increased over the same period last year, from $16.6 million to $23.7 million. Excluding the impact of changes in foreign currency rates, distribution operating income for the year ended March 31, 2005 increased approximately $5.4 million from the same period last year. Distribution operating income for the year ended March 31, 2005 benefited from the positive impact of the year-over-year strengthening of the EUR and the GBP in relation to the U.S. dollar. The $5.4 million increase was primarily due to continued growth industry wide in the software market combined with a change in the product mix of hardware versus software sales as software tends to be a higher margin business.

Investment Income, Net (in thousands)

March 31, 2005	% of Consolidated Net Revenues	March 31, 2004	% of Consolidated Net Revenues	Increase/ (Decrease)	Percent Change
$ 13,092	1%	$ 6,175	—%	$ 6,917	112%

Investment income, net for the year ended March 31, 2005 was $13.1 million as compared to $6.2 million for the year ended March 31, 2004. The increase was primarily due to higher invested balances combined with rising yields during the year ended March 31, 2005 as compared to 2004.

Provision for Income Taxes (in thousands)

March 31, 2005	% of Pre Tax Income	March 31, 2004	% of Pre Tax Income	Increase/ (Decrease)	Percent Change
$ 59,328	30%	$ 38,277	33%	$ 21,051	55%

The income tax provision of $59.3 million for the year ended March 31, 2005 reflects our effective income tax rate of 30%. The significant items that generated the variance between our effective rate and our statutory rate of 35% were research and development tax credits and the impact of foreign tax rate differentials, partially offset by an increase in our deferred tax asset valuation allowance and state taxes. The realization of deferred tax assets depends primarily on the generation of future taxable income. We believe that it is more likely than not that we will generate taxable income sufficient to realize the benefit of net deferred tax assets recognized.

Results of Operations – Fiscal Years Ended March 31, 2004 and 2003

Net income for the year ended March 31, 2004 was $77.7 million or $0.40 per diluted share, as compared to $66.2 million or $0.32 per diluted share for the year ended March 31, 2003.

Net Revenues

The following table details our consolidated net revenues by business segment and our publishing net revenues by territory for the years ended March 31, 2004 and 2003 (in thousands):

	Year ended March 31, 2004	Year ended March 31, 2003	Increase/ (Decrease)	Percent Change
Publishing Net Revenues				
North America	$ 446,812	$ 432,261	$ 14,551	3%
Europe	197,300	164,984	32,316	20%
Other	21,620	18,730	2,890	15%
Total international	218,920	183,714	35,206	19%
Total publishing net revenues	665,732	615,975	49,757	8%
Distribution net revenues	281,924	248,141	33,783	14%
Consolidated net revenues	$ 947,656	$ 864,116	$ 83,540	10%

Consolidated net revenues increased 10% from $864.1 million for the year ended March 31, 2003 to $947.7 million for the year ended March 31, 2004. This increase was generated by both our publishing and distribution businesses. The increase in consolidated net revenues was driven by the following:

- Strong performance of our fiscal 2004 third quarter releases of *True Crime: Streets of L.A.* and *Tony Hawk's Underground* for the PS2, Xbox and GameCube and *Call of Duty* for the PC. We continued to see strong sales of these titles through March 2004. In addition, we had strong results from several other titles released during fiscal 2004 including, *Return to Castle Wolfenstein, X2: Wolverine's Revenge, Cabela's Dangerous Hunts, Cabela's Deer Hunt 2004 Season,* and in select European markets, *Jedi Knight: Jedi Academy.* We also had strong catalog sales from a number of our franchises, including Spider-Man. Catalog sales are sales of titles released prior to the current fiscal year.

- Publishing console net revenues increased by 9% from $466.1 million for the year ended March 31, 2003 to $508.4 million for the year ended March 31, 2004. As expected, within the mix of specific consoles, net revenues from the sale of software for the prior generation console hardware systems, such as PS1, continued to decline while the net revenues from the sale of software for the current generation of console hardware systems continued to grow.

- Net revenues were positively impacted from titles selling at higher average retail prices throughout fiscal 2004 as compared to fiscal 2003. As a result of the strong performance of our key fiscal 2004 releases, we were able to maintain the original price points for those titles for an extended period of time.

- International net revenues benefited from the strong year-over-year strengthening of the Euro ("EUR") and Great British Pound ("GBP") in relation to the U.S. dollar. We estimate that foreign exchange rates increased reported net revenues by approximately $52.1 million. Excluding the impact of changing foreign currency rates, our international net revenues increased 4% year-over-year.

- The increase in publishing net revenues was offset by fewer titles released in fiscal 2004 as compared to fiscal 2003.

North America Publishing Net Revenues (in thousands)

March 31,	% of	March 31,	% of	Increase/	Percent

2004	Consolidated Net Revenues	2003	Consolidated Net Revenues	(Decrease)	Change
$ 446,812	47%	$ 432,261	50%	$ 14,551	3%

North America publishing net revenues increased 3% from $432.3 million for the year ended March 31, 2003, to $446.8 million for the year ended March 31, 2004. The increase reflects the strong performance of our fiscal 2004 third quarter releases of *True Crime: Streets of L.A.* and *Tony Hawk's Underground* for the PS2, Xbox and GameCube and *Call of Duty* for the PC. We continued to see strong sales of these titles through March 2004. The increase in net revenues was offset by fewer titles released in fiscal 2004 as compared to fiscal 2003.

International Publishing Net Revenues (in thousands)

March 31, 2004	% of Consolidated Net Revenues	March 31, 2003	% of Consolidated Net Revenues	Increase/ (Decrease)	Percent Change
$ 218,920	23%	$ 183,714	21%	$ 35,206	19%

International publishing net revenues increased by 19% from $183.7 million for the year ended March 31, 2003, to $218.9 million for the year ended March 31, 2004. International publishing also saw strong results from our 2004 releases of *True Crime: Streets of L.A.* and *Tony Hawk's Underground* for the PS2, Xbox and GameCube and *Call of Duty* for the PC. We also had strong results from several other titles released during fiscal 2004 including, *Return to Castle Wolfenstein, X2: Wolverine's Revenge* and *Jedi Knight: Jedi Academy.* In addition, we had strong catalog sales from a number of our franchises, including Spider-Man. There also was a positive strengthening of the EUR and the GBP in relation to the U.S. dollar of approximately $22.2 million. Excluding the impact of changing foreign currency rates, our international publishing net revenues increased 7% year-over-year. The increase in net revenues was offset by fewer titles released in fiscal 2004 as compared to fiscal 2003.

Publishing Net Revenues by Platform

Publishing net revenues increased 8% from $616.0 million for the year ended March 31, 2003 to $665.7 million for the year ended March 31, 2004. The following table details our publishing net revenues by platform and as a percentage of total publishing net revenues for the years ended March 31, 2004 and 2003 (in thousands):

	Year Ended March 31, 2004	% of Publishing Net Revs	Year Ended March 31, 2003	% of Publishing Net Revs	Increase/ (Decrease)	Percent Change
Publishing net revenues						
PC	$ 132,369	20%	$ 99,893	16%	$ 32,476	33%
Console						
Sony PlayStation 2	289,048	43%	260,307	42%	28,741	11%
Microsoft Xbox	145,111	22%	75,329	12%	69,782	93%
Nintendo GameCube	52,909	8%	74,694	12%	(21,785)	(29)%
PlayStation	20,843	3%	52,722	9%	(31,879)	(60)%
Other	507	—%	3,064	1%	(2,557)	(83)%
Total console	508,418	76%	466,116	76%	42,302	9%
Hand-held						
Game Boy Advance	24,621	4%	44,060	7%	(19,439)	(44)%
Game Boy Color	324	—%	5,906	1%	(5,582)	(95)%
Total hand-held	24,945	4%	49,966	8%	(25,021)	(50)%
Total publishing net revenues	$ 665,732	100%	$ 615,975	100%	$ 49,757	8%

Personal Computer Net Revenues (in thousands)

March 31, 2004	% of Publishing Net Revenues	March 31, 2003	% of Publishing Net Revenues	Increase/ (Decrease)	Percent Change
$ 132,369	20%	$ 99,893	16%	$ 32,476	33%

Net revenues from sales of titles for the PC increased 33% from $99.9 million for the year ended March 31, 2003 to $132.4 million for the year ended March 31, 2004. Though the number of premium PC titles released in fiscal 2004 remained relatively consistent with fiscal 2003, certain of our fiscal 2004 releases, *Call of Duty, Empires: Dawn of the Modern World* and, in select European markets, *Jedi Knight: Jedi Academy*, performed very well in both the North America and international markets. According to NPD Group, a third-party sales tracking agency, *Call of Duty* was the number one selling PC title in North America during the quarter of its release, our third quarter of fiscal 2004.

Sony PlayStation 2 Net Revenues (in thousands)

March 31, 2004	% of Publishing	March 31, 2003	% of Publishing	Increase/ (Decrease)	Percent Change

	Net Revenues		Net Revenues		
$ 289,048	43%	$ 260,307	42%	$ 28,741	11%

Net revenues from sales of titles for the PS2 increased 11% from $260.3 million for the year ended March 31, 2003 to $289.0 million for the year ended March 31, 2004. Though the number of new PS2 titles reduced in fiscal 2004 to 10 from 13 in fiscal 2003, we were able to increase our PS2 sales in both the North America and international markets. The increase is primarily due to strong, worldwide sales of several of our PS2 titles including *True Crime: Streets of L.A., Tony Hawk's Underground, X2: Wolverine's Revenge, Return to Castle Wolfenstein, Cabela's Dangerous Hunts* and *Cabela's Deer Hunt 2004 Season.*

Microsoft Xbox Net Revenues (in thousands)

March 31, 2004	% of Publishing Net Revenues	March 31, 2003	% of Publishing Net Revenues	Increase/ (Decrease)	Percent Change
$ 145,111	22%	$ 75,329	12%	$ 69,782	93%

Net revenues from sales of titles for the Xbox increased 93% from $75.3 million for the year ended March 31, 2003 to $145.1 million for the year ended March 31, 2004. Though the number of new Xbox titles remained relatively consistent from fiscal 2003 to fiscal 2004, we were able to increase our Xbox sales in both the North America and international markets. The increase is primarily due to strong worldwide sales of several of our Xbox titles including *True Crime: Streets of L.A., Tony Hawk's Underground, Return to Castle Wolfenstein, Soldier of Fortune 2, X2: Wolverine's Revenge, Tenchu: Return from Darkness* and, in select European markets, *Jedi Knight: Jedi Academy*. The increase was also due to an increased installed base of the Xbox.

Nintendo GameCube Net Revenues (in thousands)

March 31, 2004	% of Publishing Net Revenues	March 31, 2003	% of Publishing Net Revenues	Increase/ (Decrease)	Percent Change
$ 52,909	8%	$ 74,694	12%	$ (21,785)	(29)%

Net revenues from sales of titles for the Nintendo GameCube decreased 29% from $74.7 million for the year ended March 31, 2003 to $52.9 million for the year ended March 31, 2004. The decrease is primarily due to a reduction in the number of GameCube new title releases from 9 in fiscal 2003 to 5 in fiscal 2004. The titles that were released for GameCube performed strongly, including *Tony Hawk's Underground* and *True Crime: Streets of L.A.*

Sony PlayStation Net Revenues (in thousands)

March 31, 2004	% of Publishing Net Revenues	March 31, 2003	% of Publishing Net Revenues	Increase/ (Decrease)	Percent Change
$ 20,843	3%	$ 52,722	9%	$ (31,879)	(60)%

Net revenues from sales of titles for the Sony PlayStation console system ("PS1") for the year ended March 31, 2004 decreased 60% from the prior fiscal year, from $52.7 million to $20.8 million. The decrease was expected due to the market transition away from the prior generation of hardware platforms, such as PS1, to the current generation console systems.

Game Boy Advance Net Revenues (in thousands)

March 31, 2004	% of Publishing Net Revenues	March 31, 2003	% of Publishing Net Revenues	Increase/ (Decrease)	Percent Change
$ 24,621	4%	$ 44,060	7%	$ (19,439)	(44)%

Net revenues from sales of titles for the GBA for the year ended March 31, 2004 decreased 44% from the prior fiscal year, from $44.1 million to $24.6 million. This is due to a decrease in the number of GBA games released year-over-year. In fiscal 2003, we released 11 GBA titles, whereas in fiscal 2004 we released 4 GBA titles. We expect the hand-held installed base to grow with the release of the NDS and PSP which are expected to launch in late calendar year 2004 and early calendar year 2005, respectively.

A significant portion of our revenues and profits are derived from a relatively small number of popular titles and brands each year as revenues and profits are significantly affected by our ability to release highly successful or "hit" titles. For example, for the year ended March 31, 2004, 28% of our consolidated net revenues and 40% of worldwide publishing net revenues were derived from net revenues from our *Tony Hawk's Underground* and *True Crime: Streets of L.A.* titles. Though many of these titles have substantial production or acquisition costs and marketing budgets, once a title recoups these costs, incremental net revenues directly and positively impact operating profits resulting in a disproportionate amount of operating income being derived from these select titles.

Distribution Net Revenues (in thousands)

March 31, 2004	% of Consolidated Net Revenues	March 31, 2003	% of Consolidated Net Revenues	Increase/ (Decrease)	Percent Change
$ 281,924	30%	$ 248,141	29%	$ 33,783	14%

Distribution net revenues for the year ended March 31, 2004 increased 14% from the prior fiscal year, from $248.1 million to $281.9 million. The increase was primarily due to the positive impact of the year-over-year strengthening of the EUR and the GBP in relation to the U.S. dollar. Excluding the impact of the changing foreign currency rates, our distribution net revenues was in line with our prior fiscal year, with a slight increase of 2% year-over-year. The mix of distribution net revenues between hardware and software sales varied year-over-year with approximately 28% hardware in the year ended March 31, 2004 as compared to 38% hardware in the prior fiscal year. This is mainly attributed to an increase in business with large, mass-market customers that generate a higher percentage of sales from software. In both fiscal years, hardware sales were principally comprised of sales of console hardware.

Costs and Expenses

Cost of Sales – Product Costs (in thousands)

March 31, 2004	% of Consolidated Net Revenues	March 31, 2003	% of Consolidated Net Revenues	Increase/ (Decrease)	Percent Change
$ 475,541	50%	$ 440,977	51%	$ 34,564	8%

Cost of sales – product costs represented 50% and 51% of consolidated net revenues for the years ended March 31, 2004 and 2003, respectively. In absolute dollars, cost of sales – product costs increased due to higher sales volume in fiscal 2004 as compared to fiscal 2003. There were two primary factors that affected cost of sales – product costs as a percentage of consolidated net revenues:

- The product mix of our publishing business for the year ended March 31, 2004 reflects a lower proportion of net revenues from titles for hand-held devices, as compared to the year ended March 31, 2003. Titles for hand-held devices generally have the highest manufacturing per unit cost of all platforms.

- Due to the lower manufacturing costs for PC titles, we were able to benefit from the strong sales of *Call of Duty* for the year ended March 31, 2004.

Cost of Sales – Software Royalties and Amortization (in thousands)

March 31, 2004	% of Publishing Net Revenues	March 31, 2003	% of Publishing Net Revenues	Increase/ (Decrease)	Percent Change
$ 59,744	9%	$ 79,194	13%	$ (19,450)	(25)%

Cost of sales – software royalties and amortization for the year ended March 31, 2004 decreased as a percentage of publishing net revenues from the prior fiscal year, from 13% to 9%. In absolute dollars, cost of sales – software royalties and amortization for the year ended March 31, 2004 also decreased from the prior fiscal year, from $79.2 million to $59.7 million. The decrease in absolute dollars reflects that there were approximately fifteen major titles released in fiscal 2004 as compared to over twenty in fiscal 2003. The decrease in the percentage reflects the strong performance of our internally developed key fiscal 2004 third quarter releases.

Cost of Sales – Intellectual Property Licenses (in thousands)

March 31, 2004	% of Publishing Net Revenues	March 31, 2003	% of Publishing Net Revenues	Increase/ (Decrease)	Percent Change
$ 31,862	5%	$ 45,002	7%	$ (13,140)	(29)%

Cost of sales – intellectual property licenses for the year ended March 31, 2004 decreased in absolute dollars and as a percentage of publishing net revenues over the same period last year, from 7% to 5%. The decreases reflect the fact that two of our top performing titles in fiscal 2004, *True Crime: Streets of L.A.* and *Call of Duty*, were based on our wholly-owned original intellectual property. Additionally, during fiscal 2003, we recorded an approximate $7.0 million charge related to an assessment of the recoverability of certain of our investments in long-term licensing agreements.

Product Development (in thousands)

March 31, 2004	% of Publishing Net Revenues	March 31, 2003	% of Publishing Net Revenues	Increase/ (Decrease)	Percent Change
$ 97,859	15%	$ 56,971	9%	$ 40,888	72%

Product development expenses for the year ended March 31, 2004 increased as a percentage of publishing net revenues from the prior fiscal year, from 9% to 15%. In absolute dollars, product development expenses for the year ended March 31, 2004 also increased from the prior fiscal year, from $57.0 million to $97.9 million. The increase in product development as a percentage of publishing net revenues and in absolute dollars resulted from:

- A $21 million game cancellation charge recorded in the fiscal 2004 third quarter. We executed a realignment of our product portfolio driven by the evolution of the video game market, which is increasingly dominated by high quality products that are based on recognizable franchises and supported with big marketing programs. We completed a comprehensive review of our product portfolio in which we evaluated each product based on a number of criteria, including: the strength of the franchise, the projected product quality, the potential responsiveness of the product to aggressive marketing support and the financial risk in the event of product failure. As a result of this review, we believed that we had an extensive

slate of high-potential properties in development. However, we found that certain projects had a lower likelihood of achieving acceptable levels of operating performance and that continued pursuit of these projects would create a substantial opportunity cost as it related to our slate of high-potential projects. Accordingly, in the three months ended December 31, 2003, we cancelled the development of ten products that we believed were unlikely to produce an acceptable level of return on our investment. In connection with the cancellation of these products, we recorded a pre-tax charge of approximately $21 million.

- Our increased emphasis on product quality and the lengthening of product development schedules. To maintain the competitiveness of our products and to take advantage of increasingly sophisticated technology associated with new hardware platforms, we have increased the amount of time spent play-testing new products, conducted more extensive product quality evaluations and lengthened product development schedules to allow time to make the improvements indicated by our testing and evaluations. We are focused on improved game quality, and in many cases, this has resulted in an increase in product development costs.

- The increase in absolute dollars is also due to an increase in studio employee incentive compensation as a result of the strong performances of key fiscal 2004 title releases.

Sales and Marketing (in thousands)

March 31, 2004	% of Consolidated Net Revenues	March 31, 2003	% of Consolidated Net Revenues	Increase/ (Decrease)	Percent Change
$ 128,221	14%	$ 100,646	12%	$ 27,575	27%

Sales and marketing expenses of $128.2 million and $100.6 million represented 14% and 12% of consolidated net revenues for the years ended March 31, 2004 and 2003, respectively. The increase in sales and marketing expense dollars and as a percentage of net revenues for the year ended March 31, 2004 from the prior fiscal year was primarily generated by our publishing business as a result of significant marketing programs, including television and in-theatre ad campaigns and in-store promotions, run in support of our three key fiscal 2004 third quarter title releases, *Tony Hawk's Underground*, and our two new original properties, *True Crime: Streets of L.A.* and *Call of Duty*.

General and Administrative (in thousands)

March 31, 2004	% of Consolidated Net Revenues	March 31, 2003	% of Consolidated Net Revenues	Increase/ (Decrease)	Percent Change
$ 44,612	5%	$ 46,479	5%	$ (1,867)	(4)%

General and administrative expenses for the year ended March 31, 2004 decreased $1.9 million over the same period last year, from $46.5 million to $44.6 million. As a percentage of consolidated net revenues, general and administrative expenses remained constant at 5%. The decrease in absolute dollars was primarily due to:

- Lower bad debt expense of approximately $3.9 million.

- The incurrence in the first quarter of fiscal 2003 of $1.0 million of merger related expenses by our publishing business.

- An approximate $2.0 million charge incurred in fiscal 2003 by our distribution business for the relocation of our UK distribution facility.

- Partially offset by a $5.2 million year-over-year increase in general and administrative employee related costs in both our publishing and distribution businesses.

Operating Income (in thousands)

	March 31, 2004	% of Segment Net Revs	March 31, 2003	% of Segment Net Revs	Increase/ (Decrease)	Percent Change
Publishing	$ 93,223	14%	$ 79,139	13%	$ 14,084	18%
Distribution	16,594	6	15,708	6	886	6
Consolidated	$ 109,817	12%	$ 94,847	11%	$ 14,970	16%

Publishing operating income for the year ended March 31, 2004 increased $14.1 million from the same period last year, from $79.1 million to $93.2 million. International publishing operating income for the year ended March 31, 2004 benefited from the positive impact of the year-over-year strengthening of the EUR and the GBP in relation to the U.S. dollar. Excluding the impact of changes in foreign currency rates, publishing operating income for the year ended March 31, 2004 increased approximately $7.8 million from the same period last year. This increase is primarily due to:

- Strong performance in both the North America and international markets of our fiscal 2004 third quarter title releases.

Partially offset by:

- Increased sales and marketing spending.

- The product development charge recorded in the fiscal 2004 third quarter in connection with the cancellation of ten products.

Distribution operating income for the year ended March 31, 2004 increased slightly over the same period last year, from $15.7 million to $16.6 million. Distribution operating income for the year ended March 31, 2004 benefited from the positive impact of the year-over-year strengthening of the EUR and the GBP in relation to the U.S. dollar. Excluding the impact of changes in foreign currency rates, distribution operating income for the year ended March 31, 2004 was down slightly by approximately $0.9 million from the same period last year. This decrease is primarily due to an increase in general and administrative employee related costs.

Investment Income, Net (in thousands)

March 31, 2004	% of Consolidated Net Revenues	March 31, 2003	% of Consolidated Net Revenues	Increase/ (Decrease)	Percent Change
$ 6,175	—%	$ 8,560	1%	$ (2,385)	(28)%

Investment income, net for the year ended March 31, 2004 was $6.2 million as compared to $8.6 million for the year ended March 31, 2003. The decrease was primarily due to interest rate reductions and the utilization of excess cash to enter into structured stock repurchase transactions and to purchase treasury stock during the year ended March 31, 2004. Premiums earned on structured stock repurchase transactions are recorded in additional paid-in-capital.

Provision for Income Taxes (in thousands)

March 31, 2004	% of Pre Tax Income	March 31, 2003	% of Pre Tax Income	Increase/ (Decrease)	Percent Change
$ 38,277	33%	$ 37,227	36%	$ 1,050	3%

The income tax provision of $38.3 million for the year ended March 31, 2004 reflects our effective income tax rate of 33%. The significant items that generated the variance between our effective rate and our statutory rate of 35% were research and development tax credits and the impact of foreign tax rate differentials, partially offset by an increase in our deferred tax asset valuation allowance and state taxes. The realization of deferred tax assets depends primarily on the generation of future taxable income.

Selected Quarterly Operating Results

Our quarterly operating results have in the past varied significantly and will likely vary significantly in the future, depending on numerous factors, several of which are not under our control. See Item 1 “Business – Factors Affecting Future Performance.” Our business also has experienced and is expected to continue to experience significant seasonality, largely due to consumer buying patterns and our product release schedule focusing on those patterns. Net revenues typically are significantly higher during the fourth calendar quarter, primarily due to the increased demand for consumer software during the year-end holiday buying season. Accordingly, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

The following table is a comparative breakdown of our quarterly results for the immediately preceding eight quarters (amounts in thousands, except per share data):

	Restated (1) Quarter ended							
	March 31, 2005	Dec. 31, 2004	Sept. 30, 2004	June 30, 2004	March 31, 2004	Dec. 31, 2003	Sept. 30, 2003	June 30, 2003
Net revenues	$ 203,861	$ 680,094	$ 310,626	$ 211,276	$ 162,897	$ 508,511	$ 117,523	$ 158,725
Operating income (loss)	(2,899)	137,079	34,658	15,733	4,643	116,961	(16,933)	5,146
Net income (loss)	3,573	97,262	25,543	11,957	6,664	76,981	(10,093)	4,163
Basic earnings (loss) per share	0.02	0.52	0.14	0.07	0.04	0.43	(0.06)	0.02
Diluted earnings (loss) per share	0.02	0.47	0.13	0.06	0.03	0.40	(0.06)	0.02

(1) Consolidated financial information has been restated for the effect of our four-for-three stock split effected in the form of a 33-1/3% stock dividend to shareholders of record as of March 7, 2005, paid March 22, 2005.

Liquidity and Capital Resources

Sources of Liquidity

(in thousands)	As of and for the Year ended March 31, 2005	2004	Increase/ (Decrease)
Cash and cash equivalents	$ 313,608	$ 165,120	$ 148,488
Short-term investments	527,256	422,529	104,727
	$ 840,864	$ 587,649	$ 253,215
Percentage of total assets	64%	61%	

Cash flows provided by operating activities	$ 215,309	$ 67,403	$ 147,906
Cash flows used in investing activities	(143,896)	(170,155)	(26,259)
Cash flows provided by financing activities	72,654	117,569	(44,915)

As of March 31, 2005, our primary source of liquidity is comprised of $313.6 million of cash and cash equivalents and $527.3 million of short-term investments. Over the last two years, our primary sources of liquidity have included cash on hand at the beginning of the year and cash flows generated from continuing operations. We have also generated significant cash flows from the issuance of our common stock to employees through the exercise of options, as well as from the utilization of structured stock repurchase transactions, which are described in more detail below in "Cash Flows from Financing Activities." We have not utilized debt financing as a significant source of cash flows. However, we do have available at certain of our international locations, credit facilities, which are described below in "Credit Facilities," that can be utilized if needed.

In August 2003, we filed with the Securities and Exchange Commission two amended shelf registration statements, including the base prospectuses therein. The first shelf registration statement, on Form S-3, allows us, at any time, to offer any combination of securities described in the base prospectus in one or more offerings with an aggregate initial offering price of up to $500,000,000. Unless we state otherwise in the applicable prospectus supplement, we expect to use the net proceeds from the sale of the securities for general corporate purposes, including capital expenditures, working capital, repayment or reduction of long-term and short-term debt and the financing of acquisitions and other business combinations. We may invest funds that we do not immediately require in marketable securities.

The second shelf registration statement, on Form S-4, allows us, at any time, to offer any combination of securities described in the base prospectus in one or more offerings with an aggregate initial offering price of up to $250,000,000 in connection with our acquisition of the assets, business or securities of other companies whether by purchase, merger or any other form of business combination.

We believe that we have sufficient working capital ($915.4 million at March 31, 2005), as well as proceeds available from our international credit facilities, to finance our operational requirements for at least the next twelve months, including purchases of inventory and equipment, the funding of the development, production, marketing and sale of new products and the acquisition of intellectual property rights for future products from third-parties.

Cash Flows from Operating Activities

The primary drivers of cash flows from operating activities typically have included the collection of customer receivables generated by the sale of our products, offset by payments to vendors for the manufacture, distribution and marketing of our products, third-party developers and intellectual property holders and our own employees. A significant operating use of our cash relates to our continued investment in software development and intellectual property licenses. We spent approximately $126.9 million and $115.2 million in the years ended March 31, 2005 and 2004, respectively, in connection with the acquisition of publishing or distribution rights for products being developed by

third-parties, the execution of new license agreements granting us long-term rights to intellectual property of third-parties, as well as the capitalization of product development costs relating to internally developed products. We expect that we will continue to make significant expenditures relating to our investment in software development and intellectual property licenses. Our future cash commitments relating to these investments are detailed below in "Commitments." Cash flows from operations are affected by our ability to release highly successful or "hit" titles. Though many of these titles have substantial production or acquisition costs and marketing budgets, once a title recoups these costs, incremental net revenues typically will directly and positively impact cash flows.

For the year ended March 31, 2005 and 2004, cash flows from operating activities were $215.3 million and $67.4 million, respectively. The principal components comprising cash flows from operating activities for the year ended March 31, 2005, included favorable operating results and increases in accounts payable and accrued liabilities, partially offset by increases in accounts receivable and our continued investment in software development and intellectual property licenses. See an analysis of the change in key balance sheet accounts below in "Key Balance Sheet Accounts." We expect that a primary source of future liquidity, both short-term and long-term, will be the result of cash flows from continuing operations.

Cash Flows from Investing Activities

The primary drivers of cash used in investing activities typically have included capital expenditures, acquisitions of privately held interactive software development companies and the net effect of purchases and sales/maturities of short-term investment vehicles. The goal of our short-term investments is to maximize return while minimizing risk, maintaining liquidity, coordinating with anticipated working capital needs and providing for prudent investment diversification.

For the year ended March 31, 2005 and 2004, cash flows used in investing activities were $143.9 million and $170.2 million, respectively. For the year ended March 31, 2005, cash flows used in investing activities were primarily the result of capital expenditures, cash paid for an acquisition, and the increase in short-term investments. We have historically financed our acquisitions through the issuance of shares of common stock or a combination of common stock and cash. We will continue to evaluate potential acquisition candidates as to the benefit they bring to us.

Cash Flows from Financing Activities

The primary drivers of cash provided by financing activities have related to transactions involving our common stock, including the issuance of shares of common stock to employees and the public, the purchase of treasury shares, as well as the use of structured stock repurchase transactions. We have not utilized debt financing as a significant source of cash flows. However, we do have available at certain of our international locations, credit facilities, which are described below in "Credit Facilities," that can be utilized if needed.

For the year ended March 31, 2005 and 2004, cash flows from financing activities were $72.7 million and $117.6 million, respectively. The cash provided by financing activities for the year ended March 31, 2005 primarily is the result of the issuance of common stock related to employee stock option and stock purchase plans. During fiscal 2003, our Board of Directors authorized a buyback program under which we can repurchase up to $350.0 million of our common stock. Under the program, shares may be purchased as determined by management and within certain guidelines, from time to time, in the open market or in privately negotiated transactions, including privately negotiated structured stock repurchase transactions and through transactions in the options markets. Depending on market conditions and other factors, these purchases may be commenced or suspended at any time or from time to time without prior

notice. In the past, we have entered into structured stock repurchase transactions that were settled in cash or stock based on the market price of our common stock on the date of the settlement. Upon settlement, we either had our capital investment returned with a premium or received shares of our common stock, depending, respectively, on whether the market price of our common stock was above or below a pre-determined price agreed in connection with each such transaction. As of March 31, 2005, we had approximately $226.2 million available for utilization under the buyback program and no outstanding structured stock repurchase transactions. We actively manage our capital structure as a component of our overall business strategy. Accordingly, in the future, when we determine that market conditions are appropriate, we may seek to achieve long term value for the shareholders through, among other things, new debt or equity financings or refinancings, share repurchases and other transactions involving our equity or debt securities.

Key Balance Sheet Accounts

Accounts Receivable

(amounts in thousands)	March 31, 2005	March 31, 2004	Increase/ (Decrease)
Gross accounts receivable	$ 178,335	$ 109,605	$ 68,730
Net accounts receivable	109,144	62,577	46,567

The increase in gross accounts receivable was primarily the result of:

- Late fourth quarter North American releases of *THUG 2 Remix* and *Spider-Man 2* for the PSP. Both titles were released concurrently with the release of the PSP platform in late March 2005.
- The fourth quarter releases of three affiliate titles, *Mercenaries*, *Star Wars: Knights of the Old Republic II* and *Star Wars: Republic Commando*, in our European territories.
- A continued increase in business of our UK distribution facility with large, mass-market customers. Large, mass-market customers typically have longer trading terms than smaller, independent accounts.

Reserves for returns, price protection and bad debt increased from $47.0 million at March 31, 2004 to $69.2 million at March 31, 2005 while reserves as a percentage of gross receivables declined from 43% to 39%. The change in reserves is primarily due to the strong sell through to end consumers of our key third quarter fiscal 2005 releases.

Inventories

(amounts in thousands)	March 31, 2005	March 31, 2004	Increase/ (Decrease)
Inventories	$ 48,018	$ 26,427	$ 21,591

The increase in inventories was driven by our publishing business, primarily the result of:

- Inventory build up for our highly anticipated early April 2005 release of *Doom 3* for the Xbox console.

Software Development and Intellectual Property Licenses

(amounts in thousands)	March 31, 2005	March 31, 2004	Increase/ (Decrease)
Software development and intellectual property licenses	$ 127,340	$ 135,201	$ (7,861)

The decrease in software development and intellectual property licenses was primarily the result of:

- Releases of titles in fiscal 2005 with large intellectual property licenses or developer advances as of March 31, 2004. These titles included *Spider-Man 2, Shrek 2, THUG 2, Call of Duty, Doom 3, Lemony Snicket's A Series of Unfortunate Events, Shark Tale* and *Rome: Total War.*

Partially offset by:

- Continued investment in software development and intellectual property licenses. We spent approximately $126.9 million in the year ended March 31, 2005 in connection with the acquisition of publishing or distribution rights for products being developed by third-parties, payments on license agreements granting us long-term rights to intellectual property of third-parties, as well as the capitalization of product development costs relating to internally developed products.

Accounts Payable

(amounts in thousands)	March 31, 2005	March 31, 2004	Increase/ (Decrease)
Accounts payable	$ 108,984	$ 72,874	$ 36,110

The increase in accounts payable was primarily the result of:

- Increased inventory purchases by our publishing business as a result of highly anticipated release of *Doom 3* for the Xbox in early April 2005.

- Increases in our fourth quarter European sales volume and inventory purchases related to our focus on international expansion, including our addition of offices in Spain and Italy and the release of three hit affiliate titles in the fourth quarter of fiscal 2005.

Accrued Expenses

(amounts in thousands)	March 31, 2005	March 31, 2004	Increase/ (Decrease)
Accrued expenses	$ 98,067	$ 63,205	$ 34,862

The increase in accrued expenses was primarily driven by:

- Continued focus on marketing and co-op support for our key titles. It has been our experience that this increased spending will lengthen the product sales life cycle and add to the long-term prospects of the respective product lines.

- Increased foreign income taxes payable.

- Expenses related to the fourth quarter releases of three affiliate label products in our European territories.

Credit Facilities

We have revolving credit facilities with our Centresoft subsidiary located in the UK (the "UK Facility") and our NBG subsidiary located in Germany (the "German Facility"). The UK Facility provided Centresoft with the ability to borrow up to GBP 8.0 million ($15.0 million), including issuing letters of credit, on a revolving basis as of March 31, 2005. Furthermore, under the UK Facility, Centresoft provided a GBP 0.6 million ($1.1 million) guarantee for the benefit of our CD Contact subsidiary as of March 31, 2005. The UK Facility bore interest at LIBOR plus 2.0% as of March 31, 2005, is collateralized by substantially all of the assets of the subsidiary and expires in January 2006. The UK Facility also contains various covenants that require the subsidiary to maintain specified financial ratios related to, among others, fixed charges. As of March 31, 2005, we were in compliance with these covenants. No borrowings were outstanding against the UK Facility as of March 31, 2005. The German Facility provided for revolving loans up to EUR 0.5 million ($0.6 million) as of March 31, 2005, bore interest at a Eurocurrency rate plus 2.5%, is collateralized by certain of the subsidiary's property and equipment and has no expiration date. No borrowings were outstanding against the German Facility as of March 31, 2005.

Commitments

In the normal course of business, we enter into contractual arrangements with third-parties for non-cancelable operating lease agreements for our offices, for the development of products, as well as for the rights to intellectual property. Under these agreements, we commit to provide specified payments to a lessor, developer or intellectual property holder, based upon contractual arrangements. Typically, the payments to third-party developers are conditioned upon the achievement by the developers of contractually specified development milestones. These payments to third-party developers and intellectual property holders typically are deemed to be advances and are recoupable against future royalties earned by the developer or intellectual property holder based on the sale of the related game. Additionally, in connection with certain intellectual property right acquisitions and development agreements, we will commit to spend specified amounts for marketing support for the related game(s) which is to be developed or in which the intellectual property will be utilized. Assuming all contractual provisions are met, the total future minimum commitments for these and other contractual arrangements in place as of March 31, 2005, are scheduled to be paid as follows (amounts in thousands):

	Contractual Obligations			
	Facility Leases	Developer and IP	Marketing	Total
Fiscal year ending March 31,				
2006	$ 11,990	$ 45,557	$ 18,759	$ 76,306
2007	11,440	7,975	2,500	21,915
2008	7,906	5,775	7,500	21,181
2009	6,620	2,900	—	9,520
2010	5,783	—	—	5,783
Thereafter	19,626	—	—	19,626
Total	$ 63,365	$ 62,207	$ 28,759	$ 154,331

As of March 31, 2005 and 2004, we did not have any relationships with unconsolidated entities or financial parties, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market, or credit risk that could arise if we had engaged in such relationships.

Related Parties

In August 2001, we elected to our Board of Directors an individual who is a partner in a law firm that has provided legal services to Activision for more than ten years and who remains a director of the Company. For the years ended March 31, 2005, 2004 and 2003, the fees we paid to the law firm were an insignificant portion of the law firm's total revenues. We believe that the fees charged to us by the law firm are competitive with the fees charged by other law firms.

Financial Disclosure

We maintain internal controls over financial reporting, which generally include those controls relating to the preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America. We also are focused on our "disclosure controls and procedures," which as defined by the Securities and Exchange Commission are generally those controls and procedures designed to ensure that financial and non-financial information required to be disclosed in our reports filed with the Securities and Exchange Commission is reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is communicated to management, including our Chief Executive Officers and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our Disclosure Committee, which operates under the board approved Disclosure Committee Charter and Disclosure Controls & Procedures Policy, includes senior management representatives and assists executive

management in its oversight of the accuracy and timeliness of our disclosures, as well as in implementing and evaluating our overall disclosure process. As part of our disclosure process, senior finance and operational representatives from all of our corporate divisions and business units prepare quarterly reports regarding their current quarter operational performance, future trends, subsequent events, internal controls, changes in internal controls and other accounting and disclosure-relevant information. These quarterly reports are reviewed by certain key corporate finance representatives. These corporate finance representatives also conduct quarterly interviews on a rotating basis with the preparers of selected quarterly reports. The results of the quarterly reports and related interviews are reviewed by the Disclosure Committee. Finance representatives also conduct reviews with our senior management team, our internal and external counsel and other appropriate personnel involved in the disclosure process, as appropriate. Additionally, senior finance and operational representatives provide internal certifications regarding the accuracy of information they provide that is utilized in the preparation of our periodic public reports filed with the Securities and Exchange Commission. Financial results and other financial information also are reviewed with the Audit Committee of the board of directors on a quarterly basis. As required by applicable regulatory requirements, the Chief Executive Officers and the Chief Financial Officer review and make various certifications regarding the accuracy of our periodic public reports filed with the Securities and Exchange Commission, our disclosure controls and procedures, and our internal control over financial reporting. With the assistance of the Disclosure Committee, we will continue to assess and monitor our disclosure controls and procedures, and our internal controls over financial reporting, and will make refinements as necessary.

Recently Issued Accounting Standards and Laws

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 123 (revised 2004), *Share-Based Payment* ("SFAS No. 123R"), which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation (*"SFAS 123"). SFAS No. 123R supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS 123. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

SFAS No. 123R must be adopted by the Company no later than April 1, 2006. Early adoption will be permitted in periods in which financial statements have not yet been issued. The Company expects to adopt SFAS No. 123R on April 1, 2006.

SFAS No. 123R permits public companies to adopt its requirements using one of two methods:

- A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS No. 123R that remain unvested on the effective date.

- A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company has not yet determined which method it will use.

As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS No. 123R's fair value method will have a significant impact on the Company's results of operations, although it will have no impact on its overall financial position. The impact of adoption of SFAS No. 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future.

On November 24, 2004, the FASB issued Statement No. 151, *Inventory Costs, an Amendment of ARB No. 43, Chapter 4* ("SFAS No. 151"). The standard requires that abnormal amounts of idle capacity and spoilage costs within inventory should be excluded from the cost of inventory and expensed when incurred. The provisions of SFAS No. 151 are applicable to inventory costs incurred during fiscal years beginning after June 15, 2005. The Company expects the adoption of SFAS No. 151 will not have a material impact on our financial position or results of operations.

On December 15, 2004 the FASB issued Statement No. 153 ("SFAS No. 153"), *Exchanges of Nonmonetary Assets — an Amendment of Accounting Principles Board Opinion No. 29*. This standard requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance. The new standard is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company expects the adoption of SFAS No. 153 will not have a material impact on our financial position or results of operations.

On October 22, 2004, the President of the United States signed the American Jobs Creation Act of 2004 (the "Act"). The Act raises a number of issues with respect to accounting for income taxes. For companies that pay U.S. income taxes on manufacturing activities in the U.S., the Act provides a

deduction from taxable income equal to a stipulated percentage of qualified income from domestic production activities. The manufacturing deduction provided by the Act replaces the extraterritorial income ("ETI") deduction currently in place. We currently derive benefits from the ETI exclusion which was repealed by the Act. Our exclusion for fiscal 2005, 2006, and 2007 will be limited to 95%, 75%, and 45% of the otherwise allowable exclusion and no exclusion will be available in fiscal 2008 and thereafter. The Act also creates a temporary incentive for U.S. multinationals to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations. The Act also provides for other changes in tax law that will affect a variety of taxpayers. On December 21, 2004, the Financial Accounting Standards Board ("FASB") issued two FASB Staff Positions ("FSP") regarding the accounting implications of the Act related to (1) the deduction for qualified domestic production activities and (2) the one-time tax benefit for the repatriation of foreign earnings. The FASB determined that the deduction for qualified domestic production activities should be accounted for as a special deduction under FASB Statement No. 109, *Accounting for Income Taxes*. The FASB also confirmed, that upon deciding that some amount of earnings will be repatriated, a company must record in that period the associated tax liability. The guidance in the FSPs applies to financial statements for periods ending after the date the Act was enacted. We are evaluating the Act at this time and have not yet determined whether we will avail ourselves of the opportunity of the one-time tax benefit for the repatriation of foreign earnings. We plan to complete our assessment before the end of fiscal 2006 and are not currently in a position to estimate a range of possible repatriation amounts.

Inflation

Our management currently believes that inflation has not had a material impact on continuing operations.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the potential loss arising from fluctuations in market rates and prices. Our market risk exposures primarily include fluctuations in interest rates, foreign currency exchange rates and market prices. Our market risk sensitive instruments are classified as instruments entered into for purposes "other than trading." Our views on market risk are not necessarily indicative of actual results that may occur and do not represent the maximum possible gains and losses that may occur, since actual gains and losses will differ from those estimated, based upon actual fluctuations in interest rates, foreign currency exchange rates and market prices and the timing of transactions.

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We do not use derivative financial instruments in our investment portfolio. We manage our interest rate risk by maintaining an investment portfolio consisting primarily of debt instruments with high credit quality and relatively short average maturities. We also manage our interest rate risk by maintaining sufficient cash and cash equivalent balances such that we are typically able to hold our investments to maturity. As of March 31, 2005, our cash equivalents and short-term investments included debt securities of $551.4 million.

The following table presents the amounts and related weighted average interest rates of our investment portfolio as of March 31, 2005 (amounts in thousands):

	Average Interest Rate	Amortized Cost	Fair Value
Cash equivalents:			
Fixed rate	2.82%	$ 25,227	$ 25,218
Variable rate	2.71	107,519	107,519
Short-term investments:			
Fixed rate	2.96%	$ 530,302	$ 526,194

Our short-term investments generally mature between three months and thirty months.

Foreign Currency Exchange Rate Risk

We transact business in many different foreign currencies and may be exposed to financial market risk resulting from fluctuations in foreign currency exchange rates, particularly GBP and EUR. The volatility of GBP and EUR (and all other applicable currencies) will be monitored frequently throughout the coming year. When appropriate, we enter into hedging transactions in order to mitigate our risk from foreign currency fluctuations. We will continue to use hedging programs in the future and may use currency forward contracts, currency options and/or other derivative financial instruments commonly utilized to reduce financial market risks if it is determined that such hedging activities are appropriate to reduce risk. We do not hold or purchase any foreign currency contracts for trading purposes. As of March 31, 2005, we had no outstanding hedging contracts.

Market Price Risk

With regard to the structured stock repurchase transactions described in Note 15 in the Notes to the Consolidated Financial Statements, at those times when we have structured stock repurchase transactions outstanding, it is possible that at settlement we could take delivery of shares at an effective repurchase price higher than the then market price. As of March 31, 2005, we had no structured stock repurchase transactions outstanding.

Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

All other schedules of Activision are omitted because of the absence of conditions under which they are required or because the required information is included elsewhere in the financial statements or in the notes thereto.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officers and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Disclosure controls and procedures are designed with the objective of ensuring that (i) information required to be disclosed in the company's reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) information is accumulated and communicated to management, including the Chief Executive Officers and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Based on this evaluation, the Chief Executive Officers and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in recording, processing, summarizing, and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in our periodic reports.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of the Company's management, including our Chief Executive Officers and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on criteria established in the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company's management concluded that its internal control over financial reporting was effective as of March 31, 2005.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm has audited management's assessment of the effectiveness of the Company's internal control over financial reporting as of March 31, 2005 as stated in their report on pages F-1 and F-2.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our 2005 Annual Meeting of Shareholders, entitled "Election of Directors" and "Executive Officers and Key Employees" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our 2005 Annual Meeting of Shareholders, entitled "Executive Compensation" and "Indebtedness of Management" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our 2005 Annual Meeting of Shareholders, entitled "Security Ownership of Certain Beneficial Owners and Management" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our 2005 Annual Meeting of Shareholders, entitled "Certain Relationships and Related Transactions" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our 2005 Annual Meeting of Shareholders, entitled "Principal Accountant Fees and Services" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements See Item 8. - Consolidated Financial Statements and Supplementary Data Index for Financial Statements and Schedule on page 57 herein.

2. Financial Statement Schedule The following financial statement schedule of Activision, Inc. for the years ended March 31, 2005, 2004 and 2003 is filed as part of this report and should be read in conjunction with the Consolidated Financial Statements of Activision, Inc.:

Schedule II — Valuation and Qualifying Accounts and Reserves

Other financial statement schedules are omitted because the information called for is not required or is shown either in the Consolidated Financial Statements or the notes thereto.

3. Exhibits Required by Item 601 of Regulation S-K

Exhibit Number	Exhibit
2.1	Agreement and Plan of Merger dated as of June 9, 2000 among Activision, Inc., Activision Holdings, Inc. and ATVI Merger Sub, Inc. (incorporated by reference to Exhibit 2.4 of Activision's Form 8-K, filed June 16, 2000).
3.1	Amended and Restated Certificate of Incorporation of Activision Holdings, dated June 1, 2000 (incorporated by reference to Exhibit 2.5 of Activision's Form 8-K, filed June 16, 2000).
3.2	Amended and Restated Bylaws dated August 1, 2000 (incorporated by reference to Exhibit 3.2 of Activision's Form 8-K, filed July 11, 2001).
3.3	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Activision Holdings dated as of June 9, 2000 (incorporated by reference to Exhibit 2.7 of Activision's Form 8-K, filed June 16, 2000).
3.4	Certificate of Amendment of Amended and Restated Certificate of Incorporation, as amended, of Activision, Inc. dated as of August 23, 2001 (incorporated by reference to Exhibit 3.3 of Amendment No. 1 to our Registration Statement on Form S-3, Registration No. 333-66280, filed August 31, 2001).
3.5	Certificate of Designation of Series A Junior Preferred Stock of Activision, Inc. dated as of December 27, 2001 (incorporated by reference to Exhibit 3.4 of Activision's Form 10-Q for the quarter ended December 31, 2001).

3.6	Certificate of Amendment of Amended and Restated Certificate of Incorporation, as amended, of Activision, Inc. dated as of December 29, 2003 (incorporated by reference to Exhibit 3.6 of Activision's Form 10-Q for the quarter ended December 31, 2003).

3.7	Certificate of Amendment of Amended and Restated Certificate of Incorporation, as amended, of Activision, Inc., dated as of April 4, 2005 (incorporated by reference to Exhibit 3.1 of Activision's Form 8-K, filed April 5, 2004).
4.1	Rights Agreement dated as of April 18, 2000, between Activision and Continental Stock Transfer & Trust Company, which includes as exhibits the form of Right Certificates as Exhibit A, the Summary of Rights to Purchase Series A Junior Preferred Stock as Exhibit B and the form of Certificate of Designation of Series A Junior Preferred Stock of Activision as Exhibit C, (incorporated by reference to Activision's Registration Statement on Form 8-A, Registration No. 001-15839, filed April 19, 2000).
10.1	Activision, Inc. 1991 Stock Option and Stock Award Plan, as amended (incorporated by reference to Exhibit 10.1 of Activision's Form 10-K for the year ended March 31, 2002).
10.2	Activision, Inc. 1998 Incentive Plan, as amended (incorporated by reference to Exhibit 10.4 of Activision's Form 10-Q for the quarter ended December 31, 2001).
10.3	Activision, Inc. 1999 Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended June 30, 2002).
10.4	Activision, Inc. 2001 Incentive Plan, as amended (incorporated by reference to Exhibit 10.2 of Activision's Form 10-Q for the quarter ended June 30, 2002).
10.5	Activision, Inc. 2002 Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended June 30, 2003).
10.6	Activision, Inc. 2002 Executive Incentive Plan (incorporated by reference to Appendix I of Activision's 2002 Definitive Proxy Statement on Schedule 14A, filed June 29, 2002).
10.7	Activision, Inc. 2002 Studio Employee Retention Incentive Plan (incorporated by reference to Exhibit 10.2 of Activision's Form 10-Q for the quarter ended December 31, 2002).
10.8	Activision, Inc. 2003 Incentive Plan (incorporated by reference to Exhibit 10.2 of Activision's Form 10-Q for the quarter ended June, 30, 2003).

10.9	Activision, Inc. Second Amended and Restated 2002 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 of Activision's Form 8-K, filed March 3, 2005).
10.10	Activision, Inc. 2002 Employee Stock Purchase Plan for International Employees (incorporated by reference to Exhibit 5.1 of Activision's Registration Statement on Form S-8, filed February 19, 2003).
10.11	Activision, Inc. Employee Stock Purchase Plan, as amended, (incorporated by reference to Exhibit 4.1 of Activision's Form S-8, Registration No. 333-36272 filed May 4, 2000).
10.12	Amendment I dated July 22, 2002 to employment agreement dated May 22, 2000, between Activision and Robert A. Kotick (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended September 30, 2002).
10.13	Amended and restated employment agreement dated May 22, 2000 between Activision and Robert A. Kotick (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended September 30, 2000).
10.14	Stock option agreement dated May 22, 2000 between Activision and Robert A. Kotick (incorporated by reference to Exhibit 10.2 of Activision's Form 10-Q for the quarter ending September 30, 2000).
10.15	Employment agreement dated August 20, 2004 between Activision and William J. Chardavoyne (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended September 30, 2004).
10.16	Employment agreement dated November 20, 2002 between Activision and George Rose (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended December 31, 2002).
10.17	Service Agreement dated March 1, 2002 between Combined Distribution (Holdings) Limited and Richard Andrew Steele (incorporated by reference to Exhibit 10.14 of Activision's Form 10-K for the year ended March 31, 2002).
10.18	Employment agreement dated April 1, 2002 between Activision and Michael Rowe (incorporated by reference to Exhibit 10.15 of Activision's Form 10-K for the year ended March 31, 2002).
10.19	Employment agreement dated November 6, 2003 between Activision and Kathy Vrabeck (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended December 31, 2003).

