

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2000

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☐ 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

(State or other jurisdiction of
incorporation or organization)

95-4803544

(I.R.S. Employer Identification No.)

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

90405
(Zip Code)

(310) 255-2000

(Registrant's telephone number, including area code)

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

The number of shares of the registrant's Common Stock outstanding as of August 8, 2000 was 23,634,544.

ACTIVISION, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION.
Item I. Financial Statements.

ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share data)

	June 30, 2000	March 31, 2000
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,589	\$ 49,985
Accounts receivable, net of allowances of \$26,108 and \$31,521 at June 30, 2000 and March 31, 2000, respectively	86,895	108,108
Inventories	42,888	40,453
Prepaid royalties and capitalized software costs	37,800	31,655
Deferred income taxes	14,884	14,159
Other current assets	17,785	19,737
	-----	-----
Total current assets	211,841	264,097
Prepaid royalties and capitalized software costs	8,557	9,153
Property and equipment, net	11,304	10,815
Deferred income taxes	11,006	6,055
Goodwill, net	11,705	12,347
Other assets	9,934	7,270
	-----	-----
Total assets	\$ 264,347	\$ 309,737
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 19,860	\$ 16,260
Accounts payable	22,116	38,284
Accrued expenses	42,218	49,404
	-----	-----
Total current liabilities	84,194	103,948
Long-term debt, less current portion	10,258	13,778
Convertible subordinated notes	60,000	60,000
Other liabilities	35	2
	-----	-----
Total liabilities	154,487	177,728
	-----	-----
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.000001 par value, 5,000,000 shares authorized, no shares issued at June 30, 2000 and March 31, 2000	-	-
Common stock, \$.000001 par value, 50,000,000 shares authorized, 26,491,510 and 26,488,260 shares issued and 23,607,531 and 25,988,260 outstanding at June 30, 2000 and March 31, 2000, respectively	-	-
Additional paid-in capital	152,279	151,714
Retained earnings (deficit)	(13,540)	(8,361)
Accumulated other comprehensive loss	(8,630)	(6,066)
Less: Treasury stock, at cost, 2,883,979 shares and 500,000 shares at June 30, 2000 and March 31, 2000, respectively	----- (20,249)	----- (5,278)
Total shareholders' equity	109,860	132,009
	-----	-----
Total liabilities and shareholders' equity	\$ 264,347	\$ 309,737
	=====	=====

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

ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In thousands, except per share data)

	For the three months ended June 30,	
		Restated
	2000	1999
Net revenues	\$ 84,558	\$ 84,142
Costs and expenses:		
Cost of sales - product costs	43,633	53,542
Cost of sales - royalties and software amortization	13,647	9,867
Product development	7,424	4,523
Sales and marketing	17,872	15,250
General and administrative	8,102	6,592
Amortization of intangible assets	378	469
Total costs and expenses	91,056	90,243
Loss from operations	(6,498)	(6,101)
Interest expense, net	(1,723)	(1,160)
Loss before income tax provision	(8,221)	(7,261)
Income tax provision (benefit)	(3,042)	(2,686)
Net loss	\$ (5,179)	\$ (4,575)
Basic loss per share:		
Net loss	\$ (0.21)	\$ (0.19)
Weighted average common shares outstanding	24,688	23,557
Diluted loss per share:		
Net loss	\$ (0.21)	\$ (0.19)
Weighted average common shares outstanding	24,688	23,557

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

ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	For the three months ended June 30,	
		Restated
	2000	1999
Cash flows from operating activities:		
Net loss	\$ (5,179)	\$ (4,575)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred income taxes	(4,764)	1,192
Depreciation and amortization	1,480	1,912
Amortization of prepaid royalties and capitalized software costs	12,546	8,190
Expense related to common stock warrants	352	47
Change in assets and liabilities (net of effects of purchases and acquisitions):		
Accounts receivable	21,213	20,090
Inventories	(2,435)	(5,816)
Other current assets	1,952	(4,407)
Other assets	(3,016)	(774)
Accounts payable	(16,168)	(14,795)
Accrued expenses	(7,605)	(12,137)
Other liabilities	32	-
	-----	-----
Net cash used in operating activities	(1,592)	(11,073)
	-----	-----
Cash flows from investing activities:		
Cash used in purchase acquisitions (net of cash acquired)	-	(20,523)
Investment in prepaid royalties and capitalized software costs	(18,095)	(11,917)
Capital expenditures	(1,627)	(583)
	-----	-----
Net cash used in investing activities	(19,722)	(33,023)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock pursuant to employee stock option plans	29	4,590
Borrowing under line-of-credit agreements	144,401	16,472
Payment under line-of-credit agreements	(139,440)	(7,071)
Proceeds from term loan	-	25,000
Payment on term loan	(4,632)	-
Other notes payable, net	(191)	(5,674)
Cash paid to secure line of credit and term loan	-	(3,355)
Purchase of treasury stock	(14,971)	-
	-----	-----
Net cash provided by (used in) financing activities	(14,804)	29,962
	-----	-----
Effect of exchange rate changes on cash	(2,278)	(947)
	-----	-----
Net decrease in cash and cash equivalents	(38,396)	(15,081)
Cash and cash equivalents at beginning of period	49,985	33,037
	-----	-----
Cash and cash equivalents at end of period	\$ 11,589	\$ 17,956
	=====	=====