10.20	Employment Agreement dated July 22, 2002 between Ronald Doornink and Activision (incorporated by reference to Exhibit 10.6 of Activision's Form 10-Q for the quarter ended June 30, 2002).
10.21	Amendment I dated July 22, 2002 to employment agreement dated May 22, 2000, between Activision and Brian G. Kelly (incorporated by reference to Exhibit 10.2 of Activision's Form 10-Q for the quarter ended September 30, 2002).
10.22	Amended and restated employment agreement dated May 22, 2000 between Activision and Brian G. Kelly (incorporated by reference to Exhibit 10.3 of Activision's Form 10-Q for the quarter ending September 30, 2000).
10.23	Stock option agreement dated May 22, 2000 between Activision and Brian G. Kelly (incorporated by reference to Exhibit 10.4 of Activision's Form 10-Q for the quarter ending September 30, 2000).
10.24	Confidential License Agreement for Nintendo Gamecube (Western Hemisphere), dated as of November 9, 2001, between Nintendo of America Inc. and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.1 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).
10.25	License Agreement for the Nintendo Gamecube System (EEA), dated as of June 5, 2002, between Nintendo Co., Ltd. and Activision, Inc. (incorporated by reference to Exhibit 10.2 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).
10.26	Confidential License Agreement for Game Boy Advance (Western Hemisphere), dated as of May 10, 2001, between Nintendo of America, Inc. and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.3 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).
10.27	Confidential License Agreement for the Game Boy Advance Video Game System (EEA, Australia and New Zealand), dated as of September 14, 2001, between Nintendo Co., Ltd. and Activision, Inc. (incorporated by reference to Exhibit 10.4 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).
10.28	Microsoft Corporation Xbox Publisher License Agreement, dated as of July 18, 2001, between Microsoft Corporation and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.5 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).
10.29	Amendment to Microsoft Corporation Xbox Publisher License Agreement, dated as of April 19, 2002, between

	Microsoft Corporation and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.6 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).
10.30	Xbox Live Distribution Amendment to the Xbox Publisher Licensing Agreement, dated as of October 28, 2002, between Microsoft Corporation and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.7 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).
10.31	Licensed Publisher Agreement, dated as of July 13, 2002, between Sony Computer Entertainment America Inc. and Activision, Inc. ("PlayStation license") (incorporated by reference to Exhibit 10.8 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).
10.32	Amendment to Licensed Publisher Agreement, dated as of April 1, 2000, between Sony Computer Entertainment America Inc. and Activision, Inc. ("PlayStation2 license") (incorporated by reference to Exhibit 10.9 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).
10.33	PlayStation2 Licensed Publisher Agreement, dated as of March 23, 2001, between Sony Computer Entertainment Europe Limited and Activision UK Limited (incorporated by reference to Exhibit 10.10 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).
10.34	Amendment I dated February 27, 2003 to employment agreement dated July 22, 2002, between Activision and Ron Doornink.
10.35	Form of Stock Option Certificate under the 1998 Incentive Plan of Activision, Inc. (incorporated by reference to Exhibit 10.1 of Activision's Form 8-K, filed May 31, 2005).
10.36	Form of Stock Option Certificate under the 1999 Incentive Plan of Activision, Inc. (incorporated by reference to Exhibit 10.1 of Activision's Form 8-K, filed May 31, 2005).
10.37	Form of Stock Option Agreement under the 2001 Incentive Plan of Activision, Inc. (incorporated by reference to Exhibit 10.1 of Activision's Form 8-K, filed May 31, 2005).
10.38	Form of Stock Option Agreement under the 2002 Executive Incentive Plan of Activision, Inc. (incorporated by reference to Exhibit 10.1 of Activision's Form 8-K, filed May 31, 2005).

10.39	Form of Stock Option Agreement under the 2003 Incentive Plan of Activision, Inc. (incorporated by reference to Exhibit 10.1 of Activision's Form 8-K, filed May 31, 2005).

10.40	Form of Stock Option Agreement (Executive) under the 2003 Incentive Plan of Activision, Inc.
10.41	Form of Stock Option Agreement (Non-Executive) under the 2003 Incentive Plan of Activision, Inc.
10.42	Confidential License Agreement for the Nintendo DS (Western Hemisphere), dated as of November 1, 2004, between Nintendo Co., Ltd. and Activision, Inc. *
10.43	First Amendment to the Confidential License Agreement for Game Boy Advance (Western Hemisphere) dated as of May 10, 2004, between Nintendo of America, Inc. and Activision Publishing, Inc.
10.44	First Renewal License Agreement for the Game Boy Advance Video Game System (EEA, Australia, and New Zealand) dated September 14, 2004, between Nintendo Co., LTD. and Activision, Inc. *
10.45	First Amendment to the Confidential License Agreement for Nintendo GameCube (Western Hemisphere) dated November 9, 2004, between Nintendo of America, Inc. and Activision Publishing, Inc.
10.46	PlayStation Portable ("PSP") Licensed PSP Publisher Agreement dated September 15, 2004, between Sony Computer Entertainment America Inc. and Activision, Inc. *
10.47	Amendment to the Xbox Publisher Licensing Agreement dated as of March 1, 2005, between Microsoft Licensing, GP, and Activision Publishing, Inc. *
10.48	Amendment I dated April 1, 2004 to employment agreement dated March 1, 2002, between Combined Distribution (Holdings) Limited and Richard Andrew Steele (incorporated by reference to Exhibit 10.3 of Activision's Form 10-Q for the quarter ended June 30, 2004).
10.49	Amendment I dated April 29, 2004 to employment agreement dated April 1, 2002 between Activision and Michael Rowe (incorporated by reference to Exhibit 10.4 of Activision's Form 10-Q for the quarter ended June 30, 2004).
10.50	Amendment II dated June 1, 2004 to employment agreement dated July 22, 2002, between Activision and Ron Doornink (incorporated by reference to Exhibit 10.5 of Activision's Form 10-Q for the quarter ended June 30, 2004).
10.51	Amendment I dated March 30, 2005 to employment agreement dated November 20, 2002 between Activision and George Rose.
14.1	Code of Ethics for Senior Financial Officers (incorporated by reference to Exhibit 14.1 of Activision's Form 10-K for the year ended March 31, 2004).

21.1	Principal subsidiaries of Activision.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Robert A. Kotick pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Ronald Doornink pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of William J. Chardavoyne pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Robert A. Kotick pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Ronald Doornink pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.3	Certification of William J. Chardavoyne pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*	Portions omitted pursuant to a request for confidential treatment.

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: June 9, 2005

ACTIVISION, INC.

By: */s/ Ronald Doornink*
(Ronald Doornink)
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: */s/ Robert A. Kotick* (Robert A. Kotick)	Chairman, Chief Executive Officer, Activision, Inc., and Director	June 9, 2005
By: */s/ Brian G. Kelly* (Brian G. Kelly)	Co-Chairman and Director	June 9, 2005
By: */s/ Ronald Doornink* (Ronald Doornink)	President, Activision, Inc.; Chief Executive Officer, Activision Publishing, Inc. (Principal Executive Officer) and Director	June 9, 2005
By: */s/ William J. Chardavoyne* (William J. Chardavoyne)	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	June 9, 2005
By: */s/ Robert J. Corti* (Robert J. Corti)	Director	June 9, 2005
By: */s/ Kenneth L. Henderson* (Kenneth L. Henderson)	Director	June 9, 2005
By: */s/ Barbara S. Isgur* (Barbara S. Isgur)	Director	June 9, 2005
By: */s/ Robert J. Morgado* (Robert J. Morgado)	Director	June 9, 2005
By: */s/ Peter J. Nolan* (Peter J. Nolan)	Director	June 9, 2005

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of Activision, Inc.:

We have completed an integrated audit of Activision, Inc.'s 2005 consolidated financial statements and of its internal control over financial reporting as of March 31, 2005 and audits of its 2004 and 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 8, present fairly, in all material respects, the financial position of Activision, Inc and its subsidiaries (the "Company") at March 31, 2005 and 2004 and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 8, presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of March 31, 2005 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
Los Angeles, California
June 7, 2005

Part II. Financial Information.
Item 8. Financial Statements.

ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	March 31, 2005	March 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 313,608	$ 165,120
Short-term investments	527,256	422,529
Accounts receivable, net of allowances of $69,191 and $47,028 at March 31, 2005 and 2004, respectively	109,144	62,577
Inventories	48,018	26,427
Software development	73,096	58,320
Intellectual property licenses	21,572	32,115
Deferred income taxes	6,760	26,127
Other current assets	23,010	18,660
Total current assets	1,122,464	811,875
Software development	18,518	28,386
Intellectual property licenses	14,154	16,380
Property and equipment, net	30,490	25,539
Deferred income taxes	28,041	9,064
Other assets	1,635	1,080
Goodwill	91,661	76,493
Total assets	$ 1,306,963	$ 968,817

Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 108,984	$ 72,874
Accrued expenses	98,067	63,205
Total liabilities	207,051	136,079
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preferred stock, $.000001 par value, 3,750,000 shares authorized, no shares issued at March 31, 2005 and 2004	—	—
Series A Junior Preferred stock, $.000001 par value, 1,250,000 shares authorized, no shares issued at March 31, 2005 and 2004	—	—
Common stock, $.000001 par value, 225,000,000 shares authorized, 201,030,623 and 222,502,089 shares issued and 201,030,623 and 183,108,323 shares outstanding at March 31, 2005 and 2004, respectively	—	—
Additional paid-in capital	741,680	758,626
Retained earnings	346,614	208,279
Less: Treasury stock, at cost, no shares and 39,393,765 shares as of March 31, 2005 and 2004, respectively	—	(144,128)
Accumulated other comprehensive income	11,618	9,961
Total shareholders' equity	1,099,912	832,738
Total liabilities and shareholders' equity	$ 1,306,963	$ 968,817

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

ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	For the years ended March 31,		
	2005	**2004**	**2003**
Net revenues	$ 1,405,857	$ 947,656	$ 864,116
Costs and expenses:			
Cost of sales – product costs	658,949	475,541	440,977
Cost of sales – software royalties and amortization	123,800	59,744	79,194
Cost of sales – intellectual property licenses	62,197	31,862	45,002
Product development	86,543	97,859	56,971
Sales and marketing	230,058	128,221	100,646
General and administrative	59,739	44,612	46,479
Total costs and expenses	1,221,286	837,839	769,269
Income from operations	184,571	109,817	94,847
Investment income, net	13,092	6,175	8,560
Income before income tax provision	197,663	115,992	103,407
Income tax provision	59,328	38,277	37,227
Net income	$ 138,335	$ 77,715	$ 66,180
Basic earnings per share	$ 0.74	$ 0.44	$ 0.34
Weighted average common shares outstanding	187,517	177,665	192,479
Diluted earnings per share	$ 0.66	$ 0.40	$ 0.32
Weighted average common shares outstanding – assuming dilution	209,145	193,191	207,310

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

ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended March 31, 2005, 2004 and 2003

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity
Balance, March 31, 2002	**183,103**	**$ —**	**$ 397,528**	**$ 64,384**	**(12,987)**	**$(20,323)**	**$ (11,498)**	**$ 430,091**
Components of comprehensive income:								
Net income for the year	—	—	—	66,180	—	—	—	66,180
Unrealized appreciation on short-term investments	—	—	—	—	—	—	134	134
Foreign currency translation adjustment	—	—	—	—	—	—	7,930	7,930
Total comprehensive income								74,244
Issuance of common stock pursuant to underwritten public offering	22,500	—	247,291	—	—	—	—	247,291
Issuance of common stock to employees	7,999	—	20,547	—	—	—	—	20,547
Issuance of common stock pursuant to warrants and common stock warrants	92	—	2,184	—	—	—	—	2,184
Tax benefit attributable to employee stock options and common stock warrants	—	—	23,884	—	—	—	—	23,884
Purchase of structured stock repurchase transactions	—	—	(110,000)	—	—	—	—	(110,000)
Issuance of common stock to effect business combinations	1,053	—	10,861	—	—	—	—	10,861
Purchase of treasury shares	—	—	—	—	(21,589)	(101,362)	—	(101,362)
Balance, March 31, 2003	**214,747**	**—**	**592,295**	**130,564**	**(34,576)**	**(121,685)**	**(3,434)**	**597,740**
Components of comprehensive income:								
Net income for the year	—	—	—	77,715	—	—	—	77,715
Unrealized depreciation on short-term investments	—	—	—	—	—	—	(37)	(37)
Foreign currency translation adjustment	—	—	—	—	—	—	13,432	13,432
Total comprehensive income								91,110
Issuance of common stock to employees	6,853	—	25,730	—	—	—	—	25,730
Issuance of common stock pursuant to warrants and common stock warrants	558	—	1,038	—	—	—	—	1,038
Tax benefit attributable to employee stock options and common stock warrants	—	—	12,417	—	—	—	—	12,417
Structured stock repurchase transactions	—	—	(52,621)	—	—	—	—	(52,621)
Settlement of structured stock repurchase transactions	—	—	176,521	—	(2,288)	(10,000)	—	166,521
Issuance of common stock to effect business combinations	344	—	3,246	—	—	—	—	3,246
Purchase of treasury shares	—	—	—	—	(2,530)	(12,443)	—	(12,443)
Balance, March 31, 2004	**222,502**	**—**	**758,626**	**208,279**	**(39,394)**	**(144,128)**	**9,961**	**832,738**
Components of comprehensive income:								
Net income for the year	—	—	—	138,335	—	—	—	138,335
Unrealized depreciation on short-term investments	—	—	—	—	—	—	(3,317)	(3,317)
Foreign currency translation adjustment	—	—	—	—	—	—	4,974	4,974
Total comprehensive income								139,992
Issuance of common stock to employees	16,691	—	68,192	—	—	—	—	68,192
Issuance of common stock pursuant to warrants and common stock warrants	1,123	—	4,462	—	—	—	—	4,462
Tax benefit attributable to employee stock options and common stock warrants	—	—	53,337	—	—	—	—	53,337
Issuance of common stock to effect business combinations	109	—	1,191	—	—	—	—	1,191
Retirement of treasury shares	(39,394)	—	(144,128)	—	39,394	144,128	—	—
Balance, March 31, 2005	**201,031**	**$ —**	**$ 741,680**	**$ 346,614**	**—**	**$ —**	**$ 11,618**	**$ 1,099,912**

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

ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the years ended March 31, 2005	2004	2003
Cash flows from operating activities:			
Net income	$ 138,335	$ 77,715	$ 66,180
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	878	15,147	3,355
Depreciation and amortization	10,702	10,795	12,114
Realized gain on sale of short term investments	(471)	(21)	(234)
Amortization and write-offs of capitalized software development costs and intellectual property licenses	134,799	87,922	100,415
Tax benefit of stock options and warrants exercised	53,337	12,417	23,884
Change in operating assets and liabilities (net of effects of acquisitions):			
Accounts receivable, net	(46,527)	(42,497)	61,922
Inventories	(21,591)	(6,850)	1,159
Software development and intellectual property licenses	(126,938)	(115,202)	(151,594)
Other assets	1,543	(5,232)	1,836

Accounts payable	35,413	23,005	(19,072)
Accrued expenses and other liabilities	35,829	10,204	(8,990)
Net cash provided by operating activities	215,309	67,403	90,975
Cash flows from investing activities:			
Cash used in business acquisitions (net of cash acquired)	(21,382)	(3,480)	(21,199)
Capital expenditures	(14,941)	(11,976)	(11,877)
Purchase of short-term investments	(868,723)	(703,400)	(822,114)
Proceeds from sales and maturities of short-term investments	761,150	548,701	554,638
Other	—	—	(995)
Net cash used in investing activities	(143,896)	(170,155)	(301,547)
Cash flows from financing activities:			
Proceeds from issuance of common stock to employees and common stock pursuant to warrants	72,654	26,483	20,547
Notes payable, net	—	(2,818)	(720)
Proceeds from issuance of common stock pursuant to underwritten public offering, net of offering costs	—	—	248,072
Purchase of structured stock repurchase transactions	—	(52,621)	(110,000)
Settlement of structured stock repurchase transactions	—	166,521	—
Purchase of treasury stock	—	(19,996)	(93,809)
Net cash provided by financing activities	72,654	117,569	64,090
Effect of exchange rate changes on cash	4,421	11,195	6,583
Net increase (decrease) in cash and cash equivalents	148,488	26,012	(139,899)
Cash and cash equivalents at beginning of period	165,120	139,108	279,007
Cash and cash equivalents at end of period	$ 313,608	$ 165,120	$ 139,108

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

ACTIVISION, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the year ended March 31, 2005

1. Summary of Significant Accounting Policies

Business

Activision, Inc. ("Activision" or "we") is a leading international publisher of interactive entertainment software products. We have built a company with a diverse portfolio of products that spans a wide range of categories and target markets and that is used on a variety of game hardware platforms and operating systems. We have created, licensed and acquired a group of highly recognizable brands, which we market to a variety of consumer demographics. Our products cover diverse game categories including action/adventure, action sports, racing, role-playing, simulation, first-person action and strategy. Our target customer base ranges from casual players to game enthusiasts, children to adults and mass-market consumers to "value" buyers. We currently offer our products primarily in versions that operate on the Sony PlayStation 2 ("PS2"), Nintendo GameCube ("GameCube") and Microsoft Xbox ("Xbox") console systems, Nintendo Game Boy Advance ("GBA"), Sony PlayStation Portable ("PSP") and Nintendo Dual Screen ("NDS") hand-held devices and the personal computer ("PC"). In prior years, we have also offered our products on the Sony PlayStation ("PS1") and Nintendo 64 ("N64") console systems and Nintendo Game Boy Color ("GBC") hand-held device. We also intend on developing titles for the next-generation console systems being developed by Sony, Nintendo, and Microsoft.

Our publishing business involves the development, marketing and sale of products directly, by license or through our affiliate label program with certain third-party publishers. Our distribution business consists of operations in Europe that provide logistical and sales services to third-party publishers of interactive entertainment software, our own publishing operations and manufacturers of interactive entertainment hardware.

We maintain operations in the United States, Canada, the United Kingdom ("UK"), Germany, France, Italy, Spain, Japan, Australia, Sweden and the Netherlands. In fiscal year 2005, international operations contributed approximately 50% of consolidated net revenues.

Principles of Consolidation

The consolidated financial statements include the accounts of Activision, Inc., a Delaware corporation, and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Cash, Cash Equivalents and Short-term Investments

Cash and cash equivalents include cash, money markets and short-term investments with original maturities of not more than 90 days.

Short-term investments generally mature between three and thirty months. Investments with maturities beyond one year may be classified as short-term based on their liquid nature and because such securities represent the investment of cash that is available for current operations. All of our short-term investments are classified as available-for-sale and are carried at fair market value with unrealized appreciation (depreciation) reported as a component of accumulated other comprehensive income (loss) in shareholders' equity. The specific identification method is used to determine the cost of securities disposed with realized gains and losses reflected in investment income, net.

Concentration of Credit Risk

Financial instruments which potentially subject us to concentration of credit risk consist principally of temporary cash investments and accounts receivable. We place our temporary cash investments with financial institutions. At various times during the fiscal years ended March 31, 2005 and 2004, we had deposits in excess of the Federal Deposit Insurance Corporation ("FDIC") limit at these financial institutions.

Our customer base includes retail outlets and distributors, including mass-market retailers, consumer electronics stores, discount warehouses and game specialty stores in the United States and countries worldwide.

We perform ongoing credit evaluations of our customers and maintain allowances for potential credit losses. We generally do not require collateral or other security from our customers. As of and for the years ended March 31, 2005, 2004 and 2003, we had one customer that accounted for 23%, 20% and 16%, respectively, of consolidated net revenues and 41%, 39% and 46%, respectively, of consolidated accounts receivable, net. This customer was the same customer in all periods and was a customer of both our publishing and distribution businesses.

Financial Instruments

The estimated fair values of financial instruments have been determined using available market information and valuation methodologies described below. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein may not be indicative of the amounts that we could realize in a current market exchange. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value due to their short-term nature. Short-term investments are carried at fair value with fair values being estimated based on quoted market prices.

We account for derivative instruments in accordance with Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS 133" and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 133, 138 and 149 require that all derivatives, including foreign exchange contracts, be recognized in the balance sheet in other current assets or accrued expenses at their fair value.

We utilize forward contracts in order to reduce financial market risks. These instruments are used to hedge foreign currency exposures of underlying assets, liabilities, or certain forecasted foreign currency denominated transactions. Our accounting policies for these instruments are based on whether they meet the criteria for designation as hedging transactions. Changes in fair value of derivatives that are designated as cash flow hedges, are highly effective, and qualify as hedging instruments, are recorded in other comprehensive income until the underlying hedged item is recognized in earnings within the financial statement line item consistent with the hedged item. Any ineffective portion of a derivative change in fair value is immediately recognized in earnings. Changes in fair value of derivatives that do not qualify as hedging instruments are recorded in earnings. The fair value of foreign currency contracts is estimated based on the spot rate of the various hedged currencies as of the end of the period. As of March 31, 2005 and 2004, we had no outstanding foreign exchange forward contracts.

Equity Investments

From time to time, we may make a capital investment and hold a minority interest in a third-party developer in connection with entertainment software products to be developed by such developer for us. We account for those capital investments over which we have the ability to exercise significant influence using the equity method. For those investments over which we do not have the ability to exercise significant influence, we account for our investment using the cost method.

Software Development Costs

Software development costs include payments made to independent software developers under development agreements, as well as direct costs incurred for internally developed products.

We account for software development costs in accordance with Statement of Financial Accounting Standard ("SFAS") No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." Software development costs are capitalized once technological feasibility of a product is established and such costs are determined to be recoverable. Technological feasibility of a product encompasses both technical design documentation and game design documentation. For products where proven technology exists, this may occur early in the development cycle. Technological feasibility is evaluated

on a product-by-product basis. Prior to a product's release, we expense, as part of cost of sales — software royalties and amortization, capitalized costs when we believe such amounts are not recoverable. Capitalized costs for those products that are cancelled or abandoned are charged to product development expense in the period of cancellation. Amounts related to software development which are not capitalized are charged immediately to product development expense. We evaluate the future recoverability of capitalized amounts on a quarterly basis. The recoverability of capitalized software development costs is evaluated based on the expected performance of the specific products for which the costs relate. Criteria used to

evaluate expected product performance include: historical performance of comparable products using comparable technology; orders for the product prior to its release; and estimated performance of a sequel product based on the performance of the product on which the sequel is based.

Commencing upon product release, capitalized software development costs are amortized to cost of sales — software royalties and amortization based on the ratio of current revenues to total projected revenues, generally resulting in an amortization period of six months or less. For products that have been released in prior periods, we evaluate the future recoverability of capitalized amounts on a quarterly basis. The primary evaluation criterion is actual title performance.

Significant management judgments and estimates are utilized in the assessment of when technological feasibility is established, as well as in the ongoing assessment of the recoverability of capitalized costs. In evaluating the recoverability of capitalized costs, the assessment of expected product performance utilizes forecasted sales amounts and estimates of additional costs to be incurred. If revised forecasted or actual product sales are less than and/or revised forecasted or actual costs are greater than the original forecasted amounts utilized in the initial recoverability analysis, the net realizable value may be lower than originally estimated in any given quarter, which could result in an impairment charge.

Intellectual Property Licenses

Intellectual property license costs represent license fees paid to intellectual property rights holders for use of their trademarks, copyrights, software, technology or other intellectual property or proprietary rights in the development of our products. Depending upon the agreement with the rights holder, we may obtain the rights to use acquired intellectual property in multiple products over multiple years, or alternatively, for a single product.

We evaluate the future recoverability of capitalized intellectual property licenses on a quarterly basis. The recoverability of capitalized intellectual property license costs is evaluated based on the expected performance of the specific products in which the licensed trademark or copyright is to be used. As many of our intellectual property licenses extend for multiple products over multiple years, we also assess the recoverability of capitalized intellectual property license costs based on certain qualitative factors such as the success of other products and/or entertainment vehicles utilizing the intellectual property, whether there are any future planned theatrical releases or television series based on the intellectual property and the rights holder's continued promotion and exploitation of the intellectual property. Prior to the related product's release, we expense, as part of cost of sales — intellectual property licenses, capitalized intellectual property costs when we believe such amounts are not recoverable. Capitalized intellectual property costs for those products that are cancelled or abandoned are charged to product development expense in the period of cancellation. Criteria used to evaluate expected product performance include: historical performance of comparable products using comparable technology; orders for the product prior to its release; and estimated performance of a sequel product based on the performance of the product on which the sequel is based.

Commencing upon the related product's release, capitalized intellectual property license costs are amortized to cost of sales — intellectual property licenses based on the ratio of current revenues for the specific product to total projected revenues for all products in which the licensed property will be utilized. As intellectual property license contracts may extend for multiple years, the amortization of capitalized intellectual property license costs relating to such contracts may extend beyond one year. For intellectual property included in products that have been released and unreleased products, we evaluate the future recoverability of capitalized amounts on a quarterly basis. The primary evaluation criterion is actual title performance.

Significant management judgments and estimates are utilized in the assessment of the recoverability of capitalized costs. In evaluating the recoverability of capitalized costs, the assessment of expected product performance utilizes forecasted sales amounts and estimates of additional costs to be incurred. If revised forecasted or actual product sales are less than, and/or revised forecasted or actual costs are greater than, the original forecasted amounts utilized in the initial recoverability analysis, the net realizable value may be lower than originally estimated in any given quarter, which could result in an impairment charge. Additionally, as noted above, as many of our intellectual property licenses extend for multiple products over multiple years, we also assess the recoverability of capitalized intellectual property license costs based on certain qualitative factors such as the success of other products and/or entertainment vehicles utilizing the intellectual property, whether there are any future planned theatrical releases or television series based on the intellectual property and the rights holder's continued promotion and exploitation of the intellectual property. Material differences may result in the amount and timing of charges for any period if management makes different judgments or utilizes different estimates in evaluating these qualitative factors.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market.

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are provided using the straight-line method over the shorter of the estimated useful lives or the lease term: buildings, 25 to 33 years; computer equipment, office furniture and other equipment, 2 to 5 years; leasehold improvements, through the life of the lease. When assets are retired or disposed of, the cost and accumulated depreciation thereon are removed and any resultant gains or losses are recognized in current operations.

Goodwill

We account for goodwill using the provisions of SFAS No. 142, "Goodwill and Other Intangibles." SFAS No. 142 addresses financial accounting and reporting requirements for acquired goodwill and other intangible assets. Under SFAS No. 142, goodwill is deemed to have an indefinite useful life and should not be amortized but rather tested at least annually for impairment. An impairment loss should be recognized if the carrying amount of goodwill is not recoverable and its carrying amount exceeds its fair value. In accordance with SFAS No. 142, we have not amortized goodwill during the years ended March 31, 2005, 2004 and 2003.

Revenue Recognition

We recognize revenue from the sale of our products upon the transfer of title and risk of loss to our customers. Certain products are sold to customers with a street date (the date that products are made widely available for sale by retailers). For these products we recognize revenue no earlier than the street date. Revenue from product sales is recognized after deducting the estimated allowance for returns and price protection. With respect to license

agreements that provide customers the right to make multiple copies in exchange for guaranteed amounts, revenue is recognized upon delivery of such copies. Per copy royalties on sales that exceed the guarantee are recognized as earned. In addition, in order to recognize revenue for both product sales and licensing transactions, persuasive evidence of an arrangement must exist and collection of the related receivable must be probable. Revenue recognition also determines the timing of certain expenses, including cost of sales — intellectual property licenses and cost of sales — software royalties and amortization.

Sales incentives or other consideration given by us to our customers is accounted for in accordance with the Financial Accounting Standards Board's Emerging Issues Task Force ("EITF") Issue 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." In accordance with EITF Issue 01-9, sales incentives and other consideration that are considered adjustments of the selling price of our products, such as rebates and product placement fees, are reflected as reductions of revenue. Sales incentives and other consideration that represent costs incurred by us for assets or services received, such as the appearance of our products in a customer's national circular ad, are reflected as sales and marketing expenses.

Allowance for Returns and Price Protection

In determining the appropriate unit shipments to our customers, we benchmark our titles using historical and industry data. We closely monitor and analyze the historical performance of our various titles, the performance of products released by other publishers and the anticipated timing of other releases in order to assess future demands of current and upcoming titles. Initial volumes shipped upon title launch and subsequent reorders are evaluated to ensure that quantities are sufficient to meet the demands from the retail markets but at the same time, are controlled to prevent excess inventory in the channel.

We may permit product returns from, or grant price protection to, our customers under certain conditions. In general, price protection refers to the circumstances when we elect to decrease the wholesale price of a product by a certain amount and, when granted and applicable, allows customers a credit against amounts owed by such customers to Activision with respect to open and/or future invoices. The conditions our customers must meet to be granted the right to return products or price protection are, among other things, compliance with applicable payment terms, delivery to us of weekly inventory and sell-through reports, and consistent participation in the launches of our premium title releases. We may also consider other factors, including the facilitation of slow-moving inventory and other market factors. Management must make estimates of potential future product returns and price protection related to current period product revenue. We estimate the amount of future returns and price protection for current period product revenue utilizing historical experience and information regarding inventory levels and the demand and acceptance of our products by the end consumer. The following factors are used to estimate the amount of future returns and price protection for a particular title: historical performance of titles in similar genres, historical performance of the hardware platform, historical performance of the brand, console hardware life cycle, Activision sales force and retail customer feedback, industry pricing, weeks of on-hand retail channel inventory, absolute quantity of on-hand retail channel inventory, Activision warehouse on-hand inventory levels, the title's recent sell-through history (if available), marketing trade programs and competing titles. The relative importance of these factors varies among titles depending upon, among other items, genre, platform, seasonality and sales strategy. Significant management judgments and estimates must be made and used in connection with establishing the allowance for returns and price protection in any accounting period. Based upon historical experience we believe our estimates are reasonable. However, actual returns and price protection could vary materially from our allowance estimates due to a number of reasons including, among others, a lack of consumer acceptance of a title, the release in the same period of a similarly themed title by a competitor, or technological obsolescence due to the emergence of new hardware platforms. Material differences may result in the amount and timing of our revenue for any period if management makes different judgments or utilizes different estimates in determining the allowances for returns and price protection.

Shipping and Handling

Shipping and handling costs, which consist primarily of packaging and transportation charges incurred to move finished goods to customers, are included in cost of sales – product costs.

Advertising Expenses

We expense advertising as incurred, except for production costs associated with media advertising which are deferred and charged to expense the first time the related ad is run. Advertising expenses for the years ended March 31, 2005, 2004 and 2003 were approximately $150.7 million, $76.6 million and $60.0 million, respectively, and are included in sales and marketing expense in the consolidated statements of operations.

Investment Income, Net

Investment income, net is comprised of the following, (amounts in thousands):

	Year ended March 31,		
	2005	2004	2003
Interest income	$ 12,898	$ 6,502	$ 9,259
Interest expense	(277)	(348)	(933)
Net realized gain on short-term investments	471	21	234
Investment income, net	$ 13,092	$ 6,175	$ 8,560

Income Taxes

We account for income taxes using SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the

financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Foreign Currency Translation

The functional currencies of our foreign subsidiaries are their local currencies. All assets and liabilities of our foreign subsidiaries are translated into U.S. dollars at the exchange rate in effect at the end of the period, and revenue and expenses are translated at weighted average exchange rates during the period. The resulting translation adjustments are reflected as a component of accumulated other comprehensive income (loss) in shareholders' equity.

Comprehensive Income

Comprehensive income includes net income, unrealized appreciation (depreciation) on short-term investments, foreign currency translation adjustments, and the effective portion of gains or losses on cash flow hedges that are presented as a component of accumulated other comprehensive income (loss) in shareholders' equity.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities or the disclosure of gain or loss contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Earnings Per Common Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for all periods. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding, increased by common stock equivalents. Common stock equivalents are calculated using the treasury stock method and represent incremental shares issuable upon exercise of our outstanding options and warrants and, if applicable in the period, conversion of our convertible debt. However, potential common shares are not included in the denominator of the diluted earnings per share calculation when inclusion of such shares would be anti-dilutive, such as in a period in which a net loss is recorded.

Stock-Based Compensation and Pro Forma Information

Under SFAS No. 123 "Accounting for Stock-Based Compensation," compensation expense is recorded for the issuance of stock options and other stock-based compensation based on the fair value of the stock options and other stock-based compensation on the date of grant or measurement date. Alternatively, SFAS No. 123 allows companies to continue to account for the issuance of stock options and other stock-based compensation in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Under APB No. 25, compensation expense is recorded for the issuance of stock options and other stock-based compensation based on the intrinsic value of the stock options and other stock-based compensation on the date of grant or measurement date. Under the intrinsic value method, compensation expense is recorded on the date of grant or measurement date only if the current market price of the underlying stock exceeds the stock option or other stock-based compensation exercise price. At March 31, 2005, we had several stock-based employee compensation plans, which are described more fully in Note 14. We account for those plans under the recognition and measurement principles of APB Opinion No. 25 and related Interpretations. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

	Year ended March 31,		
	2005	2004	2003
Net income, as reported	$ 138,335	$ 77,715	$ 66,180
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	64	192	—
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(15,435)	(18,303)	(21,004)
Pro forma net income	$ 122,964	$ 59,604	$ 45,176
Earnings per share			
Basic – as reported	$ 0.74	$ 0.44	$ 0.34
Basic – pro forma	$ 0.66	$ 0.34	$ 0.23
Diluted – as reported	$ 0.66	$ 0.40	$ 0.32
Diluted – pro forma	$ 0.59	$ 0.31	$ 0.22

The fair value of options granted in the years ended March 31, 2005, 2004 and 2003 has been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

Employee and Director Options and Warrants	Employee Stock Purchase Plan

	2005	2004	2003	2005	2004	2003
Expected life (in years)	3	4	3	0.5	0.5	0.5
Risk free interest rate	3.25%	2.01%	1.51%	2.66%	1.75%	1.13%
Volatility	48%	49%	69%	46%	51%	69%
Dividend yield	—	—	—	—	—	—

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the expected stock price volatility. We use the historical stock price volatility of our common stock over the most recent period that is generally commensurate with the expected option life as the basis for estimating expected stock price volatility. In fiscal 2003, the historical stock price volatility used was based on the daily, low stock

price of our common stock, which, in recent years, resulted in an expected volatility ranging from approximately 65% to 70%. For options granted during each of the quarters in the years ended March 31, 2005 and 2004, the historical stock price volatility used was based on a weekly stock price observation, using an average of the high and low stock prices of our common stock, which resulted in an expected stock price volatility ranging from 45% to 48%. Management believes such amounts are more representative of prospective trends. For purposes of the above pro forma disclosure, the fair value of options granted is amortized to stock-based employee compensation cost over the period(s) in which the related employee services are rendered. Accordingly, the pro forma stock-based compensation cost for any period will typically relate to options granted in both the current period and prior periods.

For options granted during fiscal 2005, 2004 and 2003, the per share weighted average fair value of options with exercise prices equal to market value on the date of grant was $4.11, $2.08 and $3.28, respectively. The per share weighted average estimated fair value of Employee Stock Purchase Plan shares granted during the years ended March 31, 2005, 2004 and 2003 was $2.12, $1.13 and $1.63, respectively.

The effects on pro forma disclosures of applying SFAS No. 123 are not likely to be representative of the effects on pro forma disclosures of future years.

Common stock warrants are granted to non-employees in connection with the development of software and acquisition of licensing rights for intellectual property. In accordance with EITF No. 96-18, “Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring or in Connection With Selling Goods or Services,” the fair value of common stock warrants granted is determined as of the measurement date and is capitalized, expensed and amortized consistent with our policies relating to software development and intellectual property license costs.

Reclassifications

Certain amounts in the consolidated financial statements have been reclassified to conform with the current year’s presentation.

The Company has reclassified certain auction rate securities from cash and cash equivalents to short-term investments. Auction rate securities are variable rate bonds tied to short-term interest rates with maturities on the face of the underlying security in excess of 90 days. Auction rate securities have interest rate resets through a modified Dutch auction at predetermined short-term intervals, typically every 7, 28, or 35 days. Interest paid during a given period is based upon the interest rate determined during the prior auction.

Although these securities are issued and rated as long-term bonds, they are priced and traded as short-term instruments because of the liquidity provided through the interest rate reset. The Company had historically classified these instruments as cash and cash equivalents if the reset period between interest rate resets was 90 days or less, which was based on our ability to liquidate our holdings or roll our investment over to the next reset period. The Company’s re-evaluation of the maturity dates and other provisions associated with the underlying bonds resulted in a reclassification from cash and cash equivalents to short-term investments of approximately $301.4 million on the March 31, 2004 balance sheet. As a result of this balance sheet reclassification, certain amounts were reclassified in the accompanying consolidated statement of cash flows for the years ended March 31, 2004 and 2003 to reflect the gross purchases and sales of these securities as investing activities rather than as a component of cash and cash equivalents. This change in classification does not affect previously reported cash flows from operating or from financing activities in the previously reported consolidated statements of cash flows or the previously reported consolidated statements of operations. As of March 31, 2004, before these revisions in classification, $301.4 million of these current investments were classified as cash and cash equivalents on the consolidated balance sheet. For the years ended March 31, 2004 and 2003, as a result of these revisions in classification, net cash used in investing activities related to these current investments increased $155.0 million and $146.4 million, respectively.

2. Stock Splits

In April 2003, the Board of Directors approved a three-for-two split of our outstanding common shares effected in the form of a 50% stock dividend. The split was paid on June 6, 2003 to shareholders of record as of May 16, 2003. In February 2004, the Board of Directors approved a second three-for-two split of our outstanding common shares effected in the form of a 50% stock dividend. The split was paid on March 15, 2004 to shareholders of record as of February 23, 2004. In February 2005, the Board of Directors approved a four-for-three split of our outstanding common shares effected in the form of a 33-1/3% stock dividend. The split was paid March 22, 2005 to shareholders of record as of March 7, 2005. The par value of our common stock was maintained at the pre-split amount of $.000001. The consolidated financial statements and Notes thereto, including all share and per share data, have been restated as if the stock splits had occurred as of the earliest period presented.

On March 7, 2005, in connection with our stock split, all shares of common stock held as treasury stock were formally cancelled and restored to the status of authorized but unissued shares of common Stock.

3. Acquisitions

During the three years ended March 31, 2005, we separately completed the acquisition of four privately held interactive software development companies. We accounted for these acquisitions in accordance with SFAS No. 141, "Business Combinations." SFAS No. 141 addresses financial accounting and reporting for business combinations, requiring that the purchase method be used to account and report for all business combinations. These acquisitions have further enabled us to implement our multi-platform development strategy by bolstering our internal product development capabilities for console systems and personal computers and strengthening our position in the first-person action, action and action sports game categories. A significant portion of the purchase price for all of these acquisitions was assigned to goodwill as the primary asset we acquired in each of the transactions was an assembled workforce with proven technical and design talent with a history of high quality product creation. Pro forma consolidated statements of operations for these acquisitions are not shown, as they would not differ materially from reported results.

4. Cash, Cash Equivalents, and Short-Term Investments

The following table summarizes our cash, cash equivalents and short-term investments as of March 31, 2005 (amounts in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash and cash equivalents:				
Cash and time deposits	$ 180,871	$ —	$ —	$ 180,871
Money market instruments	107,519	—	—	107,519
Commercial paper	21,589	—	(7)	21,582
Corporate bonds	3,638	—	(2)	3,636
Cash and cash equivalents	313,617	—	(9)	313,608
Short-term investments:				
Auction rate notes	15,020	—	—	15,020
Corporate bonds	160,907	6	(1,602)	159,311
U.S. agency issues	266,837	—	(2,037)	264,800
Asset-backed securities	83,517	23	(496)	83,044
Municipal bonds	4,019	—	—	4,019
Common stock	167	895	—	1,062
Short-term investments	530,467	924	(4,135)	527,256
Cash, cash equivalents and short-term investments	$ 844,084	$ 924	$ (4,144)	$ 840,864

The following table summarizes our cash, cash equivalents and short-term investments as of March 31, 2004 (amounts in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash and cash equivalents:				
Cash and time deposits	$ 101,414	$ —	$ —	$ 101,414
Money market funds	60,006	—	—	60,006
Commercial paper	3,700	—	—	3,700
Cash and cash equivalents	165,120	—	—	165,120
Short-term investments:				
Auction rate notes	301,432	—	—	301,432
Corporate bonds	21,047	13	(24)	21,036
U.S. agency issues	71,817	76	(4)	71,889
Asset-backed securities	23,113	74	(38)	23,149
Municipal bonds	5,023	—	—	5,023
Short-term investments	422,432	163	(66)	422,529
Cash, cash equivalents and short-term investments	$ 587,552	$ 163	$ (66)	$ 587,649

Auction rate securities are securities that are structured with short-term reset dates of generally less than 90 days but with maturities in excess of 90 days. At the end of the reset period, investors can sell or continue to hold the securities at par. These securities are classified in the table below based on their legal stated maturity dates.

The following table summarizes the maturities of our investments in debt securities as of March 31, 2005 (amounts in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$ 169,738	$ 169,028
Due after one year through two years	203,741	201,530
Due after two year through three years	75,256	74,762

Due in three years or more	23,275	23,048
	472,010	468,368
Asset-backed securities	83,517	83,044
Total	$ 555,527	$ 551,412

For the year ended March 31, 2005, net realized gains on short-term investments consisted of $471,000 of gross realized gains and no gross realized losses. For the year ended March 31, 2004, net realized gains on short-term investments consisted of $25,000 of gross realized gains and $4,000 of gross realized losses. For the year ended March 31, 2003, net realized gains on short-term investments consisted of $350,000 of gross realized gains and $116,000 of gross realized losses.

In accordance with EITF 03-1, "*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,*" the fair value of investments in an unrealized loss position for which an other-than-temporary impairment has not been recognized was $508,224,000 and $28,583,000 at March 31, 2005 and 2004, respectively, with related gross unrealized losses of $4,144,000 and $66,000, respectively. At March 31, 2005, the gross unrealized losses were comprised mostly of unrealized losses on corporate bonds, U.S. agency issues, and asset-back securities with $464,000 of unrealized loss being in a continuous unrealized loss position for twelve months or greater. At March 31, 2004, the gross unrealized losses were comprised mostly of unrealized losses on corporate bonds, U.S. agency issues, and asset-back securities with $21,000 of unrealized loss being in a continuous unrealized loss position for twelve months or greater.

The Company's investment portfolio consists of government and corporate securities with effective maturities less than 30 months. The longer the term of the securities, the more susceptible they are to changes in market rates of interest and yields on bonds. Investments are reviewed periodically to identify possible impairment. When evaluating the investments, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer, and the Company's ability and intent to hold the investment for a period of time which may be sufficient for anticipated recovery in market value. The Company has the intent and ability to hold these securities for a reasonable period of time sufficient for a forecasted recovery of fair value up to (or beyond) the initial cost of the investment. The Company expects to realize the full value of all of these investments upon maturity or sale.

5. Software Development Costs and Intellectual Property Licenses

As of March 31, 2005, capitalized software development costs included $61.3 million of internally developed software costs and $30.3 million of payments made to third-party software developers. As of March 31, 2004, capitalized software development costs included $35.3 million of internally developed software costs and $51.5 million of payments made to third-party software developers. Capitalized intellectual property licenses were $35.7 million and $48.5 million as of March 31, 2005 and 2004, respectively. Amortization and write-offs of capitalized software development costs and intellectual property licenses, combined, was $134.8 million, $87.9 million and $100.4 million for the years ended March 31, 2005, 2004 and 2003, respectively.

During the three months ended December 31, 2003, we completed a comprehensive review of our product portfolio in which we evaluated each product based on a number of criteria, including: the strength of the franchise, the projected product quality, the potential responsiveness of the product to aggressive marketing support and the financial risk in the event of product failure. As a result of this review at the time, we found that we had an extensive slate of high-potential properties in development. However, we also found that certain projects had a lower likelihood of achieving acceptable levels of operating performance and that continued pursuit of these projects would create a substantial opportunity cost as it related to our slate of high-potential projects. Accordingly, in the three months ended December 31, 2003, we canceled the development of ten products which we believed were unlikely to produce an acceptable level of return on our investment. In connection with the cancellation of these products, we recorded a pre-tax charge of approximately $21 million in the quarter ended December 31, 2003 which is included in the consolidated statement of operations in product development expense.

6. Inventories

Our inventories consist of the following (amounts in thousands):

	March 31, 2005	March 31, 2004
Purchased parts and components	$ 2,092	$ 392
Finished goods	45,926	26,035
	$ 48,018	$ 26,427

7. Property and Equipment, Net

Property and equipment, net was comprised of the following (amounts in thousands):

	March 31, 2005	March 31, 2004
Land	$ 592	$ 557
Buildings	4,684	4,379
Computer equipment	39,696	34,076
Office furniture and other equipment	14,560	13,687

Leasehold improvements	9,391	5,540
Total cost of property and equipment	68,923	58,239
Less accumulated depreciation	(38,433)	(32,700)
Property and equipment, net	$ 30,490	$ 25,539

Depreciation expense for the years ended March 31, 2005, 2004 and 2003 was $10.6 million, $10.0 million and $8.1 million, respectively.

8. Goodwill

The changes in the carrying amount of goodwill were as follows (amounts in thousands):

	Publishing	Distribution	Total
Balance as of March 31, 2003	$ 63,194	$ 4,825	$ 68,019
Goodwill acquired during the year	3,763	—	3,763
Issuance of contingent consideration	3,246	—	3,246
Adjustment-prior period purchase allocation	695	—	695
Effect of foreign currency exchange rates	—	770	770
Balance as of March 31, 2004	70,898	5,595	76,493
Goodwill acquired during the year	16,194	—	16,194
Issuance of contingent consideration	1,191	—	1,191
Adjustment-prior period purchase allocation	(2,384)	—	(2,384)
Effect of foreign currency exchange rates	—	167	167
Balance as of March 31, 2005	$ 85,899	$ 5,762	$ 91,661

9. Accrued Expenses

Accrued expenses were comprised of the following (amounts in thousands):

	March 31, 2005	March 31, 2004
Accrued royalties payable	$ 11,851	$ 7,218
Accrued selling and marketing costs	17,521	11,456
Affiliate label program payable	20,605	162
Income tax payable	3,977	9,897
Accrued bonus and vacation pay	18,423	20,042
Other	25,690	14,430
Total	$ 98,067	$ 63,205

10. Operations by Reportable Segments and Geographic Area

We operate two business segments: (i) publishing of interactive entertainment software and (ii) distribution of interactive entertainment software and hardware products.

Publishing refers to the development, marketing and sale of products directly, by license or through our affiliate label program with certain third-party publishers. In the United States, we primarily sell our products on a direct basis to mass-market retailers, consumer electronics stores, discount warehouses and game specialty stores. We conduct our international publishing activities through offices in the UK, Germany, France, Italy, Spain, the Netherlands, Australia, Sweden, Canada and Japan. Our products are sold internationally on a direct-to-retail basis and through third-party distribution and licensing arrangements and through our wholly-owned distribution subsidiaries located in the UK, the Netherlands and Germany.

Distribution refers to our operations in the UK, the Netherlands and Germany that provide logistical and sales services to third-party publishers of interactive entertainment software, our own publishing operations and manufacturers of interactive entertainment hardware.

Resources are allocated to each of these segments using information on their respective net revenues and operating profits before interest and taxes.

The accounting policies of these segments are the same as those described in the Summary of Significant Accounting Policies. Transactions between segments are eliminated in consolidation.

Information on the reportable segments for the three years ended March 31, 2005 is as follows (amounts in thousands):

	Year ended March 31, 2005		
	Publishing	Distribution	Total
Total segment revenues	$ 1,072,729	$ 333,128	$ 1,405,857
Revenue from sales between segments	(111,676)	111,676	—
Revenues from external customers	$ 961,053	$ 444,804	$ 1,405,857
Operating income	$ 160,826	$ 23,745	$ 184,571
Total assets	$ 1,174,910	$ 132,053	$ 1,306,963

	Year ended March 31, 2004		
	Publishing	Distribution	Total
Total segment revenues	$ 665,732	$ 281,924	$ 947,656
Revenue from sales between segments	(67,859)	67,859	—
Revenues from external customers	$ 597,873	$ 349,783	$ 947,656
Operating income	$ 93,223	$ 16,594	$ 109,817
Total assets	$ 859,874	$ 108,943	$ 968,817

	Year ended March 31, 2003		
	Publishing	Distribution	Total
Total segment revenues	$ 615,975	$ 248,141	$ 864,116
Revenue from sales between segments	(57,462)	57,462	—
Revenues from external customers	$ 558,513	$ 305,603	$ 864,116
Operating income	$ 79,139	$ 15,708	$ 94,847
Total assets	$ 619,132	$ 85,684	$ 704,816

Geographic information is based on the location of the selling entity. Revenues from external customers by geographic region were as follows (amounts in thousands):

	Year ended March 31,		
	2005	2004	2003
North America	$ 696,325	$ 446,812	$ 432,261
Europe	675,074	479,224	413,125
Other	34,458	21,620	18,730
Total	$ 1,405,857	$ 947,656	$ 864,116

Revenues by platform were as follows (amounts in thousands):

	Year ended March 31,		
	2005	2004	2003
Console	$ 970,399	$ 732,220	$ 674,621
Hand-held	161,977	43,306	64,069
PC	273,481	172,130	125,426
Total	$ 1,405,857	$ 947,656	$ 864,116

A significant portion of our revenues is derived from products based on a relatively small number of popular brands each year. In fiscal 2005, 37% of our consolidated net revenues (48% of worldwide publishing net revenues) was derived from three brands, which accounted for 16%, 11% and 10%, respectively, of consolidated net revenues (21%, 14% and 13%, respectively, of worldwide publishing net revenues). In fiscal 2004, 35% of our consolidated net revenues (49% of worldwide publishing net revenues) was derived from three brands, which accounted for 17%, 14% and 4%, respectively, of consolidated net revenues (24%, 20% and 5%, respectively, of worldwide publishing net revenues). In fiscal 2003, 38% of our consolidated net revenues (52% of worldwide publishing net revenues) was derived from two brands, one of which accounted for 20% and the other of which accounted for 18% of consolidated net revenues (27% and 25%, respectively, of worldwide publishing net revenues).

11. Computation of Earnings Per Share

The following table sets forth the computations of basic and diluted earnings per share (amounts in thousands, except per share data):

	Year ended March 31,		
	2005	2004	2003
Numerator:			
Numerator for basic and diluted earnings per share – income available to common shareholders	$ 138,335	$ 77,715	$ 66,180
Denominator:			
Denominator for basic earnings per share – weighted average common shares outstanding	187,517	177,665	192,479
Effect of dilutive securities:			
Employee stock options and stock purchase plan	20,660	14,723	13,704
Warrants to purchase common stock	968	803	1,127
Potential dilutive common shares	21,628	15,526	14,831
Denominator for diluted earnings per share– weighted average common shares outstanding plus assumed conversions	209,145	193,191	207,310
Basic earnings per share	$ 0.74	$ 0.44	$ 0.34
Diluted earnings per share	$ 0.66	$ 0.40	$ 0.32

Options to purchase approximately 182,000, 12,628,000 and 10,399,000 shares of common stock for the years ended March 31, 2005, 2004 and 2003, respectively, were not included in the calculation of diluted earnings per share because their effect would be antidilutive.

12. Income Taxes

Domestic and foreign income before income taxes and details of the income tax provision are as follows (amounts in thousands):

	Year ended March 31,		
	2005	2004	2003
Income before income taxes:			
Domestic	$ 174,535	$ 84,339	$ 78,761
Foreign	23,128	31,653	24,646
	$ 197,663	$ 115,992	$ 103,407
Income tax expense (benefit):			
Current:			
Federal	$ (355)	$ 502	$ 1,703
State	342	311	413
Foreign	5,126	9,899	7,872
Total current	5,113	10,712	9,988
Deferred:			
Federal	5,744	14,113	1,794
State	(2,707)	(871)	3,065
Foreign	(2,159)	1,906	(1,504)
Total deferred	878	15,148	3,355
Add back benefit credited to additional paid-in capital:			
Tax benefit related to stock option and warrant exercises	53,337	12,417	23,884
Income tax provision	$ 59,328	$ 38,277	$ 37,227

The items accounting for the difference between income taxes computed at the U.S. federal statutory income tax rate and the income tax provision for each of the years are as follows:

	Year ended March 31,		
	2005	2004	2003

Federal income tax provision at statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	2.8	2.3	2.4
Research and development credits	(6.4)	(8.0)	(6.0)
Incremental (decremental) effect of foreign tax rates	(2.3)	(2.3)	(0.2)
Increase of valuation allowance	2.3	5.8	2.1
Rate changes	—	—	0.8
Other	(1.4)	0.2	1.9
	30.0%	33.0%	36.0%

Deferred income taxes reflect the net tax effects of temporary differences between the amounts of assets and liabilities for accounting purposes and the amounts used for income tax purposes. The components of the net deferred tax asset and liability are as follows (amounts in thousands):

	March 31, 2005	March 31, 2004
Deferred asset:		
Allowance for doubtful accounts	$ 205	$ 634
Allowance for sales returns	8,580	8,334
Inventory reserve	391	385
Vacation and bonus reserve	2,961	2,771
Amortization and depreciation	4,306	5,036
Tax credit carryforwards	53,130	36,599
Net operating loss carryforwards	31,885	25,851
Other	3,899	2,248
Deferred asset	105,357	81,858
Valuation allowance	(25,666)	(18,857)
Net deferred asset	79,691	63,001
Deferred liability:		
Capitalized research expenses	41,208	25,252
State taxes	3,682	2,558
Deferred liability	44,890	27,810
Net deferred asset	$ 34,801	$ 35,191

The tax benefits associated with certain net operating loss carryovers relate to employee stock options. Pursuant to SFAS No. 109, net operating losses have been reduced by $30.9 million relating to these items which will be credited to additional paid-in capital when realized.

As of March 31, 2005, our available federal net operating loss carryforward of approximately $153.5 million is subject to certain limitations as defined under Section 382 of the Internal Revenue Code. The net operating loss carryforwards expire between 2020 and 2024. We have various state net operating loss carryforwards totaling $102.5 million which are not subject to limitations under Section 382 of the Internal Revenue Code. We have tax credit carryforwards of $31.4 million and $22.3 million for federal and state purposes, respectively, which begin to expire in 2006.

At March 31, 2005, our deferred income tax asset for tax credit carryforwards and net operating loss carryforwards was reduced by a valuation allowance of $25.7 million as compared to $18.9 million in the prior fiscal year. Realization of the deferred tax assets is dependent upon the continued generation of sufficient taxable income prior to expiration of tax credits and loss carryforwards. Although realization is not assured, management believes it is more likely than not that the net carrying value of the deferred tax asset will be realized.

Cumulative undistributed earnings of foreign subsidiaries for which no deferred taxes have been provided approximated $59.9 million at March 31, 2005. Deferred income taxes on these earnings have not been provided as these amounts are considered to be permanent in duration.

On October 22, 2004, the President of the United States signed the American Jobs Creation Act of 2004 (the “Act”). The Act raises a number of issues with respect to accounting for income taxes. For companies that pay U.S. income taxes on manufacturing activities in the U.S., the Act provides a deduction from taxable income equal to a stipulated percentage of qualified income from domestic production activities. The manufacturing deduction provided by the Act replaces the extraterritorial income (“ETI”) deduction currently in place. We currently derive benefits from the ETI exclusion which was repealed by the Act. Our exclusion for fiscal 2005, 2006, and 2007 will be limited to 95%, 75%, and 45% of the otherwise allowable exclusion and no exclusion will be available in fiscal 2008 and thereafter. The Act also creates a temporary incentive for U.S. multinationals to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations. The Act also provides for other changes in tax law that will affect a variety of taxpayers. On December 21, 2004, the Financial Accounting Standards Board (“FASB”) issued two FASB Staff Positions (“FSP”) regarding the accounting implications of the Act related to (1) the deduction for qualified domestic production activities and (2) the one-time tax benefit for the repatriation of foreign earnings. The FASB determined that the deduction for qualified domestic production activities should be accounted for as a special deduction under FASB Statement No. 109, *Accounting for Income Taxes*. The FASB also confirmed, that upon deciding that some amount of earnings will be repatriated, a company must record in that period the associated tax liability. The guidance in the FSPs applies to financial statements for periods ending after the date the Act was enacted. We are evaluating the Act at this time and have not yet determined whether we will avail ourselves of the opportunity of the one-time tax benefit for the repatriation of foreign earnings. We plan to complete our assessment before the end of fiscal 2006 and are not currently in a position to estimate a range of possible repatriation amounts.

13. Commitments and Contingencies

Credit Facilities

We have revolving credit facilities with our Centresoft subsidiary located in the UK (the "UK Facility") and our NBG subsidiary located in Germany (the "German Facility"). The UK Facility provided Centresoft with the ability to borrow up to Great British Pounds ("GBP") 8.0 million ($15.0 million) and GBP 8.0 million ($14.6 million), including issuing letters of credit, on a revolving basis as of March 31, 2005 and 2004, respectively. Furthermore, under the UK Facility, Centresoft provided a GBP 0.6 million ($1.1 million) and a GBP 0.3 million ($0.5 million) guarantee for the benefit of our CD Contact subsidiary as of March 31, 2005 and 2004, respectively. The UK Facility bore interest at LIBOR plus 2.0% as of March 31, 2005 and 2004, is collateralized by substantially all of the assets of the subsidiary and expires in May 2006. The UK Facility also contains various covenants that require the subsidiary to maintain specified financial ratios related to, among others, fixed charges. As of March 31, 2005 and 2004, we were in compliance with these covenants. No borrowings were outstanding against the UK Facility as of March 31, 2005 or 2004. The German Facility provided for revolving loans up to EUR 0.5 million ($0.6 million) as of both

March 31, 2005 and 2004, bore interest at a Eurocurrency rate plus 2.5%, is collateralized by certain of the subsidiary's property and equipment and has no expiration date. No borrowings were outstanding against the German Facility as of March 31, 2005 or 2004.

Developer and Intellectual Property Contracts

In the normal course of business we enter into contractual arrangements with third-parties for the development of products, as well as for the rights to intellectual property. Under these agreements, we commit to provide specified payments to a developer, or intellectual property holder, based upon contractual arrangements. Typically, the payments to third-party developers are conditioned upon the achievement by the developers of contractually specified development milestones. These payments to third-party developers and intellectual property holders typically are deemed to be advances and are recoupable against future royalties earned by the developer or intellectual property holder based on the sale of the related game. Assuming all contractual provisions are met, the total future minimum contract commitment for contracts in place as of March 31, 2005 is approximately $62.2 million, which is scheduled to be paid as follows (amounts in thousands):

Year ended March 31,		
2006	$	45,557
2007		7,975
2008		5,775
2009		2,900
Total	$	62,207

Marketing Commitments

In connection with certain intellectual property right acquisitions and development agreements, we will commit to spend specified amounts for marketing support for the related game(s) which is to be developed or in which the intellectual property will be utilized. Assuming all contractual provisions are met, the total future minimum marketing commitment for contracts in place as of March 31, 2005 is approximately $28.8 million, which is scheduled to be paid as follows (amounts in thousands):

Year ended March 31,		
2006	$	18,759
2007		2,500
2008		7,500
Total	$	28,759

Lease Obligations

We lease certain of our facilities under non-cancelable operating lease agreements. Total future minimum lease commitments as of March 31, 2005 is approximately $63.4 million, which is scheduled to be paid as follows (amounts in thousands):

Year ended March 31,		
2006	$	11,990
2007		11,440
2008		7,906
2009		6,620
2010		5,783
Thereafter		19,626
Total	$	63,365

Facilities rent expense for the years ended March 31, 2005, 2004 and 2003 was approximately $10.6 million, $8.7 million and $7.6 million, respectively.

Legal Proceedings

On March 5, 2004, a class action lawsuit was filed against us and certain of our current and former officers and directors. The complaint, which asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 based on allegations that our revenues and assets were overstated during the period between February 1, 2001 and December 17, 2002, was filed in the United States District Court, Central District of California by the Construction Industry and Carpenters Joint Pension Trust for Southern Nevada purporting to represent a class of purchasers of Activision stock. Five additional purported class actions have subsequently been filed by Gianni Angeloni, Christopher Hinton, Stephen Anish, the Alaska Electrical Pension Fund, and Joseph A. Romans asserting the same claims. Consistent with the Private Securities Litigation Reform Act ("PSLRA"), the court appointed lead plaintiffs consolidating the six putative securities class actions into a single case. In an Order dated May 16, 2005, the court dismissed the consolidated complaint because the plaintiffs failed to satisfy the heightened pleading standards of the PSLRA. The court did, however, give the lead plaintiffs leave to file an amended consolidated complaint within 30 days of the order. We do not know whether the lead plaintiffs will file an amended consolidated complaint, but in the event that one is filed, we intend to vigorously defend the case at such time.

In addition, on March 12, 2004, a shareholder derivative lawsuit captioned *Frank Capovilla, Derivatively on Behalf of Activision, Inc. v. Robert Kotick, et al.* was filed, purportedly on behalf of Activision, which in large measure asserts the identical claims set forth in the federal class action lawsuit. That complaint was filed in California Superior Court for the County of Los Angeles. Also, on March 22, 2005, a new derivative lawsuit captioned *Ramalingham Balamohan, Derivatively on Behalf of Nominal Defendant Activision, Inc. v. Robert Kotick, et al.* was filed in the Federal Court of Los Angeles. This complaint makes the same allegations as the previous complaints, but it names all the current directors as defendants. We strongly deny allegations in both derivative cases and will vigorously defend these cases. In the California derivative case, Activision, as nominal defendant, filed a motion to stay all proceedings. The case, and all motion practice and responsive pleadings, has been held in abeyance pending a status conference with the court. In the Federal derivative case, plaintiff filed a notice of dismissal of the action, without prejudice on or about June 3, 2005.

On July 11, 2003, we were informed by the staff of the Securities and Exchange Commission that the Securities and Exchange Commission has commenced a non-public formal investigation captioned "In the Matter of Certain Video Game Manufacturers and Distributors." The investigation appears to be focused on certain accounting practices common to the interactive entertainment industry, with specific emphasis on revenue recognition. In connection with this inquiry, the Securities and Exchange Commission submitted to us a request for information. We responded to this inquiry on September 2, 2003. To date, we have not received a request from the Securities and Exchange Commission for any additional information. The Securities and Exchange Commission staff also informed us that other companies in the video game industry received similar requests for information. The Securities and Exchange Commission has advised us that this request for information should not be construed as an indication from the Securities and Exchange Commission or its staff that any violation of the law has occurred, nor should it reflect negatively on any person, entity or security. We

have cooperated and intend to continue to cooperate fully with the Securities and Exchange Commission in the conduct of this inquiry.

On June 30, 2003, we terminated our Star Trek Merchandising License Agreement with Viacom Consumer Products, Inc. and filed a complaint in the Superior Court of the State of California for breach of contract and constructive trust against Viacom Consumer Products and Viacom International, Inc. ("Viacom"). On August 15, 2003, Viacom filed its response to our complaint as well as a cross-complaint alleging, among other matters, a breach of contract by Activision and seeking claimed damages in excess of $50 million. On February 23, 2005, we reached an agreement with Viacom that settled the legal disputes. As a result of the settlement, all pending lawsuits filed by each party in the Superior Court in Los Angeles regarding this matter have been dismissed by court order dated March 18, 2005. The settlement had no material impact on the financial results of Activision's operations.

In addition, we are party to other routine claims and suits brought by us and against us in the ordinary course of business, including disputes arising over the ownership of intellectual property rights, contractual claims and collection matters. In the opinion of management, after consultation with legal counsel, the outcome of such routine claims will not have a material adverse effect on our business, financial condition, results of operations or liquidity.

14. Stock Compensation and Employee Benefit Plans

Stock Option Plans

We sponsor several stock option plans for the benefit of officers, employees, consultants and others.

On February 28, 1992, the shareholders of Activision approved the Activision 1991 Stock Option and Stock Award Plan, as amended, (the "1991 Plan") which permits the granting of "Awards" in the form of non-qualified stock options, incentive stock options ("ISOs"), stock appreciation rights ("SARs"), restricted stock awards, deferred stock awards and other common stock-based awards to directors, officers, employees, consultants and others. The total number of shares of common stock available for distribution under the 1991 Plan is 34,050,000. The 1991 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. There were no shares remaining available for grant under the 1991 Plan as of March 31, 2005.

On September 23, 1998, the shareholders of Activision approved the Activision 1998 Incentive Plan, as amended (the "1998 Plan"). The 1998 Plan permits the granting of "Awards" in the form of non-qualified stock options, ISOs, SARs, restricted stock awards, deferred stock awards and other common stock-based awards to directors, officers, employees, consultants and others. The total number of shares of common stock available for distribution under the 1998 Plan is 13,500,000. The 1998 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. There were approximately 21,200 shares remaining available for grant under the 1998 Plan as of March 31, 2005.

On April 26, 1999, the Board of Directors approved the Activision 1999 Incentive Plan, as amended (the "1999 Plan"). The 1999 Plan permits the granting of "Awards" in the form of non-qualified stock options, ISOs, SARs, restricted stock awards, deferred share awards and other common stock-based awards to directors, officers, employees, consultants and others. The total number of shares of common stock available for distribution under the 1999 Plan is 22,500,000. The 1999 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. There were approximately 17,900 shares remaining available for grant under the 1999 Plan as of March 31, 2005.

On August 23, 2001, the shareholders of Activision approved the Activision 2001 Incentive Plan, as amended (the "2001 Plan"). The 2001 Plan permits the granting of "Awards" in the form of non-qualified stock options, ISOs, SARs, restricted stock awards, deferred stock awards and other common stock-based awards to directors, officers, employees, consultants and others. The total number of shares of common stock available for distribution under the 2001 Plan is 6,750,000. The 2001 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. There were approximately 284,500 shares remaining available for grant under the 2001 Plan as of March 31, 2005.

On April 4, 2002, the Board of Directors approved the Activision 2002 Incentive Plan (the "2002 Plan"). The 2002 Plan permits the granting of "Awards" in the form of non-qualified stock options, ISOs, SARs, restricted stock awards, deferred share awards and other common stock-based awards to officers (other than executive officers), employees, consultants, advisors and others. The 2002 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. The total number of shares of common stock available for distribution under the 2002 Plan is 13,050,000. There were approximately 21,200 shares remaining available for grant under the 2002 Plan as of March 31, 2005.

On September 19, 2002, the shareholders of Activision approved the Activision 2002 Executive Incentive Plan (the "2002 Executive Plan"). The 2002 Executive Plan permits the granting of "Awards" in the form of non-qualified stock options, ISOs, SARs, restricted stock awards, deferred share awards and other common stock-based awards to officers, employees, directors, consultants and advisors. The total number of shares of common stock available for distribution under the 2002 Executive Plan is 7,500,000. The 2002 Executive Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. There were approximately 6,500 shares remaining available for grant under the 2002 Executive Plan as of March 31, 2005.

On December 16, 2002, the Board of Directors approved the Activision 2002 Studio Employee Retention Incentive Plan, as amended (the "2002 Studio Plan"). The 2002 Studio Plan permits the granting of "Awards" in the form of non-qualified stock options and restricted stock awards to key studio employees (other than executive officers) of Activision, our subsidiaries and affiliates and to contractors and others. The 2002 Studio Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. The total number of shares of common stock available for distribution under the 2002 Studio Plan is 4,500,000. There were approximately 3,100 shares remaining available for grant under the 2002 Studio Plan as of March 31, 2005.

On April 29, 2003, our Board of Directors approved the Activision 2003 Incentive Plan (the "2003 Plan"). The 2003 Plan permits the granting of "Awards" in the form of non-qualified stock options, SARs, restricted stock awards, deferred stock awards and other common stock-based awards to directors, officers, employees, consultants and others. The 2003 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. The total number of shares of common stock available for distribution under the 2003 Plan is 18,000,000. There were approximately 16,394,600 shares remaining available for grant under the 2003 Plan as of March 31, 2005.

The exercise price for Awards issued under the 1991 Plan, 1998 Plan, 1999 Plan, 2001 Plan, 2002 Plan, 2002 Executive Plan, 2002 Studio Plan and 2003 Plan (collectively, the "Plans") is determined at the discretion of the Board of Directors (or the Compensation Committee of the Board of Directors, which administers the Plans), and for ISOs, is not to be less than the fair market value of our common stock at the date of grant, or in the case of non-qualified options, must exceed or be equal to 85% of the fair market value of our common stock at the date of grant. Options typically become exercisable in installments over a period not to exceed seven years and must be exercised within 10 years of the date of grant. However, certain options granted to executives vest immediately. Historically, stock options have been granted with exercise prices equal to or greater than the fair market value at the date of grant.

Other Employee Stock Options

In connection with prior employment agreements between Activision and Robert A. Kotick, Activision's Chairman and Chief Executive Officer, and Brian G. Kelly, Activision's Co-Chairman, Mr. Kotick and Mr. Kelly were granted options to purchase common stock. The Board of Directors approved the granting of these options. Relating to such grants, as of March 31, 2005, approximately 6,228,600 shares were outstanding with a weighted average exercise price of $2.32.

We additionally have approximately 70,900 options outstanding to employees as of March 31, 2005, with a weighted average exercise price of $4.64. The Board of Directors approved the granting of these options. Such options have terms similar to those options granted under the Plans.

Director Warrants

During the fiscal year ended March 31, 1997, we issued warrants to purchase 180,000 shares of our common stock, at exercise prices ranging from $2.63 to $3.08 to two of our outside directors in connection with their election to the Board. Such warrants vested 25% on the first anniversary of the date of grant, and 12.5% each six months thereafter and expire within 10 years from the date of grant. Relating to such warrants, as of March 31, 2005, no shares were outstanding.

Employee Stock Purchase Plans

On July 22, 2002, the Board of Directors approved the 2002 Employee Stock Purchase Plan for eligible domestic employees. The shareholders of Activision subsequently approved the 2002 Employee Stock Purchase Plan on September 19, 2002. Then, on February 11, 2003, the Board of Directors approved the 2002 Employee Stock Purchase Plan For International Employees. The primary terms of the 2002 Employee Stock Purchase Plan and the 2002 Employee Stock Purchase Plan For International Employees (collectively the "2002 Purchase Plans") are the same. Under the 2002 Purchase Plans, up to 1,125,000 shares of our common stock may be purchased by eligible employees during two overlapping, twelve-month offering periods that commence each April 1 and October 1 (the "Offering Period"). At any point in time, employees may participate in only one Offering Period. The first day of each Offering Period is referred to as the "Offering Date." Common stock is purchased by 2002 Purchase Plans participants at 85% of the lesser of fair market value on the Offering Date for the Offering Period that includes the common stock purchase date or the fair market value on the common stock purchase date. Employees may purchase shares having a value not exceeding 15% of their gross compensation during an

Offering Period, limited to a maximum of 15,000 common shares per common stock purchase date. During the year ended March 31, 2005, employees purchased approximately 147,800, 50,500 and 262,300 shares at a price of $8.84, $5.29 and $8.61 per share, respectively, within the 2002 Purchase Plans' Offering Periods. During the year ended March 31, 2004, employees purchased approximately 323,100, 80,000 and 340,400 shares at a price of $4.11, $5.30 and $4.11 per share, respectively, within the 2002 Purchase Plans' Offering Periods.

Activity of Employee and Director Options and Warrants

Activity of all employee and director options and warrants during the last three fiscal years was as follows (amounts in thousands, except weighted average exercise price amounts):

	2005		2004		2003	
	Shares	Wtd Avg Ex Price	Shares	Wtd Avg Ex Price	Shares	Wtd Avg Ex Price
Outstanding at beginning of year	48,851	$ 4.94	48,947	$ 4.76	38,591	$ 3.13
Granted	5,626	11.76	9,060	5.42	19,231	7.11
Exercised	(16,625)	3.87	(6,113)	3.65	(7,567)	2.42
Forfeited	(1,273)	3.79	(3,043)	6.05	(1,308)	4.33
Outstanding at end of year	36,579	$ 6.45	48,851	$ 4.94	48,947	$ 4.76
Exercisable at end of year	18,885	$ 5.22	26,133	$ 3.95	22,992	$ 3.22

For the years ended March 31, 2005, 2004 and 2003, all options were granted at an exercise price equal to the fair market value on the date of grant.

The following tables summarize information about all employee and director stock options and warrants outstanding as of March 31, 2005 (share amounts in thousands):

	Outstanding Options			Exercisable Options	
	Shares	Remaining Wtd Avg Contractual Life (in years)	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Range of exercise prices:					
$ 1.33 to $2.29	758	5.11	$ 1.49	755	$ 1.48
$ 2.31 to $2.33	6,142	3.98	2.33	6,142	2.33
$ 2.35 to $4.51	3,891	7.31	4.14	1,097	3.42
$ 4.56 to $4.72	4,834	7.37	4.69	2,904	4.68
$ 4.72 to $6.25	3,887	7.53	5.47	1,366	5.54
$ 6.25 to $7.45	1,696	7.96	7.06	300	6.96
$ 7.54 to $7.65	4,324	7.32	7.65	1,822	7.65
$ 7.73 to $9.20	4,814	7.12	8.98	3,215	9.02
$ 9.22 to $11.44	4,896	8.93	10.69	1,284	10.23
$ 11.45 to $17.85	1,337	9.74	14.76	—	—
	36,579	7.05	$ 6.45	18,885	$ 5.22

Non-Employee Warrants

In prior years, we have granted stock warrants to third-parties in connection with the development of software and the acquisition of licensing rights for intellectual property. The warrants generally vest upon grant and are exercisable over the term of the warrant. The exercise price of third-party warrants is generally greater than or equal to their fair market value of our common stock at the date of grant. No third-party warrants were granted during the year ended March 31, 2005. As of March 31, 2005, 702,000 third-party warrants to purchase common stock were outstanding with a weighted average exercise price of $6.04 per share. No third-party warrants were granted during the year ended March 31, 2004. As of March 31, 2004, 2,052,000 third-party warrants to purchase common stock were outstanding with a weighted average exercise price of $7.13 per share. During the year ended March 31, 2003, we granted warrants to a third-party to purchase 450,000 shares of our common stock at an exercise price of $9.92 per share in connection with, and as partial consideration for, a license agreement that allows us to utilize intellectual property owned by the third-party in conjunction with an Activision product. The warrants vested upon grant and have a three-year term. The fair value of the warrants was determined using the Black-Scholes pricing model, assuming a risk-free rate of 4.18%, a volatility factor of 70% and expected term as noted above. The per share weighted average estimated fair value of the third-party warrants granted during the year ended March 31, 2003 was $4.85 per share. As of March 31, 2003, 2,646,000 third-party warrants to purchase common stock were outstanding with a weighted average exercise price of $4.69 per share.

In accordance with EITF 96-18, we measure the fair value of the securities on the measurement date. The fair value of each warrant is capitalized and amortized to expense when the related product is released and the related revenue is recognized. Additionally, as more fully described in Note 1, the recoverability of capitalized software development costs and intellectual property licenses is evaluated on a quarterly basis with amounts determined as not recoverable being charged to expense. In connection with the evaluation of capitalized software development costs and intellectual property licenses, any capitalized amounts for related third-party warrants are additionally reviewed for recoverability with amounts determined as not recoverable being amortized to expense. For the years ended March 31, 2005, 2004 and 2003, $1.6 million, $0.2 million and $3.6 million, respectively, was amortized and included in cost of sales - software royalties and amortization and/or cost of sales - intellectual property licenses.

Employee Retirement Plan

We have a retirement plan covering substantially all of our eligible employees. The retirement plan is qualified in accordance with Section 401(k) of the Internal Revenue Code. Under the plan, employees may defer up to 92% of their pre-tax salary, but not more than statutory limits. Effective January 1, 2003, we contribute 20% of each dollar contributed by a participant. Prior to January 1, 2003, we contributed 5% of each dollar contributed by a participant. Our matching contributions to the plan were approximately $905,000, $700,000, and $320,000 during the years ended March 31, 2005, 2004 and 2003, respectively.

15. Capital Transactions

Buyback Program

During fiscal 2003, our Board of Directors authorized a buyback program under which we can repurchase up to $350.0 million of our common stock. Under the program, shares may be purchased as determined by management, from time to time and within certain guidelines, in the open market or in privately negotiated transactions, including privately negotiated structured stock repurchase transactions and through transactions in the options markets. Depending on market conditions and other factors, these purchases may be commenced or suspended at any time or from time to time without prior notice.

Under the buyback program, we did not repurchase any shares of our common stock in the year ended March 31, 2005. We repurchased approximately 2.5 million shares of our common stock for $12.4 million and 21.6 million shares of our common stock for $101.4 million, in the years ended March 31, 2004 and 2003, respectively. In addition, approximately 2.3 million shares of common stock were acquired in the year ended March 31, 2004 as a result of the settlement of $10.0 million of structured stock repurchase transactions entered into in fiscal 2003. As of March 31, 2005, we had no outstanding structured stock repurchase transactions. Structured stock repurchase transactions are settled in cash or stock based on the market price of our common stock on the date of the settlement. Upon settlement, we either have our capital investment returned with a premium or receive shares of our common stock, depending, respectively, on whether the market price of our common stock is above or below a pre-determined price agreed in connection with each such transaction. These transactions are recorded in shareholders' equity in the accompanying consolidated balance sheets. As of March 31, 2005, we had approximately $226.2 million available for utilization under the buyback program and no outstanding stock repurchase transactions.

Shelf Registrations

In August 2003, we filed with the Securities and Exchange Commission two amended shelf registration statements, including the base prospectuses therein. The first shelf registration statement, on Form S-3, allows us, at any time, to offer any combination of securities described in the base prospectus in one or more offerings with an aggregate initial offering price of up to $500,000,000. Unless we state otherwise in the applicable prospectus supplement, we expect to use the net proceeds from the sale of the securities for general corporate purposes, including capital expenditures, working capital, repayment or reduction of long-term and short-term debt and the financing of acquisitions and other business combinations. We may invest funds that we do not immediately require in marketable securities.

The second shelf registration statement, on Form S-4, allows us, at any time, to offer any combination of securities described in the base prospectus in one or more offerings with an aggregate initial offering price of up to $250,000,000 in connection with our acquisition of the assets, business or securities of other companies whether by purchase, merger, or any other form of business combination.

Shareholders' Rights Plan

On April 18, 2000, our Board of Directors approved a shareholders rights plan (the "Rights Plan"). Under the Rights Plan, each common shareholder at the close of business on April 19, 2000, received a dividend of one right for each share of common stock held. Each right represents the right to purchase two nine-hundredths (2/900) of a share, as adjusted on account of stock dividends made since the

plan's adoption, of our Series A Junior Preferred Stock at an exercise price of $8.89, as adjusted on account of stock dividends made since the plan's adoption. Initially, the rights are represented by our common stock certificates and are neither exercisable nor traded separately from our common stock. The rights will only become exercisable if a person or group acquires 15% or more of the common stock of Activision, or announces or commences a tender or exchange offer which would result in the bidder's beneficial ownership of 15% or more of our common stock.

In the event that any person or group acquires 15% or more of our outstanding common stock each holder of a right (other than such person or members of such group) will thereafter have the right to receive upon exercise of such right, in lieu of shares of Series A Junior Preferred Stock, the number of shares of common stock of Activision having a value equal to two times the then current exercise price of the right. If we are acquired in a merger or other business combination transaction after a person has acquired 15% or more of our common stock, each holder of a right will thereafter have the right to receive upon exercise of such right a number of the acquiring company's common shares having a market value equal to two times the then current exercise price of the right. For persons who, as of the close of business on April 18, 2000, beneficially own 15% or more of the common stock of Activision, the Rights Plan "grandfathers" their current level of ownership, so long as they do not purchase additional shares in excess of certain limitations.

We may redeem the rights for $.01 per right at any time until the first public announcement of the acquisition of beneficial ownership of 15% of our common stock. At any time after a person has acquired 15% or more (but before any person has acquired more than 50%) of our common stock, we may exchange all or part of the rights for shares of common stock at an exchange ratio of one share of common stock per right. The rights expire on April 18, 2010.

16. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) were as follows (amounts in thousands):

	Foreign Currency	Unrealized Appreciation (Depreciation) on Investments	Accumulated Other Comprehensive Income (Loss)
Balance, March 31, 2004	$ 9,864	$ 97	$ 9,961
Comprehensive income (loss)	4,974	(3,317)	1,657
Balance, March 31, 2005	$ 14,838	$ (3,220)	$ 11,618

The amounts above are shown net of taxes. The income taxes related to other comprehensive income were not significant, as income taxes were not provided for foreign currency translation items as these are considered indefinite investments in non-U.S. subsidiaries.

17. Supplemental Cash Flow Information

Non-cash investing and financing activities and supplemental cash flow information are as follows (amounts in thousands):

	Year ended March 31, 2005	2004	2003
Non-cash investing and financing activities:			
Subsidiaries acquired with common stock	$ 1,191	$ 3,246	$ 10,861
Adjustment-prior period purchase allocation	(2,384)	—	—
Issuance of options and common stock warrants	—	—	2,184
Stock offering costs	—	—	781
Change in unrealized appreciation (depreciation) on short-term investments	(3,317)	(37)	134
Supplemental cash flow information:			
Cash paid for income taxes	$ 12,178	$ 10,463	$ 5,491
Cash received for interest, net	10,543	6,213	7,804

18. Quarterly Financial and Market Information (Unaudited)

(Amounts in thousands, except per share data)	Quarter ended June 30	Sept. 30	Dec. 31	Mar. 31	Year ended
Fiscal 2005:					
Net revenues	$ 211,276	$ 310,626	$ 680,094	$ 203,861	$ 1,405,857
Operating income (loss)	15,733	34,658	137,079	(2,899)	184,571
Net income	11,957	25,543	97,262	3,573	138,335
Basic earnings per share	0.07	0.14	0.52	0.02	0.74
Diluted earnings per share	0.06	0.13	0.47	0.02	0.66
Common stock price per share:					
High	12.82	12.30	15.38	18.71	18.71
Low	10.31	9.12	9.36	13.59	9.12
Fiscal 2004:					
Net revenues	$ 158,725	$ 117,523	$ 508,511	$ 162,897	$ 947,656
Operating income (loss)	5,146	(16,933)	116,961	4,643	109,817
Net income (loss)	4,163	(10,093)	76,981	6,664	77,715
Basic earnings (loss) per share	0.02	(0.06)	0.43	0.04	0.44
Diluted earnings (loss) per share	0.02	(0.06)	0.40	0.03	0.40
Common stock price per share:					
High	6.75	7.19	9.55	12.13	12.13
Low	4.51	5.43	5.79	8.54	4.51

19. Recently Issued Accounting Standards and Laws

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 123 (revised 2004), *Share-Based Payment* ("SFAS No. 123R"), which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation (*"SFAS 123"). SFAS No. 123R supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS 123. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

SFAS No. 123R must be adopted by the Company no later than April 1, 2006. Early adoption will be permitted in periods in which financial statements have not yet been issued. The Company expects to adopt SFAS No. 123R on April 1, 2006.

SFAS No. 123R permits public companies to adopt its requirements using one of two methods:

- A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS No. 123R that remain unvested on the effective date.

- A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company has not yet determined which method it will use.

As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS No. 123R's fair value method will have a significant impact on the Company's results of operations, although it will have no impact on its overall financial position. The impact of adoption of SFAS No. 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future.

On November 24, 2004, the FASB issued Statement No. 151, *Inventory Costs, an Amendment of ARB No. 43, Chapter 4* ("SFAS No. 151"). The standard requires that abnormal amounts of idle capacity and spoilage costs within inventory should be excluded from the cost of inventory and expensed when incurred. The provisions of SFAS No. 151 are applicable to inventory costs incurred during fiscal years beginning after June 15, 2005. The Company expects the adoption of SFAS No. 151 will not have a material impact on our financial position or results of operations.

On December 15, 2004 the FASB issued Statement No. 153 ("SFAS No. 153"), *Exchanges of Nonmonetary Assets — an Amendment of Accounting Principles Board Opinion No. 29*. This standard requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance. The new standard is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company expects the adoption of SFAS No. 153 will not have a material impact on our financial position or results of operations.

On October 22, 2004, the President of the United States signed the American Jobs Creation Act of 2004 (the "Act"). The Act raises a number of issues with respect to accounting for income taxes. For companies that pay U.S. income taxes on manufacturing activities in the U.S., the Act provides a deduction from taxable income equal to a stipulated percentage of qualified income from domestic production activities. The manufacturing deduction provided by the Act replaces the extraterritorial income ("ETI") deduction currently in place. We currently derive benefits from the ETI exclusion which was repealed by the Act. Our exclusion for fiscal 2005, 2006, and 2007 will be limited to 95%, 75%, and 45% of the otherwise allowable exclusion and no exclusion will be available in fiscal 2008 and thereafter. The Act also creates a temporary incentive for U.S.

multinationals to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations. The Act also provides for other changes in tax law that will affect a variety of taxpayers. On December 21, 2004, the Financial Accounting Standards Board ("FASB") issued two FASB Staff Positions ("FSP") regarding the accounting implications of the Act related to (1) the deduction for qualified domestic production activities and (2) the one-time tax benefit for the repatriation of foreign earnings. The FASB determined that the deduction for qualified domestic production activities should be accounted for as a special deduction under FASB Statement No. 109, *Accounting for Income Taxes*. The FASB also confirmed, that upon deciding that some amount of earnings will be repatriated, a company must record in that period the associated tax liability. The guidance in the FSPs applies to financial statements for periods ending after the date the Act was enacted. We are evaluating the Act at this time and have not yet determined whether we will avail ourselves of the opportunity of the one-time tax benefit for the repatriation of foreign earnings. We plan to complete our assessment before the end of fiscal 2006 and are not currently in a position to estimate a range of possible repatriation amounts.

20. Subsequent Events

On April 4, 2005, we held Special Meeting of Stockholders in Santa Monica, California. One item was submitted to a vote of the stockholders: To approve an amendment to the Company's Amended and Restated Certificate of Incorporation, as amended, to increase the number of authorized shares of common stock from 225,000,000 to 450,000,000. The amendment to the Company's Amended and Restated Certificate of Incorporation, as amended, to increase the number of authorized shares of common stock from 225,000,000 to 450,000,000 was approved.

SCHEDULE II

ACTIVISION, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(In thousands)

Col. A Description	Col. B Balance at Beginning of Period	Col. C Additions (A)	Col. D Deductions (B)	Col. E Balance at End of Period
Year ended March 31, 2005				
Allowance for sales returns and price protection	$ 44,538	$ 172,156	$ (149,091)	$ 67,603
Allowance for doubtful accounts	2,490	(1,451)	549	1,588

Deferred tax valuation allowance	18,857	7,703	(894)	25,666
Year ended March 31, 2004				
Allowance for sales returns and price protection	$ 52,597	$ 111,440	$ (119,499)	$ 44,538
Allowance for doubtful accounts	4,759	(1,705)	(564)	2,490
Deferred tax valuation allowance	27,606	5,101	(13,850)	18,857
Year ended March 31, 2003				
Allowance for sales returns and price protection	$ 39,213	$ 119,674	$ (106,290)	$ 52,597
Allowance for doubtful accounts	2,806	2,298	(345)	4,759
Deferred tax valuation allowance	30,479	2,568	(5,441)	27,606

(A) Includes increases in allowance for sales returns, price protection, doubtful accounts and deferred tax valuation due to normal reserving terms and allowance accounts acquired in conjunction with acquisitions.

(B) Includes actual write-offs of sales returns, price protection, uncollectible accounts receivable, net of recoveries and foreign currency translation and other adjustments, and deferred taxes.

EXHIBIT INDEX

Exhibit Number	Exhibit
2.1	Agreement and Plan of Merger dated as of June 9, 2000 among Activision, Inc., Activision Holdings, Inc. and ATVI Merger Sub, Inc. (incorporated by reference to Exhibit 2.4 of Activision's Form 8-K, filed June 16, 2000).
3.1	Amended and Restated Certificate of Incorporation of Activision Holdings, dated June 1, 2000 (incorporated by reference to Exhibit 2.5 of Activision's Form 8-K, filed June 16, 2000).
3.2	Amended and Restated Bylaws dated August 1, 2000 (incorporated by reference to Exhibit 3.2 of Activision's Form 8-K, filed July 11, 2001).
3.3	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Activision Holdings dated as of June 9, 2000 (incorporated by reference to Exhibit 2.7 of Activision's Form 8-K, filed June 16, 2000).
3.4	Certificate of Amendment of Amended and Restated Certificate of Incorporation, as amended, of Activision, Inc. dated as of August 23, 2001 (incorporated by reference to Exhibit 3.3 of Amendment No. 1 to our Registration Statement on Form S-3, Registration No. 333-66280, filed August 31, 2001).
3.5	Certificate of Designation of Series A Junior Preferred Stock of Activision, Inc. dated as of December 27, 2001 (incorporated by reference to Exhibit 3.4 of Activision's Form 10-Q for the quarter ended December 31, 2001).
3.6	Certificate of Amendment of Amended and Restated Certificate of Incorporation, as amended, of Activision Inc. dated as of December 29, 2003 (incorporated by reference to Exhibit 3.6 of Activision's Form 10-Q for the quarter ended December 31, 2003).
3.7	Certificate of Amendment of Amended and Restated Certificate of Incorporation, as amended, of Activision, Inc., dated as of April 4, 2005 (incorporated by reference to Exhibit 3.1 of Activision's Form 8-K, filed April 5, 2004).
4.1	Rights Agreement dated as of April 18, 2000, between Activision and Continental Stock Transfer & Trust Company, which includes as exhibits the form of Right Certificates as Exhibit A, the Summary of Rights to Purchase Series A Junior Preferred Stock as Exhibit B and the form of Certificate of Designation of Series A Junior Preferred Stock of Activision as Exhibit C, (incorporated by reference to Activision's Registration Statement on Form 8-A, Registration No. 001-15839, filed April 19, 2000).
10.1	Activision, Inc. 1991 Stock Option and Stock Award Plan, as amended (incorporated by reference to Exhibit 10.1 of Activision's Form 10-K for the year ended March 31, 2002).

10.2	Activision, Inc. 1998 Incentive Plan, as amended (incorporated by reference to Exhibit 10.4 of Activision's Form 10-Q for the quarter ended December 31, 2001).
10.3	Activision, Inc. 1999 Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 of Activision's

	Form 10-Q for the quarter ended June 30, 2002).
10.4	Activision, Inc. 2001 Incentive Plan, as amended (incorporated by reference to Exhibit 10.2 of Activision's Form 10-Q for the quarter ended June 30, 2002).
10.5	Activision, Inc. 2002 Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended June 30, 2003).
10.6	Activision, Inc. 2002 Executive Incentive Plan (incorporated by reference to Appendix I of Activision's 2002 Definitive Proxy Statement on Schedule 14A, filed June 29, 2002).
10.7	Activision, Inc. 2002 Studio Employee Retention Incentive Plan (incorporated by reference to Exhibit 10.2 of Activision's Form 10-Q for the quarter ended December 31, 2002).
10.8	Activision, Inc. 2003 Incentive Plan (incorporated by reference to Exhibit 10.2 of Activision's Form 10-Q for the quarter ended June, 30, 2003).
10.9	Activision, Inc. 2002 Employee Stock Purchase Plan (incorporated by reference to Appendix II of Activision's 2002 Definitive Proxy Statement on Schedule 14A, filed June 29, 2002).
10.10	Activision, Inc. 2002 Employee Stock Purchase Plan for International Employees (incorporated by reference to Exhibit 5.1 of Activision's Registration Statement on Form S-8, filed February 19, 2003).
10.11	Activision, Inc. Employee Stock Purchase Plan, as amended, (incorporated by reference to Exhibit 4.1 of Activision's Form S-8, Registration No. 333-36272 filed May 4, 2000).
10.12	Amendment I dated July 22, 2002 to employment agreement dated May 22, 2000, between Activision and Robert A. Kotick (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended September 30, 2002).
10.13	Amended and restated employment agreement dated May 22, 2000 between Activision and Robert A. Kotick (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended September 30, 2000).
10.14	Stock option agreement dated May 22, 2000 between Activision and Robert A. Kotick (incorporated by reference to Exhibit 10.2 of Activision's Form 10-Q for the quarter ending September 30, 2000).
10.15	Employment agreement dated August 20, 2004 between Activision and William J. Chardavoyne (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended September 30, 2004).

10.16	Employment agreement dated November 20, 2002 between Activision and George Rose (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended December 31, 2002).
10.17	Service Agreement dated March 1, 2002 between Combined Distribution (Holdings) Limited and Richard Andrew Steele (incorporated by reference to Exhibit 10.14 of Activision's Form 10-K for the year ended March 31, 2002).
10.18	Employment agreement dated April 1, 2002 between Activision and Michael Rowe (incorporated by reference to Exhibit 10.15 of Activision's Form 10-K for the year ended March 31, 2002).
10.19	Employment agreement dated November 6, 2003 between Activision and Kathy Vrabeck (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended December 31, 2003).
10.20	Employment Agreement dated July 22, 2002 between Ronald Doornink and Activision (incorporated by reference to Exhibit 10.6 of Activision's Form 10-Q for the quarter ended June 30, 2002).
10.21	Amendment I dated July 22, 2002 to employment agreement dated May 22, 2000, between Activision and Brian G. Kelly (incorporated by reference to Exhibit 10.2 of Activision's Form 10-Q for the quarter ended September 30, 2002).
10.22	Amended and restated employment agreement dated May 22, 2000 between Activision and Brian G. Kelly (incorporated by reference to Exhibit 10.3 of Activision's Form 10-Q for the quarter ending September 30, 2000).
10.23	Stock option agreement dated May 22, 2000 between Activision and Brian G. Kelly (incorporated by reference to Exhibit 10.4 of Activision's Form 10-Q for the quarter ending September 30, 2000).
10.24	Confidential License Agreement for Nintendo Gamecube (Western Hemisphere), dated as of November 9, 2001, between Nintendo of America Inc. and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.1 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).
10.25	License Agreement for the Nintendo Gamecube System (EEA), dated as of June 5, 2002, between Nintendo Co., Ltd. and Activision, Inc. (incorporated by reference to Exhibit 10.2 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).

10.26	Confidential License Agreement for Game Boy Advance (Western Hemisphere), dated as of May 10, 2001, between Nintendo of America, Inc. and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.3 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).
10.27	Confidential License Agreement for the Game Boy Advance Video Game System (EEA, Australia and New Zealand), dated as of September 14, 2001, between Nintendo Co., Ltd. and Activision, Inc. (incorporated by

	reference to Exhibit 10.4 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).
10.28	Microsoft Corporation Xbox Publisher License Agreement, dated as of July 18, 2001, between Microsoft Corporation and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.5 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).
10.29	Amendment to Microsoft Corporation Xbox Publisher License Agreement, dated as of April 19, 2002, between Microsoft Corporation and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.6 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).
10.30	Xbox Live Distribution Amendment to the Xbox Publisher Licensing Agreement, dated as of October 28, 2002, between Microsoft Corporation and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.7 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).
10.31	Licensed Publisher Agreement, dated as of July 13, 2002, between Sony Computer Entertainment America Inc. and Activision, Inc. ("PlayStation license") (incorporated by reference to Exhibit 10.8 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).
10.32	Amendment to Licensed Publisher Agreement, dated as of April 1, 2000, between Sony Computer Entertainment America Inc. and Activision, Inc. ("PlayStation2 license") (incorporated by reference to Exhibit 10.9 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).
10.33	PlayStation2 Licensed Publisher Agreement, dated as of March 23, 2001, between Sony Computer Entertainment Europe Limited and Activision UK Limited (incorporated by reference to Exhibit 10.10 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).
10.34	Amendment I dated February 27, 2003 to employment agreement dated July 22, 2002, between Activision and Ron Doornink.
10.35	Form of Stock Option Certificate under the 1998 Incentive Plan of Activision, Inc. (incorporated by reference to Exhibit 10.1 of Activision's Form 8-K, filed May 31, 2005).
10.36	Form of Stock Option Certificate under the 1999 Incentive Plan of Activision, Inc. (incorporated by reference to Exhibit 10.1 of Activision's Form 8-K, filed May 31, 2005).
10.37	Form of Stock Option Agreement under the 2001 Incentive Plan of Activision, Inc. (incorporated by reference to Exhibit 10.1 of Activision's Form 8-K, filed May 31, 2005).
10.38	Form of Stock Option Agreement under the 2002 Executive Incentive Plan of Activision, Inc. (incorporated by reference to Exhibit 10.1 of Activision's Form 8-K, filed May 31, 2005).
10.39	Form of Stock Option Agreement under the 2003 Incentive Plan of Activision, Inc. (incorporated by reference to Exhibit 10.1 of Activision's Form 8-K, filed May 31, 2005).

10.40	Form of Stock Option Agreement (Executive) under the 2003 Incentive Plan of Activision, Inc.
10.41	Form of Stock Option Agreement (Non-Executive) under the 2003 Incentive Plan of Activision, Inc.
10.42	Confidential License Agreement for the Nintendo DS (Western Hemisphere), dated as of November 1, 2004, between Nintendo Co., Ltd. and Activision, Inc. *
10.43	First Amendment to the Confidential License Agreement for Game Boy Advance (Western Hemisphere) dated as of May 10, 2004, between Nintendo of America, Inc. and Activision Publishing, Inc.
10.44	First Renewal License Agreement for the Game Boy Advance Video Game System (EEA, Australia, and New Zealand) dated September 14, 2004, between Nintendo Co., LTD. and Activision, Inc. *
10.45	First Amendment to the Confidential License Agreement for Nintendo GameCube (Western Hemisphere) dated November 9, 2004, between Nintendo of America, Inc. and Activision Publishing, Inc.

10.46	PlayStation Portable ("PSP") Licensed PSP Publisher Agreement dated September 15, 2004, between Sony Computer Entertainment America Inc. and Activision, Inc. *
10.47	Amendment to the Xbox Publisher Licensing Agreement dated as of March 1, 2005, between Microsoft Licensing, GP, and Activision Publishing, Inc.*
10.48	Amendment I dated April 1, 2004 to employment agreement dated March 1, 2002, between Combined Distribution (Holdings) Limited and Richard Andrew Steele (incorporated by reference to Exhibit 10.3 of Activision's Form 10-Q for the quarter ended June 30, 2004).
10.49	Amendment I dated April 29, 2004 to employment agreement dated April 1, 2002 between Activision and Michael Rowe (incorporated by reference to Exhibit 10.4 of Activision's Form 10-Q for the quarter ended June 30, 2004).
10.50	Amendment II dated June 1, 2004 to employment agreement dated July 22, 2002, between Activision and Ron Doornink (incorporated by reference to Exhibit 10.5 of Activision's Form 10-Q for the quarter ended June 30, 2004).
10.51	Amendment I dated March 30, 2005 to employment agreement dated November 20, 2002 between Activision and George Rose.
14.1	Code of Ethics for Senior Financial Officers (incorporated by reference to Exhibit 14.1 of Activision's Form 10-K for the year ended March 31, 2004).
21.1	Principal subsidiaries of Activision.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Robert A. Kotick pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2	Certification of Ronald Doornink pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of William J. Chardavoyne pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Robert A. Kotick pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Ronald Doornink pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.3	Certification of William J. Chardavoyne pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*	Portions omitted pursuant to a request for confidential treatment.

AMENDMENT NO. 1
TO
EMPLOYMENT AGREEMENT

This Amendment No. 1 to Employment Agreement ("Amendment No. 1") is entered into effective as of the 27th day of February 2003 by and between Activision Publishing, Inc. ("Employer"), and Ron Doornink, an individual with his address at 872 9th Street, Manhattan Beach, California 90266 ("Employee").

RECITALS

A. Employer and Employee entered into a certain Employment Agreement dated as of July 22, 2002 (the "Agreement").

B. The parties desire to modify terms of the Agreement in certain particulars as more specifically set forth below.

C. All terms not defined otherwise in this Amendment No. 1 shall have the meaning ascribed to them in the Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Definition of the term "Expiration Date" shall be amended to mean "March 31, 2006".

2. Paragraph 2(f) shall be amended by adding the following sub-paragraph 1 (f)(iv):

   "200,000 New Options are granted pursuant to Activision's 2002 Executive Incentive Plan with the options vesting in increments of 66,667 options, 66,667 options and 66,666 options on April 1, 2004, April 1, 2005 and April 1, 2006 respectively."

3. The last sentence of Paragraph 3 of the Agreement which currently reads "Effective as of April 1, 2004, you shall have the title of Chairman of Employer" shall be deleted and replaced with the following provision "Your title and responsibilities commencing with April 1, 2005 shall be determined by mutual agreement between you and Employer on or before October 31, 2004. In the event the parties are unable to reach such agreement, then provisions of Paragraph 11 of this Agreement shall become applicable effective as of April 1, 2005."

4. Definition of the term "Consulting Period" shall be amended to mean "a period equal to the remaining Employment Term following such termination and for a period of additional one (1) year through March 31, 2007."

5. The parties agree that all other terms and conditions contained in the Agreement shall remain in full force and effect. Notwithstanding the foregoing, if any terms or provisions of the Agreement are contradictory to, or inconsistent with, any terms or provisions of this Amendment No. 1, then the terms and provisions of this Amendment No. 1 shall in all events control and such contradictory or inconsistent terms or provisions of the Agreement shall be deemed null and void.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment No. 1 to the

Agreement effective as of the date specified above.

Activision Publishing, Inc.

By: /s/ Brian Kelly
Name: Brian Kelly
Title: Co-Chairman

Ron Doornink

/s/ Ron Doornink

Exhibit 10.40

Exhibit [ ]

EXECUTIVE STOCK OPTION AGREEMENT

Stock Option # For Shares

Issued Pursuant to the
2003 Incentive Plan of

ACTIVISION, INC.

THIS STOCK OPTION AGREEMENT (THIS "AGREEMENT") CERTIFIES that on (the "Issuance Date") (the "Holder") was granted an option (the "Option") to purchase at the option price of $ per share, all or any part of fully paid and non-assessable shares ("Shares") of common stock, par value $.000001 per share, of ACTIVISION, INC., a Delaware corporation (the "Company"), upon and subject to the following terms and conditions:

1. *Terms of the Plan.* The Option is granted pursuant to, and is subject to the terms and conditions of, the Company's 2003 Incentive Plan (the "Plan"), the terms, conditions and definitions of which are hereby incorporated herein as though set forth at length, and the receipt of a copy of which the Holder hereby acknowledges by his signature below. Capitalized terms used herein shall have the meanings set forth in the Plan, unless otherwise defined herein.

2. *Expiration.* This Option shall expire on [ ], unless extended or earlier terminated in accordance herewith.

3. *Exercise.* [(a)] Except as otherwise permitted under the Plan or the Holder's written employment agreement with the Company, if any, this Option may be exercised or surrendered during the Holder's lifetime only by the Holder or his/her guardian or legal representative. EXCEPT AS OTHERWISE PERMITTED UNDER THE PLAN OR THE HOLDER'S WRITTEN EMPLOYMENT AGREEMENT WITH THE COMPANY, IF ANY, THIS OPTION SHALL NOT BE TRANSFERABLE BY THE HOLDER OTHERWISE THAN BY WILL OR BY THE LAWS OF DESCENT AND DISTRIBUTION. With the Company's consent which may granted or withheld in its sole discretion, Options may be transferred to certain permitted assignees, such as certain relatives of, or entities controlled by, the Participant, as more fully set forth in Section 8.3 of the Plan; provided, however, such consent shall only be required in the event any such transfer is not otherwise permitted under the Plan or the Holder's written employment agreement with the Company, if any.

This Option shall vest and be exercisable as follows:

Vesting Date	Shares Vested at Vesting Date	Cumulative Shares

[vesting schedule]

This Option shall be exercised by the Holder (or by her executors, administrators, guardian or legal representative) as to all or part of the Shares, by the giving of written notice of exercise to the Company, specifying the number of Shares to be purchased, accompanied by payment of the full purchase price for the Shares being purchased. Full payment of such purchase price shall be made at the time of exercise and shall be made (i) in cash or by certified check or bank check or wire transfer of immediately available funds, (ii) with the consent of the Company, by tendering previously acquired Shares (valued at their then Fair Market Value (as defined in the Plan), as determined by the Company as of the date of tender) that have been owned for a period of at least six months (or such other period to avoid accounting charges against the Company's earnings), or (iii) with the consent of the Company, a combination of (i) and (ii). Such notice of exercise, accompanied by such payment, shall be delivered to the Company at its principal business office or such other office as the Company may from time to time direct, and shall be in such form, containing such further provisions as the Company may from time to time prescribe. In no event may this Option be exercised for a fraction of a Share. The Company shall effect the transfer of Shares purchased pursuant to an Option as soon as practicable, and, within a reasonable time thereafter, such transfer shall be evidenced on the books of the Company. No person exercising this Option shall have any of the rights of a holder of Shares subject to this Option until certificates for such Shares shall have been issued following the exercise of such Option. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date of such issuance.

[(b) *Reload Option*. Add provision for reload feature for those key executives who qualify for such feature, as follows: Upon exercise of the Option pursuant to clause (a), above, the Holder shall receive a new option (the "Reload Option") to purchase at the option price equal to the Fair Market Value of the Shares on the date of Option exercise, all or any part of that number of Shares equal to (i) the number of Shares delivered to the Company by the holder, or withheld from Shares otherwise issuable to the holder upon exercise, in payment of the exercise price of the Option or the tax withholding obligations attributable thereto and/or (ii) that number of Shares with a then Fair Market Value equal to the amount of the withholding obligations paid in cash by the holder. The Reload Option shall expire unless extended or earlier terminated in accordance herewith. [Reload Options shall fully vest immediately upon issuance.] All other terms and conditions (other than the vesting schedule) of this Agreement and the Plan apply to the Reload Options.]

4. *Termination of Employment.* In the event of the termination of employment or separation from service of the Holder for any reason (other than death or disability as provided below), this Option, to the extent not previously exercised or expired, shall be deemed cancelled and terminated on the day of such termination or separation, unless (i) the Holder's written employment agreement with the Company, if any, provides otherwise, in which case the terms contained in such employment agreement shall control or (ii) the Company decides, in its sole discretion, to extend the term of this Option, subject to the terms of the Plan.

5. *Death.* In the event the Holder dies while employed by the Company or any of its subsidiaries or affiliates, or during his term as a Director of the Company or any of its subsidiaries or affiliates, as the case may be, this Option, to the extent not previously expired or exercised, shall, to the extent exercisable on the date of death, be exercisable by the estate of the Holder or by any person who acquired this Option by bequest or inheritance, at any time within

one year after the death of the Holder, unless the Holder's written employment agreement with the Company, if any, provides otherwise, in which case the terms contained in such employment agreement shall control, *provided, however,* that if the term of such Option would expire by its terms within six months after the Optionee's death, the term of such Option shall be extended until six months after the Optionee's death, *provided further, however,* that in no instance may the term of the Option, as so extended, exceed the maximum term established pursuant to Sections 4.5(b)(ii) or 4.5(c) of the Plan (if applicable).

6. *Disability.* In the event of the termination of employment of the Holder or the separation from service of the Holder due to disability, the Holder, or her guardian or legal representative, shall have the unqualified right to exercise any portion of this Option which has not been previously exercised or expired and which the Holder was eligible to exercise as of the first date of total disability (as determined by the Company), at any time within one year after such termination or separation, unless the Holder's written employment agreement with the Company, if any, provides otherwise, in which case the terms contained in such employment agreement shall control, *provided, however,* that if the term of such Option would expire by its terms within six months after such termination or separation, the term of such Option shall be extended until six months after such termination or separation, *provided further, however,* that in no instance may the term of the Option, as so extended, exceed the maximum term established pursuant to Section 4.5(b)(ii) or 4.5(c) of the Plan (if applicable). The term "disability" shall, for purposes of this Share Option Agreement, be defined in the same manner as such term is defined in the Holder's written employment agreement with the Company, if any. In the event (i) such term is not defined in the Holder's employment agreement with the Company or (ii) the Holder does not have a written employment agreement with the Company, the term "disability" shall have the same meaning as "total disability" in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended.

7. *Change of Control.* If the Holder is an active employee of the Company or any of its subsidiaries at the time there occurs a "Change of Control" of the Company and the Holder's employment is terminated by the Company or any of its subsidiaries other than for Cause (as defined below) within twelve (12) months following such Change of Control, or such longer period as the Committee may determine, the portion, if any, of this Option with respect to which the right to exercise has not yet accrued, shall immediately vest and be exercisable in full, effective upon such termination, for a period of 30 days thereafter, or such longer period as the Committee may determine. Notwithstanding the foregoing, in the event the Holder has a written employment agreement with the Company which contains terms relating to a "Change of Control," all such terms shall supplement this Section 7, and to the extent that there may be conflicting terms between this Option and the terms of such employment agreement, the terms of such employment agreement shall govern the treatment of this Option in the event of a "Change of Control" of the Company. For purposes of this Option, "Change of Control" shall have the meaning specified in the Holder's written employment agreement with the Company, if any. In the event (i) such term is not defined in the Holder's employment agreement with the Company or (ii) the Holder does not have a written employment agreement with the Company, a "Change of Control" of the Company shall be deemed to occur if:

a. there shall have occurred a Change of Control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A

promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as in effect on the date hereof, whether or not the Company is then subject to such reporting requirement, *provided, however,* that there shall not be deemed to be a Change of Control of the Company if immediately prior to the occurrence of what would otherwise be a Change of Control of the Company (i) the Holder is the other party to the transaction (a "Control Event") that would otherwise result in a Change of Control of the Company or (ii) the Holder is an executive officer, trustee, director or more than 5% equity holder of the other party to the Control Event or of any entity, directly or indirectly, controlling such other party;

b. the Company merges or consolidates with, or sells all or substantially all of its assets to, another company (each, a "Transaction"), *provided, however,* that a Transaction shall not be deemed to result in a Change of Control of the Company if (i) immediately prior thereto the circumstances in (a)(i) or (a)(ii) above exist, or (ii) (1) the shareholders of the Company, immediately before such Transaction own, directly or indirectly, immediately following such Transaction in excess of fifty percent (50%) of the combined voting power of the outstanding voting securities of the corporation or other entity resulting from such Transaction (the "Surviving Corporation") in substantially the same proportion as their ownership of the voting securities of the Company immediately before such Transaction and (2) the individuals who were members of the Company's Board of Directors immediately prior to the execution of the agreement providing for such Transaction constitute at least a majority of the members of the board of directors or the board of trustees, as the case may be, of the Surviving Corporation, or of a corporation or other entity beneficially directly or indirectly owning a majority of the outstanding voting securities of the Surviving Corporation; or

c. the Company acquires assets of another company or a subsidiary of the Company merges or consolidates with another company (each, an "Other Transaction") and (i) the shareholders of the Company, immediately before such Other Transaction own, directly or indirectly, immediately following such Other Transaction 50% or less of the combined voting power of the outstanding voting securities of the corporation or other entity resulting from such Other Transaction (the "Other Surviving Corporation") in substantially the same proportion as their ownership of the voting securities of the Company immediately before such Other Transaction or (ii) the individuals who were members of the Company's Board of Directors immediately prior to the execution of the agreement providing for such Other Transaction constitute less than a majority of the members of the board of directors or the board of trustees, as the case may be, of the Other Surviving Corporation, or of a corporation or other entity beneficially directly or indirectly owning a majority of the outstanding voting securities of the Other Surviving Corporation, *provided, however,* that an Other Transaction shall not be deemed to result in a Change of Control of the Company if immediately prior thereto the circumstances in (a)(i) or (a)(ii) above exist.

For purposes of this Section 7, "Cause" shall mean (unless a different definition is used in the Holder's written employment agreement with the Company, if any, in which case such different definition shall apply to the Holder) any of the following:

x. material breach by the Holder of his or her employment agreement, if any, or material failure by the Holder to perform his or her duties (other than as a result of incapacity due to physical or mental illness) during his or her employment with the Company after written notice of such breach or failure and the Holder failed to cure such breach or failure to the Company's reasonable satisfaction within five (5) days after receiving such written notice;

y. material breach by the Holder of his or her Employee Proprietary Information Agreement or other similar arrangement entered into by the Holder in connection with his or her employment by the Company; or

z. any act of fraud, misappropriation, misuse, embezzlement or any other material act of dishonesty in respect of the Company or its funds, properties, assets or other employees.

8. *Employment Violation.* In consideration of the granting and by acceptance of this Option, the Holder hereby agrees that the terms of this Section 8 shall apply to the Option. The Holder acknowledges and agrees that each exercise of this Option and each written notice of exercise delivered to the Company and executed by the Holder shall serve as a reaffirmation of and continuing agreement by the Holder to comply with the terms contained in this Section 8.

The Company and the Holder acknowledge and agree that if the Holder materially breaches his or her employment agreement (it being understood that any breach of the post-termination obligations contained therein shall be deemed to be material) for so long as the terms of such employment agreement shall apply to the Holder (each an "Employment Violation"), the Company shall have the right to require (i) the termination and cancellation of the unexercised portion of this Option, if any, whether vested or unvested, and (ii) payment by the Holder to the Company of the Recapture Amount (as defined below). The Company and the Holder further agree that such termination of unexercised Options and payment of the Recapture Amount, as the case may be, shall be in addition to, and not in lieu of, any other right or remedy available to the Company arising out of or in connection with any such Employment Violation including, without limitation, the right to terminate the Holder's employment if not already terminated, seek injunctive relief and additional monetary damages.

For purposes of this Section 8, the "Recapture Amount" shall mean the gross gain realized or unrealized by the Holder upon each exercise of this Option during the period beginning on the date which is twelve (12) months prior to the date of the Holder's Employment Violation and ending on the date of computation (the "Look-back Period"), which gain shall be calculated as the sum of:

a. if the Holder has exercised any portion of this Option during the Look-back Period and sold any of the Shares acquired on exercise thereafter, an amount equal to the product of (x) the sales price per Share sold minus the exercise price per Share times (y) the number of Shares as to which this Option was exercised and which were sold at such sales price; plus

b. if the Holder has exercised any portion of this Option during the Look-back Period and not sold any of the Shares acquired on exercise thereafter, with respect to each of such Shares an amount equal to the product of (x) the greatest of the following: (1) the Fair Market Value per Share on the date of exercise, (2) the arithmetic average of the per Share closing sales prices as reported on NASDAQ for the thirty (30) trading day period ending on the trading day immediately preceding the date of the Company's written notice of its exercise of its rights under this Section 8, or (3) the arithmetic average of the per Share closing sales prices as reported on NASDAQ for the thirty (30) trading day period ending on the trading day immediately preceding the date of computation, minus the exercise price per Share times (y) the number of Shares as to which this Option was exercised and which were not sold;

provided, however, in lieu of payment by the Holder to the Company of the Recapture Amount determined pursuant to clause (b) above, the Holder, in his or her discretion, may tender to the Company the Shares acquired upon exercise of this Option during the Look-back Period and the Optionee shall not be entitled to receive any consideration from the Company in exchange therefor.

9. *Adjustments.* In the event that the Company shall determine that any dividend or other distribution (whether in the form of cash, shares of common stock of the Company, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of shares of common stock of the Company or other securities, the issuance of warrants or other rights to purchase shares of common stock of the Company, or other securities, or other similar corporate transaction or event affects the Shares, such that an adjustment is determined by the Company to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available to the Holder, then the Company shall, in such manner as the Company may deem equitable, adjust any or all of (i) the number and type of shares of common stock of the Company subject to this Option, and (ii) the grant or exercise price with respect to this Option, or, if deemed appropriate, make provision for a cash payment to the Holder.

10. *Delivery of Share Certificates.* Within a reasonable time after the exercise of this Option, the Company shall cause to be delivered to the person entitled thereto a certificate for the Shares purchased pursuant to the exercise of this Option. If this Option shall have been exercised with respect to less than all of the Shares subject to this Option, the Company shall also cause to be delivered to the person entitled thereto a new Stock Option Agreement in replacement of this Stock Option Agreement if surrendered at the time of the exercise of this Option, indicating the number of Shares with respect to which this Option remains available for exercise, or the Company shall make a notation in its books and records to reflect the partial exercise of this Option.

11. *Withholding.* In the event that the Holder elects to exercise this Option or any part thereof, and if the Company or any subsidiary or affiliate of the Company shall be required to withhold any amounts by reasons of any federal, state or local tax laws, rules or regulations in respect of (a) the issuance of Shares to the Holder pursuant to this Option, or (b) the exercise or disposition (in whole or in part) of the Option, the Company or such subsidiary or

affiliate shall be entitled to deduct and withhold such amounts from any payments to be made to the Holder. In any event, the Holder shall make available to the Company or such subsidiary or affiliate, promptly when requested by the Company or such subsidiary or affiliate, sufficient funds to meet the

requirements of such withholding; and the Company or such subsidiary or affiliate shall be entitled to take and authorize such steps as it may deem advisable in order to have such funds available to the Company or such subsidiary or affiliate out of any funds or property due or to become due to the Holder.

12. *Reservation of Shares.* The Company hereby agrees that at all times there shall be reserved for issuance and/or delivery upon exercise of this Option such number of Shares as shall be required for issuance or delivery upon exercise hereof.

13. *Rights of Holder.* Nothing contained herein shall be construed to confer upon the Holder any right to be continued in the employ of the Company and/or any subsidiary or affiliate of the Company or derogate from any right of the Company and/or any subsidiary or affiliate of the Company to retire, request the resignation of, or discharge the Holder at any time, with or without cause. The Holder shall not, by virtue hereof, be entitled to any rights of a shareholder in the Company, either at law or in equity, and the rights of the Holder are limited to those expressed herein and are not enforceable against the Company except to the extent set forth herein.

14. *Exclusion from Pension Computations.* By acceptance of the grant of this Option, the Holder hereby agrees that any income realized upon the receipt or exercise hereof, or upon the disposition of the Shares received upon its exercise, is special incentive compensations and, to the extent permissible under applicable law, shall not be taken into account as "wages", "salary" or "compensation" in determining the amount of any payment under any pension, retirement, incentive, profit sharing, bonus or deferred compensation plan of the Company or any of its subsidiaries or affiliates.

15. *Registration; Legend.* The Company may postpone the issuance and delivery of Shares upon any exercise of this Option until (a) the admission of such Shares to listing on any stock exchange or exchanges on which Shares of the Company of the same class are then listed and (b) the completion of such registration or other qualification of such Shares under any state or federal law, rule or regulation as the Company shall determine to be necessary or advisable. The Holder shall make such representations and furnish such information as may, in the opinion of counsel for the Company, be appropriate to permit the Company, in light of the then existence or non-existence with respect to such Shares of an effective Registration Statement under the Securities Act of 1933, as amended, to issue the Shares in compliance with the provisions of that or any comparable act.

The Company may cause the following or a similar legend to be set forth on each certificate representing Shares or any other security issued or issuable upon exercise of this Option unless counsel for the Company is of the opinion as to any such certificate that such legend is unnecessary:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT

PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT, THE AVAILABILITY OF WHICH IS ESTABLISHED BY AN OPINION FROM COUNSEL TO THE COMPANY.

16. *Amendment.* The Company may, with the consent of the Holder, at any time or from time to time amend the terms and conditions of this Option, and may at any time or from time to time amend the terms of the Plan.

17. *Notices.* Any notice which either party hereto may be required or permitted to give to the other shall be in writing, and may be delivered personally or by mail, postage prepaid, or overnight courier, addressed as follows: if to the Company, at its office at 3100 Ocean Park Boulevard, Santa Monica, California 90405, Attn: General Counsel, or at such other address as the Company by notice to the Holder may designate in writing from time to time; and if to the Holder, at the address shown below her signature on this Stock Option Agreement, or at such other address as the Holder by notice to the Company may designate in writing from time to time. Notices shall be effective upon receipt.

18. *Interpretation.* A determination of the Committee as to any questions which may arise with respect to the interpretation of the provisions of this Option and of the Plan shall be final and binding. The Committee may authorize and establish such rules, regulations and revisions thereof as it may deem advisable.

19. *Miscellaneous*. In the event of a conflict between any of the terms contained in this Option and the terms contained in the Holder's written employment agreement with the Company, if any, the terms set forth in such employment agreement shall govern.

[Remainder of page intentionally blank.]

IN WITNESS WHEREOF, the parties have executed this Stock Option Agreement as of the date first set forth above.

ACTIVISION, INC.

By: _____

Name:
Title:

Date: _____

Attest: _____

ATTEST:

_____

Option Holder

Address

City State Zip Code

Social Security Number

STOCK OPTION AGREEMENT

Stock Option # For Shares

Issued Pursuant to the
2003 Incentive Plan of
ACTIVISION, INC.

THIS STOCK OPTION AGREEMENT (THIS "AGREEMENT") CERTIFIES that on (the "Issuance Date") (the "Holder") was granted an option (the "Option") to purchase at the option price of $ per share, all or any part of fully paid and non-assessable shares ("Shares") of common stock, par value $.000001 per share, of ACTIVISION, INC., a Delaware corporation (the "Company"), upon and subject to the following terms and conditions:

1. *Terms of the Plan.* The Option is granted pursuant to, and is subject to the terms and conditions of, the Company's 2003 Incentive Plan (the "Plan"), the terms, conditions and definitions of which are hereby incorporated herein as though set forth at length, and the receipt of a copy of which the Holder hereby acknowledges by his signature below. Capitalized terms used herein shall have the meanings set forth in the Plan, unless otherwise defined herein.

2. *Expiration.* This Option shall expire on [ ], unless extended or earlier terminated in accordance herewith.

3. *Exercise.* [(a)] Except as otherwise permitted under the Plan, this Option may be exercised or surrendered during the Holder's lifetime only by the Holder or his/her guardian or legal representative. EXCEPT AS OTHERWISE PERMITTED UNDER THE PLAN, THIS OPTION SHALL NOT BE TRANSFERABLE BY THE HOLDER OTHERWISE THAN BY WILL OR BY THE LAWS OF DESCENT AND DISTRIBUTION. With the Company's consent which may granted or withheld in its sole discretion, Options may be transferred to certain permitted assignees, such as certain relatives of, or entities controlled by, the Participant, as more fully set forth in Section 8.3 of the Plan.

This Option shall vest and be exercisable as follows:

Vesting Date	Shares Vested at Vesting Date	Cumulative Shares

[vesting schedule]

This Option shall be exercised by the Holder (or by her executors, administrators, guardian or legal representative) as to all or part of the Shares, by the giving of written notice of exercise to the Company, specifying the number of Shares to be purchased, accompanied by payment of the full purchase price for the Shares being purchased. Full payment of such purchase price shall be made at the time of exercise and shall be made (i) in cash or by certified check or bank check or wire transfer of immediately available funds, (ii) with the consent of the Company, by tendering previously acquired Shares (valued at their then Fair Market Value (as defined in the Plan), as determined by the Company as of the date of tender) that have been owned for a period of at least six months (or such other period to avoid accounting charges

against the Company's earnings), or (iii) with the consent of the Company, a combination of (i) and (ii). Such notice of exercise, accompanied by such payment, shall be delivered to the Company at its principal business office or such other office as the Company may from time to time direct, and shall be in such form, containing such further provisions as the Company may from time to time prescribe. In no event may this Option be exercised for a fraction of a Share. The Company shall effect the transfer of Shares purchased pursuant to an Option as soon as practicable, and, within a reasonable time thereafter, such transfer shall be evidenced on the books of the Company. No person exercising this Option shall have any of the rights of a holder of Shares subject to this Option until certificates for such Shares shall have been issued following the exercise of such Option. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date of such issuance.

[(b) *Reload Option*. Add provision for reload feature for those key executives who qualify for such feature, as follows: Upon exercise of the Option pursuant to clause (a), above, the Holder shall receive a new option (the "Reload Option") to purchase at the option price equal to the Fair Market Value of the Shares on the date of Option exercise, all or any part of that number of Shares equal to (i) the number of Shares delivered to the Company by the holder, or withheld from Shares otherwise issuable to the holder upon exercise, in payment of the exercise price of the Option or the tax withholding obligations attributable thereto and/or (ii) that number of Shares with a then Fair Market Value equal to the amount of the withholding obligations paid in cash by the holder. The Reload Option shall expire unless extended or earlier terminated in accordance herewith. [Reload Options shall fully vest immediately upon issuance.] All other terms and conditions (other than the vesting schedule) of this Agreement and the Plan apply to the Reload Options.]

4. *Termination of Employment.* Upon termination of the Holder's employment for any reason (except death or disability which are described in paragraphs 5 and 6 below), the following terms shall apply to this Option:

(a) In the event of termination of the Holder's employment for Cause, or by the Holder's breach of the [employment agreement] and/or [the Employee Proprietary Information Agreement] between the Company and the Holder then in effect, this Option, whether or not vested, shall expire immediately and shall be deemed cancelled and no longer continue to vest or be exercisable as of the date of such termination. The term "Cause" shall be defined as the Holder's (i) willful, reckless or gross misconduct or fraud, (ii) gross negligent performance of job responsibilities, and (iii) conviction of or pleading no contest to a felony or crime involving dishonesty or moral turpitude;

(b) In the event of termination of the Holder's employment by the Company without Cause, this Option shall cease to vest immediately as of the date of such termination, the unvested portion of this Option shall be cancelled and only the vested portion of this Option shall continue to be exercisable until the earlier of (i) the end of the 30th day after the date of such termination of employment, or (ii) the expiration of this

Option pursuant to the terms set forth herein; and upon the expiration of such period, such portion of this Option then remaining unexercised shall be cancelled; and

(c) In the event of termination of the Holder's employment for any reason not otherwise described in paragraphs 4(a) and (b) (except for death or disability), this Option shall cease to vest immediately as of the date of such termination, the unvested portion of this Option shall be cancelled and only the vested portion of this Option shall continue to be exercisable until the earlier of (i) the end of the 30th day after the date of such termination of employment, or (ii) the expiration of this Option pursuant to the terms set forth herein; and upon the expiration of such period, such portion of this Option then remaining unexercised shall be cancelled.

5. *Death.* In the event the Holder dies while employed by the Company or any of its subsidiaries or affiliates, or during his term as a Director of the Company or any of its subsidiaries or affiliates, as the case may be, this Option, to the extent not previously expired or exercised, shall, to the extent exercisable on the date of death, be exercisable by the estate of the Holder or by any person who acquired this Option by bequest or inheritance, at any time within one year after the death of the Holder, *provided, however,* that if the term of such Option would expire by its terms within six months after the Optionee's death, the term of such Option shall be extended until six months after the Optionee's death, *provided further, however,* that in no instance may the term of the Option, as so extended, exceed the maximum term established pursuant to Sections 4.5(b)(ii) or 4.5(c) of the Plan (if applicable).

6. *Disability.* In the event of the termination of employment of the Holder or the separation from service of the Holder due to total disability, the Holder, or her guardian or legal representative, shall have the unqualified right to exercise any portion of this Option which has not been previously exercised or expired and which the Holder was eligible to exercise as of the first date of total disability (as determined by the Company), at any time within one year after such termination or separation, *provided, however,* that if the term of such Option would expire by its terms within six months after such termination or separation, the term of such Option shall be extended until six months after such termination or separation, *provided further, however,* that in no instance may the term of the Option, as so extended, exceed the maximum term established pursuant to Section 4.5(b)(ii) or 4.5(c) of the Plan (if applicable). The term "total disability" shall, for purposes of this Share Option Agreement, be defined in the same manner as such term is defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended.

7. *Employment Violation.* In consideration of the granting and by acceptance of this Option, the Holder hereby agrees that the terms of this Section 7 shall apply to the Option. The Holder acknowledges and agrees that each exercise of this Option and each written notice of exercise delivered to the Company and executed by the Holder shall serve as a reaffirmation of and continuing agreement by the Holder to comply with the terms contained in this Section 7.

The Company and the Holder acknowledge and agree that if the Holder materially breaches his or her employment agreement (it being understood that any breach of the post-termination obligations contained therein shall be deemed to be material) for so long as the terms of such employment agreement shall apply to the Holder (each an "Employment Violation"), the Company shall have the right to require (i) the termination and cancellation of the unexercised portion of this Option, if any, whether vested or unvested, and (ii) payment by the Holder to the Company of the Recapture Amount (as defined below). The Company and the Holder further agree that such termination of unexercised Options and payment of the Recapture Amount, as the

case may be, shall be in addition to, and not in lieu of, any other right or remedy available to the Company arising out of or in connection with any such Employment Violation including, without limitation, the right to terminate the Holder's employment if not already terminated, seek injunctive relief and additional monetary damages.

For purposes of this Section 7, the "Recapture Amount" shall mean the gross gain realized or unrealized by the Holder upon each exercise of this Option during the period beginning on the date which is twelve (12) months prior to the date of the Holder's Employment Violation and ending on the date of computation (the "Look-back Period"), which gain shall be calculated as the sum of:

(a) if the Holder has exercised any portion of this Option during the Look-back Period and sold any of the Shares acquired on exercise thereafter, an amount equal to the product of (x) the sales price per Share sold minus the exercise price per Share times (y) the number of Shares as to which this Option was exercised and which were sold at such sales price; plus

(b) if the Holder has exercised any portion of this Option during the Look-back Period and not sold any of the Shares acquired on exercise thereafter, with respect to each of such Shares an amount equal to the product of (x) the greatest of the following: (1) the Fair Market Value per Share on the date of exercise, (2) the arithmetic average of the per Share closing sales prices as reported on NASDAQ for the thirty (30) trading day period ending on the trading day immediately preceding the date of the Company's written notice of its exercise of its rights under this Section 7, or (3) the arithmetic average of the per Share closing sales prices as reported on NASDAQ for the thirty (30) trading day period ending on the trading day immediately preceding the date of computation, minus the exercise price per Share times (y) the number of Shares as to which this Option was exercised and which were not sold;

provided, however, in lieu of payment by the Holder to the Company of the Recapture Amount determined pursuant to clause (b) above, the Holder, in his or her discretion, may tender to the Company the Shares acquired upon exercise of this Option during the Look-back Period and the Optionee shall not be entitled to receive any consideration from the Company in exchange therefor.

8. *Adjustments.* In the event that the Company shall determine that any dividend or other distribution (whether in the form of cash, shares of common stock of the Company, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of shares of common stock of the Company or other securities, the issuance of warrants or other rights to purchase shares of common stock of the Company, or other securities, or other similar corporate transaction or event affects the Shares, such that an adjustment is determined by the Company to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available to the Holder, then the Company shall, in such manner as the Company may deem equitable, adjust any or all of (i) the number and type of shares of common stock of the Company subject to this Option, and (ii) the grant or exercise price with respect to this Option, or, if deemed appropriate, make provision for a cash payment to the Holder.

9. *Delivery of Share Certificates.* Within a reasonable time after the exercise of this Option, the Company shall cause to be delivered to the person entitled thereto a certificate for the Shares purchased pursuant to the exercise of this Option. If this Option shall have been exercised with respect to less than all of the Shares subject to this Option, the Company shall also cause to be delivered to the person entitled thereto a new Stock Option Agreement in replacement of this Stock Option Agreement if surrendered at the time of the exercise of this Option, indicating the number of Shares with respect to which this Option remains available for exercise, or the Company shall make a notation in its books and records to reflect the partial exercise of this Option.

10. *Withholding.* In the event that the Holder elects to exercise this Option or any part thereof, and if the Company or any subsidiary or affiliate of the Company shall be required to withhold any amounts by reasons of any federal, state or local tax laws, rules or regulations in respect of (a) the issuance of Shares to the Holder pursuant to this Option, or (b) the exercise or disposition (in whole or in part) of the Option, the Company or such subsidiary or affiliate shall be entitled to deduct and withhold such amounts from any payments to be made to the Holder. In any event, the Holder shall make available to the Company or such subsidiary or affiliate, promptly when requested by the Company or such subsidiary or affiliate, sufficient funds to meet the requirements of such withholding; and the Company or such subsidiary or affiliate shall be entitled to take and authorize such steps as it may deem advisable in order to have such funds available to the Company or such subsidiary or affiliate out of any funds or property due or to become due to the Holder.

11. *Reservation of Shares.* The Company hereby agrees that at all times there shall be reserved for issuance and/or delivery upon exercise of this Option such number of Shares as shall be required for issuance or delivery upon exercise hereof.

12. *Rights of Holder.* Nothing contained herein shall be construed to confer upon the Holder any right to be continued in the employ of the Company and/or any subsidiary or affiliate of the Company or derogate from any right of the Company and/or any subsidiary or affiliate of the Company to retire, request the resignation of, or discharge the Holder at any time, with or without cause. The Holder shall not, by virtue hereof, be entitled to any rights of a shareholder in the Company, either at law or in equity, and the rights of the Holder are limited to those expressed herein and are not enforceable against the Company except to the extent set forth herein.

13. *Exclusion from Pension Computations.* By acceptance of the grant of this Option, the Holder hereby agrees that any income realized upon the receipt or exercise hereof, or upon the disposition of the Shares received upon its exercise, is special incentive compensations and, to the extent permissible under applicable law, shall not be taken into account as “wages”, “salary” or “compensation” in determining the amount of any payment under any pension, retirement, incentive, profit sharing, bonus or deferred compensation plan of the Company or any of its subsidiaries or affiliates.

14. *Registration; Legend.* The Company may postpone the issuance and delivery of Shares upon any exercise of this Option until (a) the admission of such Shares to listing on any stock exchange or exchanges on which Shares of the Company of the same class are then listed

and (b) the completion of such registration or other qualification of such Shares under any state or federal law, rule or regulation as the Company shall determine to be necessary or advisable. The Holder shall make such representations and furnish such information as may, in the opinion of counsel for the Company, be appropriate to permit the Company, in light of the then existence or non-existence with respect to such Shares of an effective Registration Statement under the Securities Act of 1933, as amended, to issue the Shares in compliance with the provisions of that or any comparable act.

The Company may cause the following or a similar legend to be set forth on each certificate representing Shares or any other security issued or issuable upon exercise of this Option unless counsel for the Company is of the opinion as to any such certificate that such legend is unnecessary:

> THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT, THE AVAILABILITY OF WHICH IS ESTABLISHED BY AN OPINION FROM COUNSEL TO THE COMPANY.

15. *Amendment.* The Company may, with the consent of the Holder, at any time or from time to time amend the terms and conditions of this Option, and may at any time or from time to time amend the terms of the Plan.

16. *Notices.* Any notice which either party hereto may be required or permitted to give to the other shall be in writing, and may be delivered personally or by mail, postage prepaid, or overnight courier, addressed as follows: if to the Company, at its office at 3100 Ocean Park Boulevard, Santa Monica, California 90405, Attn: General Counsel, or at such other address as the Company by notice to the Holder may designate in writing from time to time; and if to the Holder, at the address shown below her signature on this Stock Option Agreement, or at such other address as the Holder by notice to the Company may designate in writing from time to time. Notices shall be effective upon receipt.

17. *Interpretation.* A determination of the Committee as to any questions which may arise with respect to the interpretation of the provisions of this Option and of the Plan shall be final and binding. The Committee may authorize and establish such rules, regulations and revisions thereof as it may deem advisable.

[Remainder of page intentionally blank.]

IN WITNESS WHEREOF, the parties have executed this Stock Option Agreement as of the date first set forth above.

ACTIVISION, INC.

By: _____

Name:
Title:

Date: _____

Attest: _____

ATTEST:

_____
Option Holder

_____
Address

_____
City State Zip Code

_____
Social Security Number

CONFIDENTIAL LICENSE AGREEMENT
FOR NINTENDO DS (Western Hemisphere)

THIS LICENSE AGREEMENT ("Agreement") is entered into between NINTENDO OF AMERICA INC. ("NOA"), at 4820 150th Avenue N.E., Redmond, WA 98052 Attn: General Counsel (Fax: 425-882-3585) and Activision Publishing, Inc., ("LICENSEE") at 3100 Ocean Park Blvd, Santa Monica, CA 90405 Attn: General Counsel (Fax: (310) 255-2152). NOA and LICENSEE agree as follows:

1. RECITALS

1.1 NOA markets and sells advanced design, high-quality video game systems, including the Nintendo DS system.

1.2 LICENSEE desires a license to use highly proprietary programming specifications, development tools, trademarks and other valuable intellectual property rights of NOA and its parent company, Nintendo Co., Ltd. (collectively "Nintendo"), to develop, have manufactured, advertise, market and sell video game software for play on the Nintendo DS system.

1.3 NOA is willing to grant a license to LICENSEE on the terms and conditions set forth in this Agreement.

2. DEFINITIONS

2.1 "Artwork" means the design specifications for the Game Card label and Printed Materials in the format specified by NOA in the Guidelines.

2.2 "Bulk Goods" means the Game Cards with Game Card labels affixed.

2.3 "Development Tools" means the development kits, programming tools, emulators and other materials that may be used in the development of Games under this Agreement.

2.4 "Effective Date" means October 11, 2004.

2.5 "Finished Product(s)" means the fully assembled and shrink-wrapped Licensed Products, each including a Game Card, Game Card label and Printed Materials.

2.6 "Game Card(s)" means custom card media specifically manufactured under the terms of this Agreement for play on the Nintendo DS system, incorporating semiconductor components in which a Game has been stored.

2.7 "Game(s)" means the Nintendo DS version of an interactive video game program, or other applications approved by Nintendo (including source and object/binary code) developed for the Nintendo DS system.

[***] The portions of this document marked with three asterisks represent confidential portions omitted and filed separately with the Securities and Exchange Commission.

2.8 "Guidelines" means the current version or any future revision of the "Nintendo DS Packaging Guidelines", "Nintendo DS Development Manual" and related guidelines provided by NOA.

2.9 "Independent Contractor" means any individual or entity that is not an employee of LICENSEE, including any independent programmer, consultant, contractor, board member or advisor.

2.10 "Intellectual Property Rights" means individually, collectively or in any combination, Proprietary Rights owned, licensed or otherwise held by Nintendo that are associated with the development, manufacturing, advertising, marketing or sale of the Licensed Products, including, without limitation, (a) registered and unregistered trademarks and trademark applications used in connection with Games for the Nintendo DS system including "Nintendo®", "Nintendo DSTM", "DSTM and the "Official Nintendo Seal®", (b) select trade dress associated with the Nintendo DS system and licensed Games for play thereon, (c) Proprietary Rights in the Security Technology incorporated into the Game Cards, (d) rights in the Development Tools for use in developing the Games, (e) patents or design registrations

Nintendo in the Confidential Information.

2.11 "Licensed Products" means (a) Finished Products, or (b) Bulk Goods when fully assembled and shrink-wrapped with the Printed Materials.

2.12 "Marketing Materials" means marketing, advertising or promotional materials developed by or for LICENSEE (or subject to LICENSEE's approval) to promote the sale of the Licensed Products, including, but not limited to, television, radio and on-line advertising, point-of-sale materials (e.g. posters, counter-cards), package advertising and print media or materials.

2.13 "NDA" means the non-disclosure agreement providing for the protection of Confidential Information related to the Nintendo DS system previously entered into between NOA and LICENSEE.

2.14 "Notice" means any notice permitted or required under this Agreement. All notices shall be sufficiently given when served or delivered, (b) transmitted by faL,bimile, with an original sent concurrently by first class U.S. mail, or (c) deposited, postage prepaid, with a guaranteed air courier service, in each case addressed as stated herein, or addressed to such other person or address either party may designate in a Notice. Notice shall be deemed effective upon the earlier of actual receipt or two (2) business days after transmittal.

2.15 “Price Schedule” means the current version or any future revision of NOA’s schedule of purchase prices and minimum order quantities for Finished Products and Bulk Goods.

2.16 “Printed Materials” means the Game Card label and title sheet, user instruction booklet, poster, warranty card and LICENSEE inserts incorporating the Artwork, together with a precautions booklet as specified by NOA.

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2.17 “Proprietary Rights” means any rights or applications for rights owned, licensed or otherwise held in patents, trademarks, service marks, copyrights, mask works, trade secrets, trade dress, moral rights and publicity rights, together with all inventions, discoveries, ideas, technology, know-how, data, information, processes, formulas, drawings and designs, licenses, computer programs, software source code and object code, and all amendments, modifications, and improvements thereto for which such patent, trademark, service mark, copyright, mask work, trade secrets, trade dress, moral rights or publicity rights may exist or may be sought and obtained in the future.

2.18 “Reverse Engineer(ing)” means, without limitation, (a) the x-ray, electronic scanning or decryption or simulation of object code or executable code, or (c) any other technique designed to extract source code or facilitate the duplication of a program or product.

2.19 “Security Technology” means, without limitation, any security signature, bios, data scrambling, password, hardware security apparatus, watermark, hologram, encryption, Digital Rights management system, copyright management information system or any feature that facilitates or limits compatibility with other hardware, software, or accessories or other peripherals outside of the Territory or on a different video game system.

2.20 “Term” mean three (3) years from the Effective Date.

2.21 “Territory” means all countries within the Western Hemisphere and their respective territories and possessions.

3. GRANT OF LICENSE; LICENSEE RESTRICTIONS

3.1 Limited License Grant. For the Term and for the Territory, NOA grants to LICENSEE a nonexclusive, nontransferable, limited license to use the intellectual Property Rights to develop Games for manufacture, advertising, marketing and sale as Licensed Products, subject to the terms and conditions of this Agreement. Except as permitted under a separate written authorization from Nintendo, LICENSEE shall not use the Intellectual Property Rights for any other purpose.

3.2 LICENSEE Acknowledgement. LICENSEE acknowledges (a) the valuable nature of the Intellectual Property Rights, (b) the right, title, and interest of Nintendo in and to the Intellectual Property Rights, and (c) the right, title and interest of Nintendo in and to the Proprietary Rights associated with all aspects of the Nintendo DS system. LICENSEE recognizes that the Games, Game Cards and Licensed Products will embody valuable rights of Nintendo and Nintendo’s licensors. LICENSEE represents and warrants that it will not undertake any act or thing that in any way impairs or is intended to impair any part of the right, title, interest or goodwill of Nintendo in the Intellectual Property Rights. LICENSEE’s use of the Intellectual Property Rights shall not create any right, title or interest of LICENSEE therein.

3.3 LICENSEE Restrictions and Prohibitions. LICENSEE is not licensed to, and covenants that, without the express written consent of Nintendo, it will not at any time, directly or indirectly, do or cause to be done any of the following:

[***] The portions of this document marked with three asterisks represent confidential portions omitted and filed separately with the Securities and Exchange Commission.

(a) grant access to, distribute, transmit or broadcast a Game by electronic means or by any other means known or hereafter devised, including, without limitation, by wireless, cable, fiber optic, telephone lines, microwave, radiowave, computer or other device network, except (a) as a part of wireless Game • lay on and among Nintendo DS systems. (b) for the purpose of facilitating Game development under the terms of this Agreement, or (c) as otherwise approved in writing by Nintendo. LICENSEE shall use reasonable security measures, customary within the high technology industry, to reduce the risk of unauthorized interception or retransmission of any Game transmission. No right of retransmission shall attach to any authorized transmission of a Game,

(b) modify, install or operate a Game on any server or other device for the purpose of or resulting in the rental, lease, loan or sale of rights of access to the Game,

(c) emulate, interoperate, interface or link a Game for operation or use with any hardware platform, software program, accessory, computer language, computer environment, chip instruction set, consumer electronics device, telephone, ceephone, RDA, or other device, including for ‘purposes of data interchange, password usage or interactive video game play, other than a Nintendo DS system, an application approved by Nintendo, or the Development Tools,

(d) emulate any past, current or future Nintendo brand video game system, or any portion thereof, in software or hardware or any combination thereof,

(e) embed, incorporate, or store a Game in any media or format except the Game Card format utilized by the Nintendo DS system, except as may be necessary as a part of the Game development process under this Agreement,

(f) design, implement or undertake any process, procedure, program or act designed to circumvent the Security Technology,

(g) utilize the Intellectual Property Rights to design or develop any interactive video game program, except as authorized under this Agreement,

(h) manufacture or reproduce a Game developed under this Agreement, except through Nintendo, or

(i) Reverse Engineer or assist in the Reverse Engineering of all or any part of the Development Tools or the Security Technology.

3.4 No Free-Riding No Co-Publishing Arrangements. To protect Nintendo's valuable Intellectual Property Rights, to prevent the dilution of Nintendo's trademarks and to preclude free-riding by third parties on the goodwill associated with Nintendo's trademarks, the license granted under this Agreement is limited to LICENSEE and may not be delegated or contracted out for the benefit of a third party, or to a division, affiliate or subsidiary of LICENSEE. This Agreement, together with all submissions, representations, undertakings and approvals contemplated of LICENSEE by this Agreement, is and shall remain the right and obligation only of LICENSEE. All Printed Materials and Marketing Materials for a Game shall prominently and accurately identify LICENSEE as NOA's licensee. NOA does not permit the designation or

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identification of any third party co-publisher for a Game on any Licensed Product Game Card case or Game Card label, however, LICENSEE may identify a third party as a co-publisher, licensor, developer or other partner of LICENSEE in those Printed Materials (other than the Game Card label), Marketing Materials or Game credits. as authorized under the Guidelines. For purposes of clarification, LICENSEE's name, or logo, will appear on the Licensed Product Game Card case and Game Card label as it appears in the preamble of this Agreement.

3.5 Development Tools. Nintendo may lease, loan or sell Development Tools to LICENSEE to assist in the development of Games under this Agreement. Ownership and use of any Development Tools provided to LICENSEE by Nintendo shall be subject to the terms of this Agreement and any separate license or purchase agreement required by Nintendo. LICENSEE acknowledges the exclusive interest of Nintendo in and to the Proprietary Rights associated with the Development Tools. LICENSEE's use of the Development Tools shall not create any right, title or interest of LICENSEE therein. LICENSEE shall not, directly or indirectly, (a) use the Development Tools for any purpose except the design and development of Games under this Agreement, (b) reproduce or create derivatives of the Development Tools, except in association with the development of Games under this Agreement, (c) Reverse Engineer the Development Tools, or (d) sell, lease, assign, lend, license, encumber or otherwise transfer the Development Tools. Any tools developed or derived by LICENSEE as a result of a study of the performance, design or operation of the Development Tools shall be considered derivative works of the Intellectual Property Rights and shall belong to Nintendo, but may be retained and utilized by LICENSEE in connection with this Agreement. In no event shall LICENSEE (i) seek, claim or file for any patent, copyright or other Proprietary Right with regard to any such derivative work, (ii) make available any such derivative work to any third party, or (iii) use any such derivative work except in connection with the design and development of Games under this Agreement.

4. SUBMISSION OF GAME AND ARTWORK FOR APPROVAL

4.1 Development and Sale of the Games. LICENSEE may develop Games and have manufactured, advertise, market and sell Licensed Products for play on the Nintendo DS system only in accordance with this Agreement.

4.2 Third Party Developers. LICENSEE shall not disclose the Confidential Information, the Guidelines or the Intellectual Property Rights to any independent Contractor, nor permit any Independent Contractor to perform or assist in development work for a Game, unless and until such Independent Contractor has been approved by NOA and has executed a written confidentiality agreement with NOA relating to the Nintendo DS system.

4.3 Delivery of Completed Game. Upon completion of a Game, LICENSEE shall deliver a prototype of the Game to NOA in a format specified in the Guidelines, together with written user instructions, a complete description of any security holes, backdoors, time bombs, cheats, "easter eggs" or other hidden features or characters in the Game [***]. NOA shall promptly evaluate the Game with regard to its technical compatibility with and error-free operation on the Nintendo DS system. LICENSEE is responsible for ensuring that the Game and any other content to be included on the Game Card complies with the Advertising Code of Conduct of the Entertainment Software Ratings Board ("ESRB") and that the Game has been

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rated EC, E, M or T by the ESRB. LICENSEE shall provide NOA with a related certificate of rating for the Game from the ESRB.

4.4 Approval of Completed Game. NOA shall, within a reasonable period of time after receipt, approve or disapprove each submitted Game. If a Game is disapproved, NOA shall specify in writing the reasons for such disapproval and state what corrections or improvements are necessary. After making the necessary corrections or improvements, LICENSEE shall submit a revised Game to NOA for approval. NOA shall not unreasonably withhold or delay its approval of any Game. The approval of a Game by NOA shall not relieve LICENSEE of its sole responsibility for the development, quality and operation of the Game or in any way create any warranty for a Game or a Licensed Product by NOA.

4.5 Submission of Artwork. Upon submission of a completed Game to NOA, LICENSEE shall prepare and submit to NOA the Artwork for the proposed Licensed Product. Within seven (7) business days of receipt, NOA shall approve or disapprove the Artwork. If any Artwork is disapproved, NOA

shall specify in writing the reasons for such disapproval and state what corrections or improvements are necessary. After making the necessary corrections or improvements, LICENSEE shall submit revised Artwork to NOA for approval. NOA shall not unreasonably withhold or delay its approval of any Artwork. The approval of the Artwork by NOA development and quality of the Artwork or in any way create any warranty for the Artwork or any Licensed Product by NOA.

4.6 Artwork for Bulk Goods. If LICENSEE submits an order for Bulk Goods, all Artwork shall be submitted to NOA in advance of NOA's acceptance of the order and no production of Printed Materials shall occur until such Artwork has been approved by NOA under Section 4.5 herein.

5. ORDER PROCESS, PURCHASE PRICE, PAYMENT AND DELIVERY

5.1 Submission of Orders by LICENSEE. LICENSEE may at any time submit written purchase orders to NOA for any approved Licensed Product title. The purchase order shall specify whether it is for Finished Products or Bulk Goods. The terms and conditions of this Agreement shall control over any contrary terms of such purchase order or any other written documents submitted by LICENSEE. All orders are subject to acceptance by NOA in Redmond, WA.

5.2 Purchase Price and Minimum Order Quantities. The purchase price and minimum order quantities for Finished Products and Bulk Goods shall be set forth in NOA's then current Price Schedule. The purchase price includes the cost of manufacturing together with a royalty for the use of the Intellectual Property Rights. No taxes, duties, import fees or other tariffs related to the development, manufacture, import, marketing or sale of the Licensed Products are included in the purchase price and all such taxes are the responsibility of LICENSEE (except for taxes imposed on NOA's income). The Price Schedule is subject to change by NOA at any time, provided, however, that any price increase shall be applicable only to purchase orders submitted, paid for, and accepted by NOA after the effective date of the price increase.

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5.3 Payment. Upon placement of an order with NOA, LICENSEE shall pay the full purchase price to NOA either (a) by placement of an irrevocable letter of credit in favor of NOA and payable at sight, issued by a bank acceptable to NOA and confirmed, if requested by NOA, at LICENSEE's expense, or (b) in cash, by wire transfer to NOA's designated account. All associated banking charges are the responsibility of the LICENSEE.

5.4 Shipment and Delivery. All Licensed Products shall be delivered to LICENSEE EXW Ex works Japan (as defined by Incoterms 2000), or such other delivery point specified by NOA, with shipment at LICENSEE's direction and expense. Orders may be delivered by NOA in partial shipments, each directed to not more than two (2) destinations designated by LICENSEE within the Territory. Title to the Licensed Products shall vest [***].

6. MANUFACTURE OF THE LICENSED PRODUCT

6.1 Manufacturing. Nintendo shall be the exclusive source for the manufacture of the Game Cards, and shall control all aspects of the manufacturing process, including the selection of the locations and specifications for any manufacturing facilities, determination of materials and processes, appointment of suppliers and subcontractors and management of all work-in-progress.

6.2 Manufacture of the Licensed Products. Upon acceptance by NOA of a purchase order for an approved Licensed Product title and payment as provided for under Section 5.3 herein, NOA will arrange for the manufacture of Finished Product or Bulk Goods, as specified in LICENSEE's purchase order.

6.3 Security Features. The final release version of the Game, Game Cards and Printed Materials shall include such Security Technology as Nintendo, in its sole discretion and at its sole expense, may deem necessary or appropriate.

6.4 Production of Bulk Goods Printed Materials. For Bulk Goods, LICENSEE shall arrange Goods, LICENSEE shall assemble the Game Cards and Printed Materials into the Licensed Products. Games may be sold or otherwise distributed by LICENSEE only in fully assembled and shrink-wrapped Licensed Products.

6.5 Prior Approval of LICENSEE's Independent Contractor. Prior to the placement of a purchase order for Bulk Goods, LICENSEE shall obtain NOA's approval of any Independent Contractors selected to perform LICENSEE's production and assembly operations. LICENSEE shall provide NOA with the names, addresses and all business documentation reasonably requested by NOA for such Independent Contractors. NOA may, prior to approval and at reasonable intervals thereafter, (a) require submission of additional business or financial information regarding the Independent Contractors, (b) inspect the facilities of the Independent Contractors, and (c) be present to supervise any work on the Licensed Products to be done by any Independent Contractors. If at any time NOA deems an Independent Contractor to be unable to meet quality, security or performance standards reasonably established by NOA, NOA may refuse to grant its approval or withdraw its approval upon Notice to Licensed Product by such Independent Contractor until NOA's concerns have been resolved to its satisfaction or until LICENSEE has selected and received NOA's approval of another Independent Contractor. NOA

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may establish preferred or required supply sources for the Game Card case, or select components of the Printed Materials, which sources shall be deemed pre-approved in accordance with this Section 6.5. LICENSEE shall comply with all sourcing requirements established by NOA.

6.6 NOA Inserts for Bulk Goods. NOA, at its option and at its sole expense, ma provide LICENSEE with NOA produced promotional materials (as provided for at Section 7.7(a) herein), that LICENSEE agrees to include in the assembly of the Licensed Products.

6.7 Sample Printed Materials and Bulk Goods. Within a reasonable period of time after LICENSEE's assembly of the initial order for a Bulk Goods title, LICENSEE shall provide NOA with (a) one (1) sample of the fully assembled, shrink-wrapped Licensed Product, and (b) [***] of LICENSEE produced Printed Materials for such Licensed Product.

6.8 Retention of Sample Licensed Products by Nintendo. Nintendo may, at its own expense, manufacture reasonable quantities of the Game Cards or the Licensed Products to be used for archival purposes, legal proceedings against infringers of the Intellectual Property Rights or for other lawful purposes [***].

6.9 Retention of User Instruction Booklet by NOA. For use in training consumer support personnel, product orientation and other consumer support activities, as well as for archival purposes, NOA may (a) retain (or request that LICENSEE provide to NOA) a reasonable number of copies of the user instruction booklet for each Licensed Product, and (b) make a reasonable number of copies of the user instruction booklet for each Licensed Product.

7. MARKETING AND ADVERTISING

7.1 Approval of Marketing Materials. LICENSEE represents and warrants that the Marketing Materials shall (a) be of high quality and comply with the Guidelines, (b) comply with all ESRB advertising, marketing and merchandising guidelines, and (c) comply with all applicable laws and regulations in those jurisdictions in the Territory where they will be used or distributed. All LICENSEE controlled websites featuring the Games shall adopt a privacy policy [***] and that complies with the Children's Online Privacy Protection Act. Prior to actual use or distribution, LICENSEE shall submit to NOA for review samples of all proposed Marketing Materials. NOA shall, within ten (10) business days of receipt, approve or disapprove the quality of such samples. If any of the samples are disapproved, NOA shall specify the reasons for such disapproval and state what corrections and/or improvements are necessary. After making the necessary corrections and/or improvements, LICENSEE shall submit revised samples for approval by NOA. No Marketing Materials shall be used or distributed by LICENSEE without NOA's prior written approval. NOA shall not unreasonably withhold or delay its approval of any proposed Marketing Materials.

7.2 No Bundling. To protect Nintendo's valuable Intellectual Property Rights, to prevent the dilution of Nintendo's trademarks and to preclude free-riding by non-licensed products on the goodwill associated with Nintendo's trademarks, LICENSEE shall not market or distribute any Licensed Products that are bundled with (a) any peripheral designed for use with the Nintendo DS system that has not been licensed or approved in writing by NOA, or (b) any

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other product or service where Nintendo's sponsorship, association, approval or endorsement might be suggested by the bundling of the products or services.

7.3 Warranty and Repair. LICENSEE shall provide the original consumer with a minimum ninety (90) day limited warranty on all Licensed Products. LICENSEE shall also provide reasonable product service, including out-of-warranty service, for all Licensed Products.

7.4 Business Facilities. LICENSEE agrees to develop and maintain (a) suitable office under this Agreement, (b) necessary warehouse, distribution, marketing, sales, collection and credit operations to facilitate proper handling of the Licensed Products, and (c) customer service and Game counseling, including telephone service, to adequately support the Licensed Products.

7.5 No Sales Outside the Territory. LICENSEE represents and warrants that it shall not market, sell, offer to sell, import or distribute the Licensed Products outside the Territory, or within the Territory when LICENSEE has actual or constructive knowledge that a subsequent destination of the Licensed Product is outside the Territory.

7.6 Defects and Recall. In the event of a material programming defect in a Licensed Product that would, in NOA's reasonable judgment, significantly impair the ability of a consumer to play the Game, NOA may, after consultation with LICENSEE, require the LICENSEE to recall the Licensed Product and undertake suitable repairs or replacements.

7.7 NOA Promotional Materials, Publications and Events. At its option, NOA may (a) insert in the Printed Materials for the Licensed Products promotional materials concerning Nintendo Power magazine or other NOA products, services or programs, (b) utilize screen shots, Artwork and information regarding the Licensed Products in Nintendo Power, Nintendo Power Source, official Nintendo-sponsored web sites, or other advertising, promotional or marketing media that promotes Nintendo products, services or programs, and (c) exercise public performance rights in the Games and use related trademarks and Artwork in connection with NOA sponsored contests, tours, conventions, trade shows, press briefings and similar events that promote the Nintendo DS system.

7.8 Nintendo Gateway System. To promote and increase demand for games on Nintendo video game systems, NOA licenses a system (the "Nintendo Gateway System") in various non-coin customers play games on specially adapted Nintendo video game systems. If NOA identifies a Game for possible license on the Nintendo Gateway System, the parties agree to conduct good faith negotiations toward including the Game in the Nintendo Gateway System.

8. CONFIDENTIAL INFORMATION

8.1 Definition. "Confidential Information" means information provided to LICENSEE by Nintendo or any third party working with Nintendo relating to the hardware and software for the Nintendo DS system or the Development Tools, including, but not limited to, (a) all current or future information, know-how, techniques, methods, information, tools, emulator hardware or software, software development specifications and/or trade secrets, (b) any patents or patent applications, (c) any business, marketing or sales data or information, and (d) any other information or data relating to development, design, operation, manufacturing, marketing or sales. Confidential Information shall include all confidential information disclosed, whether in

writing, orally, visually, or in the form of drawings, technical manifest, in any form, the above listed information. Confidential Information shall not include (i) data and information that was in the public domain prior to LICENSEE's receipt of the same hereunder, or that subsequently becomes part of the public domain by publication or otherwise, except by LICENSEE's wrongful act or omission, (ii) data and information that LICENSEE can demonstrate, through written records kept in the ordinary course of business, was in its possession without restriction on use or disclosure, prior to its receipt of the same hereunder and was not acquired directly or indirectly from Nintendo under an obligation of confidentiality that is still in force, and (iii) data and information that LICENSEE can show was received by it from a third party who did not acquire the same directly or indirectly from Nintendo and to whom LICENSEE has no obligation of confidentiality.

8.2 Disclosures Required by Law. LICENSEE shall be permitted to disclose Confidential Information if such disclosure is required by an authorized governmental or judicial entity, provided that NOA is given Notice thereof at least thirty (30) days prior to such disclosure, or such lesser period if required. LICENSEE shall use its best efforts to limit the disclosure to the greatest extent possible, consistent with LICENSEE's legal obligations, and if required by NOA, shall cooperate in the preparation and entry of appropriate protective orders.

8.3 Disclosure and Use. NOA may provide LICENSEE with highly confidential development information, Guidelines, Development Tools, systems, specifications and related resources and information constituting and incorporating the Confidential Information to assist LICENSEE in the development of Games. LICENSEE agrees to maintain all Confidential Information as strictly confidential and to use such Confidential Information only in accordance with this Agreement. LICENSEE shall limit access to the Confidential Information to CfCI:NSEE's employees having a strict need to Know and shall advise such employees of their obligation of confidentiality as provided herein. LICENSEE shall require each such employee to retain in confidence the Confidential Information pursuant to a written non-disclosure agreement between LICENSEE and such employee. LICENSEE shall use its best efforts to ensure that its employees working with or otherwise having access to Confidential Information shall not disclose or make any unauthorized use of the Confidential Information.

8.4 No Disclosure to Independent Contractors. LICENSEE shall not disclose the Confidential Information to any Independent Contractor without the prior written consent of NOA. Any Independent Contractor seeking access to Confidential Information shall be required to enter into a written non-disclosure agreement with NOA prior to receiving any access to or disclosure of the Confidential Information from either LICENSEE or NOA.

8.5 Agreement Confidentiality. LICENSEE agrees that the terms, conditions and contents of this Agreement shall be treated as Confidential Information. Any public announcement or press release regarding this Agreement or the release dates for Games developed by LICENSEE under this Agreement shall be subject to NOA's prior written approval. The parties may disclose this Agreement (a) to accountants, banks, financing sources, lawyers, parent companies and related parties under substantially equivalent confidentiality obligations, (b) in connection with any formal legal proceeding for the enforcement of this Agreement, (c) as required by the regulations of the Securities and Exchange Commission ("SEC"), provided that all Confidential Information regarding NOA shall be redacted from such

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disclosures to the maximum extent allowed by the SEC, (d) in response to lawful process, subject to a written protective order approved in advance by NOA, and (e) to a third party proposing to enter into a business transaction with LICENSEE or with NOA, but only to the extent reasonably necessary for carrying out the proposed transaction and only under terms of mutual confidentiality.

8.6 Notification Obligations. LICENSEE shall promptly notify NOA of the unauthorized use or disclosure of any Confidential Information by LICENSEE or any of its employees, or any Independent Contractor or its employees, and shall promptly act to recover any such information and prevent further breach of the obligations herein. The obligations of LICENSEE set forth herein are in addition to and not in lieu of any other legal remedy that may be available to NOA under this Agreement or applicable law.

8.7 Continuing Effect of the NDA. The terms of this Section 8 supplement the terms of the NDA, which shall remain in effect. In the event of a conflict between the terms of the NDA and this Agreement, the terms of this Agreement shall control.

9. REPRESENTATIONS AND WARRANTIES

9.1 LICENSEE's Representations and Warranties. LICENSEE represents and warrants that:

(a) it is a duly organized and validly existing corporation and has full authority to enter into this Agreement and to carry out the provisions hereof,

(b) the execution, delivery and performance of this Agreement by LICENSEE does not conflict with any agreement or understanding to which LICENSEE may be bound, and

(c) excluding the Intellectual Property Rights, LICENSEE is either (i) the sole owner of all right, title and interest in and to the trademarks, copyrights and other intellectual property rights used on or in association with the development, advertising, marketing and sale of the Licensed Products and the Marketing Materials, or (ii) the holder of such rights to the trademarks, copyrights and other intellectual property rights that have been licensed from a third party as are necessary for the development, advertising, marketing and sale of the Licensed Products and the Marketing Materials under this Agreement.

9.2 NOA's Representations and Warranties. NOA represents and warrants that:

(a) it is a duly organized and validly existing corporation and has full authority to enter into this Agreement and to carry out the provisions hereof, and

(b) the execution, delivery and performance of this Agreement by NOA does not conflict with any agreement or understanding to which NOA may be bound.

9.3 [***]

9.4 [***]

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9.5 LIMITATION OF LIABILITY. TO THE MAXIMUM EXTENT PERMITTED BY LAW, NEITHER NOA NOR NINTENDO CO., LTD. (OR THEIR RESPECTIVE AFFILIATES, LICENSORS OR SUPPLIERS) SHALL BE LIABLE FOR LOSS OF PROFITS, OR FOR ANY SPECIAL, PUNITIVE, INCIDENTAL OR CONSEQUENTIAL DAMAGES OF LICENSEE OR ITS CUSTOMERS ARISING OUT OF OR RELATED TO THIS AGREEMENT, INCLUDING, WITHOUT LIMITATION, THE BREACH OF THIS AGREEMENT BY NOA, THE MANUFACTURE OF THE LICENSED PRODUCTS OR THE USE OF THE LICENSED PRODUCTS ON ANY NINTENDO VIDEO GAME SYSTEM BY LICENSEE OR ANY END USER.

10. INDEMNIFICATION

10.1 LICENSEE's Indemnification. LICENSEE shall indemnify and hold harmless NOA and Nintendo Co., Ltd. (and any of their respective affiliates, subsidiaries, licensors, suppliers, officers, directors, employees or agents) from any claims, losses, liabilities, damages, expenses and costs, including, without limitation, reasonable attorneys' fees and costs and any expenses incurred in the settlement or avoidance of any such claim, that result from or are in connection with:

(a) a breach of any of the provisions, representations or warranties undertaken b LICENSEE in this Agreement,

(b) any infringement of a third party's Proprietary Rights as a result of the design, development, advertising, marketing, sale or use of the Licensed Products or the Marketing Materials,

(c) any claims alleging a defect, failure to warn, bodily injury (including death) or other personal or property damage arising out of, or in connection with, the design, development, advertising, marketing, sale or use of any of-the Licensed Products, and

(d) any federal, state or foreign civil or criminal actions relating to the design, development, advertising, marketing, sale or use of the Licensed Products or the Marketing Materials.

NOA and LICENSEE shall give prompt Notice to the other of any indemnified claim under this Section 10.1. With respect to any third party claim subject to this indemnity clause, LICENSEE, as indemnitor, shall have the right to select counsel and to control the defense and/or settlement thereof. NOA may, at its own expense, participate in such action or proceeding with counsel of its own choice. LICENSEE shall not enter into any settlement of any such claim in which (i) NOA or Nintendo Co., Ltd. has been named as a party, or (ii) claims relating to the Intellectual Property Rights have been asserted, without NOA's prior written consent. NOA shall provide reasonable assistance to LICENSEE in its defense of any such claim.

10.2 LICENSEE's Insurance. LICENSEE shall, at its own expense, obtain a commercial general liability insurance policy (including coverage for advertising injury and product liability claims) from an insurance company rated at least B+ by A.M. Best. Such policy of insurance shall be in an amount of not less than [***] on a per occurrence basis (not claims made) and shall provide for adequate protection against any suits, claims, loss or damage arising

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out of or relating to the Licensed Products. Such policy shall name NOA and Nintendo Co., Ltd. as additional insureds and shall specify that it may not be canceled without thirty (30) days' prior written Notice to NOA. A Certificate of Insurance shall be provided to NOA's Licensing Department not later than the date of the initial order of Licensed Products under this Agreement. If LICENSEE fails to provide NOA's Licensing Department with period of two (2) years thereafter, NOA, in its sole discretion may 1) terminate this Agreement in accordance with Section 13.2 herein; or 2) secure comparable insurance for the benefit of NOA and Nintendo Co., Ltd. only, and not for Licensee, at LICENSEE's expense.

10.3 Suspension of Production. In the event NOA deems itself at risk with respect to any claim, action or proceeding under this Section 10, NOA may, at its sole option, suspend production, delivery or order acceptance for any Licensed Products, in whole or in part, pending resolution of such claim, action or proceeding.

11. PROTECTION OF PROPRIETARY RIGHTS

11.1 Joint Actions Against Infringers. LICENSEE and NOA may agree to jointly pursue cases of infringement involving the Licensed Products, as such Licensed Products will contain Proprietary Rights owned by each of them. Unless the parties otherwise agree, or unless the recovery is expressly allocated between them by the court, in the event of such an action, any recovery shall be used first to reimburse LICENSEE and NOA for their respective reasonable attorneys' fees and costs incurred in bringing such action, pro rata, and any remaining recovery shall be distributed to LICENSEE and NOA, pro rata, based upon the fees and costs incurred in bringing such action.

11.2 Actions by LICENSEE. LICENSEE, without the consent of NOA, may bring any action or proceeding relating to an infringement or potential infringement of LICENSEE's Proprietary Rights in the Licensed Products. LICENSEE will have the right to retain all proceeds it may derive from any recovery in connection with such actions.

11.3 Actions by NOA. NOA, without the consent of LICENSEE, may bring any action or proceeding relating to an infringement or potential infringement of the Intellectual Property Rights. NOA will have the right to retain all proceeds it may derive from any recovery in connection with such actions.

12. ASSIGNMENT

12.1 Definition. "Assignment" means every type and form of assignment, transfer, sale, sublicense, delegation, encumbrance, pledge and/or hypothecation of LICENSEE's rights or obligations under this Agreement, including, but not limited to, (a) a voluntary assignment, transfer, sale, sublicense, obligations under this Agreement, (b) the assignment, transfer, sale, sublicense, delegation, encumbrance, pledge and/or hypothecation of all or any portion of LICENSEE's rights or obligations under this Agreement to or by LICENSEE's trustee in bankruptcy, receiver, or other individual or entity appointed to control or direct the business and affairs of LICENSEE, (c) an involuntary assignment, transfer, sale, sublicense, delegation, encumbrance, pledge or hypothecation of all or a portion of LICENSEE's rights or obligations under this Agreement, including but not limited to a foreclosure by a third party upon assets of

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LICENSEE, (d) the merger or consolidation of LICENSEE if LICENSEE is a corporation, and (e) any other means or method whereby rights or obligations of LICENSEE under this Agreement are sold, assigned or transferred to another individual or entity for any reason. Assignment also includes the sale, assignment, transfer or other event affecting a change in the controlling interest of LICENSEE, whether by sale, transfer or assignment of shares in LICENSEE, or by sale, transfer or assignment of partnership interests in LICENSEE, or otherwise.

12.2 No Assignment by LICENSEE. This Agreement and the subject matter hereof are effective without NOA's prior written consent, [***]. In the event of an attempted Assignment in violation of this provision, NOA shall have the right at any time, at its sole option, to immediately terminate this Agreement. Upon such termination, NOA shall have no further obligation under this Agreement to LICENSEE or to LICENSEE's intended or purported assignee.

12.3 Proposed Assignment. Prior to any proposed Assignment of this Agreement, LICENSEE shall give NOA not less than thirty (30) days prior written Notice thereof, which Notice shall disclose the name of the proposed assignee, the proposed effective date of the Assignment and the nature and extent of the rights and obligations that LICENSEE proposes to assign. NOA may, in its sole discretion, approve Assignment, any attempted or purported Assignment shall be deemed disapproved and NOA shall have the unqualified right, in its sole discretion, to terminate this Agreement at any time. Upon termination, NOA shall have no further obligation under this Agreement to LICENSEE or to LICENSEE's intended or purported assignee.

12.4 LICENSEE's Obligation of Non-Disclosure. LICENSEE shall not (a) disclose Nintendo's Confidential Information to any proposed assignee of LICENSEE, or _ Lb) permit access to Nintendo's Confidential Information by any proposed assignee or other third party, without the prior written consent of NOA to such disclosure.

13. TERM AND TERMINATION

13.1 Term. This Agreement shall commence on the Effective Date and shall continue for the Term, unless earlier terminated as provided for herein, or extended by a written amendment to this Agreement.

13.2 Default or Breach. In the event that either party is in default or commits a breach of this Agreement, that is not cured within thirty (30) days after Notice thereof, then this Agreement shall, except as otherwise provided, automatically terminate on the date specified in such Notice.

13.3 Bankruptcy. At NOA's option, this Agreement may be terminated immediately and (b) becomes insolvent, (c) files a voluntary petition for bankruptcy, (d) acquiesces to any involuntary bankruptcy petition, (e) is adjudicated as a bankrupt, or (f) ceases to do business.

13.4 Termination Other Than by Breach. Upon (a) the expiration of this Agreement, (b) its termination other than by LICENSEE's breach, or (c) termination of this Agreement by NOA after one hundred twenty days (120) Notice to LICENSEE in the event NOA reasonably

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believes that LICENSEE has developed, marketed, or sold a product that infringes any intellectual property rights of NOA or its parent company, Nintendo Co., Ltd., anywhere in the world (provided that if the parties are able to resolve such alleged infringement within such 120 day period, such termination shall

not take effect), LICENSEE shall have a period of [***] to sell any unsold Licensed Products. All Licensed Products in LICENSEE's control following the expiration of such sell-off period shall be destroyed by LICENSEE within [***] and proof of such destruction (certified by an officer of LICENSEE) shall be provided to NOA.

13.5 Termination by LICENSEE's Breach. If this Agreement is terminated by NOA as a result of a breach of its terms and conditions by LICENSEE, LICENSEE shall immediately cease all distribution, advertising, marketing or sale of any Licensed Products. All Licensed Products in LICENSEE's control as of the date of such termination shall be destroyed by LICENSEE within ten (10) days and proof of such destruction (certified by an officer of LICENSEE) shall be provided to NOA.

13.6 Breach of NDA or Other NOA License Agreements. At NOA's option, any breach by LICENSEE of (a) the NDA, or (b) any other license agreement between NOA and LICENSEE relating to the development of games for any Nintendo video game system that is not cured within the time period for cure allowed under the applicable agreement, shall be considered a material breach of this Agreement entitling NOA to terminate this Agreement in accordance with Section 13.5 herein.

13.7 No Further Use of the Intellectual Property Rights. Upon expiration and/or termination of this Agreement, LICENSEE shall cease all use of the Intellectual Property Rights for any purpose, except as may be required in connection with the sale of Licensed Products authorized under Section 13.4 herein. LICENSEE shall, within thirty (30) days thereafter, return or destroy all Guidelines, writings, drawings, models, data, tools and other materials and things in LICENSEE's possession or in the possession of any past or present employee, agent or contractor receiving the information through LICENSEE, that constitute or relate to or disclose any Confidential Information, without making copies or otherwise retaining any such information. Proof of any destruction shall be certified by an officer of LICENSEE and promptly provided to NOA.

13.8 Termination by NOA's Breach. If this Agreement is terminated by LICENSEE as a result of a breach of its terms or conditions by NOA, LICENSEE may continue to sell the Licensed Products in the Territory until the expiration of the Term, at which time the provisions of Section 13.4 shall apply.

14. GENERAL PROVISIONS

14.1 Export Control. LICENSEE agrees to comply with the export laws and regulations of the United States and any other country with jurisdiction over the Licensed Products, Confidential information, Intellectual Property Rights, Development Tools or either party.

14.2 Force Majeure. Neither party shall be liable for any breach of this Agreement occasioned by any cause beyond the reasonable control of such party, including governmental

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action, war, riot or civil inadequate supply of suitable materials or any other cause that could not with reasonable diligence be controlled or prevented by the parties. In the event of material shortages, including shortages of materials or production facilities necessary for production of the Licensed Products, NOA reserves the right to allocate such resources among itself and its licensees.

14.3 Records and Audit. During the Term and for a period of [***] thereafter, LICENSEE agrees to keep accurate complete and detailed records related to the development and sale of the Licensed Products and the Marketing Materials. Upon [***] Notice to LICENSEE, NOA may, at its expense, audit LICENSEE'S records, reports and other information related to LICENSEE'S compliance with this Agreement.

14.4 Waiver, Severability. Integration, and Amendment. The failure of a party to enforce any provision of this Agreement shall not be construed to be a waiver of such provision or of the right of such party to thereafter enforce such provision. in the event that any term, clause or provision of this Agreement shall be construed to be or adjudged invalid, void or unenforceable, such term, clause or provision shall be construed as severed from this Agreement, and the remaining terms, clauses and provisions shall remain in effect. Together with the NDA, this Agreement constitutes the entire agreement between the parties relating to the subject matter hereof. All prior negotiations, representations, agreements and understandings are merged into, extinguished by and completely expressed by this Agreement and the NDA. Any amendment to this Agreement shall be in writing, signed by both parties.

14.5 Survival. In addition to those rights specified elsewhere in this Agreement that may reasonably be interpreted or construed as surviving, the rights and obligations set forth in Sections 3, 8, 9, 10, 13 and 14 shall survive any expiration or termination of this Agreement to the degree necessary to permit their complete fulfillment or discharge.

14.6 Governing Law and Venue. This Agreement shall be governed by the laws of the State of Washington, without regard to its conflict of laws principles. Any legal action (including judicial and administrative proceedings) with respect to any matter arising under or growing out of this Agreement, shall be brought in a court of competent jurisdiction in King County, Washington. Each party hereby consents to the jurisdiction and venue of such courts for such purposes.

14.7 Equitable Relief. LICENSEE acknowledges that in the event of its breach of this Agreement, no adequate remedy at law may be available to NOA and that NOA shall be entitled to seek injunctive or other equitable relief in addition to any relief available at law.

14.8 Attorneys' Fees. In the event it is necessary for either party to this Agreement to undertake legal action to enforce or defend any action arising out of or relating to this Agreement, the prevailing party in such action shall be entitled to recover from the other party all reasonable attorney fees, costs and expenses relating to such legal action or any appeal therefrom.

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14.9 Counterparts and Signature by Facsimile. This Agreement may be signed in counterparts, that shall together constitute a complete Agreement. A signature transmitted by facsimile shall be considered an original for purposes of this Agreement.

IN WITNESS WHEREOF, the parties have entered into this Agreement on the dates set forth below.

NOA:	**LICENSEE:**
NINTENDO OF AMERICA INC.	**ACTIVISION PUBLISHING, INC.**
By: /s/ James R. Cannataro	By: /s/ George L. Rose
Name: James R. Cannataro	Name: George L. Rose
Title: Executive VP, Administration	Title: Sr. VP and General Counsel
Date: 11/15/2004	Date:

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Exhibit 10.43

FIRST AMENDMENT TO THE CONFIDENTIAL LICENSE AGREEMENT FOR GAME BOY ADVANCE

THIS FIRST AMENDMENT ("First Amendment") amends that certain Confidential License Agreement for Game Boy Advance dated May 10, 2001 between Nintendo of America Inc. ("Nintendo") and Activision Publishing, Inc. ("Licensee") ("Original Agreement").

RECITALS

The Original Agreement expires on May 10, 2004, and the parties desire to extend the Term of the Original Agreement for an additional three (3) years.

The definitions in the Original Agreement are incorporated by reference into this First Amendment and shall be deemed to have the same meanings as those ascribed to them in the Original Agreement unless otherwise set forth herein.

NOW, THEREFORE, the parties agree as follows:

1. The definition of "Term" as set forth in Section 2.20 of the Original Agreement is hereby deleted in its entirety and replaced with the following:

   "'Term' means six (6) years from the Effective Date."

2. All other terms and conditions of the Original Agreement shall remain in full force and effect. This First Amendment may be signed in counterparts and by facsimile, which together shall constitute one original First Amendment. This First Amendment shall be effective as of May 10, 2004.

IN WITNESS WHEREOF, the parties have entered into this First Amendment.

NINTENDO:	**LICENSEE:**
Nintendo of America Inc.	Activision Publishing, Inc.
By: /s/ James R. Cannataro	By: /s/ George Rose
Name: James R. Cannataro	Name: George Rose
Its: EVP; Administration	Its: Sr. VP & Gen. Counsel
Date: 5/11/04	Date: 5.7.04

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CONFIDENTIAL

FIRST RENEWAL LICENSE AGREEMENT
FOR THE GAME BOY ADVANCE VIDEO GAME SYSTEM
(EEA, AUSTRALIA AND NEW ZEALAND)

THIS RENEWAL LICENSE AGREEMENT ("Agreement") is entered into between NINTENDO CO., LTD. ("NCL") at 11-1 Kamitoba Hokotate-cho, Minami-ku, Kyoto, Japan 601-8501, Attn: General Manager, International Business Administration Department (facsimile: 81.75.662.9619), and ACTIVISION, INC. a corporation of California, and its subsidiaries (Activision UK, Ltd., a limited company of the United Kingdom; ATVI France, S.A.R.L., a corporation of France; Activision GrnbH, a corporation of Germany; and Activision Pty., Ltd., a limited company of Australia) (jointly and severally "LICENSEE") at 3100 Ocean Park Boulevard, Santa Monica, California 90405 (facsimile: 310.255.2152); attention: Mr. Michael Hand. NCL and LICENSEE agree as follows:

1. RECITALS

1.1 NCL designs, develops, manufactures, markets and sells advanced design, high-quality video game systems, including the GAME BOY ADVANCETM system and the GAME BOY ADVANCE SPTM system. (Hereinafter the GAME BOY ADVANCETM and GAME BOY ADVANCE SPTM systems are jointly and severally referred to as the "GAME BOY ADVANCE system")

1.2 LICENSEE desires a license to use highly proprietary programming specifications, development tools, trademarks and other valuable Intellectual Property Rights of NCL, to develop, have manufactured, advertise, market and sell video game software for Games for play on the GAME BOY ADVANCE system.

1.3 NCL is willing to grant a license to LICENSEE on the terms and conditions set forth in this Agreement.

1.4 By a prior agreement between the parties effective September 14, 2001 (hereinafter the "Initial Agreement"), NCL granted to LICENSEE the right to develop compatible with the Game Boy Advance System, embodying and using the Licensed Intellectual Properties. Although the Initial Agreement has expired, the parties have continued to operate thereunder. The parties desire to enter into a renewal agreement (hereinafter the "Agreement") effective as of the expiration date of the Initial Agreement, to continue the relationship between the parties without interruption, with the Agreement consisting of the terms and conditions set forth herein.

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CONFIDENTIAL

2. DEFINITIONS

2.1 "Artwork" means the design specifications for the Game Cartridge label and Printed Materials in the format specified by NCL in the Guidelines.

2.2 "Development Tools" means the development kits, programming tools, emulators, and other materials that may be used in the development of Games under this Agreement.

2.3 "Effective Date" means September 14, 2004.

2.4 "Finished Product(s)" means the fully assembled Licensed Products, each including a Game Cartridge with a Game Cartridge label packaged in a plastic bag or other form of protective packaging, and Printed Materials.

2.5 "Game Cartridges(s)" means custom cartridges for play on the GAME BOY ADVANCE system, incorporating semiconductor components in which a Game has been stored.

2.6 "Game(s)" means interactive video game programs (including source and object/binary code) developed for play on the GAME BOY ADVANCE system.

2.7 "Guidelines" means the current version or any future revision of the "Game Boy Advance Guidelines" pertaining to the layout, trademark usage and other requirements for the Game Cartridge label, instruction manual and Game Cartridge packaging, Marketing Materials, "Game Boy Advance Development Manual", "Guidelines on Ethical Content", and related guidelines. The Guidelines on Ethical Content are attached as Annex A, and the remainder of the Guidelines have been provided to LICENSEE independent of this Agreement. The Guidelines may be changed or updated from time to time without notice.

2.8 “Independent Contractor” means any individual or entity that is not an employee of LICENSEE, including any independent programmer, consultant, contractor, board member or advisor.

2.9 “Intellectual Property Rights” means individually, collectively or in any associated with the development, manufacturing, advertising, marketing or sale of the Licensed Products, including, without limitation: (a) registered and unregistered trademarks and trademark applications used in connection with video games for play on the GAME BOY ADVANCE system including “NintendoTM”, “GAME BOY ADVANCETM,” “GAME BOY ADVANCE SPTM,” “AGB” and the “Official Nintendo Seal of QualityTM” (some of these trademarks are set forth in Annex B, attached); (b) select trade dress associated with the GAME BOY ADVANCE system and licensed video games for play thereon; (c) Proprietary Rights in the Security Technology incorporated into the Game Cartridges; (d) rights in the Development Tools provided by or on behalf of NCL for use in developing the Games; (e) patents, patent applications, utility models, or design registrations associated with the Game Cartridges; (f) copyrights in the Guidelines; and (g) other Proprietary Rights of NCL in Confidential Information.

2.10 “Licensed Products” means (a) Finished Products when fully assembled with Game Cartridge label affixed and packaged in a plastic bag or other form of protective packaging with the Printed Materials; or (b) Stripped Products with Game Cartridge label affixed.

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2.11 “Marketing Materials” means marketing, advertising or promotional materials developed by or for LICENSEE (or subject to LIC NSEE’s approval) to promote the sale of the Licensed Products, including but not limited to television, radio and on-line advertising, point-of-sale materials (e.g. posters, counter-cards), package advertising, and print.

2.12 “NDA” means the non-disclosure agreement providing for the protection of Confldenttal Information related to the GAME BOY ADVANCE system previously entered into between NCL and/or NOA and LICENSEE.

2.13 “NOA” means NCL’s subsidiary, Nintendo of America Inc., of Redmond, Washington, USA.

2.14 “Notice” means any notice permitted or required under this Agreement. All notices shall be sufficiently given when (a) personally served or delivered, or (b) transmitted by facsimile, with an original sent concurrently by mail, or (c) deposited, postage prepaid, with a guaranteed air courier service, in each case addressed as stated herein, or addressed to such other person or address either party may designate in a Notice. Notice shall be deemed effective upon the earlier of actual receipt or two (2) business days after transmittal.

2.15 “Price Schedule” means the current version(s) or any future revision(s) of NCL’s schedule of purchase prices and minimum order quantities for the Licensed Products. The Price Schedule has been provided to Licensee Independent of this Agreement and may be changed or updated from time to time without notice.

2.16 “Printed Materials” means the box, user instruction booklet, poster, warranty card and LICENSEE inserts incorporating the Artwork, together with a precautions booklet as specified by NCL.

2.17 “Proprietary Rights” means any rights or applications for rights to the extent recognized in the Territory relating to the GAME BOY ADVANCE system, and owned, licensed or otherwise held in patents, trademarks, service marks, copyrights, semiconductor chip layouts or masks, trade secrets, trade dress, moral rights and publicity rights, together with all inventions, discoveries, ideas, know-how, data, information, processes, methods, procedures, formulas, drawings and designs, computer programs, software source code and object code, and all amendments, modifications, and improvements thereto for which such patent, trademark, service mark, copyright, semiconductor chip layout or mask, trade secrets, trade dress, moral rights or publicity rights may exist or may be sought and obtained in the future.

2.18 “Reverse Engineer(ing)” means any technique designed to extract source code or facilitate the duplication of a program or product including, without limitation, (a) the x-ray, electronic scanning or physical or chemical stripping of semiconductor components, or (b) the disassembly, decompilation, decryption or simulation of object code or executable code.

2.19 “Security Technology” means, without limitation, any security signature, bios, data scrambling, password, hardware security apparatus, watermark, hologram, copyright management information system, encryption, Digital Rights management system, or any feature which facilitates or limits compatibility with other hardware, software, accessories or other peripherals, outside of the Territory or on a different video game system.

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2.20 “Stripped Product(s)” means the Game Cartridges with Game Cartridge labels affixed.

2.21 “Term” means three (3) years from the Effective Date.

2.22 "Territory" means any and all countries within the European Economic Area; namely Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, reeve, Hungary, Iceland, hand, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, and the United Kingdom. The Territory shall also include Australia, New Zealand, and Turkey. NCL may add additional countries to the Territory upon written notice to LICENSEE.

2.23 "TM" means trademark of NCL, whether registered or not.

3. GRANT OF LICENSE; LICENSEE RESTRICTIONS

3.1 Limited License Grant. For the Term and for the Territory, NCL grants to LICENSEE a nonexclusive, nontransferable, limited license to use the Intellectual Property Rights, for the purpose of and to the extent necessary, to develop Games for manufacture, advertising, marketing and sale as Licensed Products, subject tothe terms and conditions of this Agreement This license is royalty-free.

3.2 LICENSEE Acknowledgement. LICENSEE's use of the Intellectual Property Rights shall not create any right, title or interest of LICENSEE therein. In the event that LICENSEE challenges NCL's ownership or the validity of the Intellectual Property Rights, NCL may terminate this Agreement without any notice or procedure.

3.3 Restrictions on License Grant: NCL does not guarantee that the hardware for the GAME BOY ADVANCE system is distributed throughout the Territory. Moreover, the present limited license to LICENSEE does not extend to the use of the Intellectual Property Rights for the following purposes:

(a) granting access to, distributing, transmitting or broadcasting a Game by electronic means or by any other means known or hereafter devised, including, without limitation, by wireless, cable, fiber optic, telephone lines, microwave, radiowave, computer or other device network; provided, however, that limited transmissions may be made for the so e purpose o acs stating •eve opment Imo er t e terms o t is Agreement, •ut no rig t o retransmission shall attach to any such authorized transmission and, reasonable security measures, customary within the high technology industry, shall be utilized to reduce the risk of unauthorized interception or retransmission of any such authorized transmission,

(b) authorizing oT -perrrrrttrng any omme activities involving a Game, including, without limitation, multiplayer, peer-to-peer or online play,

(c) modifying, installing or operating a Game on any server or computing device for the purpose of or resulting in the rental, lease, loan or other grant of remote access to the Game,

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(d) emulating, interoperating, interfacing or linking a Game for operation or use with any hardware platform, software program, accessory, computer language, computer environment, chip instruction set, consumer electronics device, telephone, cell phone, PDA, or other device for purposes of data interchange, password usage or interactive video game play, other than the GAME BOY ADVANCE system, an application approved by NCL, or the Development Tools,

(e) emulate any past, current, or future NCL brand video game system or any portion thereof in software or hardware or any combination thereof.

(f) embedding, incorporating, or storing a Game in any media or format except the cartridge format utilized by the GAME BOY ADVANCE system, except as may be necessary as a part of the Game development process under this Agreement,

(g) designing, implementing or undertaking any process, procedure, program or act designed to circumvent the Security Technology, interactive video or computer game program, except as authorized under this Agreement,

(h) utilizing the Intellectual Property Rights to design or develop any interactive video or computer game program, except as authorized under this Agreement,

(i) manufacturing or reproducing a Game developed under this Agreement, except through NCL, or

(j) Reverse Engineering or assisting in the Reverse Engineering of all or any part of the GAME BOY ADVANCE system, including the hardware or software (whether embedded or otherwise), or the Security Technology, except as specifically permitted under the laws and regulations applicable in the Territory.

3.4 Development Tools. NCL may lease, loan or sell Development Tools, including any improvements made by NCL or NOA from time to time, to LICENSEE to assist in the development of Games under this Agreement on such terms as may be agreed between the parties. Ownership and use of such Development Tools shall be subject to the terms of this Agreement, whether provided by NCL or NOA, prior to or during the Term hereof. LICENSEE acknowledges the exclusive interest of NCL in and to the Proprietary Rights associated with the Development Tools. LICENSEE's use of the Development Tools shall not create any right, title or interest of LICENSEE therein. Any license to LICENSEE to use the Development Tools does not extend to: (a) use of the Development Tools for any purpose except the design and development of Games under this Agreement; (b) reproduction or creation of derivatives of the Development Tools, except in association with the development of Games under this Agreement; (c) Reverse Engineering of the Development Tools (except as specifically permitted under the laws and/or regulations applicable in the Territory); or (d) selling, leasing, assigning, lending, licensing, encumbering or otherwise transferring the Development Tools. Any tools developed or derived by LICENSEE as a result of a study of the performance, design or operation of the Development Tools shall be considered derivative works of the Intellectual Property Rights, but may be retained and utilized by LICENSEE in connection with this Agreement. Unless LICENSEE can demonstrate that such derivative work has one or more applications that are

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independent of and separate from the Intellectual Property Rights ("Independent Applications"), it shall be deemed to have granted NOA and NCL an indefinite, worldwide, royalty-free, transferable and exclusive license (including the right to sub-license) to such derivative work. To the extent that LICENSEE can demonstrate one or more Independent Applications, LICENSEE exclusive license (including the right to sub-license) in relation to such Independent Applications for the Term and an indefinite, worldwide, royalty-free, transferable and exclusive license (including the right to sub-license) in relation to all other applications.

4. SUBMISSION OF GAME AND ARTWORK FOR APPROVAL

4.1 Development and Sale of the Games. LICENSEE may develop Games and have manufactured, advertise, market and sell Licensed Products for play on the GAME BOY ADVANCE system only in accordance with this Agreement.

4.2 Delivery of Completed Game. Upon completion of a Game, LICENSEE shall deliver a prototype of the Game to NCL in a format specified in the Guidelines, together with written user instructions, a complete description of any security holes, backdoors, time bombs, cheats, "Easter eggs" or other hidden features or characters in the Game [***]. NCL shall promptly evaluate the Game with regard to: (a) its technical compatibility with and error-free operation on the GAME BOY ADVANCE system. LICENSEE must establish that the Game and any other content included on the Game Cartridge complies with the guidelines of the Pan European Game Information System (PEGI), the Unterhaltungssoftware Selbstkontrolle (USK), the Office of Film and Literature Classification (OFLC), or any other national or regional game rating system that NCL may accept, as applicable. LICENSEE shall be responsible for the submission of the Game to the appropriate national or regional game rating organisation and shall provide NCL with a Game. Where any such game has been rated as being suitable only for players aged 18 and over (or an equivalent rating), LICENSEE must submit a certificate in writing that confirms the game is rated as no higher than "M" (mature) by the Entertainment Software Rating Board (ESRB) of the U.S. In addition, NCL reserves the right to require LICENSEE to provide NCL with such additional written indemnification for damages, claims, loss, liabaility, fine or penalty resulting from the marketing, distribution or sale of a Game with such an age rating, as NCL, in its sole discretion, may request. If any such age rating is subsequently changed by the relevant organisation, LICENSEE shall inform NCL forthwith in writing of that fact and LICENSEE shall then comply with the above provisions in relation to such new age rating.

4.3 Approval of Completed Game. NCL shall, within a reasonable period of time after receipt, approve or disapprove each submitted Game. If a Game is disapproved, NCL shall specify in writing the reasons for such disapproval and state what corrections or improvements are necessary. After making the necessary corrections or improvements, LICENSEE shall submit a revised Game to NCL for approval. NCL shall not unreasonably withhold or delay its approval of any Game. The approval of a Game by NCL shall not relieve LICENSEE of its sole responsibility for the development, quality and operation of the Game or in any way create any warranty for a Game or a Licensed Product by NCL.

4.4 Submission of Artwork. Upon submission of a completed Game to NCL, LICENSEE shall prepare and submit to NCL the Artwork for the proposed Licensed Product.

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Within ten (10) business days of receipt, NCL shall approve or disapprove the Artwork. If any Artwork is disapproved, NCL shall specify in writing the reasons for such disapproval corrections or improvements, LICENSEE shall submit revised Artwork to NCL for approval. NCL shall not unreasonably withhold or delay its approval of any Artwork. The approval of the Artwork by NCL shall not relieve LICENSEE of its sole responsibility for the development and quality of the Artwork or in any way create any warranty for the Artwork or the Licensed product by NCL.

4.5 Artwork for Stripped Product. If LICENSEE submits an order for Stripped Product, all Artwork shall be submitted to NCL in advance of NCL's acceptance of the order and no production of Printed Materials shall occur until such Artwork has been approved by NCL under Section 4.4 herein.

5. ORDER PROCESS, PURCHASE PRICE, PAYMENT AND DELIVERY

5.1 Submission of Orders by LICENSEE. LICENSEE may at any time submit written purchase orders to NCL for any approved Licensed Product title. The purchase order shall specify whether it is for Finished Product or Stripped Product. The terms and conditions of this Agreement shall control over any contrary terms of such purchase order or any other written documents submitted by LICENSEE. All orders are subject to acceptance by NCL or its designee.

5.2 Purchase Price and Minimum Order Quantities. The purchase price and minimum order quantities for the Licensed Products shall be set forth in NCL's then-current Price Schedule. The purchase price includes the cost of manufacturing the Licensed Products. A current Price Schedule has been provided to LICENSEE independent of this Agreement No taxes, duties, import fees or other tariffs related to the development, manufacture, import, marketing or sale of the Licensed Products (except for taxes imposed on NCL's income) are included in the purchase price and all such taxes are the responsibility of LICENSEE. The Price Schedule is subject to change by NCL at any time without Notice. However, any price increase shall be applicable only to purchase orders submitted, paid for, and accepted by NCL after the effective date of the price increase.

5.3 Payment. Upon placement of an order, LICENSEE shall pay the full purchase price to NCL either (a) by placement of an irrevocable letter of credit in favor of NCL and payable at sight, issued by a bank acceptable to NCL and confirmed, if requested by NCL, at LICENSEE's expense, or (b) in cash, by wire transfer to NCL's designated account. All associated banking charges shall be for LICENSEE's account.

5.4 Shipment and Delivery. NCL shall deliver the Finished Products or Stripped Products ordered by Licensee to Licensee F.O.B. Japan with shipment at Licensee's direction and expense. Upon mutual consent of NCL and Licensee, orders may be delivered in partial shipments with a minimum shipment quantity of [***]. Such orders shall be delivered to countries within the Territory.

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6. MANUFACTURE OF THE LICENSED PRODUCT

6.1 Designation of NCL. NCL (including through its subcontractors and licensees) shall be the exclusive source for the manufacture of the Game Cartridges, and shall control all aspects of the manufacturing process, selection of the locations and specifications for any manufacturing facilities, determination of materials and processes, appointment of suppliers and subcontractors and management of all work-in-progress.

6.2 Manufacture of the Licensed Products. Upon acceptance of a purchase order for an approved Licensed Product title and payment as provided for under Section 5.3 herein, NCL (including through its subcontractors and licensees) will arrange for the manufacture of Finished Product or Stripped Product, as specified in LICENSEE's purchase order. In this regard, LICENSEE shall submit to NCL certain technical information as set forth in a questionnaire entitled "Software Submission Requirements" which has been provided to LICENSEE by NCL.

6.3 Security Features. The final release version of the Game, Game Cartridges and Printed Materials shall include such Security Technology as NCL, in its sole discretion, may deem necessary or appropriate.

6.4 Production of Stripped Product Printed Materials. LICENSEE shall arrange and pay for the production of the Printed Materials using the Artwork. Upon receipt of an order of Stripped Product, LICENSEE shall assemble the Game Cartridges and Printed Materials into the Licensed Products. Licensed Products may be sold or otherwise distributed by LICENSEE only in fully assembled condition.

6.5 Sample Printed Materials and Stripped Product. Within a reasonable period of time after LICENSEE's assembly of the initial order for a Stripped Product title, LICENSEE shall provide NCL with: (a) one (1) sample of the fully assembled Licensed Product; and (b) [***] of LICENSEE-produced Printed Materials for such Licensed Product.

6.6 Retention of Sample Licensed Products by NCL. NCL may, at its own expense, manufacture reasonable quantities of the Game Cartridges or the Licensed Products, not to exceed [***], to be used for archival purposes, legal proceedings against infringers of the Intellectual Property Rights or for other lawful purposes, [***].

7. MARKETING AND ADVERTISING

7.1 Approval of Marketing Materials. LICENSEE represents and warrants that the Marketing Materials shall: (a) be of high quality and comply with the Guidelines as well as the guidelines of the PEGI, and (b) comply with all applicable laws, regulations, and official codes of practice in those jurisdictions in the Territory where they will be used or distributed. Prior to actual use or distribution, LICENSEE shall submit to NCL for review receipt, approve or disapprove such samples. If any of the samples are disapproved, NCL shall specify the reasons for such disapproval and state what corrections and/or improvements are necessary. After making the necessary corrections and/or improvements, LICENSEE shall submit revised samples for approval by NCL. No Marketing Materials shall be used or distributed by LICENSEE without unreasonably withhold or delay its approval of any proposed Marketing Materials.

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7.2 Bundling. In order to avoid use of the licensed Intellectual Property Rights giving rise to any implication of NCL's sponsorship, association, approval or endorsement or distribute any Finished Product or Stripped Product that has been bundled with: (a) any peripheral designed for use with the GAME BOY ADVANCEsystem which has not been licensed or approved in writing by NCL; or (b) any other product or service where NCL's sponsorship, association, approval or endorsement might be suggested by the bundling of the products or services.

7.3 Warranty and Repair. LICENSEE shall provide the original consumer with a minimum one hundred eighty (180) day (or such longer minimum period as may be required by applicable law) limited warranty on all Licensed Products. LICENSEE shall also provide reasonable product service, including out-of-warranty service, for all Licensed Products.

7.4 Business Facilities. LICENSEE agrees to develop and maintain sufficient customer service, either directly or through a third party, to adequately support the Licensed Products.

7.5 No Sales Outside the Territory. LICENSEE represents and warrants that it shall not market, sell, offer to sell, import or distribute the Licensed Products outside the Territory, or within the Territory when LICENSEE has actual or constructive knowledge that a subsequent destination of the Licensed Product is outside the Territory.

7.6 Defects and Recall. In the event of a material programming defect in a Licensed Product that would, in NCL's reasonable judgment, significantly impair the ability of a consumer to play the Game, NCL may, after consultation with LICENSEE, require the LICENSEE to recall the Licensed Product and undertake suitable repairs or replacements.

7.7 NCL Promotional Materials, Publications and Events. With a view to improving the competitiveness of the video game products consisting of Nintendo video game systems and services and compatible software published by LICENSEE, at its option, NCL may: (a) insert in the Printed Materials for the Licensed Products promotional materials concerning publications and promotions for such video game products; (b) utilize screen shots, Artwork and information regarding the Licensed Products in Nintendo published magazines or other advertising, promotional or marketing media which promotes such video game products; and (c) exercise public performance rights in the Games and use related trademarks and Artwork in connection with NCL sponsored contests, tours, conventions, trade shows, press briefings and similar events which promote such video game products.

7.8 Nintendo Gateway System. To promote and increase demand for games on Nintendo video game systems, NCL licenses a system (the "Nintendo Gateway System") in various non-coin activated commercial settings such as commercial airlines, cruise ships, rail systems and hotels, where customers play games on specially adapted Nintendo video game systems. If NCL identifies a Game for possible license on the Nintendo Gateway System, the parties agree to conduct good faith negotiations toward including the Game in the Nintendo Gateway System.

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8. CONFIDENTIAL INFORMATION

8.1 Definition. "Confidential Information" means information provided to LICENSEE by NCL or any third party working with NCL or NOA relating to the hardware and software for the GAME BOY ADVANCE system or the Development Too slinc u ing, but not limited to: (a) all current or future information, know-how, techniques, methods, information, tools, emulator hardware or software, software development specifications, and/or trade secrets, (b) any inventions, patents or patent applications, (c) any business, marketing or sales data or information, and (d) any other information or data relating to development, design, operation, manufacturing, marketing or sales. Confidential Information shall include all confidential information disclosed, whether in writing, orally, visually, or in the form of drawings, technical specifications, software, samples, pictures, models, recordings, or other tangible items which contain or manifest, in any form, the above listed information. Confidential Information shall not include: (i) data and information which was in the public domain prior to LICENSEE's receipt of the same hereunder, or which subsequently becomes part of the public domain by publication or otherwise, except by LICENSEE's wrongful act or omission, (ii) data and information which LICENSEE can demonstrate, through written records kept in the ordinary course of business, was in its possession without restriction-on use or disclosure, prior to its receipt of the same-hereunder and was not acquired directly or indirectly from NCL or NOA under an obligation of confidentiality which is still in force, and (iii) data and information which LICENSEE can show was received by it from a third party who did not acquire the same directly or indirectly from NCL or NOA and to whom LICENSEE has no obligation of confidentiality.

8.2 Disclosures Required by Law. LICENSEE shall be permitted to disclose Confidential Information if such disclosure is required by an authorized governmental or judicial entity, provided that NCL is given Notice thereof at least thirty (30) days prior to such disclosure. LICENSEE shall use its best efforts to limit the disclosure to the greatest extent possible consistent with LICENSEE's legal obligations, and if required by NCL, shall cooperate in the preparation and entry of appropriate court orders limiting the persons to whom Confidential Information may be disclosed and the extent of disclosure of such Confidential Information.

8.3 Disclosure and Use. NCL may provide LICENSEE with highly confidential development information, Guidelines, Development Tools, systems, specifications and related resources and information constituting and incorporating the Confidential Information to assist LICENSEE in the development of Games. LICENSEE agrees to maintain all Confidential Information as strictly confidential and to use such Confidential Information only in accordance with this Agreement. LICENSEE shall limit access to the Confidential Information to LICENSEE's employees having a strict need to know and shall advise such employees of their obligation of confidentiality as provided herein. LICENSEE shall require each such employee to retain in confidence the Confidential Information pursuant to a written non-disclosure agreement between LICENSEE and such employee. LICENSEE shall use its best efforts to ensure that its employees working with or otherwise having access to Confidential Information shall not disclose or make any unauthorized use of the Confidential Information.

8.4 No Disclosure to Independent Contractors. LICENSEE shall not disclose the Confidential Information, including without limitation the Guidelines and Intellectual Property Rights, to any Independent Contractor, nor permit any Independent Contractor to perform or assist in development work for a Game, without the prior written consent of NCL.. Any

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Independent Contractor seeking access to Confidential Information shall be required to enter into a written non-disclosure agreement with NCL or NOA prior to receiving any access to or disclosure of the Confidential Information from either LICENSEE or NCL.

At LICENSEE's option, the written non-disclosure agreement may be with LICENSEE rather than NCL or NOA, in which case the form and substance of the non-disclosure agreement must be acceptable to NCL. Also, in such case LICENSEE shall provide to NCL on a continuing basis a listing of all Independent Contractors who have received or been granted access to Confidential Information along with copies of the applicable written non-disclosure agreements. In addition, LICENSEE shall take all reasonable measures to ensure that its Independent Contractors fulfill the requirements of the applicable written non-disclosure agreements.

LICENSEE shall use its best efforts to ensure that its employees and Independent Contractors working with or otherwise having access to Confidential Information shall not disclose or make unauthorized use of the Confidential Information. LICENSEE agrees to indemnify NCL against all loss or damage, including consequential economic loss, for breach of these obligations by the LICENSEE, its employees and Independent Contractors.

8.5 Agreement Confidentiality. LICENSEE agrees that the terms, conditions and announcement or press release regarding this Agreement or the release dates for Games developed by LICENSEE under this Agreement shall be subject to NCL's prior written approval. The parties may disclose this Agreement: (a) to accountants, banks, financing sources, lawyers, parent companies and related parties under substantially equivalent confidentiality obligations, (b) in connection with any formal legal proceeding for the enforcement of this Agreement, (c) as required by the regulations of the government agencies in the Territory that regulate publicly-traded securities, provided that all Confidential Information regarding NCL shallbe redacted from such disclosures to the maximum extent allowed by such government agencies, (d) in response to lawful process, subject to a court order limiting the persons to whom Confidential Information may be disclosed and the extent of disclosure of such Confidential Information, approved in advance by NCL; and (e) to a third party proposing to enter into a business transaction with LICENSEE or with NCL, but only to the extent reasonably necessary for carrying out the proposed transaction and only under terms of mutual confidentiality.

8.6 Notification Obligations. LICENSEE shall promptly notify NCL of the unauthorized use or disclosure of any Confidential Information and shall promptly act to recover any such information and prevent further breach of the obligations herein. The obligations of LICENSEE set forth herein are in addition to and not in lieu of any other legal remedy that may be available to NCL under this Agreement or applicable law.

8.7 Continuing Effect of the NDA. The terms of this Section 8 supplement the terms of the NDA, which shall remain in effect. In the event of a conflict between the terms of the NDA and this Agreement, the terms of this Agreement shall control.

9. REPRESENTATIONS AND WARRANTIES

9.1 LICENSEE's Representations and Warranties. LICENSEE represents and warrants that:

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(a) it is a duly organized and validly existing corporation and has full authority to enter into this Agreement and to carry out the provisions hereof,

(b) the execution, delivery and performance of this Agreement by LICENSEE does not conflict with any agreement or understanding to which LICENSEE may be bound, and,

(c) excluding the Intellectual Property Rights, LICENSEE is either (i) the sole owner of all right, title and interest in and to the trademarks, copyrights and other Proprietary Rights used on or in association with the development, advertising, marketing and sale of the Licensed Products and the Marketing Materials, or (ii) the holder of such rights to the trademarks, copyrights and other Proprietary Rights which have been licensed from a third party as are necessary for the development, advertising, marketing and sale of the Licensed Products and the Marketing Materials under this Agreement.

9.2 NCL's Representations and Warranties. NCL represents and warrants that:

(a) it is a duly organized and validly existing corporation and has full authority to enter into this Agreement and to carry out the provisions hereof, and

(b) the execution, delivery and performance of this Agreement by NCL does not conflict with any agreement or understanding to which NCL may be bound.

9.3 [***]

9.4 [***]

9.5 LIMITATION OF LIABILITY. TO THE MAXIMUM EXTENT PERMITTED BY LAW, NEITHER NCL NOR ANY OF ITS SUBSIDIARIES, AFFILIATES, LICENSORS OR SUPPLIERS SHALL BE LIABLE FOR LOSS OF PROFITS, OR FOR ANY SPECIAL, PUNITIVE, INCIDENTAL OR CONSEQUENTIAL DAMAGES OF LICENSEE OR ITS CUSTOMERS ARISING OUT OF OR RELATED TO THIS AGREEMENT, INCLUDING, WITHOUT LIMITATION, THE BREACH OF THIS AGREEMENT BY NCL, THE MANUFACTURE OF THE LICENSED PRODUCTS OR THE USE OF THE LICENSED PRODUCTS ON ANY NINTENDO VIDEO GAME SYSTEM BY LICENSEE OR ANY END USER.

10. INDEMNIFICATION

10.1 LICENSEE's Indemnification of NCL. LICENSEE shall indemnify and hold harmless NCL (and any of its respective affiliates, subsidiaries, licensors, suppliers, officers, directors, employees or agents) from any claims, losses, liabilities, damages, expenses and costs, including, without limitation, reasonable attorneys' fees and costs and any expenses incurred in the settlement or avoidance of any such claim, which result from or are in connection with:

(a) a breach of any of the provisions, representations or warranties undertaken by LICENSEE in this Agreement,

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(b) any infringement of a third party's Proprietary Rights as a result of the design, development, advertising, marketing, sale or use of the Licensed Products or the Marketing Materials,

(c) any claims alleging a defect, failure to warn, bodily injury (including death) or other personal or property damage arising out of, or in connection with, the design, development, advertising, marketing, sale or use of any of the Licensed Products, and

(d) any applicable civil or criminal actions relating to the design, development, advertising, marketing, sale or use of the Licensed Products or the Marketing Materials.

NCL and LICENSEE shall give prompt Notice to the other of any indemnified claim under this Section 10.1. With respect to any third party claim subject to this indemnity clause, LICENSEE, as indemnitor, shall have the right to select counsel and to control the defense and/or settlement thereof NCL may, at its own expense, participate in such action or proceeding with counsel of its own choice. LICENSEE shall not enter into any settlement of any such claim in which (i) NCL has been named as a party, or (ii) claims relating to the Intellectual Property Rights have been asserted, without NCL's prior written consent. NCL shall provide reasonable assistance to LICENSEE in its defense of any such claim.

10.2 LICENSEE's Insurance. LICENSEE shall, at its own expense, obtain a comprehensive policy of general liability insurance (including coverage for advertising injury and product liability claims) from a recognized insurance company. Such policy of insurance shall be in an amount of not less than the equivalent of [***] on a per-occurrence basis and shall provide for adequate protection against any suits, claims, loss or damage by the Licensed Products. Such policy shall name NCL as an additional insured and shall specify that it may not be canceled without thirty (30) days' prior written Notice to NCL. A Certificate of Insurance shall be provided to NCL not later than the date of the initial order of Licensed Products under this Agreement or with'n 60 da s of the effective date of this Agreement, whatever date occurs later. If LICENSEE fails to maintain such insurance at any time during the Term and for a period of two (2) years thereafter, NCL may secure such insurance at LICENSEE's expense.

10.3 Suspension of Production. In the event NCL deems itself at risk with respect to any claim, action o' pracecdizig under this Scctiun 1-0, NCL may, at its sole uption, suspend production, delivery or order acceptance for any Licensed Products, in whole or in part, pending resolution of such claim, action or proceeding.

11. PROTECTION OF PROPRIETARY RIGHTS

11.1 Joint Actions Against Infringers. LICENSEE and NCL may agree to jointly pursue cases of infringement involving of the Licensed Products, as such Licensed Products will contain Proprietary Rights owned by each of them. Unless the parties otherwise agree, or unless the recovery is expressly allocated between them by the court, in the event of such an action, any recovery shall be used first to reimburse LICENSEE and NCL for their respective reasonable attorneys' fees and costs incurred in bringing such action, pro rata, and any remaining recovery

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shall be distributed to LICENSEE and NCL, pro rata, based upon the fees and costs incurred in bringing such action.

11.2 Actions by LICENSEE. LICENSEE, without the consent of NCL, may bring any action or proceeding relating to an infringement or potential infringement of LICENSEE's Proprietary Rights in the Licensed Products. LICENSEE shall make reasonable efforts to inform NCL of such actions in a timely manner. LICENSEE will have the right to retain all proceeds it may derive from any recovery in connection with such actions.

11.3 Actions by NCL. NCL, without the consent of LICENSEE, may bring any action or proceeding relating to an infringement or potential infringement of NCL's Intellectual Property Rights in the Licensed Products. NCL shall make reasonable efforts to inform LICENSEE of such actions in a timely manner. NCL will have the right to retain all proceeds it may derive from any recovery in connection with such actions.

12. ASSIGNMENT

12.1 No Assignment by LICENSEE. This Agreement is personal to LICENSEE and may not be sold, assigned, delegated, sublicensed or otherwise transferred or encumbered, in whole or in part, without NCL's prior written consent, [***]. In the event of an assignment or other transfer in violation of this Agreement, NCL shall have the unqualified right to immediately terminate this Agreement without further obligation to LICENSEE.

12.2 Assignment by Operation of Law. In the event of an assignment of this Agreement by operation of law, LICENSEE shall, not later than thirty (30) days thereafter, give Notice and seek consent thereto from NCL. Such Notice shall disclose the name of the assignee, the effective date and the nature and extent of the assignment. An assignment by operation of law includes, but is not limited to: (a) a merger of LICENSEE into another business entity or a merger of another business entity into LICENSEE, (b) the sale, assignment or transfer of all or substantially all of the assets of LICENSEE to a third party, (c) the sale, assignment or transfer to a third party of any of T.ICFNSF.F's proprietary rights which are used in the development of or are otherwise incorporated into any Licensed Products, or (d) the sale, assignment or transfer of any of LICENSEE's stock resulting in the acquirer having management power over or voting control of LICENSEE. Following the later of: (i) such an assignment by operation of law, or (ii) receipt of Notice therefor, NCL shall have the unqualified right for a period of ninety (90) days to immediately terminate this Agreement without further obligation to LICENSEE.

12.3 Non-Disclosure Obligation. In no event shall LICENSEE disclose or allow access to NCL's Confidential Information prior to or upon the occurrence of an assignment, whether by operation of law or otherwise, unless and until NCL gives its written consent to such disclosure.

13. TERM AND TERMINATION

13.1 Term. This Agreement shall commence on the Effective Date and continue for the Term, unless earlier terminated as provided for herein.

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13.2 Default or Breach. In the event that either party is in default or commits a material breach of this Agreement which is not cured within thirty (30) days after Notice thereof, then this Agreement shall automatically terminate on the date specified in such Notice.

13.3 Bankruptcy. At NCL's option, this Agreement may be terminated immediately and without Notice in the event that LICENSEE: (a) makes an assignment for the benefit of creditors, (b) becomes insolvent, (c) files a voluntary petition for bankruptcy, (d) acquiesces to any involuntary bankruptcy petition, (e) is adjudicated as a bankrupt, or (f) ceases to do business.

13.4 Termination Other Than by Breach. Upon (a) the expiration of this Agreement, (b) its termination other than by LICENSEE's breach, or (c) termination of this Agreement by NCL after one hundred twenty (120) days, notice to LICENSEE in the event NCL reasonably believes that LICENSEE has developed, marketed, or sold a product that infringes any intellectual property right of NCL or NOA anywhere in the world (provided that if the parties are able to resolve such alleged infringement within such 120-day period, such termination shall not take effect), LICENSEE shall have a period of [***] to sell any unsold Licensed Products. All Licensed Products in LICENSEE's control following the expiration of such sell-off period shall be destroyed by LICENSEE within [***] and proof of such destruction (certified by an officer of LICENSEE) shall be provided to NCL.

13.5 Termination by LICENSEE's Breach. If this Agreement is terminated by NCL as a result of a breach of its terms and conditions by LICENSEE, LICENSEE shall immediately cease all distribution, advertising, marketing or sale of any Licensed Products. All Licensed Products in LICENSEE's control as of the date of such termination shall be destroyed by LICENSEE within ten (10) days and proof of such destruction (certified by an officer of LICENSEE) shall be provided to NCL.

13.6 Breach of NDA or Other NCL License Agreements. At NCL's option, any breach by LICENSEE of: (a) the NDA, or (b) any other license agreement between NCL and LICENSEE relating to the development of games for any of NCL's video game systems which is not cured within the time period for cure allowed under the applicable agreement, shall be considered a material breach of this Agreement entitling NCL to terminate this Agreement in accordance with Section 13.5 herein.

13.7 No Further Use of the Intellectual Property Rights. Upon expiration and/or termination of this Agreement, LICENSEE shall cease all use of the Intellectual Property Rights for any purpose, except as may be required in connection with the sale of Licensed Products authorized under Section 13.4 herein. LICENSEE shall, within thirty (30) days thereafter, return or destroy all Guidelines, writings, drawings, models, data, tools and other materials and things in LICENSEE's possession or in the possession of any past or present employee, agent or contractor receiving the information through LICENSEE, which constitute or relate to or disclose any Confidential Information, without making copies or otherwise retaining any such information. Proof of any destruction shall be certified by an officer of LICENSEE and promptly provided to NCL.

13.8 Termination by NCL's Breach. IT this Agreement is terminated by LICENSEE as a result of a material breach of its terms or conditions by NCL, LICENSEE may continue to sell

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the Licensed Products in the Territory until the expiration of the Term, at which time the provisions of Section 13.4 shall apply.

14. GENERAL PROVISIONS

14.1 Compliance with Applicable Laws and Regulations. LICENSEE shall at all times comply with applicable laws, regulations and orders in the countries of the Territory relating to or in any way affecting this Agreement and LICENSEE's performance under this Agreement, including, without limitation, the export laws and regulations of any country with jurisdiction over the Licensed Products and/or either party. LICENSEE shall not market, distribute, or sell the Game and/or Game Cartridges in any country in the Territory in which such marketing, distribution or sale would violate any applicable laws, regulations or orders of such country.

14.2 Force Majeure. Neither party shall be Iiable for any breach of this Agreement occasioned by any cause beyond the reasonable control of such party, including governmental action, war, riot or civil commotion, fire, natural disaster, labor disputes, restraints affecting shipping or credit, delay of carriers, inadequate supply of suitable materials or any other cause which could not with reasonable diligence be controlled or prevented by the parties. In the event of material shortages, including shortages of materials or production facilities necessary for production of the Licensed Products, NCL reserves the right to allocate such resources among itself and its licensees.

14.3 Records and Audit. During the Term and for a period of [***] thereafter, LICENSEE agrees to keep accurate, complete and detailed records related to the development and sale of the Licensed Products and the Marketing Materials. Upon [***] Notice to LICENSEE, NCL may, at its expense, arrange for a third party to audit LICENSEE's records, reports and other information related to LICENSEE's compliance with this Agreement.

14.4 Waiver, Severability, Integration, and Amendment. The failure of a party to enforce any provision of this Agreement shall not be construed to be a waiver of such provision or of the right of such party to thereafter enforce such provision. In the event that any term, clause or provision of this Agreement shall be construed to be or adjudged invalid, void or unenforceable, such term, clause or provision shall be construed as severed from this Agreement, and the remaining terms, clauses and provisions shall remain in effect. Together with the NDA, this Agreement constitutes the entire agreement between the parties relating to the subject matter hereof All prior negotiations, representations, agreements and understandings are merged into, extinguished by and completely expressed by this Agreement and the NDA. Any amendment to this Agreement shal be in writing, signed by both parties.

14.5 Survival. In addition to those rights specified elsewhere in this Agreement that may reasonably be interpreted or construed as surviving, the rights and obligations set forth in Sections 3, 8, 9, 10, 13 and 14, shall-survive any expiration or termination of this Agreement to the degree necessary to permit their complete fulfilment or discharge.

14.6 Governing Law and Venue. This Agreement shall be governed by the laws of Japan. Any legal action (including judicial and administrative proceedings) with respect to any matter arising under or growing out of this Agreement, shall be brought only in the Kyoto

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District Court. Each party hereby consents to the jurisdiction and venue of such court for such purposes.

14.7 Injunctive Relief. LICENSEE acknowledges that in the event of its breach of this Agreement, NCL shall be entitled to seek injunctive or other similar relief in addition to any additional relief that may be available.

14.8 Attorneys' Fees. In the event it is necessary for either party to this Agreement to undertake legal action to enforce or defend any action arising out of or relating to this Agreement, the prevailing party in such action shall be entitled to recover from the other party all reasonable attorneys' fees, costs and expenses relating to such legal action or any appeal therefrom.

14.9 Expansion of Rights. NCL may expand the rights granted to LICENSEE under this Agreement by providing written notice of such expansion of rights to LICENSEE and without having to enter into a written addendum to the present Agreement with LICENSEE.

14.10 Delegation of Duties. NCL, at its option, may delegate its duties under the present Agreement to a wholly owned subsidiary. To the extent necessary for the parties to carry out their duties under this Agreement, NCL shall provide notice to LICENSEE of any such delegation, including to whom at NCL's wholly owned subsidiary communications from LICENSEE under this Agreement may be directed. Also in the event of a delegation by NCL, the provisions of this Agreement shall continue to govern the relationship between NCL and LICENSEE and shall govern the relationship between NCL's subsidiary and LICENSEE, subject to any amendments or modifications to this Agreement which such subsidiary and LICENSEE may agree to in their relationship. NCL shall remain obligated under the present Agreement for the performance of NCL's duties by NCL's subsidiary.

14.11 Counterparts and Signature by Facsimile. This Agreement may be signed in counterparts, which shall together constitute a complete Agreement. A signature transmitted by facsimile shall be considered an original for purposes of this Agreement.

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IN WITNESS WHEREOF, the parties have entered into this Agreement on the dates set forth below.

NCL:	**LICENSEE:**
Nintendo Co., Ltd.	**Activision, Inc.**

By: _____

President

Date: 4/28/2005

By: /s/ George Rose
George Rose
General Counsel & Sr. Vice President

Date: 4/7/2005

LICENSEE:
Activision UK, Ltd.

By: /s/ George Rose
George Rose
Director

Date: 4/7/2005

LICENSEE:
ATVI France, S.A.R.L.

By: /s/ Patrick Chachuat
Patrick Chachuat
Director

Date: /s/ 4/11/2005

LICENSEE:
Activision GmbH

By: /s/ George Rose
George Rose
Managing Director

Date: 4/7/2005

LICENSEE:
Activision Pty, Ltd.

By: /s/ George Rose
George Rose
Director

Date: 4/7/2005

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Attachments:
Annex A – Guidelines on Ethical Content
Annex B – Trademark samples

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Annex A

Guidelines on Ethical Content

The following Guidelines on Ethical Content are presented, for assistance in the development of Games by defining the types of the theme inconsistent with NCL's corporate philosophy. Exceptions may be made when necessary to maintain the integrity of the Game or the Game's theme. Games shall not:

(a) contain sexually explicit content including but not limited to nudity, rape, sexual intercourse and sexual touching; for instance, NCL does not allow bare-breasted women in Games, however, mild displays of affection such as kissing or hugging are acceptable;

(b) contain language or depictions which specifically denigrate members of any race, gender, ethnicity, religion er political group;

(c) depict gratuitous or excessive blood or violence. NCL does not permit depictions of animal cruelty or torture;

(d) depict verbal or physical spousal or child abuse;

(e) permit racial, gender, ethnic, religious or political stereotypes; for example, religious symbols such as crosses will be acceptable when fitting into the theme of the Game and not promoting a specific religious denomination;

(f) use profanity, obscenity or incorporate language or gestures that are offensive by prevailing public standards and tastes; and

(g) promote the use of illegal drugs, smoking materials, tobacco and/or alcohol; for example NCL does not allow an unnecessary beer or cigarette advertisement anywhere in a Game; however, Sherlock Holmes smoking a pipe would be acceptable as it fits the theme of the Game.

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CONFIDENTIAL

ANNEX B

[LOGOS]

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Exhibit 10.45

FIRST AMENDMENT TO THE CONFIDENTIAL LICENSE AGREEMENT FOR NINTENDO GAMECUBE

THIS FIRST AMENDMENT ("First Amendment") amends that certain Confidential License Agreement For Nintendo GameCube dated November 9, 2001, between Nintendo of America Inc. ("Nintendo") and Activision Publishing, Inc. ("Licensee") ("Agreement").

RECITALS

The Agreement currently expires on November 8, 2004, and the parties now desire to extend the Term of the Agreement as set forth below.

NOW, THEREFORE, the parties agree as follows:

1. The Term of the Agreement is hereby extended for an additionalthree (3) years. The Term of the Agreement shall now expire on November 8, 2007.

2. All other terms and conditions of the Original Agreement shall remain in full force and effect. This First Amendment may be signed in counterparts and by facsimile, which together shall constitute one original First Amendment. This First Amendment shall be effective as of November 9, 2004.

IN WITNESS WHEREOF, the parties have entered into this First Amendment.

NINTENDO:

Nintendo of America Inc.

By: /s/ James R. Cannataro

Name: James R. Cannataro

Its: EVP; Administration

Date: 11/10/04

LICENSEE:

Activision Publishing, Inc.

By: /s/ Greg Deutsch

Name: GREG DEUTSCH

Its: Director, Business & Legal Affairs

Date: October 28, 2004

Exhibit 10.46

SONY COMPUTER ENTERTAINMENT AMERICA INC.

AND

ACTIVISION INC.

[LOGO]

PLAYSTATION® PORTABLE (“PSP”)

PSP LICENSED PUBLISHER AGREEMENT

TABLE OF CONTENTS

SECTION:

PLAYSTATION® PORTABLE (“PSP”)

LICENSED PSP PUBLISHER AGREEMENT

This LICENSED PSP PUBLISHER AGREEMENT for the PlayStation Portable, (the “Agreement” or “ PSP LPA”), entered into as of the 15th day of September, 2004 (the “Effective Date”), by and between SONY COMPUTER ENTERTAINMENT AMERICA INC., with offices at 919 E. Hillsdale Boulevard, Foster City, CA 94404 (hereinafter “SCEA”), and Activision Inc., with offices at 3100 Ocean Road, Santa Monica, CA 90405 (hereinafter Publisher”).

WHEREAS, SCEA, its parent company, Sony Computer Entertainment Inc., and certain of their affiliates and companies within the group of companies of which any of them form a part (collectively referred to herein as “SCE” or alternatively “Sony”) are designing and developing, and licensing core components of, a portable, handheld computer entertainment system known as the PlayStation® Portable or the “PSP” computer entertainment system (hereinafter referred to as the “ PSP Player”).

WHEREAS, SCEA has the right to grant licenses to certain SCEA Intellectual Property Rights within its licensed territory (as defined below) in connection with the PSP Player.

WHEREAS, Publisher desires to be granted a non-exclusive license to publish, develop, have manufactured, market, distribute and sell Licensed PSP Products (as defined below) pursuant to the terms and conditions set forth in this Agreement; and SCEA is willing, on the terms and subject to the conditions of this Agreement, to grant Publisher such a license.

NOW, THEREFORE, in consideration of the representations, warranties and covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Publisher and SCEA hereby agree as follows:

1. **Definition of Terms**.

1.1 "Advertising Materials" means any advertising, marketing, merchandising, promotional, public relations (including press releases) and display materials relating to or concerning Licensed PSP Products or proposed Licensed PSP Products, or any other advertising, merchandising, promotional, public relations (including press releases) and display materials depicting any of the Licensed Trademarks. For purposes of this Agreement, Advertising Materials include any advertisements in which the PSP Player is referred to or used in any way, including but not limited to giving the PSP Player away as prizes in contests or sweepstakes and the public display of the PSP Player in product placement opportunities.

1.2 "Affiliate of SCEA" means, as applicable, other regional SCE companies, including but not limited to, Sony Computer Entertainment Inc. in Japan, Sony Computer Entertainment Europe Ltd. in the United Kingdom, Sony Computer Entertainment Korea, Sony

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Computer Entertainment Hong Kong, Sony Computer Entertainment China, or such other Sony Computer Entertainment entity as may be established from time to time.

1.3 "Designated Manufacturing Facility" means a manufacturing facility or facilities which is designated by SCEA in its sole discretion to manufacture Licensed PSP Products or their component parts, which may include manufacturing facilities owned and operated by affiliated companies of SCEA.

1.4 "Executable Software" means software which includes Product Software and any software provided directly or indirectly by SCEA or-an Affiliate of-SCEA designed for execution exclusively on the PSP Player and which has the ability to communicate with the software resident in the PSP Player.

1.5 "Fiscal Year" means a year measured from April 1 to March 31.

1.6 "Guidelines" shall mean any guidelines of SCEA or an Affiliate of SCEA with respect to SCEA Intellectual Property Rights, which may be set forth in the PSP SourceBook or in other documentation provided by SCEA or an Affiliate of SCEA to Publisher.

1.7 "Legal Attribution Line" means the legal attribution line used on SCEA marketing or other materials, which shall be substantially similar to the following: "Product copyright and trademarks are the property of the respective publisher or their licensors".

1.8 "Legal Copy" means any legal or contractual information required to be used in connection with a Licensed PSP Product or Product Information, including but not limited to copyright and trademark attributions, contractual credits and developer or distribution credits.

1.9 "Licensed PSP Developer Agreement" or "PSP LDA" means a valid and current license agreement for the development of Licensed PSP Products for the PSP Player, fully executed between a Licensed PSP Developer and SCEA or an Affiliate of SCEA.

1.10 "Licensed PSP Products" means the Executable Software (which may be combined with Executable Software of other Licensed PSP Publishers or Licensed PSP Developers), which shall consist of one interactive entertainment game product developed for the PSP Player per Unit, in final form developed exclusively for the PSP Player. Publisher shall have no right to package or bundle more than one product developed for the PSP Player in a single Unit unless separately agreed with SCEA. The term "Licensed PSP Products" expressly excludes traditional non-interactive entertainment products such as movies or music or other interactive entertainment products that are not complete games.

1.11 "Licensed PSP Publisher" means any publisher that has signed a valid and then current Licensed PSP Publisher Agreement.

1.12 "Licensed PSP Publisher Agreement" or "PSP LPA" means a valid and current license agreement for the publication, development, manufacture, marketing, distribution and sale of Licensed PSP Products for the PSP Player, fully executed between a Licensed PSP Publisher and SCEA or an Affiliate of SCEA.

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1.13 "Licensed Territory" means the United States (including its possessions and territories) and Canada. The Licensed Territory may be modified or supplemented by SCEA from time to time pursuant to Section 4.4 below.

1.14 "Licensed Trademarks" means the trademarks, service marks, trade dress, logos and other icons or indicia designated by SCEA in the PSP SourceBook or other Guidelines for use on or in connection with Licensed PSP Products. Nothing contained in this Agreement shall in any way grant Publisher the right to use the trademark "Sony" in any manner. SCEA may amend such Licensed Trademarks from time to time in the PSP SourceBook or other Guidelines or upon written notice to Publisher.

1.15 “Manufacturing Specifications” means specifications setting forth terms relating to the manufacture and assembly of PSP Format Discs, Packaging, Printed Materials and each of their component parts, which shall be set forth in the PSP SourceBook or other documentation provided by SCEA or a Designated Manufacturing Facility to Publisher and which may be amended from time to time upon reasonable notice to Publisher.

1.16 “Master Disc” means a recordable disc in the form requested by SCEA containing final pre-production Executable Software for a Licensed PSP Product.

1.17 “Packaging” means, with respect to each Licensed PSP Product, the carton, containers, packaging, edge labels and other proprietary labels, trade dress and wrapping materials, including any jewel case (or other package or container) or parts thereof, but excluding Printed-Materials and PSP Format Discs.

1.18 “PSP Format Discs” means the discs formatted for use with the PSP Player which, for purposes of this Agreement, are manufactured on behalf of Publisher and contain Licensed PSP Products or SCEA Demo Discs.

1.19 “Printed Materials” means all artwork and mechanicals set forth on the disc label of the PSP Format Disc relating to any of the Licensed PSP Products and on or inside any Packaging for the Licensed PSP Product, and all instructional manuals, liners, inserts, trade dress and other user information to be inserted into the Packaging.

1.20 “Product Information” means any information owned or licensed by Publisher relating in any way to Licensed PSP Products, including but not limited to demos, videos, hints and tips, artwork, depictions of Licensed PSP Product cover art and videotaped interviews.

1.21 “Product Proposal” shall have the meaning set forth in Section 5.2.1 hereto.

1.22 “Product Software” means any software including audio and video material developed by a Licensed PSP Publisher or licensed PSP Developer, which, either by itself or combined with Product Software of other licensees,„when integrated with software provided by SCEA or an Affiliate of SCEA, creates Executable Software. It is understood that Product Software contains no proprietary information of Sony or any other rights of SCEA.

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1.23 “PSP Development System Agreement” means an agreement entered into between SCEA and a Licensed PSP Publisher, Licensed PSP Developer or other licensee for the sale or license of Development Tools.

1.25 “PSP Development Tools” means the PSP development tools sold or licensed to a PSP Publisher or Licensed PSP Developer for use in the development of Executable Software for the PSP Player.

1.26 “Publisher Intellectual Property Rights” means those intellectual property rights, including but not limited to patents and other patent rights, copyrights, trademarks, service marks, trade names, trade dress, mask work rights, utility model rights, trade secret rights, technical information, know-how, and the equivalents of the foregoing under the laws of any jurisdiction, and all other proprietary or intellectual property rights throughout the universe, which pertain to Product Software, Product Information, Printed Materials, Advertising Materials or other rights of Publisher required or necessary under this Agreement.

1.27 “Purchase Order” means a written purchase order processed in accordance with the terms of Section 62.2 hereto, the Manufacturing Specifications or other terms provided separately by SCEA or a Designated Manufacturing Facility to Publisher.

1.28 “SCEA Demo Disc” means any demonstration disc developed by SCEA.

1.29 “SCEA Established Third Party Demo Disc Programs” means (i) any consumer or trade demonstration disc program specified in the PSP SourceBook, and (ii) any other third party demo disc program established by SCEA for Licensed PSP Publishers.

1.30 “SCEA Intellectual Property Rights” means those intellectual property rights, including but not limited to patents and other patent rights, copyrights, trademarks, service marks, trade names, trade dress, mask work rights, utility model rights, trade secret rights, technical information, know-how, and the equivalents of the foregoing under the laws of any jurisdiction, and all other proprietary or intellectual property rights throughout the universe, which are required to ensure compatibility with the PSP Player or which pertain to the Licensed Trademarks.

1.31 “SCEA Product Code” means the product identification number assigned to each Licensed PSP Product, which shall consist of separate product identification numbers for multiple disc sets (i.e., SLUS-xxxxx). This SCEA Product Code is used on the Packaging and PSP Format Disc relating to each Licensed PSP Product, as well as on most communications between SCEA and Publisher as a mode of identifying the Licensed PSP Product other than by title.

1.32 “SCE Materials” means any data, object code, source code, firmware, documentation (or any pan(s) of any of the foregoing), related to the PSP Player, selected in the sole judgment of SCEA, which are provided or supplied by SCEA or an Affiliate of SCEA to Publisher or any Licensed PSP Developer and/or other Licensed PSP Publisher. For purposes of this Agreement, SCE Materials shall not include any hardware portions of the Development Tools, but shall include firmware in such hardware.

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1.33 "PSP SourceBook" means the PSP SourceBook (or any other reference guide containing information similar to the PSP SourceBook but designated with a different name) prepared by SCEA, which is provided separately to Publisher. The PSP SourceBook is provided separately to Publisher. The PSP SourceBook is designed to serve as the first point of reference by Publisher in every phase of the development, approval, manufacture and marketing of Licensed PSP Products.

1.34 "Standard Rebate" shall mean the rebate offered by SCEA on titles of Licensed PSP Products that achieve specified sales volumes as set forth in Section 8.4 of this Agreement.

1.35 "Third Party Demo Disc" means any demo disc developed and marketed by a Licensed PSP Publisher, which complies with the terms of an SCEA Established Third Party Demo Disc Program.

1.36 "Unit" means an individual copy of a Licensed PSP Product title regardless of-the number of PSP Format Discs constituting such Licensed PSP Product title.

1.37 "Wholesale Price" or "WSP" shall mean the greater of (i) the published price of the Licensed PSP Product offered to retailers by Publisher as evidenced by a sell sheet or price list issued by Publisher no later than thirty (30) days before first commercial shipment of the Licensed PSP Product, or (ii) the actual price paid by retailers upon the first commercial shipment of a Licensed PSP Product without offsets, rebates or deductions from invoices of any kind.

2. **License**.

2.1 **License Grant**. SCEA grants to Publisher, and Publisher hereby accepts, for the term of this Agreement, within the Licensed Territory, under SCEA Intellectual Property Rights owned, controlled or licensed by SCEA, a non-exclusive, non-transferable license, without the right to sublicense (except as specifically provided herein), to publish Licensed PSP Products using SCE Materials, which right shall be limited to the following rights and other rights-set forth in, and in accordance with the terms of, this PSP LPA: (i) to produce or develop Licensed PSP Products and to enter into agreements with Licensed PSP Developers and other third parties to develop Licensed PSP Products; (ii) to have such Licensed PSP Products manufactured; (iii) to market, distribute and sell such Licensed PSP Products and to authorize others to do so within the licensed (territory; (iv) to use the Licensed Trademarks strictly and only in connection with the development, manufacturing, marketing, packaging, advertising and promotion of the Licensed PSP Products, and subject to SCEA's right of approval as provided herein; and (v) to sublicense to end users the right to use the Licensed PSP Products for noncommercial purposes in conjunction with the PSP Player only, and not with other devices or for public performance.

2.2 **Separate PlayStation Agreements**. Unless specifically set forth in this Agreement, all terms used herein are specific to the PSP Player and the third party licensing program related thereto and not to the original PlayStation, PlayStation 2 entertainment systems. or third party licensing program related thereto. Licenses relating to the original PlayStation or PlayStation 2 entertainment systems are subject to separate agreements via- SCE and any license

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of rights to Publisher under such separate agreements shall not confer on Publisher any rights under the PSP Player and vice versa.

3. **Development of Licensed PSP Products**.

3.1 **Right to Develop**. This PSP LPA grants Publisher the right to develop Licensed PSP Products and the right to purchase or license Development Tools, as is appropriate, from SCEA or its designated agent, pursuant to a separate Development System Agreement with SCEA. In developing Executable Software (or portions thereof), Publisher and its agents shall fully comply in all respects with any and all technical specifications which may from time to time be issued by SCEA. In the event that Publisher uses third party tools to develop Executable Software, Publisher shall be responsible for ensuring that it has obtained appropriate licenses for such use.

3.2 **Development by Third Parties**. Except as otherwise set forth herein, Publisher shall not provide SCE Materials or SCEA's Confidential Information to any third party. Publisher shall be responsible for determining that third parties meet the criteria set forth herein. Publisher may contract with a third party for development of Licensed PSP Products, provided that such third party is: (i) a Licensed PSP Publisher, (ii) a Licensed PSP Developer, or (iii) an SCEA-authorized subcontractor in compliance with the provisions of Section 16.6. Publisher shall notify SCEA in writing of the identity of any such third party within thirty (30) days of entering into an agreement or other arrangement with the third party.

4. **Limitations on Licenses; Reservation of Rights**.

4.1 **Reverse Engineering Prohibited**. Other than as expressly permitted by SCEA in writing, Publisher shall not directly or indirectly disassemble, decrypt, electronically scan, peel semiconductor components, decompile, or otherwise reverse engineer in any manner or attempt to reverse engineer or derive source code from, all or any portion of the SCE Materials, or permit, assist or encourage any third party to do so. Other than as expressly permitted by SCEA in writing, Publisher shall not use, modify, reproduce, sublicense, distribute, create derivative works from, or otherwise provide to third parties, the SCE Materials, in whole or in part, other than as expressly permitted by SCEA. SCEA shall permit Publisher to study the performance, design and operation of the Development tools solely for the limited purposes of developing and testing Publisher's software applications, or to build tools to assist Publisher with the development and testing of software applications for Licensed PSP Products. Any tools developed or derived by Publisher resulting from the study of the performance, design or operation of the Development Tools shall be considered as derivative products of the SCE Materials for copyright purposes, but may be treated as trade secrets of Publisher. In no event shall Publisher patent any tools created, developed or derived from SCE Materials. Publisher shall not make available to any third party any tools developed or derived from the study of the Development Tools without the express written permission of SCEA. Use of such tools shall be strictly limited to the creation or testing of Licensed PSP Products and any other use, direct or indirect of such tools is strictly prohibited. Publisher shall be required in all cases to pay royalties in accordance with Section 8 to SCEA on any of Publisher's products utilizing any SCE

Materials or derivative works made therefrom. Moreover, Publisher shall bear all risks arising from incompatibility of its Licensed PSP Product and the PSP Player resulting from use of

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Publisher-created tools. The burden of proof under this Section shall be on Publisher to show by clear and convincing evidence if a dispute arises, and SCEA reserves the right to require Publisher to furnish evidence satisfactory to SCEA that Publisher has complied with this Section.

4.2 **Reservation of SCEA's Rights**.

4.2.1 **Limitation of Rights to Licenses Granted**. The licenses granted in this Agreement extend only to the publication, development, manufacture, marketing, distribution and sale of Licensed PSP Products for use on the PSP Player, in such formats as may be designated by SCEA within the Licensed Territory and does not permit transshipment of the Licensed PSP Products to unlicensed territories unless expressly approved in writing by SCEA or the Affiliate of SCEA with responsibility for licensing publishing rights in the region. Without limiting the generality of the foregoing and except as otherwise provided herein, Publisher shall not distribute or transmit the Executable Software or the Licensed PSP Products via electronic means or any other means now known or hereafter devised, including without limitation, via wireless, cable, fiber optic means, telephone lines, microwave and/or radio waves, or over a network of computers or other devices. Notwithstanding this limitation, Publisher may electronically transmit Executable Software from site to site, or from machine to machine over a computer network, for the sole purpose of facilitating development; provided that no right of retransmission shall attach to any such transmission, and provided further that Publisher shall use reasonable security measures customary within the high technology industry to reduce the risk of unauthorized interception or retransmission of such transmissions. This Agreement does not grant any right or license under any SCEA Intellectual Property Rights or otherwise, except as expressly provided herein, and no other right or license is to be implied by or inferred from any provision of this Agreement or the conduct of the parties hereunder.

4.2.2 **Other Use of SCE Materials and SCEA Intellectual Property Rights**. Publisher shall not make use of any SCE Materials or any SCEA Intellectual Property Rights (or any portion thereof) except as authorized by and in compliance with the provisions of this Agreement. Publisher shall not use the Executable Software, SCE Materials or SCEA's Confidential Information in connection with the development of any software for any emulator or other computer hardware or software system. No right, license or privilege has been granted to Publisher hereunder concerning the development of any collateral product or other use or purpose of any kind whatsoever which displays or depicts any of the Licensed Trademarks. The rights set forth in Section 2.1(v) hereto are limited to the right to sublicense such rights to end users for non-commercial use; any public performance relating to the Licensed PSP Product or the PSP Player is prohibited unless expressly authorized in writing by SCEA.

4.3 **Reservation of Publisher's Rights**. Separate and apart from SCE Materials and other rights licensed to Publisher by SCEA hereunder, as between Publisher and SCEA, Publisher retains all rights, title and interest in and to the Product Software, and the Product Proposals and Product Information related thereto, including without limitation Publisher Intellectual Property Rights therein, as well as Publisher's rights in any source code and other underlying material such as artwork and music related thereto and any names used as titles for Licensed PSP Products and other trademarks used by Publisher. Nothing in this Agreement shall be construed to restrict the right of Publisher to develop, distribute or transmit products incorporating the Product Software and such underlying material (separate and apart from the

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SCE Materials) for any hardware platform or service other than the PSP Player, or to use Printed Materials or Advertising Materials approved by SCEA as provided herein (provided that such Printed Materials and/or Advertising Materials do not contain any Licensed Trademarks) as Publisher determines for such other platforms. SCEA shall not do or cause to be done any act or thing in any way impairing or tending to Impair or dilute any of Publisher's rights, title or interests hereunder. Notwithstanding the foregoing, Publisher shall not distribute or transmit Product Software which is intended to be used with the PSP Player via electronic means or any other means now known or hereafter devised, including without limitation, via wireless, cable, fiber optic means, telephone lines, microwave or radio waves, or a network of computers or other devices, except as otherwise permitted in Section 4.2.1 hereto.

4.4 **Additions to and Deletions from Licensed Territory**. SCEA may, from time to time, add one or more countries to the Licensed Territory by providing written notice of such addition to Publisher. SCEA shall also have the right to delete send intends to delete any countries from the Licensed Territory if, in SCEA's reasonable judgment, the laws or enforcement of such laws in such countries do not protect SCEA Intellectual Property Rights. In the event a country is deleted from the Licensed Territory, SCEA shall deliver to Publisher a notice stating the number of days within which Publisher shall cease distributing Licensed PSP Products and shall retrieve any Development Tools located in any such deleted country. Publisher shall cease distributing Licensed PSP Products, and retrieve any Development Tools, directly or through subcontractors, by the end of the period stated in such notice.

4.5 **PSP SourceBook Requirement**. Publisher shall be required to comply with all the provisions of the PSP SourceBook, including without limitation the Technical Requirements Checklist therein, when published, or within a commercially reasonable time following its publication to incorporate such provisions, as if such provisions were set forth in this Agreement.

4.6 **Covenant Not to Sue**. Publisher, on behalf of itself and its representatives, affiliates, and any other person or entity acting on its behalf, hereby agrees not to file any action against and covenants not to sue SCEA, its parent, affiliates, subsidiaries or related companies on any and all claims, rights, charges, damages or causes of action arising from the infringement or alleged infringement of any U.S. or international patent owned by, assigned or exclusively licensed to Publisher. This Section shall survive any termination or expiration of this Agreement.

5. **Quality Standards for the Licensed PSP Products**.

5.1 **Quality Assurance Generally**. The Licensed PSP Products (and all portions thereof) and Publisher's use of any Licensed Trademarks shall be subject to SCEA's prior written approval, which shall not be unreasonably withheld or delayed and which shall be within SCEA's sole discretion as to acceptable standards of quality. SCEA shall have the right at any stage of the development of a Licensed PSP Product to review such Licensed PSP Product to ensure that it meets SCEA's quality assurance standards. All Licensed PSP Products will be developed to utilize substantially the particular capabilities of the PSP Player's proprietary hardware, software and graphics. No approval by SCEA of any element or stage of development of any Licensed PSP Product shall be deemed an approval of any other element or stage of such Licensed PSP Product, nor shall any such approval be deemed to constitute a waiver of any of SCEA's rights under this Agreement. In addition, SCEA's approval of any element or any stage of development

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of any Licensed PSP Product shall not release Publisher from any of its representations and warranties in Section 9.2 hereunder.

5.2 **Product Proposals**.

5.2.1 **Submission of Product Proposal**. All Product Proposal submissions shall be in conformance with the submissions provisions as published in the PSP SourceBook as published or amended. Publisher shall submit to SCEA for SCEA's written approval or disapproval, which shall not be unreasonably withheld or delayed, a written concept document (the "Product Proposal") prior to commencing development of a Licensed Product. Such Product Proposal most contain all information specified in the PSP SourceBook, as well as any additional information that SCEA may deem to be useful in evaluating the proposed Licensed PSP Product.

5.2.2 **Approval of Product Proposal**. After SCEA's review of Publisher's Product Proposal, Publisher will receive written notice from SCEA of the status of the Product Proposal, which may range from "Pass" to "Review" to "Fail." Such conditions shall have the meanings ascribed to them in the PSP SourceBook, and may be changed from time to time by SCEA. If a Product Proposal receives a "Fail", then neither Publisher nor any other Licensed PSP Developer or Licensed PSP Publisher may re-submit such Product Proposal without significant, substantive revisions. SCEA shall have no obligation to approve any Product Proposal submitted by Publisher. Any development conducted by or at the direction of Publisher and any legal commitment relating to development work shall be at Publisher's own financial and commercial risk. Publisher shall not construe approval of a Product Proposal as a commitment by SCEA to grant final approval to such Licensed PSP Product. Nothing herein shall restrict SCEA from commercially exploiting any coincidentally similar concept(s) and/or product(s), which have been independently developed by SCEA, an Affiliate of SCEA or any third party.

5.2.3 **Changes to Product Proposal**. Publisher shall notify SCEA promptly in writing in the event of any material proposed change in any portion of the Product Proposal. SCEA's approval of a Product Proposal shall not obligate Publisher to continue with development or production of the proposed Licensed PSP Product, provided that Publisher must immediately notify SCEA in writing if it discontinues, cancels or otherwise delays past the original scheduled delivery date the development of any proposed Licensed PSP Product. In the event that Publisher licenses a proposed Licensed PSP Product from another Licensed PSP Publisher or a Licensed PS? Developer, it shall immediately notify SCEA of such change and must resubmit such Licensed PSP Product to SCEA for approval in accordance with the provisions of Section 5.2.1 above.

5.3 **Work-in-Progress**.

5.3.1 **Submission and Review of Work-in-Progress**. SCEA shall require Publisher to submit to SCEA work-in-progress on Licensed PSP Products at intervals to be defined in the PSP SourceBook, throughout the development of the Licensed PSP Product, or if requested by SCEA on written notice to Publisher, at any time during the development process. Publisher shall be responsible for submitting work-in-progress to SCEA in accordance with the product Review Process as determined by SCEA or otherwise set out in the PSP SourceBook.

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Failure to submit work-in-progress in accordance with any stage of the Review Process may, at SCEA's discretion, result in revocation of approval of such Product Proposal.

5.3.2 **Approval of Work in Progress**. SCEA shall have the right to approve, reject or require additional information with respect to each stage of the Review Process. Publisher shall make submission of the Licensed Product at first playable, pre-alpha, alpha, beta and final, or at such development stages to be more fully defined in the PSP SourceBook. SCEA shall approve each development stage of the Licensed Product or otherwise specify in writing the reasons for any rejection or request for additional information and shall state what corrections or improvements are necessary to obtain approval. if any stage of the Review Process is not provided to SCEA or is not successfully met after a reasonable cure period agreed to between SCEA and Publisher, SCEA shall have the right to revoke the approval of Publisher's Product Proposal.

5.3.3 **Cancellation or Delay; Conditions of Approval**. Licensed PSP Products which are canceled by Publisher or are late in meeting the final Executable Software delivery date by more than three (3) months (without agreeing with SCEA on a modified final delivery date) shall be subject to the termination provisions set forth in Section 14.3 hereto. In addition, failure to make changes required by SCEA to the Licensed PSP Product at any stage of the Review Process, or making material changes to the Licensed PSP Product without SCEA's approval, may subject Publisher to the termination provisions set forth in Section 14.3 hereto.

5.4 **Approval of Executable Software**. On or before the date specified in the Product Proposal or as determined by SCEA pursuant to the Review Process, Publisher shall deliver to SCEA for its inspection and evaluation, a final version of the Executable Software for the proposed Licensed PSP

Product. SCEA will evaluate such Executable Software and notify Publisher in writing of its approval or disapproval, which shall not be unreasonably withheld or delayed. If such Executable Software is disapproved, SCEA shall specify in writing the reasons for such disapproval and state what corrections and improvements are necessary. After making the necessary corrections and improvements, Publisher shall submit a new version of such Executable Software for SCEA's approval. SCEA shall have the right to disapprove Executable Software if it fails to comply with SCEA's corrections or improvements or one or more conditions as set forth in the PSP SourceBook with no obligation to review all elements of any version of Executable Software. All final versions of Executable software shall be submitted in the format prescribed by SCEA and shall include such number of Master Discs as SCEA may require from time is time. Publisher hereby (i) warrants that all final versions of Executable Software are fully tested; (ii) shall use its best efforts to ensure such Executable Software is fully debugged prior to submission to SCEA; and (iii) warrants that all versions of Executable Software comply or will comply with standards set forth in the PSP SourceBook or other documentation provided by SCEA to Publisher. In addition, prior to manufacture of Executable Software, Publisher must sign an accountability form stating that (x) Publisher approves the release of such Executable Software for manufacture in its current form and (y) Publisher shall be fully responsible for any problems related to such Executable Software.

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5.5 **Printed Materials**.

5.5.1 **Compliance with Guidelines**. For each proposed Licensed PSP Product, Publisher shall be responsible, at Publisher's expense, for creating and developing Printed Materials. All Printed Materials shall comply with the Guidelines, which may be amended from time to time, provided that Publisher shall, except as otherwise provided herein, only. be required to implement amended Guidelines in subsequent orders of Printed Materials and shall not be required to recall or destroy previously manufactured Printed Materials, unless such Printed Materials do not comply with the original requirements in the Guidelines or unless explicitly required to do so in writing by SCEA.

5.5.2 **Submission and Approval of Printed Materials**. No later than submission of final Executable Software for a proposed Licensed PSP Product, Publisher shall also deliver to SCEA, for review and evaluation, the proposed final Printed Materials and a form of limited warranty for the proposed Licensed PSP Product. Failure to meet any scheduled release dates for a Licensed PSP Product is solely the risk and responsibility of Publisher, and SCEA assumes no responsibility for Publisher failing to meet such scheduled release dates due to this submission process. The quality of such Printed Materials shall be of the same quality as that associated with other commercially available high quality software products. If any of the Printed Materials are disapproved, SCEA shall specify the reasons for such disapproval and state what corrections are necessary. SCEA shall have no liability to Publisher for costs incurred or irrevocably committed to by Publisher for production of Printed Materials that are disapproved by SCEA. After making the necessary corrections to any disapproved Printed Materials, Publisher must submit new Printed Materials for approval by SCEA. SCEA shall not unreasonably withhold or delay its review of Printed Materials.

5.6 **Advertising Materials**.

5.6.1 **Submission and Approval of Advertising Materials**. Pre-production samples of all Advertising Materials shall be submitted by Publisher to SCEA, at Publisher's expense, prior to any actual production, use or distribution of any such items by Publisher or on its behalf. SCEA shall evaluate and approve such Advertising Materials, which approval shall not be unreasonably withheld or delayed, as to the following standards: (i) the content, quality, and style of the overall advertisement; (ii) the quality, style, appearance and usage of any of the Licensed Trademarks; (iii) appropriate references of any required notices; and (iv) compliance with the Guidelines. if any of the Advertising Materials are disapproved, SCEA shall specify the reasons for such disapproval and state what corrections are necessary. SCEA may require Publisher to immediately withdraw and reprint any Advertising Materials that have been published but have not received the written approval of SCEA. SCEA shall have no liability to Publisher for costs incurred or irrevocably committed to by Publisher for production of Advertising Materials that are disapproved by SCEA. For each Licensed PSP Product, Publisher shall be required to deliver to SCEA an accountability form stating that all Advertising Materials for such Licensed PSP Product comply or will comply with the Guidelines for use of the Licensed Trademarks. After making the necessary corrections to any disapproved Advertising Materials, Publisher must submit new proposed Advertising Materials for approval by SCEA.

5.6.2 **Failure to Comply: Three Strikes Program**. Publishers who fail to obtain SCEA's approval of Advertising Materials prior to broadcast or publication shall be subject to the provisions of the "Three Strikes" program outlined in the PSP SourceBook. Failure

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to obtain SCEA's approval of Advertising Materials could result in termination of this PSP LPA or termination of approval of the Licensed PSP Product, or could subject Publisher to the provisions of Section 14.4 hereto. Failure to meet any scheduled release dates for Advertising Materials is solely the risk and responsibility of Publisher, and SCEA assumes no responsibility for Publisher failing to meet such scheduled release dates due to approval requirements as set forth in this Section.

5.6.3 **SCEA Materials**. Subject in each instance to the prior written approval of SCEA, Publisher may use advertising materials owned by SCEA pertaining to the PSP Player or to the Licensed Trademarks on such Advertising Materials as may, in Publisher's judgment, promote the sale of Licensed PSP Products.

5.7 **Rating Requirements**. If required by SCEA or any governmental entity, Publisher shall submit each Licensed PSP Product to a consumer advisory ratings system designated by SCEA or such governmental entity for the purpose of obtaining rating code(s) for each Licensed PSP Product. Any and all costs and expenses incurred in connection with obtaining such rating code(s) shall be borne solely by Publisher. Any required consumer advisory rating

code(s) shall be displayed on the Licensed PSP Product and in the associated Printed Materials and Advertising Materials, at Publisher's cost and expense, in accordance with the PSP SourceBook or other documentation provided by SCEA to Publisher.

5.8 **Publisher's Additional Quality Assurance Obligations**. If at any time or times subsequent to the approval of Executable Software and Printed Materials, SCEA identifies any material defects (such materiality to be determined by SCEA in its sole discretion) with respect to the Licensed PSP Product, or in the event that SCEA identifies any improper use of its Licensed Trademarks or SCE Materials with respect to the Licensed PSP Product, or any such material defects or improper use are brought to the attention of SCEA, Publisher shall, at no cost to SCEA, promptly correct any such material defects, or improper use of Licensed Trademarks or SCE Materials, to SCEA's commercially reasonable satisfaction, which may include, if necessary in SCEA's judgment, the recall and re-release of such Licensed PSP Product. In the event any Units of Licensed PSP Products create any risk of loss or damage to any property or injury to any person, Publisher shall immediately take effective steps, at Publisher's sole liability and expense, to recall or to remove such defective Units from any affected channels of distribution, provided, however, that if Publisher is not acting as the distributor and/or seller for the Licensed PSP Products, its obligation hereunder shall be to use its best efforts to arrange removal of such Licensed PSP Product from channels of distribution. Publisher shall provide all end-user support for the Licensed PSP Products and SCEA expressly disclaims any obligation to provide end-user support on Publisher's Licensed PSP Products.

6 **Manufacture of the Licensed PSP Products**.

6.1 **Manufacture of Units**. Upon approval of Executable Software and associated Printed Materials pursuant to Section 5, and subject to Sections 6.1.2, 0.1.3 and 6.1.4 below, the Designated Manufacturing Facility will, in accordance with the terms and conditions set forth in this Section 6, and at Publisher's expense (a) manufacture PSP Format Discs for Publisher; (b) manufacture Publisher's Packaging and/or Printed Materials; and/or (c) assemble the PSP Format Discs with the Printed Materials and the packaging. Publisher shall comply with all

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Manufacturing Specifications related to the particular terms set forth herein. SCEA reserves the right to insert or require the Publisher to insert certain Printed Materials relating to the PSP Player or Licensed Trademarks into each Unit.

6.1.1 **Manufacture of PSP Format Discs**.

6.1.1.1 **Designated Manufacturing Facilities**. To insure compatibility of the PSP Format Discs with the PSP Player, consistent quality of the Licensed PSP Product and incorporation of anti-piracy security systems, SCEA shall designate and license a Designated Manufacturing Facility to reproduce PSP Format Discs. Publisher shall purchase all of its requirements for PSP Format Discs from such Designated Manufacturing Facility during the term of the Agreement. Any Designated Manufacturing Facility shall be a third party beneficiary of this Agreement.

6.1.1.2 **Creation of Master Licensed PSP Product**. Pursuant to Section 5.4 in connection with final testing of Executable Software, Publisher shall provide SCEA with the number of Master Discs specified in the PSP SourceBook. A Designated Manufacturing Facility shall create from one of the fully approved Master Discs provided by Publisher the original master of the Licensed PSP Product from which all other copies of the Licensed PSP Product are to be replicated. Publisher shall be responsible for the costs, as determined by the Designated Manufacturing Facility, of producing such original master. In order to insure against loss or damage to the copies of the Executable Software furnished to SCEA, Publisher will retain duplicates of all Master Discs, and neither SCEA nor any Designated Manufacturing Facility shall be liable for loss of or damage to any Master Discs or Executable Software.

6.1.2 **Manufacture of Printed Materials**.

6.1.2.1 **Manufacture by Designated Manufacturing Facility**. If Publisher elects to obtain Printed Materials from a Designated Manufacturing Facility, Publisher shall deliver all SCEA-approved Printed Materials to that Designated Manufacturing Facility, at Publisher's sole risk and expense, and the Designated Manufacturing Facility will manufacture such Printed Materials in accordance with this Section 6. In order to insure against loss or damage to the copies of the Printed Materials furnished to SCEA, Publisher will retain duplicates of all Printed Materials, and neither SCEA nor any Designated Manufacturing Facility shall he liable for loss of or damage to any such Printed Materials.

6.1.2.2 **Manufacture by Alternate Source**. Subject to SCEA's approval as provided in Section 5.5.2 hereto and in this Section, Publisher may elect to be responsible for manufacturing its own Printed Materials (other than any Artwork which may be placed directly upon the PlayStation Disc, which Publisher will supply to the Designated Manufacturing Facility for placement), at Publisher's sole risk and expense. Prior to production of each order, Publisher shall be required to supply SCEA with samples of any Printed Materials not produced or supplied by a Designated Manufacturing Facility, at no charge to SCEA or Designated Manufacturing Facility, for SCEA's approval with respect to the quality thereof. SCEA shall have the right to disapprove any Printed Materials that do not comply with the Manufacturing Specifications. Manufacturing Specifications for Printed Materials shall be comparable to manufacturing specifications applied by SCEA to its own software products for the PSP Player.

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If Publisher elects to supply its own Printed Materials, neither SCEA nor any Designated Manufacturing Facility shall be responsible for any delays arising from use of Publisher's own Printed Materials.

6.1.3 **Manufacture of Packaging**.

6.1.3.1 **Manufacture by Designated Manufacturing Facility**. To ensure consistent quality of the Licensed PSP Products, SCEA may designate and license a Designated Manufacturing Facility to reproduce proprietary Packaging for the PSP Player. If SCEA creates proprietary Packaging for the PSP Player, then Publisher shall purchase [***] of its requirements for such proprietary Packaging from a Designated Manufacturing Facility during the term of the Agreement, and the Designated Manufacturing Facility will manufacture such Packaging in accordance with this Section 6.

6.1.3.2 **Manufacture by Alternate Source**. If SCEA elects to use standard, non-proprietary Packaging for the PSP Player, then Publisher may elect to be responsible for manufacturing its own Packaging (other than any proprietary labels and any portion of a container containing Licensed Trademarks, which Publisher must purchase from a Designated Manufacturing Facility) Publisher shall assume all responsibility for the creation of such Packaging at Publisher's sole risk and expense. Publisher shall be responsible for encoding and printing proprietary edge labels provided by a Designated Manufacturing Facility with information reasonably specified by SCEA from time to time and will apply such labels to each Unit of the Licensed PSP Product as reasonably specified by SCEA. Prior to production of each order, Publisher shall be required to supply SCEA with samples of any Packaging not produced or supplied by a Designated Manufacturing Facility, at no charge to SCEA or Designated Manufacturing Facility, for SCEA's approval with respect to the quality. SCEA shall have the right to disapprove any Packaging that does not comply with the Manufacturing Specifications. Manufacturing Specifications for Packaging shall be comparable to manufacturing specifications applied by SCEA to its own software products for the PSP Player. If Publisher procures Packaging from an alternate source, then it must also procure assembly services from an alternate source. If Publisher elects to supply its own Packaging, neither SCEA nor any Designated Manufacturing Facility shall be responsible for any delays arising from use of Publisher's own Packaging.

6.1.4 **Assembly Services**. Publisher may either procure assembly services from a Designated Manufacturing Facility or from an alternate source. If Publisher elects to be responsible for assembling the Licensed PSP Products, then the Designated Manufacturing Facility shall ship the component parts of the Licensed PSP Product to a destination provided by Publisher, at Publisher's sole risk and expense. SCEA shall have the right to inspect any assembly facilities utilized by Publisher in order to determine if the component parts of the Licensed PSP Products are being assembled in accordance with SCEA's quality standards. SCEA may require that Publisher recall any Licensed PSP Products that do not contain proprietary labels or other material component parts or that otherwise fail to comply with the Manufacturing Specifications, If Publisher elects to use alternate assembly facilities, neither SCEA nor any Designated Manufacturing Facility shall be responsible for any delays or missing component parts arising from use of alternate assembly facilities.

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6.2 **Price, Payment and Terms**.

6.2.1 **Price**. The applicable price for manufacture of any Units of Licensed PSP Products ordered hereunder shall be provided to Publisher by the Designated Manufacturing Facility. Purchase shall be subject to the terms and conditions set out in any purchase order form supplied to Publisher by the Designated Manufacturing Facility.

6.2.2 **Orders**. Publisher shall issue to a Designated Manufacturing Facility a written Purchase Order(s) in a form designated by SCEA and containing the information required in the Manufacturing Specifications, with a copy to SCEA. All orders shall be subject to approval by SCEA, which shall not be unreasonably withheld or delayed. Purchase Orders issued by Publisher to a Designated Manufacturing Facility for each Licensed PSP Product approved by SCEA shall be non-cancelable and be subject to the order requirements of the Designated Manufacturing Facility.

6.2.3 **Payment Terms**. Purchase Orders will be invoiced as soon as reasonably practical after receipt, and such invoice will include both manufacturing price and royalties payable pursuant to Section 8.1 or 8.2 below for each Unit of Licensed PSP Products ordered. Each invoice will be payable either on a cash-in-advance basis or pursuant to a letter of credit, or at SCEA's sole discretion, on credit terms. Terms for cash-in-advance and letter of credit payments shall be as set forth in the PSP SourceBook. All amounts hereunder shall be payable in United States dollars. All associated banking charges with respect to payments of manufacturing costs and royalties shall be borne solely by Publisher.

6.2.3.1 **Credit Terms**. SCEA may at its sole discretion extend credit terms and limits to Publisher. SCEA may also revoke such credit terms and limits at its sole discretion. If Publisher qualifies for credit terms, then orders will be invoiced upon shipment of Licensed PSP Products and each invoice will be payable within thirty (30) days of the date of the invoice. Any overdue sums shall bear interest at the rate of [***]. Publisher shall be additionally liable for all costs and expenses of collection, including without limitation, reasonable fees for attorneys and court costs.

6.2.3.2 **General Terms**. No deduction may be made from remittances unless an approved credit memo has been issued by a Designated Manufacturing Facility. Neither SCEA nor a Designated Manufacturing Facility shall be responsible for shortage or breakage with respect to any order if component parts or assembly services are obtained from alternate sources. Each shipment to Publisher shall constitute a separate sale, whether whole or partial fulfillment of any order. Nothing in this Agreement shall excuse or be construed as a waiver of Publisher's obligation to timely provide any and all payments owed to SCEA and Designated Manufacturing Facility.

6.3 **Delivery of Licensed PSP Products**. Neither SCEA nor any Designated Manufacturing Facility shall have an obligation to store completed Units of Licensed PSP Products. Publisher may either specify a mode of delivery or allow the Designated Manufacturing Facility to select a mode of delivery.

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6.4 **Ownership of Master Discs**. Due to the proprietary nature of the mastering process, neither SCEA nor a Designated Manufacturing Facility shall under any circumstances release any original master, Master Discs or other in-process materials to Publisher. All such materials shall be and remain the sole property of SC1A or Designated Manufacturing Facility. Notwithstanding the foregoing, Publisher Intellectual Property Rights contained in Product Software that is contained in such in-process materials is, as between SCEA and Publisher, the sole and exclusive property of Publisher or its licensors (other than SCEA or its affiliates).

7. **Marketing and Distribution**.

7.1 **Marketing Generally**. In accordance with the provisions of this Agreement and at no expense to SCEA, Publisher shall, and shall direct its distributors to, diligently market, sell and distribute the Licensed PSP Products, and shall use commercially reasonable efforts to stimulate demand for such Licensed PSP Products in the Licensed Territory and to supply any resulting demand. Publisher shall use its reasonable best efforts to protect the Licensed PSP Products from and against illegal reproduction or copying by end users or by any other persons or entities.

7.2 **Samples**. Publisher shall provide to SCEA, at no additional cost, for SCEA's internal use, [***] sample copies of each Licensed PSP Product. Publisher shall pay any manufacturing costs to the Designated Manufacturing Facility in accordance with Section 6.2, but shall not be obligated to pay royalties, in connection with such sample Units. In the event that Publisher assembles any Licensed PSP Product using an alternate source, Publisher shall be responsible for shipping such sample Units to SCEA at Publisher's cost and expense. SCEA shall not directly or indirectly resell any such sample copies of the Licensed PSP Products without Publisher's prior written consent. SCEA may give sample copies to its employees, provided that it uses reasonable efforts to ensure that such copies are not sold into the retail market. In addition, subject to availability, Publisher shall sell to SCEA additional quantities of Licensed PSP Products at the Wholesale Price for such Licensed PSP Product. Any changes to SCEA's policy regarding sample Units shall be set forth in the PSP SourceBook.

7.3 **Marketing Programs of SCEA**. From time to time, SCEA may invite Publisher to participate in promotional or advertising opportunities that may feature one or more Licensed PSP Products from one or more Licensed PSP Publishers. Participation shall be voluntary and subject to terms to be determined at the time of the opportunity. In the event Publisher elects to participate, al materials submitted by Publisher to SCEA shall be submitted subject to Section 10.2 below and delivery of such materials to SCEA shall constitute acceptance by Publisher of the terms of the offer. Moreover, SCEA may use the Legal Attribution Line on all multi-product marketing materials, unless otherwise agreed in writing.

7.4 **Demonstration Disc Programs**. SCEA may, from time to time, provide opportunities for Publisher to participate in SCEA Demo Disc programs. in addition, SCEA may, from time to time, grant to Publisher the right to create Third Party Demo Discs pursuant to SCEA Established Third Party Demo Disc Programs. The specifications with respect to the approval, creation, manufacture, marketing, distribution and sale of any such demo disc programs shall be set forth in the PSP SourceBook or in other documentation to be provided by

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SCEA to Publisher. Except as otherwise specifically set forth herein, in the PSP SourceBook or in other documentation, Third Party Demo Discs shall be considered "Licensed PSP Products" and shall be subject in all respects to the terms and conditions of this Agreement pertaining to Licensed PSP Products. in addition, the following procedures shall also apply to SCEA Demo Discs:

7.4.1 **SCEA Demo Discs**.

7.4.1.1 **License**. SCEA may, but shall not be obligated to, invite Licensed PSP Publishers to participate in any SCEA Demo Disc program. Participation by Publisher in an SCEA Demo Disc program shall be optional, if Publisher elects to participate in an SCEA Demo Disc program and provides Product information to SCEA in connection thereto, Publisher shall thereby grant to SCEA a royalty-free license during the term of this Agreement in the Licensed Territory to manufacture, use, sell, distribute, market, advertise and otherwise promote Publisher's Product Information as part of such SCEA Demo Disc program. In addition, Publisher shall grant SCEA the right to feature Publisher and Licensed PSP Product names in SCEA Demo Disc Advertising Materials and to use copies of screen displays generated by the code, representative video samples or other Product Information in such SCEA Demo Disc Advertising Materials. All decisions relating to the selection of first and third party Product information and all other aspects of SCEA Demo Discs shall be in the sole discretion of SCEA.

7.4.1.2 **Submission and Approval of Product Information**. Upon receipt of written notice that SCEA has tentatively chosen Publisher's Product Information for inclusion in an SCEA Demo Disc, Publisher shall deliver to SCEA such requested Product Information by no later than the deadline set forth in such notice. Separate notice will be sent for each SCEA Demo Disc, and Publisher must sign each notice prior to inclusion in such SCEA Demo Disc. Publisher shall include its own Legal Copy on the title screen or elsewhere in the Product Information submitted to SCEA. SCEA shall only provide the Legal Attribution Line on the SCEA Demo Disc title screen and packaging. Publisher's Product Information shall comply with SCEA's technical specifications provided to Publisher. SCEA reserves the right to review and test the Product Information provided and request revisions prior to inclusion on the SCEA Demo Disc. If SCEA requests changes to the Product Information and Publisher elects to continue to participate in such Demo Disc, Publisher shall make such changes as soon as possible after receipt of written notice of such requested changes from SCEA, but not later than the deadline for receipt of Product Information. Failure to make such changes and provide the modified Product Information to SCEA by the deadline shall result in the Product Information being removed from the SCEA Demo Disc. Costs associated with preparation of Product Information supplied to SCEA shall be borne solely by Publisher. Except as otherwise provided in this Section, SCEA shall not edit or modify Product Information provided to SCEA by Publisher without Publisher's consent, not to be unreasonably withheld. SCEA shall have the right to use subcontractors to assist in the development of any SCEA Demo Disc. With respect to Product Information provided by Publisher in demo form, the demo delivered to SCEA shall not constitute the complete Licensed PSP Product and shall be, at a minimum, an amount sufficient to demonstrate the Licensed PSP Product's core features and value, without providing so much information as to give consumers a disincentive to purchase the complete Licensed PSP Product.

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7.4.1.3 **No Obligation to Publish**. Acceptance of Product Information for test and review shall not be deemed confirmation that SCEA shall include the Product Information on an SCEA Demo Disc, nor shall it constitute approval of any other element of the Licensed PSP Product. SCEA reserves the right to choose from products submitted from other Licensed PSP Publishers and first party products to determine the products to be included in SCEA Demo Discs, and Publisher's Licensed PSP Products will not be guaranteed prominence or preferential treatment on any SCEA Demo Disc. Nothing herein shall be construed as creating an obligation of SCEA to publish Product Information submitted by Publisher in any SCEA Demo Disc, nor shall SCEA be obligated to publish, advertise or promote any SCEA Demo Disc.

7.4.1.4 **SCEA Demo Discs Sold at Retail**. Publisher is aware and acknowledges that certain SCEA Demo Discs may be distributed and sold by SCEA in the retail market. If Publisher elects to participate in any SCEA Demo Disc program which is sold in the retail market, as notified by SCEA to Publisher, Publisher acknowledges prior to participation in any such SCEA Demo Disc that it is aware of no limitations regarding Product Information provided to SCEA pursuant to the terms of this Agreement which would in any way restrict SCEA's ability to distribute or sell such SCEA Demo Disc at retail, nor does Publisher or its licensors (other than SCEA and/or its affiliates) have any anticipation of receiving any compensation from such retail sales. In the event that SCEA institutes a SCEA Demo Disc in which a fee or royalty is charged to Publisher, SCEA and Publisher will enter into a separate agreement regarding such SCEA Demo Disc.

7.4.2 **Third Party Demo Discs**.

7.4.2.1 **License**. Publisher may participate in any SCEA Established Third Party Demo Disc Program. Publisher shall notify SCEA of its intention to participate in any such program, and upon receipt of such notice, SCEA shall grant to Publisher the right and license to use Licensed PSP Products in Third Party Demo Discs and to use, distribute, market, advertise and otherwise promote (and, if permitted in accordance with the terms of any SCEA Established Third Party Program or otherwise permitted by SCEA, to sell) such Third Party Demo Discs in accordance with the PSP SourceBook, which may be modified from time to time at the sole discretion of SCEA. Unless separately agreed in writing with SCEA, Third Party Demo Discs shall not be used, distributed, promoted, bundled or sold in conjunction with other products. In addition, SCEA hereby consents to the use of the Licensed Trademarks in connection with Third Party Demo Discs, subject to the approval procedures set forth in this Agreement. If any SCEA Established Third Party Demo Disc Program is specified by SCEA to be for promotional use only and not for resale, and such Third Party Demo Disc is subsequently discovered to be for sale, Publisher's right to produce Third Party Demo Discs shall thereupon be automatically revoked, and SCEA shall have the right to terminate any related Third Party Demo Discs in accordance with the terms of Section 14.3 or 14.4 hereto.

7.4.2.2 **Submission and Approval of Third Party Demo Discs**. Publisher shall deliver to SCEA, for SCEA's prior approval, a final version of each Third Party Demo Disc in a format prescribed by SCEA. Such Third Party Demo Disc shall comply with all requirements provided to Publisher by SCEA in the PSP SourceBook or otherwise. In addition, SCEA shall evaluate the Third Party Demo Disc in accordance with the approval provisions for Executable Software and Printed Materials set forth in Sections 5.4 and 5.5, respectively.

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Furthermore, Publisher shall obtain the approval of SCEA in connection with any Advertising Materials relating to the Third Party Demo Discs in accordance with the approval provisions set forth in Section 5.6. Costs associated with Third Party Demo Discs shall be borne solely by Publisher. No approval by SCEA of any element of any Third Party Demo Disc shall be deemed an approval of any other element thereto, nor does any such approval constitute final approval for the related Licensed PSP Product. Unless otherwise permitted by SCEA, Publisher shall clearly and conspicuously state on all Third Party Demo Disc Packaging and Printed Materials that the Third Party Demo Disc is for promotional purposes only and not for resale.

7.4.2.3 **Manufacture and Royalty of Third Party Demo Discs**. Publisher shall comply with all Manufacturing Specifications with respect to the manufacture and payment for manufacturing costs of Third Party Demo Discs, and Publisher shall also comply with all terms and conditions of Section 6 hereto. No costs incurred in the development, manufacture, licensing, production, marketing and/or distribution (and if permitted by SCEA, sale) of the Third Party Demo Disc shall be deducted from any amounts payable to SCEA hereunder. Royalties on Third Party Demo Discs shall be as provided in Section 8.2.

7.5 **Contests and Sweepstakes of Publisher**. SCEA acknowledges that, from time to time, Publisher may conduct contests and sweepstakes to promote Licensed PSP Products. SCEA shall permit Publisher to include contest or sweepstakes materials in Printed Materials and Advertising Materials, subject to compliance with the approval provisions of Section 5.5 and 5.6 hereunder, Lvov lance with the provisions of Section 9.2 and 10.2 hereunder, and subject to the following additional terms and conditions:

(i) Publisher represents that it has retained the services of a fulfillment house to administer the contest or sweepstakes and if it has not retained the services of a fulfillment house, Publisher represents and warrants that it has the expertise to conduct such contests or sweepstakes, and in any event, Publisher shall assume full responsibility for all aspects of such contest or sweepstakes;

(ii) Publisher warrants that each contest, sweepstakes, and promotion, comply with local, state and federal laws or regulations;

(iii) Publisher represents and warrants that it has obtained the consent of all holders of intellectual property rights required to be obtained in connection with each contest or sweepstakes including, but not limited to, the consent of any holder of copyrights or trademarks relating to any Advertising Materials publicizing the contest or sweepstakes, or the prizes being awarded to winners of the contest or sweepstakes; and

(iv) Publisher shall make available to SCEA all contest and sweepstakes material prior to publication in accordance with the approval process set forth in Section 5.5 or 5.6.

Approval by SCEA of contest or sweepstakes materials for use in the Printed Materials or Advertising Materials (or any use of the PSP Player or Licensed PSP Products as prizes in such contest or sweepstakes) shall not constitute an endorsement by SCEA of such contest or sweepstakes, nor shall such acceptance be construed as SCEA having reviewed and

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approved such materials for compliance with any federal or state law, statute, regulations, order or the like, which shall be Publisher's sole responsibility.

7.6 **PlayStation Website**. All Licensed PSP Publishers shall be required to provide Product Information for a web page for each of its Licensed PSP Products for display on the PlayStation promotional website, or other website or websites as may be operated by SCEA from time to time in connection with the promotion of the PlayStation, PlayStation Portable, or PSP brands. Specifications for Product Information for such web pages shall be as provided in the PSP SourceBook. Publisher shall provide SCEA with such Product Information for each Licensed PSP Product upon submission of Printed Materials to SCEA for approval in accordance with Section 5.5.2 hereto. Publisher shall also provide updates to such web page in a timely manner as required by SCEA in updates to the PSP SourceBook.

7.7 **Distribution**.

7.7.1 **Distribution Channels**. Publisher may use such distribution channels as Publisher deems appropriate, Including the use of third party distributors, resellers, dealers and sales representatives. In the event that Publisher elects to have one of its Licensed PSP Products distributed and sold by another Licensed PSP Publisher, Publisher must provide SCEA with advance written notice of such election, the name of the Licensed PSP Publisher and any additional information requested by SCEA regarding the nature of the distribution services provided by such Licensed PSP Publisher prior to manufacture of such Licensed PSP Product.

7.7.2 **Limitations on Distribution**. Notwithstanding any other provisions in this Agreement, Publisher shall not, directly or indirectly, solicit orders from or sell any Units of the Licensed PSP Products to any person or entity outside of the Licensed Territory nor transship Licensed PSP Products between regional SCE territories. In addition, Publisher shall not directly or indirectly solicit orders for or sell any Units of the Licensed PSP Products in any situation where Publisher knows or reasonably should know that such Licensed PSP Products may be exported or resold outside of the Licensed Territory.

8. **Royalties**.

8.1 **Applicable Royalties on Licensed PSP Products**.

8.1.1 **Initial Orders**. Publisher shall pay SCEA, either directly or through its designee, a per title royalty in United States dollars for each Unit of the Licensed PSP Products manufactured based on the initial Wholesale Price of the Licensed PSP Product, as follows:

	Wholesale Price	Per Title Royalty
Level 1	[***] to [***]	[***]
Level 2	[***] to [***]	[***]
Level 3	[***]	([***] of WSP) - [***]

[***] The portions of this document marked with three asterisks represent confidential portions omitted and filed separately with the Securities and Exchange Commission.

In the absence of satisfactory evidence to support the WSP, the royalty rate that shall apply will be the greater of [***] per Unit or the Level 3 royalty applied to the highest known WSP. Royalties may be subject to change in SCEA's discretion upon sixty (60) days notice to Publisher. Upon receipt of such notice, Publisher shall have the option to terminate this Agreement upon written notice to SCEA rather than having such revised royalty structure go into effect.

8.1.2 **Reorders and Other Programs**. Royalties on additional orders to manufacture a specific Licensed PSP Product, regardless of which Publisher submits the order, shall be the royalty determined by the initial Wholesale Price as reported by initial Publisher for that Licensed PSP Product regardless of the wholesale price of the Licensed PSP Product at the time of reorder, except in the event that the Wholesale Price increases for such Licensed PSP Product, in which case the royalty shall be adjusted upwards to reflect the higher Wholesale Price. Licensed PSP Products qualifying for SCEA's "Greatest Hits" programs or other programs offered by SCEA shall be subject to the royalties applicable for such programs. Publisher acknowledges that as of the date of execution of this Agreement no "Greatest Hits" program exists for the PSP Third Party licensing program.

8.2 **Third Party Demo Disc Program Royalties**: Publisher shall pay SCEA a per Unit royalty in United States dollars of [***] for each Third Party Demo Disc Unit manufactured. The quantity of Units ordered shall comply with the terms of such SCEA Established Third Party Demo Disc Program.

8.3 **Payment For Licensed PSP Product**. Payment of royalties under Sections 8.1 and 8.2 shall be made to SCEA through its Designated Manufacturing Facility concurrent with the placement of an order to manufacture Licensed PSP Product and payment of manufacturing costs in accordance with the terms and conditions set forth in Sections 6.2.3, unless otherwise agreed in writing with SCEA. At the time of placing an order to manufacture a Licensed PSP Product, Publisher shall submit to SCEA an accurate accounting statement setting out the number of units of Licensed PSP Product to be manufactured, projected initial wholesale price, applicable royalty, and total amount due SCEA. In addition, Publisher shall submit to SCEA prior to placing

the initial order for each Licensed PSP Product a separate certification, in the form provided by SCEA in the PSP SourceBook, signed by officers of Publisher that certifies that the Wholesale Price provided to SCEA is accurate and attaching such documentation supporting the WSP as requested by SCEA. Payment shall be made prior to manufacture unless SCEA has agreed to extend credit terms to Publisher in writing pursuant to Section 6.2.3.1. Nothing herein shall be construed as requiring SCEA to extend credit terms to Publisher. The accounting statement due hereunder shall be subject to the audit and accounting provisions set forth in paragraph 16.2 below. No costs incurred in the development, manufacture, marketing, sale and/or distribution of the Licensed PSP Products shall be deducted from any royalties payable to SCEA hereunder. Similarly, there shall be no deduction from the royalties otherwise owed to SCEA as a result of any uncollectible accounts owed to Publisher, or for any credits, discounts, allowances or returns which Publisher may credit or otherwise grant to any third party customer of any Units of the Licensed PSP Products, or for any taxes, fees, assessments or expenses of any kind which may be incurred by Publisher in connection with its sale or distribution of any Units of the Licensed PSP Products or arising with respect to the payment of royalties. In addition to the royalty payments provided to SCEA, Publisher shall be solely responsible for and bear any

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cost relating to any withholding taxes or Other such assessments which may be imposed by any governmental authority with respect to the royalties paid to SCEA hereunder; provided, however, that SCEA shall not manufacture Licensed PSP Products outside of the United States without the prior consent of Publisher. Publisher shall provide SCEA with official tax receipts or other such documentary evidence issued by the applicable tax authorities sufficient to substantiate that any such taxes or assessments have in fact been paid.

8.4 **Rebates, Promotions or Discounts**. From time to time SCEA may, at its sole option, offer to Publisher programs which result in rebates or other reduced royalties to Publisher. Eligibility to participate in a program offered by SCEA shall be determined by the terms and conditions set forth for participation at the time the program is offered. SCEA reserves the right to alter, extend, or terminate program offerings upon notice to Publishers. Nothing contained herein shall require SCEA to offer any rebate, promotion, or discount program to Publisher during the term of this Agreement.

9. **Representations and Warranties**.

9.1 **Representations and Warranties of SCEA**. SCEA represents and warrants solely for the benefit of Publisher that SCEA has the right, power and authority to enter into this Agreement and to fully perform its obligations hereunder.

9.2 **Representation and Warranties of Publisher**. Publisher represents and warrants that:

(i) There is no threatened or pending action, suit, claim or proceeding alleging that the use by Publisher of all or any part of the Product Software, Product Proposals, Product Information, Printed Materials, Advertising Materials or any underlying work or content embodied therein, or any name, designation or trademark used in conjunction with the Licensed PSP Products infringes or otherwise violates any Intellectual Property Right or other right or interest of any kind whatsoever of any third party, or otherwise contesting any right, title or interest of Publisher in or to the Product Software, Product Proposals, Product Information, Printed Materials, Advertising Materials or any underlying work or content embodied therein, or any name, designation or trademark used in conjunction with the Licensed PSP Products;

(ii) The Product Software, Product Proposals, Product Information, Printed Materials and Advertising Materials and their contemplated use under this Agreement do not and shall not infringe any person's or entity's rights including without limitation, patents, copyrights (including rights in a joint work), trademarks, trade dress, trade secret, rights of publicity, privacy, performance, moral rights, literary rights and any other third party rights;

(iii) Publisher has the right, power and authority to enter into this Agreement, to grant SCEA the rights granted hereunder and to fully perform its obligations hereunder;

(iv) The making of this Agreement by Publisher does not violate any separate agreement, rights or obligations existing between Publisher and any other person or entity, and, throughout the term of this Agreement, Publisher shall not make any separate agreement with any person or entity that is inconsistent with any of the provisions of this Agreement;

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(v) Publisher has not sold, assigned, leased, licensed or in any other way disposed of or encumbered the rights granted to Publisher hereunder, and Publisher will not sell, assign, lease, license or in any other way, dispose of or encumber any of such rights except as expressly permitted hereunder or as consented to by SCEA in writing;

(vi) Publisher has obtained the consent of all holders of intellectual property rights required to be obtained in connection with use of any Product Information by SCEA as licensed hereunder, and Product Information when provided to SCEA in accordance with the terms of this Agreement may be published, marketed, distributed and sold by SCEA in accordance with the terms and conditions of this Agreement and without SCEA incurring any royalty, residual, union, guild or other fees;

(vii) Publisher shall not make any representation or give any warranty to any person or entity expressly or implicitly on SCEA's behalf, or to the effect that the Licensed PSP Products are connected in any way with SCEA (other than that the Executable Software and/or Licensed PSP Products have been developed, marketed, sold and/or distributed under license from SCEA);

(viii) In the event that Executable Software is delivered to other Licensed PSP Publishers or Licensed PSP Developers by Publisher in source code form. Publisher will take all precautions consistent with the protection of valuable trade secrets by companies in high technology industries to ensure the confidentiality of such source code;

(ix) The Executable Software and any Product Information delivered to SCEA shall be in a commercially acceptable form, free of significant bugs, defects, time bombs or viruses which could disrupt, delay, destroy the Executable Software or PSP Player or render either of them less than fully useful, and shall be fully compatible with the PSP Player and any peripherals listed on the Printed Materials as compatible with the Licensed PSP Product;

(x) Each of the Licensed PSP Products, Executable Software, Printed Materials and Advertising Materials shall be developed, marketed, sold and distributed by or at the direction of Publisher in an ethical manner and in full compliance with all applicable federal, state, provincial, local and foreign laws and any regulations and standards promulgated thereunder (including but not limited to federal and state lottery laws as currently interpreted and enforced) and will not contain any obscene or defamatory matter;

(xi) Publisher's policies and practices with respect to the development, marketing, sale, and/or distribution of the Licensed PSP Products shall in no manner reflect adversely upon the name, reputation or goodwill of SCEA;

(xii) Publisher has, or will contract with a Licensed PSP Developer for, the technical expertise and resources necessary to fulfill its obligations under this Agreement; and

(xiii) Publisher shall make no false, misleading or inconsistent representations or claims with respect to any Licensed PSP Products, the PSP Player or SCEA.

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10. **Indemnities; Limited Liability**.

10.1 **Indemnification by SCEA**. SCEA shall indemnify and hold Publisher harmless from and against any and all third party claims, losses, liabilities, damages, expenses and costs, including, without limitation, reasonable fees for attorneys, expert witnesses and litigation costs, and including costs incurred in the settlement or avoidance of any such claim which result from or are in connection with a breach of any of the representations or warranties provided by SCEA herein; provided, however, that Publisher shall give prompt written notice to SCEA of the assertion of any such claim, and provided, further, that SCEA shall have the right to select counsel and control the defense and settlement thereof. SCEA shall have the exclusive right, at its discretion, to commence and prosecute at its own expense any lawsuit or to take such other action with respect to such matters as shall be deemed appropriate by SCEA. Publisher shall provide SCEA, at no expense to Publisher, reasonable assistance and cooperation concerning any such matter; and Publisher shall not agree to the settlement of any such claim, action or proceeding without SCEA's prior written consent.

10.2 **Indemnification By Publisher**. Publisher shall indemnify and hold SCEA harmless from and against any and all claims, losses, liabilities, damages, expenses and costs, including, without limitation, reasonable fees for attorneys, expert witnesses and litigation costs, and including costs incurred in the settlement or avoidance of any such claim, which result from or are in connection with (i) a breach of any of the provisions of this Agreement; or (ii) infringement of a third party's intellectual property rights by Publisher; or (iii) any claims of or in connection with any personal or bodily injury (including death) or property damage, by whomever such claim is made, arising out of, in whole or in part, the development, marketing, sale, distribution or use of any of the Licensed PSP Products (or portions thereof) unless due directly to the breach of SCEA in performing any of the specific duties or providing any of the specific services required; or (iv) any federal, state or foreign civil or criminal actions relating to the development, marketing, sale or distribution of Licensed PSP Products. SCEA shall give prompt written notice to Publisher of the assertion of any such indemnified claim, and, with respect to third party claims, actions or proceedings against SCEA, SCEA shall have the right to select counsel for SCEA and reasonably control the defense and settlement thereof. Subject to the above, Publisher shall have the right, at its discretion, to select its own counsel, to commence and prosecute at its own expense any lawsuit, to reasonably control the defense and settlement thereof or to take such other action with respect to claims, actions or proceedings by or against Publisher. SCEA shall retain the right to approve any settlement. SCEA shall provide Publisher, at no expense to SCEA, reasonable assistance and cooperation concerning any such claim, action or proceeding (other than third party claims, actions or proceedings against SCEA) without Publisher's prior written consent.

10.3 **LIMITATION OF LIABILITY**.

10.3.1 **LIMITATION OF SCEA'S LIABILITY**. **IN NO EVENT SHALL SCEA OR OTHER SONY AFFILIATES AND THEIR SUPPLIERS, OFFICERS, DIRECTORS, EMPLOYEES OR AGENTS BE LIABLE FOR LOSS OF PROFITS, OR ANY SPECIAL, PUNITIVE, INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGES ARISING OUT OF, RELATING TO OR IN CONNECTION WITH THIS AGREEMENT, INCLUDING WITHOUT LIMITATION THE BREACH OF THIS AGREEMENT BY SCEA, THE MANUFACTURE OF THE LICENSED PSP PRODUCTS AND THE USE OF THE LICENSED PSP PRODUCTS, EXECUTABLE**

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SOFTWARE OR THE PSP PLAYER BY PUBLISHER OR ANY END-USER, WHETHER UNDER THEORY OF CONTRACT, TORT (INCLUDING NEGLIGENCE), INDEMNITY, PRODUCT LIABILITY OR OTHERWISE. IN NO EVENT SHALL SCEA'S LIABILITY ARISING UNDER, RELATING TO OR IN CONNECTION WITH THIS AGREEMENT, INCLUDING WITHOUT LIMITATION ANY

LIABILITY FOR DIRECT OR INDIRECT DAMAGES, AND INCLUDING WITHOUT LIMITATION ANY LIABILITY UNDER SECTION 10.1, EXCEED [***]. EXCEPT AS EXPRESSLY SET FORTH HEREIN, NEITHER SCEA NOR ANY SONY AFFILIATE, NOR ANY OF THEIR RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS, SHALL BEAR ANY RISK, OR HAVE ANY RESPONSIBILITY OR LIABILITY, OF ANY KIND TO PUBLISHER OR TO ANY THIRD PARTIES WITH RESPECT TO THE QUALITY, OPERATION OR PERFORMANCE OF ANY PORTION OF THE SCE MATERIALS, THE PSP PLAYER OR ANY LICENSED PSP PRODUCT.

10.3.2 **LIMITATION OF PUBLISHER'S LIABILITY**. **IN NO EVENT SHALL PUBLISHER OR ITS AFFILIATED COMPANIES AND THEIR SUPPLIERS, OFFICERS, DIRECTORS, EMPLOYEES OR AGENTS BE LIABLE TO SCEA FOR ANY LOSS OF PROFITS, OR ANY SPECIAL, PUNITIVE, INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGES ARISING OUT OF, RELATED TO OR IN CONNECTION WITH (i) THIS AGREEMENT OR (Ii) THE USE OR DISTRIBUTION IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THIS AGREEMENT OF ANY CODE PROVIDED BY SCEA, IN WHOLE OR IN PART, WHETHER UNDER THEORY OF CONTRACT, TORT (INCLUDING NEGLIGENCE), INDEMNITY, PRODUCT LIABILITY OR OTHERWISE, PROVIDED THAT SUCH LIMITATIONS SHALL NOT APPLY TO DAMAGES RESULTING FROM PUBLISHER'S BREACH OF SECTIONS 4, 10.2, 11 OR 13 OF THIS AGREEMENT, AND PROVIDED FURTHER THAT SUCH LIMITATIONS SHALL NOT APPLY TO AMOUNTS WHICH PUBLISHER MAY BE REQUIRED TO PAY TO THIRD PARTIES UNDER SECTIONS 10.2 OR 16.10.**

10.4 [***]

11. **SCEA Intellectual Property Rights**.

11.1 **Licensed Trademarks**. The Licensed Trademarks and the goodwill associated therewith are and shall be the exclusive property of SCEA or Affiliates of SCEA. Nothing herein shall give Publisher any right, title or interest in or to any of the Licensed Trademarks or any other trademarks of SCEA. other than the non-exclusive license provided herein. Publisher shall not do or cause to be done any act or thing in any way impairing or tending to impair or dilute any of SCEA's rights, title or interests in or to any of the Licensed Trademarks or any other trademarks of SCEA, nor shall Publisher register any trademark in its own name or in the name of any other person or entity, or obtain rights to employ Internet domain names or addresses, which are similar to or are likely to be confused with any of the Licensed Trademarks or any other trademarks of SCEA.

11.2 **License of SCE Materials and PSP Player**. All rights with respect to the SCE Materials and PSP Player, including, without limitation, all SCEA Intellectual Property Rights

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therein, are and shall be the exclusive property of SCEA or Affiliates of SCEA. Nothing herein shall give Publisher any right, title or interest in or to the SCE Materials or the PSP Player or any portion thereof, other than the non-exclusive license provided herein. Publisher shall not do or cause to be done any act or thing in any way impairing or tending to impair any of SCEA's rights, title or interests in or to the SCE Materials or the PSP Player or any portion thereof.

12. **Infringement of SCEA Intellectual Property Rights By Third Parties**.

In the event that Publisher discovers or otherwise becomes aware that any SCEA Intellectual Property Rights have been or are being infringed upon by any third party, Publisher shall promptly notify SCEA. SCEA shall have the sole right, in its discretion, to institute and prosecute lawsuits against third parties for such infringement of SCEA Intellectual Property Rights. Any lawsuit shall be prosecuted solely at the cost and expense of SCEA and all sums recovered in any such lawsuits, whether by judgment, settlement or otherwise shall belong solely to SCEA. Upon request of SCEA, Publisher shall execute all papers, testify on all natters aid otherwise cooperate in every way necessary and desirable for the prosecution of any such lawsuit. SCEA shall reimburse Publisher for the reasonable expenses incurred as a result of such cooperation, but unless authorized by other provisions of this Agreement, not costs and expenses attributable to the conduct of a cross-claim or third party action.

13. **Confidentiality**.

13.1 **SCEA's Confidential Information**.

13.1.1 **Definition of SCEA's Confidential Information**. "SCEA's Confidential Information" shall mean:

(i) the PSP Player, SCE Materials and Development Tools and this Agreement;

(ii) other documents and materials developed, owned, licensed or under the control of SCEA, including all processes, data, hardware, software, inventions, trade secrets, ideas, creations, improvements, designs, discoveries, developments, research and know-how, including without limitation the PSP SourceBook' and SCEA Intellectual Property Rights relating to the PSP Player, SCE Materials or Development Tools; and

(iii) information and documents regarding SCEA's finances, business, marketing and technical plans, business methods and production plans.

SCEA's Confidential Information may consist of information in any medium, whether oral, printed, in machine-readable form or otherwise, including information apprised to Publisher and reduced to tangible or written form at any time during the term of this Agreement. In addition, the existence of a relationship between Publisher and SCEA for the purposes set forth herein shall be deemed to be SCEA's Confidential Information unless otherwise agreed to in writing by the parties or until publicly announced by SCEA.

13.1.2 **Term of Protection of SCEA's Confidential Information**. The term for the protection of SCEA's Confidential Information shall commence on the Effective Date first

above written and shall continue in full force and effect as long as any of SCEA's Confidential Information continues to be maintained as confidential and proprietary by SCEA or SCE. During such term, Publisher shall, pursuant to Section 13.1.3 below, safeguard and hold in trust and confidence and not disclose or use any and all of SCEA's Confidential Information except for the purposes specified.

13.1.3 **Preservation of SCEA's Confidential Information**. Publisher shall, with respect to SCEA's Confidential Information:

(i) not disclose SCEA's Confidential Information to any person or entity, other than those employees or directors of the Publisher whose duties justify a "need-to know" and who have executed a confidentiality agreement in which such employees or directors have agreed not to disclose, and to hold confidential, all confidential information and materials inclusive of those of third parties which may be disclosed to them or to which they may have access during the course of their duties. At SCEA's request, Publisher shall provide SCEA with a copy of such confidentiality agreement between Publisher and its employees or directors, and shall also provide SCEA with a list of employee and director signatories. Publisher shall not disclose any of SCEA's Confidential Information to third parties, including without limitation to consultants or agents. Any employees or directors who obtain access to SCEA's Confidential Information shall be advised by Publisher of the confidential nature of SCEA's Confidential Information, and Publisher shall be responsible for any breach of this Agreement by its employees or directors.

(ii) take all measures necessary to safeguard SCEA's Confidential Information in order to avoid disclosure, publication, or dissemination, using as high a degree of care and scrutiny, but at least reasonable care, as is consistent with the protection of valuable trade secrets by companies in high technology industries.

(iii) ensure that all written materials relating to or containing SCEA's Confidential Information be maintained in a restricted access area and plainly marked to indicate the secret and confidential nature thereof.

(iv) at SCEA's request, return promptly to SCEA any and all portions of SCEA's Confidential Information, together with all copies thereof.

(v) not use, modify, reproduce, sublicense, copy, distribute, create derivative works from, or otherwise provide to third parties, SCEA's Confidential Information, or any portion thereof, except as provided herein, nor shall Publisher remove any proprietary legend set forth on or contained within any of SCEA's Confidential Information.

13.1.4 **Exceptions**. The foregoing restrictions shall not apply to any portion of SCEA's Confidential Information which:

(i) was previously known to Publisher without restriction on disclosure or use, as proven by written documentation of Publisher; or

(ii) is or legitimately becomes part of the public domain through no fault of Publisher or its employees; or

[***] The portions of this document marked with three asterisks represent confidential portions omitted and filed separately with the Securities and Exchange Commission.

(iii) is independently developed by Publisher's employees who have not had access to SCEA's Confidential Information, as proven by written documentation of Publisher; or

(iv) is required to be disclosed by administrative or judicial action; provided that Publisher must attempt to maintain the confidentiality of SCEA's Confidential Information by asserting in such action the restrictions set forth in this Agreement, and, immediately after receiving notice of such action or any notice of any threatened action, Publisher must notify SCEA to give SCEA the maximum opportunity to seek any other legal remedies to maintain such SCEA's Confidential Information in confidence as herein provided; or

(v) is approved for release by written authorization of SCEA.

13.1.5 **No Obligation to License**. Disclosure of SCEA's Confidential Information to Publisher shall not constitute any option, grant or license from SCEA to Publisher under any patent or other SCEA Intellectual Property Rights now or hereinafter held by SCEA. The disclosure by SCEA to Publisher of SCEA's Confidential Information shall not result in any obligation on the part of SCEA to approve any materials of Publisher, nor shall such disclosure by SCEA give Publisher any right to develop, directly or indirectly, manufacture or sell any product derived from or which uses any of SCEA's Confidential Information, other than as expressly set forth in this Agreement.

13.1.6 **Publisher's Obligations Upon Unauthorized Disclosure**. If at any time Publisher becomes aware of any unauthorized duplication, access, use, possession or knowledge of any SCEA Confidential Information, it shall notify SCEA as soon as reasonably practicable, and shall promptly act to recover any such information and prevent further breach of the confidentiality obligations herein. Publisher shall provide any and all reasonable assistance to SCEA to protect SCEA's proprietary rights in any SCEA Confidential Information that it or its employees or permitted subcontractors may have directly or indirectly disclosed or made available, and that may be duplicated, accessed, used, possessed or known in a manner or for a purpose not expressly authorized by this Agreement, including but not limited to enforcement of confidentiality agreements, commencement and prosecution in good faith (alone or with the disclosing party) of legal action, and reimbursement for all reasonable attorneys' fees, costs and expenses incurred by SCEA to protect its proprietary rights in SCEA's Confidential Information. Publisher shall take all steps requested by SCEA to prevent the recurrence of

any unauthorized duplication, access, use, possession or knowledge of SCEA's Confidential Information. In addition, SCEA shall have the right to pursue any actions at law or in equity, including without limitation the remedies set forth in Section 16.10 hereto.

13.2 **Publisher's Confidential Information**.

13.2.1 **Definition of Publisher's Confidential Information**. "Publisher's Confidential Information" shall mean:

(i) any Product Software as provided to SCEA pursuant to this Agreement and all documentation and information relating thereto, including Product Proposals,

[***] The portions of this document marked with three asterisks represent confidential portions omitted and filed separately with the Securities and Exchange Commission.

Printed Materials and Advertising Materials (other than documentation and information intended for use by and release to end users, the general public or the trade);

(ii) other documents and materials developed, owned, licensed or under the control of Publisher, including all processes, data, hardware, software, inventions, trade secrets, ideas, creations, improvements, designs, discoveries, developments, research and know-how; and

(iii) information and documents regarding Publisher's finances, business, marketing and technical plans, business methods and production plans.

Publisher's Confidential Information may consist of information in any medium, whether oral, printed, in machine-readable form or otherwise, including information apprised to SCEA and reduced to tangible or written form at any time during the term of this Agreement.

13.2.2 **Term of Protection of Publisher's Confidential Information**. The term for the protection of Publisher's Confidential information shall commence on the Effective Date first above written and shall continue in full force and effect as long as any of Publisher's Confidential Information continues to be maintained as confidential and proprietary by Publisher.

13.2.3 **Preservation of Confidential information of Publisher**. SCEA shall, with respect to Publisher's Confidential Information;

(i) hold all Publisher's Confidential Information in confidence, and shall take all reasonable steps to preserve the confidentiality of Publisher's Confidential Information, and to prevent it from tailing into the public domain or into the possession of persons other than those persons to whom disclosure is authorized hereunder.

(ii) not disclose Publisher's Confidential Information to any person other than an SCEA employee or subcontractor who needs to know or have access to such Confidential Information for the purposes of this Agreement, and only to the extent necessary for such purposes.

(iii) ensure that all written materials relating to or containing Publisher's Confidential Information be maintained in a secure area and plainly marked to indicate the secret and confidential nature thereof.

(iv) at Publisher's request, return promptly to Publisher any and all portions of Publisher's Confidential information, together with all copies thereof.

(v) not use Publisher's Confidential Information, or any portion thereof, except as provided herein, nor shall SCEA remove any proprietary legend set forth on or contained within any of Publisher's Confidential Information

13.2.4 **Exceptions**. The foregoing restrictions will not apply to any portion of Publisher's Confidential Information which:

[***] The portions of this document marked with three asterisks represent confidential portions omitted and filed separately with the Securities and Exchange Commission.

(i) was previously known to SCEA without restriction on disclosure or use, as proven by written documentation of SCEA; or

(ii) is or legitimately becomes part of information in the public domain through no fault of SCEA, its employees or its subcontractors; or

(iii) is independently developed by SCEA's employees or affiliates who have not had access to Publisher's Confidential Information, as proven by written documentation of SCEA; or

(iv) is required to be disclosed by administrative or judicial action; provided that SCEA attempted to maintain the confidentiality of Publisher's Confidential Information by asserting in such action the restrictions set forth in this Agreement, and immediately after receiving notice of such action, notified Publisher of such action to give Publisher the opportunity to seek any other legal remedies to maintain such Publisher's Confidential Information in confidence as herein provided; or

(vi) is approved for release by written authorization of Publisher.

13.2.5 **SCEA's Obligations Upon Unauthorized Disclosure**. If at any time SCEA becomes aware of any unauthorized duplication, access, use, possession or knowledge of any of Publisher's Confidential Information, it shall notify Publisher as soon as is reasonably practicable. SC;EA shall provide any and all reasonable assistance to Publisher to protect Publisher's proprietary rights in any of Publisher's Confidential Information that may have directly or indirectly disclosed by an SCEA employee and that may be duplicated, accessed, used, possessed or known in a manner or for a purpose not expressly authorized by this Agreement, SCEA shall take all reasonable steps requested by Publisher to prevent the recurrence of any unauthorized duplication, access, use, possession or knowledge of Publisher's Confidential Information:

13.3 **Confidentiality of Agreement**. The terms and conditions of this Agreement shall be treated as SCEA's Confidential Information and Publisher's Confidential Information; provided that each party may disclose the terms and conditions of this Agreement:

(i) to legal counsel;

(ii) in confidence, to accountants, banks and financing sources and their advisors;

(iii) in confidence, in connection with the enforcement of this Agreement or rights arising under or relating to this Agreement; and

(iv) if required, in the opinion of counsel, to file -publicly or otherwise disclose the terms of this Agreement under applicable federal or state securities or other laws, the disclosing party shall be required to promptly notify the other party such that the other party has a reasonable opportunity to contest or limit the scope of such required disclosure, and the disclosing party shall request, and shall use its best efforts to obtain, confidential treatment for such sections of this Agreement as the other party may designate.

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14. **Term and Termination**.

14.1 **Effective Date; Term**. This Agreement shall not be binding on the parties until it has been signed by each party, in which event it shall be effective from the Effective Date until March 31, 2007, unless earlier terminated pursuant to Section 14.2. The term shall be automatically extended for additional one-year terms thereafter, unless either party provides the other with written notice of its election not to so extend on or before January 31 of the applicable year. Notwithstanding the foregoing the term for the protection of SCEA's Confidential Information and Publisher's Confidential Information shall be as set forth in Sections 13.1.2 and 13.2.2 respectively.

14.2 **Termination by SCEA**. SCEA shall have the right to terminate this Agreement immediately, by providing written notice of such election to Publisher, upon the occurrence of any of the following:

(i) If Publisher breaches (A) any of its obligations; or (B) any other agreement entered into between SCEA or Affiliates of SCEA and Publisher.

(ii) The liquidation or dissolution of Publisher or a statement of intent by Publisher to no longer exercise any of the rights granted by SCEA to Publisher.

(iii) If during the term of this Agreement, a controlling interest in Publisher or in an entity which directly or indirectly has a controlling interest in Publisher is transferred to a party that (A) is in breach of any agreement with SCEA or an Affiliate of SCEA; (13) directly or indirectly holds or acquires a controlling interest in a third party which develops any interactive device or product which is directly or indirectly competitive with the PSP Player; or (C) is in litigation with SCEA or Affiliates of SCEA concerning any proprietary technology, trade secrets or other SCEA Intellectual Property Rights or SCEA's Confidential Information. As used in this Section 14.2, "controlling interest" means, with respect to any form of entity, sufficient power to control the decisions of such entity.

(iv) If during the term of this Agreement, Publisher or an entity that directly or indirectly has a controlling interest in Publisher enters into a business relationship with a third party with whom Publisher materially contributes to develop core components to an interactive device or product which is directly or indirectly competitive with the PSP Player.

(v) Publisher files or causes to file litigation against SCEA or any SCE Affiliate.

Publisher shall immediately notify SCEA in writing in the event that any of the events or circumstances specified in this Section occur.

14.3 **Product-by-Product Termination by SCEA**. In addition to the events of termination described in Section 14.2, above, SCEA, at its option, shall be entitled to terminate, on a product-by-product basis, the licenses and related rights herein granted to Publisher in the event that (a) Publisher fails to notify SCEA promptly in writing of any material change to any materials previously approved by SCEA in accordance with Section 5 or Section 6.1 hereto, and such breach is not corrected or cured within thirty (30) days after receipt of written notice of

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such breach; (b) Publisher uses a third party that fails to comply with the requirements of Section 3 in connection with the development of any Licensed PSP Product; (c) any third party with whom Publisher has contracted for the development of Executable Software breaches any of its material obligations to SCEA pursuant to such third party's agreement with SCEA with respect to such Licensed PSP Product; or (d) Publisher cancels a Licensed PSP Product or fails to provide SCEA in accordance with the provisions of Section 5 above, with the final version of the Executable Software for any Licensed PSP Product within three (3) months of the scheduled release date according to the Product Proposal (unless a modified final delivery date has been agreed to by the parties), or fails to provide work in progress to SCEA in strict accordance with the Review Process in Section 5.3.

14.4 **Options of SCEA in Lieu of Termination**. As alternatives to terminating this Agreement or a particular Licensed PSP Product as set forth in Sections 14.2 and 14.3 above, SCEA may, at its option and upon written notice to Publisher, take the following actions. In the event that SCEA elects either of these options, Publisher may terminate this Agreement upon written notice to SCEA rather than allowing SCEA to exercise these options. Election of these options by SCEA shall not constitute a waiver of or compromise with respect to any of SCEA's rights under this Agreement and SCEA may elect to terminate this Agreement with respect to any breach.

14.4.1 **Suspension of Agreement**. SCEA may suspend this Agreement, entirely or with respect to a particular Licensed PSP Product or program, for a set period of time which shall be specified in writing to Publisher upon the occurrence of any breach of this Agreement.

14.4.2 **Liquidated Damages**. Whereas a minor breach of any of the events set out below may not warrant termination of this Agreement, but will cause SCEA damages in amounts difficult to quantify, SCEA may require Publisher to pay liquidated damages of [***]:

(i) Failure to submit Advertising Materials to SCEA for approval (including any required resubmissions);

(ii) Broadcasting or publishing Advertising Materials without receiving the final approval or consent of SCEA;

(iii) Failure to make SCEA's requested revisions to Advertising Materials; or

(iv) Failure to comply with the PSP SourceBook, Manufacturing Specifications or Guidelines which relates in any way to use of Licensed Trademarks.

(v) any transshipment or attempted transshipment of Licensed Products into unlicensed territories, whether willfully or negligently, without the expressed written permission of the regional SCE Affiliate, in an amount that SCEA deems in sole discretion not to be a material breach of this Agreement.

Liquidated damages shall be invoiced separately or on Publisher's next invoice for Licensed PSP Products. SCEA reserves the right to terminate this Agreement for breach in lieu of seeking liquidated damages or in the event that liquidated damages are unpaid.

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14.5 **No Refunds**. In the event of the termination of this Agreement in accordance with any of the provisions of Sections 14.2 through 14.4 above, no portion of any payments of any kind whatsoever previously provided to SCEA hereunder shall be owed or be repayable to Publisher.

15. **Effect of Expiration or Termination**.

15.1 **Inventory Statement**. Within thirty (30) days of the date of expiration or the effective date of termination with respect to any or all Licensed PSP Products or this Agreement, Publisher shall provide SCEA with an itemized statement, certified to be accurate by an officer of Publisher, specifying the number of unsold Units of the Licensed PSP Products as to which such termination applies, on a title-by-title basis, which remain in its inventory or under its control at the time of expiration or the effective date of termination. SCEA shall be entitled to conduct at its expense a physical inspection of Publisher's inventory and work in process upon reasonable written notice during normal business hours in order to ascertain or verify such inventory and inventory statement.

15.2 **Reversion of Rights**. Upon expiration or termination and subject to Section 15.3 below, the licenses and related rights herein granted to Publisher shall immediately revert to SCEA, and Publisher shall cease from any further use of SCEA's Confidential Information. Licensed Trademarks and SCE Materials and any SCEA Intellectual Property Rights therein, and, subject to the provisions of Section 15.3 below, Publisher shall have no further right to continue the development, publication, manufacture, marketing, sale or distribution of any Units of the Licensed PSP Products, or to continue to use any Licensed Trademarks; provided, however, that for a period of one year after termination, and subject to all the terms of Section 13, and provided this Agreement is not terminated due to a breach or default of Publisher, Publisher may retain such portions of SCE Materials and SCEA's Confidential Information as SCEA in its sole discretion agrees are required to support end users of Licensed PSP Products but must return these materials at the end of such one year period. Upon expiration or termination, the licenses and related rights herein granted to SCEA by Publisher shall immediately revert to Publisher, and SCEA shall cease from any further use of Product Information and any Publisher Intellectual Property Rights therein; provided that SCEA may continue the manufacture, marketing, sale or distribution of any SCEA Demo Discs containing Publisher's Product Information which Publisher had approved prior to termination.

15.3 **Disposal of Unsold Units**. Provided that this Agreement is not terminated due to a breach or default of Publisher, Publisher may, upon expiration or termination of this Agreement, sell off existing inventories of Licensed PSP Products, on a non-exclusive basis, for a period of [***] from the date of expiration or termination of this Agreement, and provided such inventories have not been manufactured solely or principally for sale during such period. Subsequent to the expiration of such [***], or in the event this Agreement is terminated as a result of any breach or default of Publisher, any and all Units of the Licensed PSP Products remaining in Publisher's inventory shall be destroyed by Publisher within [***] of such expiration or termination. Within [***] after such destruction, Publisher shall provide SCEA with an itemized statement, certified to be accurate by an officer of Publisher, indicating the number of Units of the Licensed PSP Products which have been destroyed (on a title-by-title

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basis), the location and date of such destruction and the disposition of the remains of such destroyed materials.

15.4 **Return of SCE Materials and Confidential Information**. Upon the expiration or earlier termination of this Agreement. Publisher shall immediately deliver to SCEA, or if and to the extent requested by SCEA destroy, all SCE Materials and any and all copies thereof, and Publisher and SCEA shall, upon the request of the other party, immediately deliver to the other party, or if and to the extent requested by such party destroy, all Confidential Information of the other party, including any and all copies thereof, which the other party previously furnished to it in furtherance of this Agreement. Within five (5) working days after any such destruction, Publisher or SCEA, as appropriate, shall provide the other party with an affidavit of destruction and an itemized statement, each certified to be accurate by an officer of Publisher indicating the number of copies and units of the SCE Materials and Confidential Information which have been destroyed, the location and date of such destruction and the disposition of the remains of such destroyed materials. In the event that Publisher fails to return the SCE Materials or Confidential Information and SCEA must resort to legal means including without limitation any use of attorneys to recover the SCE Materials or Confidential Information or the value thereof, all costs, including SCEA's reasonable attorney's fees, shall be borne by Publisher, and SCEA may, in addition to SCEA's other remedies, withhold such amounts from any payment otherwise due from SCEA to Publisher under any agreement between SCEA and Publisher.

15.5 **Extension of this Agreement; Termination Without-Prejudice**. SCEA shall be under no obligation to extend this Agreement notwithstanding any actions taken by either of the parties prior to the expiration of this Agreement. Upon the expiration of this Agreement, neither party shall be liable to the other for any damages (whether direct, indirect, consequential or incidental, and including, without limitation, any expenditures, loss of profits or prospective profits) sustained or arising out of or alleged to have been sustained or to have arisen out of such expiration. The expiration or termination of this Agreement shall be without prejudice to any rights or remedies which one party may otherwise have against the other party, and shall not excuse either party from any such expiration or termination.

16. **Miscellaneous Provisions**.

16.1 **Notices**. All notices or other communications required or desired to be sent to either of the parties shall be in writing and shall be sent by registered or certified mail, postage prepaid, or sent by recognized international courier service, telegram or facsimile, with charges prepaid. The address for all notices or other communications required to be sent to SCEA or Publisher, respectively, shall be the mailing address stated in the preamble hereof, or such other address as may be provided by written notice from one party to the other on at least ten (10) days' prior written notice. Any such notice shall be effective upon the date of actual or tendered delivery, as confirmed by the sending party.

16.2 **Audit Provisions**. Publisher shall keep full, complete, and accurate books of account and records covering all transactions relating to this Agreement. Publisher shall preserve such books of account, records, documents and material for a period of [***] after the expiration or earlier termination of this Agreement. Acceptance by SCEA of an accounting statement, purchase order, or payment hereunder will not preclude SCEA from challenging or questioning

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the accuracy thereof at a later time. In the event that SCEA reasonably believes that the Wholesale Price provided by Publisher with respect to any Licensed PSP Product is not accurate, SCEA shall be entitled to request additional documentation from Publisher to support the listed Wholesale Price for such Licensed PSP Product. In addition, during the Term and for a period of [***] thereafter and upon the giving of reasonable written notice to Publisher, representatives of SCEA shall have access to, and the right to make copies and summaries of, such portions of all of Publisher's books and records as pertain to the Licensed PSP Products and any payments due or credits received hereunder. In the event that such inspection reveals an under-reporting of any payment due to SCEA, Publisher shall immediately pay SCEA such amount. In the event that any audit conducted by SCEA reveals that Publisher has under-reported any payment due to SCEA hereunder by [***] or more for that audit period, then in addition to the payment of the appropriate amount due to SCEA, Publisher shall reimburse SCEA for all reasonable audit costs for that audit and any and all collection costs to recover the unpaid amount.

16.3 **Force Majeure**. Neither SCEA nor Publisher shall be liable for any loss or damage or be deemed to be in breach of this Agreement if its failure to perform or failure to cure any of its obligations under this Agreement results from any event or circumstance beyond its reasonable control, including, without limitation, any natural disaster, fire, flood, earthquake or other act of God; shortage of equipment, materials, supplies or transportation facilities; strike or other industrial dispute; war or rebellion; shutdown or delay in power, telephone or other essential service due to the failure of computer or communications equipment or otherwise; provided, however, that the party promptly, and, in any event, within fifteen (15) business days of discovery of any such Force Majeure condition. If notice of the existence of any Force Majeure condition is provided within such period, the time for performance or cure shall be extended for a period equal to the duration of the Force Majeure event or circumstance described in such notice, except that any such cause shall not excuse the payment of any such sums owed to SCEA prior to, during or after any such Force Majeure condition. In the event that the Force Majeure condition continues for more than sixty (60) days, SCEA may terminate this Agreement for cause by providing written notice to Publisher to such effect.

16.4 **No Agency, Partnership or Joint Venture**. The relationship between SCEA and Publisher, respectively, is that of licensor and licensee. Both parties are independent contractors and are not the legal representative, agent, joint venturer, partner or employee of the other party for any purpose whatsoever. Neither party has any right or authority to assume or create any obligations of any kind or to make any representation or warranty on behalf of the other party, whether express or implied, or to bind the other party in any respect whatsoever.

16.5 **Assignment**. SCEA has entered into this Agreement based upon the particular reputation, capabilities and experience of Publisher and its officers, directors and employees. Accordingly, Publisher may not assign this Agreement or any of its rights hereunder, nor delegate or otherwise transfer any of its obligations hereunder, to any third party unless the prior written consent of SCEA shall first be obtained. This Agreement shall not be assigned in

contravention of Section 14.2 (iii). Any attempted or purported assignment, delegation or other such transfer, directly or indirectly, without the required consent of SCEA shall be void. Subject to the foregoing, this Agreement shall inure to the benefit of the parties and their respective successors and permitted assigns (other than under the conditions set forth in Section 14.2 (iii).

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SCEA shall have the right to assign any and all of its rights and obligations hereunder to any Sony affiliate(s).

16.6 **Subcontractors**. Publisher shall not sell, assign, delegate, subcontract, sublicense or otherwise transfer or encumber all or any portion of the licenses herein granted without the prior written approval of SCEA, provided, however, that Publisher may retain those subcontractors who provide services which do not require access to SCE Materials or SCEA's Confidential Information without such prior approval. Publisher may retain those subcontractor(s) to assist with the development, publication and marketing of Licensed PSP Products (or portions thereof) which have signed (i) an PSP LPA or PSP LDA with SCEA (the "PSP Agreement") in full force and effect throughout the term of such development and marketing; or (ii) an SCEA-approved subcontractor agreement ("Subcontractor Agreement"); and SCEA has approved such subcontractor in writing, which approval shall be in SCEA's sole discretion. Such Subcontractor Agreement shall provide that SCEA is a third-party beneficiary of such Subcontractor Agreement and has the full right to bring any actions against such subcontractors to comply in all respects with the terms and conditions of this Agreement. Publisher shall provide a copy of any such Subcontractor Agreement to SCEA prior to and following execution thereof. Publisher shall not disclose to any subcontractor any of SCEA's Confidential information, including, without limitation, any SCE Materials, unless and until either a PSP Agreement or a Subcontractor Agreement has been executed and approved by SCEA. Notwithstanding any consent which may be granted by SCEA for Publisher to employ any such permitted subcontractor(s), or any such separate agreement(s) that may be entered into by Publisher with any such permitted subcontractor, Publisher shall remain fully liable for its compliance with all of the provisions of this Agreement and for the compliance of any and all permitted subcontractors with the provisions of any agreements entered into by such subcontractors in accordance with this Section. Publisher shall use its best efforts to cause its subcontractors retained in furtherance of this Agreement to comply in all respects with the terms and conditions of this Agreement, and hereby unconditionally guarantees all obligations of its subcontractors. SCEA may subcontract any of its rights or obligations hereunder.

16.7 **Compliance with Applicable Laws**. The parties shall at all times comply with all applicable regulations and orders of their respective countries and other controlling jurisdictions and all conventions and treaties to which their countries are a party or relating to or in any way affecting this Agreement and the performance by the parties of this Agreement. Each party, at its own expense, shall negotiate and obtain any approval, license or permit required in the performance of its obligations, and shall declare, record or take such steps to render this Agreement binding, including, without limitation, the recording of this Agreement with any appropriate governmental authorities (if required).

16.8 **Governing Law; Consent to Jurisdiction**. This Agreement shall be governed by and interpreted in accordance with the laws of the State of California, excluding that body of law related to choice of laws, and of the United States of America. Any action or proceeding brought to enforce the terms of this Agreement or to adjudicate any dispute arising hereunder shall be brought in the Superior Court of the County of San Mateo, State of California or the United States District Court for the Northern District of California. Each of the parties hereby submits itself to the exclusive jurisdiction and venue of such courts for purposes of any such action and agrees that any service of process may be effected by delivery of the summons in the manner

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provided in the delivery of notices set forth in Section 16.1 above. In addition, each party hereby waives the right to a jury trial in any action or proceeding related to this Agreement.

16.9 **Legal Costs and Expenses**. In the event it is necessary for either party to retain the services of an attorney or attorneys to enforce the terms of this Agreement or to file or defend any action arising out of this Agreement, then the prevailing party in any such action shall be entitled, in addition to any other rights and remedies available to it at law or in equity to recover from the other party its reasonable fees for attorneys and expert witnesses,. plus such court costs and expenses as may be fixed by any court of competent jurisdiction. The term "prevailing party for the purposes of this Section shall include a defendant who has by motion, judgment, verdict or dismissal by the court, successfully defended against any claim that has been asserted against it.

16.10 **Remedies**. Unless expressly set forth to the contrary, either party's election of any remedies provided for in this Agreement shall not be exclusive of any other remedies, and all such remedies shall be deemed to be cumulative. Any breach of Sections 3, 4, 5, 6.1, l l and 13 of this Agreement would cause significant and irreparable harm to SCEA, the extent of which would be difficult to ascertain. Accordingly, in addition to any other remedies including without limitation equitable relief to which SCEA may be entitled, in the event of a breach by Publisher or any of its employees or permitted subcontractors of any such Sections of this Agreement, SCEA shall be entitled to the immediate issuance without bond of ex parte injunctive relief or, if a bond is required under applicable law, on the posting of a bond in an amount not to exceed [***], enjoining any. breach or threatened breach of any or all of such provisions, In addition, if Publisher fails to comply with any of its obligations as set forth herein, SCEA shall be entitled to an accounting and repayment of all forms of compensation, commissions, remuneration or benefits which Publisher directly or indirectly realizes as a result of or arising in connection with any such failure to comply. Such remedy shall he in addition to and not in limitation of any injunctive relief or other remedies to which SCEA may be entitled under this Agreement or otherwise at law or in equity. In addition, Publisher shall indemnify SCEA for all losses, damages, liabilities, costs and expenses (including reasonable attorneys' fees and all reasonable related costs) which SCEA may sustain or incur as a result of any breach under this Agreement.

16.11 **Severability**. In the event that any provision of this Agreement (or portion thereof) is determined by a court of competent jurisdiction to be invalid or otherwise unenforceable, such provision (or portion thereof) shall be enforced to the extent possible consistent with the stated intention of the parties, or, if incapable of such enforcement, shall be deemed to be deleted from this Agreement, while the remainder of this Agreement shall continue in full force and remain in effect according to its stated terms and conditions.

16.12 **Sections Surviving Expiration or Termination**. The following sections shall survive the expiration or earlier termination of this Agreement for any reason: 4, 5.8, 6.2, 6.4, 8, 9, 10, 11, 13, 14.5, 15, and 16.

16.13 **Waiver**. No failure or delay by either party in exercising any right, power or remedy under this Agreement shall operate as a waiver of any such right, power or remedy. No waiver of any provision of this Agreement shall be effective unless in writing and signed by the party against whom such waiver is sought to be enforced. Any waiver by either party of any

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provision of this Agreement shall not be construed as a waiver of any other provision of this Agreement, nor shall such waiver operate or be construed as a waiver of such provision respecting any future event or circumstance.

16.14 **Modification and Amendment**. No modification or amendment of any provision of this Agreement shall be effective unless in writing and signed by both of the parties. Notwithstanding the foregoing, SCEA reserves the right to modify the PSP SourceBook from time to time upon reasonable notice to Publisher.

16.15 **Headings**. The section headings used in this Agreement are intended primarily for reference and shall not by themselves determine the construction or interpretation of this Agreement or any portion hereof.

16.16 **Integration**. This Agreement, together with the PSP SourceBook, constitutes the entire agreement between SCEA and Publisher and supersedes all prior or contemporaneous agreements, proposals, understandings and communications between SCEA and Publisher, whether oral or written, with respect to the subject matter hereof, including any PSP Confidentiality and Nondisclosure Agreement and Materials Loan Agreement between SCEA and Publisher.

16.17 **Counterparts**. This Agreement may be executed in counterparts, each of which shall be deemed an original, and together shall constitute one and the same instrument.

16.18 **Construction**. This Agreement shall be fairly interpreted in accordance with its terms and without any strict construction in favor of or against either of the parties.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the day and year first written above.

SONY COMPUTER ENTERTAINMENT AMERICA INC.	**ACTIVISION INC.**
By: /s/ Andrew House	By: /s/ George L. Rose
Print Name: Andrew House	Print Name: George L. Rose
Title: EVP SCEA	Title: Sr. Vice President & General Counsel
Date: 10/18/2004	Date: 10/13/2004

NOT AN AGREEMENT UNTIL EXECUTED BY BOTH PARTIES

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Exhibit 10.47

Contract Number: 106389

AMENDMENT TO THE
XBOX PUBLISHER LICENSING AGREEMENT
(Term, Tier 1.5, Limited Tier Migration, Super Hits Program,
Minimum Order Quantities, Samples, Demo Versions, Billing Addresses)

This Amendment to the Xbox Publisher License Agreement (this "Amendment") is entered into and effective as of March 1, 2005 (the "Amendment Effective Date") by and between Microsoft Licensing, GP, a Nevada general partnership ("Microsoft"), and **ACTIVISION PUBLISHING, INC.** ("Licensee" or "Publisher"), and supplements that certain Xbox™ Publisher License Agreement between the parties dated as of July 18 2001, as amended (the "PLA").

RECITALS

A. Microsoft and Publisher entered into the PLA to establish the terms under which Publisher may publish video games for Microsoft's Xbox video game system.

B. The parties now wish to extend the Term of the PLA and amend certain provisions thereof for Publisher's continued manufacture and distribution of video games for the Xbox.

Accordingly, for and in consideration of the mutual covenants and conditions contained herein, and for other good and valuable consideration, receipt of which each party hereby acknowledges, Microsoft and Publisher agree as follows:

1 Definitions; Interpretation

1.1 "Asian Sales Territory" means the territory comprising Taiwan, Hong Kong, Singapore and Korea, and any other countries that are listed by Microsoft from time to time as set forth in the Xbox Guide. The Asian Sales Territory does not include Japan.

1.2 "Base Royalty" means the licensing fee to be paid to Microsoft as defined in this Amendment.

1.3 "Demo Versions" means a small portion of a Software Title that is provided to end users at no or minimal cost to advertise or promote the Software Title.

1.4 "Standard FPU" means an FPU of a Software Title which is not a Hits FPU. The Commercial Release of a Software Title may only consist of Standard FPUs.

1.5 Except as expressly provided otherwise in this Amendment, capitalized terms shall have the same meanings ascribed to them in the PLA or its amendments.

1.6 The terms of the PLA are incorporated by reference, and except and to the extent expressly modified by this Amendment or any previous amendments, the PLA shall remain in

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full force and effect and is hereby ratified and confirmed. In the event of any conflict between this Amendment and the PLA or any prior amendments thereto, the terms of this Amendment shall control. In the event of any conflict between this Amendment and the Xbox Guide, the terms of this Amendment shall control. The parties specifically acknowledge that except as expressly set forth herein, this Amendment supersedes any prior amendments to the PLA related to manufactured FPU royalty rates and/or payments.

2 Term

The term of the PLA is hereby extended until November 15, 2007 (the "Current Term"). Unless one party gives the other notice within sixty (60) days prior to the end of the Current Term, this Agreement shall automatically renew for a single renewal term of one (1) year. The period of time since the Effective Date of the PLA through the Current Term and any extensions or renewals thereto shall constitute the "Term" as referred to in the PLA and this Amendment.

3 New Royalty Tier 1.5

3.1 The royalty rate tables and provisions in Sections 7.1.4 and 7.1.5 (or Sections 6.1.4 and 6.1.5) of the PLA describing how royalty rates are calculated are hereby replaced by the provisions of this Amendment. Notwithstanding the foregoing, the new Tier 1.5 described below will only be available to Publisher after October 1, 2005,

3.2 Royalty Fee

3.2.1 For [***] FPU manufactured during the Term of the PLA, Publisher shall pay Microsoft nonrefundable royalties in accordance with the royalty tables set forth below (Tables I and 2) and the "Unit Discount" table set forth in Section 3.4 of this Amendment (Table 3).

3.2.2 The Base Royalty rate is determined by the "Threshold Price" (which is the Wholesale Price (WSP) or Suggested Retail Price (SRP) at which Publisher intends to sell the Software Title in the applicable Sales Territory) and the Publisher's billing election per the PLA ("worldwide" or "regional"). To determine the applicable Base Royalty for a particular Software Title in a particular Sales Territory, the applicable Threshold Price from Table I below will determine the correct royalty "Tier." The Base Royalty is then as set forth in Table 2 based on the billing option selected by Publisher under the PLA and the Manufacturing Region in which the FPUs will be manufactured. For example, assume the Wholesale Price of a Software Title to be sold in the European Sales Territory is [***]. According to Table I, Tier 2 royalty rates will apply to that Software Title. If the Publisher has chosen a worldwide billing election, then the Base Royalty is [***] per Table 2. If Publisher has chosen a regional billing option, the Base Royalty is determined in Table 2 by the Manufacturing Region. If the Software Title were manufactured in the European Manufacturing Region, the Base Royalty would be [***] per FPU. If the Software Title were manufactured in Asian Manufacturing Region, the Base Royalty would be [***] per FPU.

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Table 1: Threshold Price per Sales Territory

	North America WSP	European WSP	Japan SRP	Asia WSP (US$)*
Tier 1	**[***] and over**	**[***] and over**	**[***] and over**	**[***] and over**
Tier 1.5	**[***] - [***]**	**[***] - [***]**	**[***] - [***]**	**[***] - [***]**
Tier 2	**[***] - [***]**	**[***] - [***]**	**[***] - [***]**	**[***] - [***]**
Tier 3	**[***] or less**	**[***] or less**	**[***] or less**	**[***] or less**

*This is the US dollar equivalent of local currency in the Asia Sales Territory.

Table 2: Royalty Rates

	Worldwide Billing Option	Royalty Rate per Manufacturing Region for Regional Billing Option		
		North American	European	Asian
Tier 1	**[***]**	**[***]**	**[***]**	**[***]**
Tier 1.5	**[***]**	**[***]**	**[***]**	**[***]**
Tier 2	**[***]**	**[***]**	**[***]**	**[***]**
Tier 3	**[***]**	**[***]**	**[***]**	**[***]**
Hit FPU	**[***]**	**[***]**	**[***]**	**[***]**
Super Hit FPU	**[***]**	**[***]**	**[***]**	**[***]**

3.3 Setting the Base Royalty. Publisher shall submit to Microsoft, at least [***] before placing the first manufacturing order for a Software Title, a completed and signed "Royalty Tier Selection Form" in the form attached hereto as Exhibit I for each Sales Territory. The selection indicated in the form will only be effective once the form has been accepted by Microsoft. If Publisher does not submit a Royalty Tier Selection Form as required hereunder, the Base Royalty for such Software Title will default to Tier 1, regardless of the actual Threshold Price. Except for as provided for under Section 4 of this Amendment, the selection of a Base Royalty for a Software Title in a Sales Territory is binding for the life of that Software Title even if the Threshold Price is reduced following the Software Title's Commercial Release. Microsoft may change the fees and royalty rates set forth herein upon written notice to Publisher in the first quarter each calendar year, which new fees and royalty rates will become effective the following July 1.

3.4 Unit Discounts. Publisher is eligible for a discount to the Base Royalty applicable to FPUs manufactured for a particular Sales Territory (a "Unit Discount") based on the number of Standard FPUs that have been manufactured for sale in that Sales Territory as described in Table 3 below. Note that units manufactured for sale in a Sales Territory are aggregated only towards a discount on FPUs manufactured for that Sales Territory; there is no worldwide or cross-territorial aggregation of units. The discount will be rounded up to the nearest Cent, Yen or hundredth of a Euro. Microsoft may revise the discount schedule upon written notice to Publisher in the first quarter each calendar year, which revised discount schedule will become effective the following July 1.

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Table 3: Unit Discounts

Unit Discount	North America Sales Territory	European Sales Territory	Japan Sales Territory	Asia Sales Territory
[***]	**[***]**	**[***]**	**[***]**	**[***]**
[***]	**[***]**	**[***]**	**[***]**	**[***]**
[***]	**[***]**	**[***]**	**[***]**	**[***]**
[***]	**[***]**	**[***]**	**[***]**	**[***]**
[***]	**[***]**	**[***]**	**[***]**	**[***]**

Example l (under worldwide billing election): Publisher manufactures a Software Title for sale in the North American Sales Territory with a wholesale price between [***] and [***] and an initial order quantity of [***] Standard FPUs. Publisher manufactures the same Software Title for sale in the European Sales Territory with a wholesale price between [***] and an initial order quantity of [***] Standard FPUs. The actual applied royalty-rates for this Software Title would-be:

i. For North American Sales Territory:
   a. [***] for units [***] through [***] ([***]discount)
   b. [***] (i.e., [***] x [***]) for units [***] through [***] ([***] discount)

ii. For European Sales Territory:
   a. [***]for units [***] through [***] ([***] discount)

Example 2 (under regional billing election): Publisher manufactures [***] Standard FPUs of a Software Title in the North American Manufacturing Region for sale in the North American Sales Territory with a wholesale price between [***]and [***] Publisher then manufactures [***] Standard FPUs in the European Manufacturing Region for sale in the North American Sales Territory with that same wholesale price (total FPUs for North American Sales Territory: [***]). Finally, Publisher manufactures [***] Standard FPUs of the same Software Title in the European Manufacturing Region for sale in the Japan Sales Territory at a suggested retail price below [***]. The actual applied royalty rates for this Software Title would be:

i. For North American Sales Territory:
   a. [***]for units [***] thru [***] ([***] discount)
   b. [***]for units [***]through [***] ([***] discount)
   c. [***] (i.e., [***]x [***]) for units [***]through [***] ([***] discount)

ii. For Japan Sales Territory:
   a. [***]for units [***] through [***] ([***] discount)

[***] The portions of this document marked with three asterisks represent confidential portions omitted and filed separately with the Securities and Exchange Commission.

4 Limited Royalty Tier Migration

4.1 Under the conditions described in this Section 4, Publisher may change the previously elected Base Royalty rate for a Software Title in a specific Sales Territory one time. In order *for* the new Base Royalty to be applied to Publisher's FPUs, Publisher shall submit to Microsoft, at least [***] before placing a manufacturing order for the Software Title to which Publisher desires the new Base Royalty to apply, a completed and signed "Royalty Tier Change Form" *in* the form attached hereto as Exhibit 2 for each Sales Territory.

4.2 The Royalty Tier Change Form must be received and acknowledged by Microsoft no sooner than [***] and no later than [***] after the date that the Software Title was Commercially Released in the applicable Sales Territory, which Commercial Release date must occur on or after September 1, 2005. No change to a Base Royalty will be effective before March 1, 2006.

4.3 The change in Base Royalty represented by the Royalty Tier Change Form will only apply prospectively to manufacturing orders placed after the form has been accepted by Microsoft.

4.4 Publisher may only submit a single Royalty Tier Change Form per Software Title per Sales Territory.

4.5 Publisher may only change from Tier 1 to Tier 1.5, Tier 1.5 to Tier 2 or Tier l to Tier 2.

4.6 If Publisher submits a Royalty Tier Change Form for a Software Title in a particular Sales Territory, the Software Title is thereafter not eligible to participate in any Hits Program for that Sales Territory.

5 Hits Programs

5.1 Publisher may elect to participate in certain Platinum or Classic Hits, Platinum or Classic Family Hits or Super Hits programs (collectively referred to herein as "Hits Programs") for qualified Software Titles (a "Hit FPU"). If Publisher elects to participate in a Hits Program, Publisher must provide Microsoft with *a* completed and signed Hits Programs Election Form in the form attached hereto as Exhibit 3 no later than [***] prior to the targeted Commercial Release of the Hit FPU. If a Software Title meets the applicable participation criteria in a particular Sales Territory and Microsoft receives the Hits Programs Election Form on time, Publisher is authorized to manufacture and distribute Hit FPUs in such Sales Territory and at the Base Royalty rate in Table 2 of Section 3.2.2 of this Amendment applicable to "Hit FPUs" or "Super Hit FPUs," as applicable In order for a Software Title to qualify as a Hits FPU in a Sales Territory, the following conditions, applicable per Hits Program, must be satisfied:

5.1.1 For all Hits Programs, the Software Title must have been commercially available as a Standard FPU in the applicable Sales Territory for at least[***] but not more than [***]. Notwithstanding the foregoing, a Software Title may qualify as a Hit FPU in the European or Japan Sales Territory after [***].

[***] The portions of this document marked with three asterisks represent confidential portions omitted and filed separately with the Securities and Exchange Commission.

5.1.2 To qualify as *a* Platinum Family Hit, the Software Title must (i) have received an "E," or, in the event such rating is officially adopted by the ESRB, an "E10" rating, from the ESRB and/or a "PEGI 3+" rating in Europe and/or an equivalent rating in the applicable Sales Territory (to the extent Software Titles are rated by regulatory boards within the applicable Sales Territory); and (ii) be character based and/or appeal, as determined by Microsoft in its sole good faith discretion, to children 12 years of age and younger.

5.1.3 In any calendar year in *a* Sales Territory, Publisher may not publish more than four (4) Software Titles as part of the Platinum or Classic Hits Family Program.

5.1.4 To qualify as a "Super-Hit," a Software Title must have been a Hits FPU tor at least [***]. The manufacturing requirements are different depending on whether a potential Super Hit started out as a Platinum or Classic Hit or Platinum or Classic Family Hit. No Software Title may be released as a Super Hit prior to March 1, 2006.

5.1.5 Publisher must have manufactured the following minimum quantities of Standard and/or Hit FPUs (as indicated below) for the applicable Sales Territory and Hits Program.

Table 4: Hits Manufacturing Requirements

	NA	EU	Japan	Asia
Platinum or Classic Hits • Must be Standard FPUs	[***]	[***]	[***]	[***] or Platinum in NA or Japan
Super Hits from Platinum or Classic Hits • Must be Standard, Platinum or Classics Hit FPUs	[***]	[***]	NA	[***]
Platinum or Classic Family Hits • Must be Standard FPUs	[***]	[***]	NA	[***]
Super Hits from Platinum or Classic Family Hits • Must be Standard, Platinum or Classic Family Hit FPUs	[***]	[***]	NA	[***]

5.1.6 The Wholesale Price per Hit FPU other than Super Flits must not exceed [***] in the North American Sales Territory, the equivalent of [***] in local currency for the Asian Sales Territory, [***] in the European Sales Territory; and the suggested retail price must be less than [***] in the Japan Sales Territory. The Wholesale Price per Super Hits FPU must not exceed [***] in the North American Sales Territory, the equivalent of [***] in local currency for the Asia Sales Territory and [***] in the European Sales Territory.

5.2 All Marketing Materials for a Hit FPU must clearly comply with all Microsoft branding requirements as may be required in each Sales Territory and Publisher shall submit all such Marketing Materials to Microsoft for its approval in accordance with the PLA. Notwithstanding the foregoing, all Hit FPUs must comply with the basic branding and other requirements for Marketing Materials set forth in the Xbox Guide.

5.3 The Hit FPU version must be the same or substantially equivalent to the Standard FPU version of the Software Title. Publisher may modify or add additional content or features to

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the Hit FPU version of the Software Title (e.g., demos or game play changes) subject to Microsoft's review and approval, which approval shall not be unreasonably withheld, and Publisher acknowledges that any such modifications or additions may require the Software Title to be re-Certified at Publisher's expense.

6 Minimum Order Quantities

6.1 Within [***] after the date on which both Microsoft and Publisher have authorized the Authorized Replicator to begin replication of FPUs for distribution to a specified Sales Territory, (receipt of both approvals is referred to as "Release to Manufacture"), Publisher must place orders to manufacture the minimum order quantities ("MOQs") as described in the Xbox Guide, which MOQ's may be updated and revised in the first calendar quarter each year and will be effective starting the following July 1. Currently, the MOQs are as follows:

	Per Software Title	Per Disc
North American Sales Territory	[***]	[***]
European Territory	[***]	[***]
Japan Sales Territory	[***]	NA
Asian Sales Territory	[***]	NA

6.2 For the purposes of this Section, a "Disc" shall mean an FPU that is signed for use on a certain defined range of Xbox hardware, regardless of the number of languages or product SKUs contained thereon. The MOQs per Software Title are cumulative per Sales Territory. For Example, if an FPU is released in both the North American Sales Territory and the European Sales Territory, the cumulative MOQ per Software Title would be [***]. The MOQ per Software Title and the MOQ per Disc, however, are not cumulative. For example, a single Disc FPU released only in the North America Sales Territory will

have a total minimum order quantity of [***], which would cover the [***] MOQ per Software Title and the [***] MOQ per Disc (rather than [***] which would have been the total minimum order quantity if the MOQ per software Title and the MOQ per Disc were cumulative).

6.3 If Publisher fails to place orders to meet any applicable minimum order quantity within [***] of Release to Manufacture, Publisher shall immediately pay Microsoft the applicable Base Royalty for the number of FPUs represented by the difference between the applicable minimum order quantity and the number of FPUs of the Software Title actually ordered by Publisher.

7 Samples

For each Software Title published under the PLA, as soon as possible following Microsoft's request and at Publisher's cost, Publisher shall provide Microsoft with up to [***] FPUs and accompanying Marketing Materials per Sales Territory in which the FPU will be released. Such units may be used in marketing, as product samples, for customer support, testing and for archival purposes. Publisher will not have to pay a Base Royalty for such samples nor will such samples count towards the Unit Discount in Section 3 of this Amendment.

8 Demo Versions

If Publisher wishes to distribute a Demo Version, Publisher must obtain Microsoft's approval and Microsoft may charge a reasonable fee to offset costs of the Certification. Subject to the terms of the Xbox Guide, Demo Version(s) may be placed on a single disc, either as a stand-alone or with other Demo Versions and the suggested price of such units must be free or at a suggested retail price that does not exceed [***] or its equivalent in local currency. Unless separately addressed in the Xbox Guide, all rights, obligations and approvals set forth in the PLA as applying to Software Titles shall separately apply to any Demo Version. No royalties will be payable to Microsoft with respect to any Demo Versions.

9 Billing Addresses

Publisher may have up to three "bill to" addresses for the payment of royalties, one for the North American Manufacturing Region, one for the European Manufacturing Region and one for the Asian Manufacturing Region. If Publisher elects to have a billing address within a European union member country after April 1, 2005, Publisher must submit a completed and signed enrollment form with Microsoft Ireland Operations Ltd. ("MIOL") attached hereto as Exhibit 4 prior to April 1, 2005. If Publisher does not sign the MIOL enrollment form by April I, 2005, then all billing to any previously established European address will default to Publisher's "sold-to" address on file with Microsoft. If the Publisher has not signed the MIOL Enrollment form by April 1, 2005 and has no address on file with Microsoft that is not within a European union member country, all manufacturing under the PLA will cease until a properly executed MIOL enrollment form is received.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the Amendment Effective Date.

MICROSOFT LICENSING, GP	**ACTIVISION PUBLISHING, INC**
By (sign) /s/ Roxanne V. Spring	By (sign) /s/ Greg Deutsch
Name (Print) Roxanne V. Spring	Name (Print) Greg Deutsch
Title SPM	Title Director, Business & Legal Affairs
Date (Print mm/dd/yy) 2/25/2005	Date (Print mm/dd/yy) 2/17/2004

EXHIBIT 1

ROYALTY TIER SELECTION FORM

PLEASE COMPLETE THE BELOW INFORMATION, SIGN THE FORM, AND FAX IT TO MICROSOFT AT +1 (425) 708-2300 TO THE ATTENTION OF MICROSOFT LICENSING, GP (MSLI) AND YOUR ACCOUNT MANAGER.

NOTES:

- **MANUFACTURING ORDER BEING PLACED FOR THE SOFTWARE TITLE FOR EACH RESPECTIVE SALES TERRITORY. IF THIS FORM IS NOT SUBMITTED ON TIME, THE ROYALTY RATE WILL DEFAULT TO TIER I FOR THE APPLICABLE SALES TERRITORY.**
- **A SEPARATE FORM MUST BE SUBMITTED FOR EACH SALES TERRITORY.**

1. Publisher Name: _____

2. Xbox Software Title Name: _____

3. MID Number:

_____

4.Manufacturing Region (check one):

o North America
o Europe
o Asia

5. Sales Territory (check one):

o North American Sales Territory
o Japan Sales Territory
o European Sales Territory
o Asian Sales Territory

6.Final Certification Date: ___

7.Select Royalty Tier: (check one): Tier 1: o Tier 1.5*: o Tier 2: o Tier 3: o

*Available only for manufacturing orders on or after October 1, 2005

The undersigned represents that he/she has authority to submit this form on behalf of the above publisher, and that the information contained herein is true and accurate.

MICROSOFT CONFIDENTIAL

[***] The portions of this document marked with three asterisks represent confidential portions omitted and filed separately with the Securities and Exchange Commission.

Contract Number: 106389

_____
By (sign)

_____
Name, Title (Print)

_____
E-Mail Address (for confirmation of receipt)

_____
Date (Print mm/dd/yy)

MICROSOFT CONFIDENTIAL

[***] The portions of this document marked with three asterisks represent confidential portions omitted and filed separately with the Securities and Exchange Commission.

Contract Number: 106389

Contract Number: 106389

EXHIBIT 2

ROYALTY TIER CHANGE FORM

PLEASE COMPLETE THE BELOW INFORMATION, SIGN THE FORM, AND FAX IT TO MICROSOFT AT +1 (425) 708-2300 TO THE ATTENTION OF MICROSOFT LICENSING, GP (MSLI) AND YOUR ACCOUNT MANAGER.

NOTES:

- **THIS FORM MUST BE SUBMITTED AT LEAST FIVE (5) BUSINESS DAYS PRIOR TO THE FIRST MANUFACTURING ORDER TO WHICH PUBLISHER DESIRES THE NEW BASE ROYALTY TO APPLY FOR EACH RESPECTIVE SALES TERRITORY.**
- **PUBLISHER UNDERSTANDS THAT BY SUBMITTING THIS FORM, THE SOFTWARE TITLE WILL NO LONGER BE ELIGIBLE TO PARTICIPATE IN ANY HITS PROGRAM.**
- **A SEPARATE FORM MUST BE SUBMITTED FOR EACH SALES TERRITORY IN WHICH PUBLISHER DESIRES TO CHANGE THE APPLICABLE BASE ROYALTY.**

1. Publisher Name:

2. Xbox Software Title Name:

3. XMID Number:

4. Manufacturing Region (check one):

   o North America
   o Europe
   o Asia

5. Sales Territory (check one):

   o North American Sales Territory
   o Japan Sales Territory
   o European Sales Territory
   o Asian Sales Territory

6. First Commercial Release (must be on or after September 1, 2005):

7. Current royalty tier: Tier 1: o Tier 1.5: o

8. Select Royalty Tier: (check one): Tier 1.5*: o Tier 2: o

*Available only for manufacturing orders on or after October 1, 2005.

[***] The portions of this document marked with three asterisks represent confidential portions omitted and filed separately with the Securities and Exchange Commission.

The undersigned represents that he/she has authority to submit this form on behalf of the above publisher, and that the information contained herein is true and accurate.

By (sign)

Name, Title (Print)

E-Mail Address (for confirmation of receipt)

Date (Print mm/dd/yy)

[***] The portions of this document marked with three asterisks represent confidential portions omitted and filed separately with the Securities and Exchange Commission.

Contract Number: 106389

Contract Number: 106389

EXHIBIT 3

HITS PROGRAM ELECTION FORM

PLEASE COMPLETE THE BELOW INFORMATION, SIGN THE FORM, AND FAX IT TO MICROSOFT AT +1 (425) 708-2300 TO THE ATTENTION OF MICROSOFT LICENSING. GP (MSLI) AND YOUR ACCOUNT MANAGER.

NOTES:

A SEPARATE FORM MUST BE SUBMITTED FOR EACH SALES TERRITORY IN WHICH THE PUBLISHER WISHES TO PUBLISH A SOFTWARE TITLE AS PART OF A HITS PROGRAM AND FOR EACH HITS PROGRAM.

1) Publisher Name.

2) Xbox Software Title Name:

3) XMID Number:

4) (circle one)

Platinum Hits	Platinum Family Hits
Classic Hits	Classic Family Hits
Super Hits from Platinum or Classic Hits	Super Hits from Platinum or Classic Family Hits

5) Sales Territory for which Publisher wants to publish the Software Title as a Hit FPU (check one):

North American Sales Territory	Japan Sales Territory (Platinum Hits only)
European Sales Territory	Asian Sales Territory

6) Date of Commercial Release of Software Title in applicable Sales Territory:

7) Number of FPUs manufactured to date for the Software Title in the applicable Sales Territory (include Hits FPUs for Super Hits program):

8) Projected Commercial Release date of Software Title in the applicable Sales Territory as part of Hits Program:

9) Manufacturing Region for Hit FPUs (circle one):
North American European Asian

The undersigned represents that he/she has authority to submit this form on behalf of the above publisher, and that the information contained herein is true and accurate.

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[***] The portions of this document marked with three asterisks represent confidential portions omitted and filed separately with the Securities and Exchange Commission.

Contract Number: 106389

_____
By (sign)

_____
Name, Title (Print)

_____
E-Mail Address (for confirmation of receipt)

_____
Date (Print mm/dd/yy)

MICROSOFT CONFIDENTIAL

[***] The portions of this document marked with three asterisks represent confidential portions omitted and filed separately with the Securities and Exchange Commission.

EXHIBIT 4

XBOX PUBLISHER ENROLLMENT FORM

PLEASE COMPLETE THE FORM ABOVE, SIGN IT, AND FAX IT TO MICROSOFT **AT +1 (425) 708-2300 TO THE ATTENTION OF YOUR ACCOUNT MANAGER.**

NOTE: PUBLISHER MUST COMPLETE, SIGN AND SUBMIT THIS ENROLLMENT FORM PRIOR TO APRIL 1, 2005 TO HAVE A BILLING ADDRESS WITHIN A EUROPEAN UNION MEMBER COUNTRY (INCLUDING PREVIOUSLY ESTABLISHED ADDRESSES).

This Xbox Publisher License Enrollment ("Enrollment") is entered into between Microsoft Ireland Operations Ltd. ("MIOL") and ("Publisher"), and effective as of the latter of the two signatures identified below. The terms of that certain Publisher License Agreement signed by Microsoft Licensing GP and dated on or about (the "PLA") are incorporated herein by reference.

1. Term. This Enrollment will expire on the date on which the Pi.A expires, unless it is terminated earlier as provided for in that agreement.

3. Representations and warranties. By signing this Enrollment, the parties agree to be bound by the terms of this Enrollment and Publisher represents and warrants that: (i) it has read and understood the PLA, including any amendments thereto, and agree to be bound by those; (ii) it is either the entity that signed the PLA or its affiliate; and (iii) the information that provided herein is accurate.

4. Notices; Requests. All notices and requests in connection with this Agreement are deemed given on the third day after they are deposited in the applicable country's mail system (7 days if sent internationally), postage prepaid, certified or registered, return receipt requested; or the day after they are sent by overnight courier, charges prepaid, with a confirming fax; and addressed as follows:

Publisher:	Microsoft:	MICROSOFT IRELAND OPERATIONS LTD. Microsoft European Operations Centre,
Attention:		Atrium Building Block B, Carmenhall Road,
Fax:		Sandyford Industrial Estate
Phone:		Dublin 18 Ireland
Email:		Fax: 353 1 706 4110
	Attention:	_____
	with a cc to:	MICROSOFT CORPORATION One Microsoft Way Redmond, WA 90852-6399

MICROSOFT CONFIDENTIAL

[***] The portions of this document marked with three asterisks represent confidential portions omitted and filed separately with the Securities and Exchange Commission.

Attention: Law & Corporate Affairs Department
Consumer
Legal Group, H&ED (Xbox)
Fax: +1 (425) 706-7329

or to such other address as the party to receive the notice or request so designates by written notice to the other.

[remainder of page intentionally left blank]

5. Billing Address. Publisher's billing address for the European Manufacturing Region follows:

Name: _____

Address: _____

_____

_____

VAT number: _____

Attention: _____

Email address: _____

Fax: _____

Phone: _____

MICROSOFT IRELAND OPERATIONS LTD.	**PUBLISHER**
_____	_____
By (sign)	By (sign)
_____	_____
Name (Print)	Name (Print)
_____	_____
Title	Title
_____	_____
Date (Print mm/dd/yy)	Date (Print mm/dd/yy)

MICROSOFT CONFIDENTIAL

[***] The portions of this document marked with three asterisks represent confidential portions omitted and filed separately with the Securities and Exchange Commission.

March 30, 2005

Mr. George Rose
3041 Hutton Drive
Beverly Hills, California 90210

Re: Your Employment Agreement with Activision, Inc.
dated November 20, 2002 (the "Employment Agreement")

Dear George:

This letter confirms our agreement to amend the terms of the Employment Agreement in accordance with the provisions set forth below. Capitalized terms not defined in this letter shall have the meanings ascribed to them in the Employment Agreement.

The specific amendments to the Employment Agreement are as follows:

1. Paragraph 1 of the Employment Agreement is deleted in its entirety and is replaced with the following:

   "1. Term

   The term of your employment under this agreement shall commence on November 01, 2002 and expire on March 31, 2007, unless earlier terminated as provided below."

2. Paragraph 2(a) of the Employment Agreement is supplemented with the following sentence:

   "Notwithstanding anything to the contrary set forth in this agreement, commencing effective as of March 30, 2005, your base salary shall be $330,000."

3. Paragraph 2(d) of the Employment Agreement is deleted in its entirety and is replaced with the following:

   "In addition to your base salary, you may be eligible to receive an annual discretionary bonus targeted at sixty percent (60%) of your annual base salary (pro-rated for the amount of time that you actually perform services for Employer during a particular fiscal year). The amount of this bonus, if any, is within the sole and absolute discretion of the Employer's Board of Directors (or the Compensation Committee of the Board of Directors). Certain of the criteria that will be considered to evaluate your eligibility for a bonus are your achievement of specific objectives and/or your contribution to the success of the corporate goals and objectives. Employer's overall financial performance will also be considered in determining whether any bonus is awarded and, if so, the amount. Discretionary bonuses, if granted, are generally paid to employees in May. You must remain continuously employed by Employer through the date on which the discretionary bonus is paid to be eligible to receive a bonus. Employer retains the right to modify, at any time, any and all of the criteria used to determine whether Employee is eligible for a bonus and, if so, the amount of any such bonus."

Employer and you do hereby agree that the terms of that certain Memorandum dated July 23, 2002 as specifically relating to the reduction of your bonus level to 55% are hereby deemed no longer in effect.

4. Paragraph 2(e) of the Employment Agreement is amended by adding the following provisions to the end of the sentence currently constituting such Paragraph:

   "As an additional incentive to the extension of your employment with Employer under this agreement, you will receive a sign-on bonus equal to $90,000. This bonus shall be paid upon execution of this Amendment."

5. Paragraph 2 of the Employment Agreement is amended by adding the following Paragraph 2(e) to the end of the sentence currently constituting such Paragraph:

   "Without limiting the generality of the foregoing, in consideration for your execution of this letter, you were also granted options to purchase 50,000 shares of Employer's common stock. The options will be issued on March 30, 2005 at an exercise price that will be the market low of such common stock on that date. The option to purchase 50,000 shares referred to above will vest ratably over four years beginning March 30, 2006, with twenty-five percent (25%) of the amount granted vesting on each subsequent March 30th. The foregoing options will be governed in all other respects by the company's stock option plan in effect at the time of the grant."

Except as specifically set forth above, the Employment Agreement shall remain unmodified and in full force and effect.

If the foregoing accurately reflects your understanding of the provisions of your Employment Agreement that are being amended pursuant to this letter, please so indicate by signing in the space provided below.

Very truly yours,

Ron Doornink
Chief Executive Officer

ACCEPTED AND AGREED TO:

George Rose

EXHIBIT 21.1

PRINCIPAL SUBSIDIARIES OF THE REGISTRANT

The following is a listing of the principal subsidiaries of the registrant as of May 31, 2005.

Name of subsidiary	State or Other Jurisdiction of Incorporation or Organization
Activision Beteiligungs GmbH	Germany
Activision Canada, Inc.	Canada
Activision Deutschland GmbH	Germany
Activision Europe, Limited	United Kingdom
Activision GmbH	Germany
Activision International B.V.	The Netherlands
Activision International Europe, LLC	California
Activision Italia, S.p.A.	Italy
Activision Productions, Inc.	Delaware
Activision Pty Ltd.	Australia
Activision Publishing Europe, LLP	United Kingdom
Activision Publishing, Inc.	Delaware
Activision Publishing International, Inc.	California
Activision Spain, S.A.	Spain
Activision Texas, Inc.	Texas
Activision U.K. Ltd.	United Kingdom
Activision Value Publishing, Inc.	Minnesota
Activision Vermogensverwaltungs GmbH	Germany
Advantage Entertainment Distribution Limited	United Kingdom
ATVI France SARL	France
Beenox Inc.	Canada
CD Contact Data BV	The Netherlands
CD Contact Data GmbH	Germany
Centresoft Ltd.	United Kingdom
Combined Distribution Holdings Ltd.	United Kingdom
Contact Data Belgium N.V.	Belgium
Expert Software, Inc.	Delaware
Gray Matter Interactive Studios, Inc.	California
Igloo Distribution Limited	United Kingdom
Infinity Ward, Inc.	Delaware
Kaboom.com, Inc.	Delaware
Luxoflux, Inc.	Delaware

NBG EDV Handels-und & Verlags GmbH & Co. KG	Germany
Neversoft Entertainment, Inc.	California
PDQ Distribution Ltd.	United Kingdom
Shaba Games, Inc.	Delaware
Target Software Vertriebs GmbH	Germany
Treyarch Corporation	Delaware
Toys For Bob, Inc.	California
Vicarious Visions, Inc.	New York
Z-Axis, Ltd.	Nevada

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-30303, 333-36949, 333-43961, 333-46425, 333-56879, 333-61571, 333-67707, 033-68144, 033-75878, 333-85385, 333-96079, 333-94509, 333-66280, 333-71682, 333-74460, 333-76840, 333-86166, 333-89550, 333-89880, 333-101271 and 333-101301), Form S-4 (No. 333-101304) and Form S-8 (Nos. 333-06130, 333-12621, 333-06054, 333-40727, 333-61573, 333-81239, 033-48411, 033-63638, 033-91074, 333-85383, 333-36272, 333-58922, 333-72014, 333-87810, 333-100097, 333-100114, 333-100115, 333-103320, 333-103323, 333-106487 and 333-111131) of Activision, Inc. of our report dated June 7, 2005, relating to the consolidated financial statements, financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

PricewaterhouseCoopers LLP
Los Angeles, California
June 7, 2005

Exhibit 31.1

CERTIFICATION

I, Robert A. Kotick, Chief Executive Officer of Activision, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Activision, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 9, 2005

/s/ Robert A. Kotick

Robert A. Kotick
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Ronald Doornink, President of Activision Inc., and Chief Executive Officer of Activision Publishing, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Activision, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 9, 2005

/s/ Ronald Doornink

Ronald Doornink
President, Activision, Inc. and
Chief Executive Officer,
Activision Publishing, Inc.

Exhibit 31.3

CERTIFICATION

I, William J. Chardavoyne, Executive Vice President and Chief Financial Officer of Activision, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Activision, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 9, 2005

/s/ William J. Chardavoyne

William J. Chardavoyne
Executive Vice President and
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Activision, Inc. (the "Company") on Form 10-K for the period ended March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert A. Kotick, Chief Executive Officer of the Company, certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert A. Kotick
Robert A. Kotick
Chief Executive Officer

June 9, 2005

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Activision, Inc. (the "Company") on Form 10-K for the period ended March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald Doornink, President of the Company and Chief Executive Officer of Activision Publishing, Inc., certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ronald Doornink
Ronald Doornink
President, Activision, Inc.
Chief Executive Officer,
Activision Publishing, Inc.

June 9, 2005

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.3

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Activision, Inc. (the "Company") on Form 10-K for the period ended March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William J. Chardavoyne, Executive Vice President and Chief Financial Officer of the Company, certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William J. Chardavoyne
William J. Chardavoyne
Executive Vice President and
Chief Financial Officer

June 9, 2005

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.