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

ACTIVISION, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CHANGES IN
 SHAREHOLDERS' EQUITY
 For the three months ended June 30, 2000
 (Unaudited)
 (In thousands)

	Common Stock		Additional	Retained
	Shares	Amount	Paid-In Capital	Earnings (Deficit)
<hr/>				
BALANCE, MARCH 31, 2000	26,488	\$ -	\$ 151,714	\$ (8,361)
Components of comprehensive income (loss):				
Net loss	-	-	-	(5,179)
Foreign currency translation adjustment	-	-	-	-
Total comprehensive loss				
Acquisition of treasury stock	-	-	-	-
Issuance of common stock pursuant to employee stock option plans	4	-	29	-
Tax benefit attributable to employee stock option plans	-	-	3	-
Tax benefit derived from net operating loss carryforward utilization	-	-	533	-
BALANCE, JUNE 30, 2000	26,492	\$ -	\$ 152,279	\$ (13,540)

	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity
	Shares	Amount		
<hr/>				
BALANCE, MARCH 31, 2000	(500)	\$ (5,278)	\$ (6,066)	\$ 132,009
Components of comprehensive income (loss):				
Net loss	-	-	-	(5,179)
Foreign currency translation adjustment	-	-	(2,564)	(2,564)
Total comprehensive loss				(7,743)
Acquisition of treasury stock	(2,384)	(14,971)	-	(14,971)
Issuance of common stock pursuant to employee stock option plans	-	-	-	29
Tax benefit attributable to employee stock option plans	-	-	-	3
Tax benefit derived from net operating loss carryforward utilization	-	-	-	533
BALANCE, JUNE 30, 2000	(2,884)	\$ (20,249)	\$ (8,630)	\$ 109,860

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

ACITIVISION, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the three months ended June 30, 2000
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Activision, Inc. (together with its subsidiaries, "Activision" or "the Company"). The information furnished is unaudited and reflects all adjustments that, in the opinion of management, are necessary to provide a fair statement of the results for the interim periods presented. The financial statements should be read in conjunction with the financial statements included in the Company's Annual Report on Form 10-K for the year ended March 31, 2000 as filed with the Securities and Exchange Commission (the "SEC").

The consolidated financial statements for the period ended June 30, 1999 have been retroactively restated to reflect the Company's acquisition of JCM Productions, Inc. dba Neversoft Entertainment ("Neversoft") on September 30, 1999, which was accounted for as a pooling of interests.

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

2. ORGANIZATIONAL STRUCTURE

Effective June 9, 2000, Activision reorganized into a holding company form of organizational structure, whereby Activision Holdings, Inc., a Delaware corporation ("Activision Holdings"), became the holding company for Activision and its subsidiaries. The new holding company organizational structure will allow Activision to manage its entire organization more effectively and broadens the alternatives for future financings.

The holding company organizational structure was effected by a merger conducted pursuant to Section 251(g) of the General Corporation Law of the State of Delaware, which provides for the formation of a holding company structure without a vote of the stockholders of the constituent corporations. In the merger, ATVI Merger Sub, Inc., a Delaware corporation, organized for the purpose of implementing the holding company organizational structure (the "Merger Sub"), merged with and into Activision with Activision as the surviving corporation (the "Surviving Corporation"). Prior to the merger, Activision Holdings was a direct, wholly-owned subsidiary of Activision and Merger Sub was a direct, wholly owned subsidiary of Activision Holdings. Pursuant to the merger, (i) each issued and outstanding share of common stock of Activision (including treasury shares) was converted into one share of common stock of Activision Holdings, (ii) each issued and outstanding share of Merger Sub was converted into one share of the Surviving Corporation's common stock, and Merger Sub's corporate existence ceased, and (iii) all of the issued and outstanding shares of Activision Holdings owned by Activision were automatically canceled and retired. As a result of the merger, Activision became a direct, wholly owned subsidiary of Activision Holdings.

Immediately following the merger, Activision changed its name to "Activision Publishing, Inc." and Activision Holdings changed its name to "Activision, Inc." The holding company's common stock will continue to trade on The Nasdaq National Market under the symbol ATVI.

The conversion of shares of Activision's common stock in the merger occurred without an exchange of certificates. Accordingly, certificates formerly representing shares of outstanding common stock of Activision are deemed to represent the same number of shares of common stock of Activision Holdings. The change to the holding company structure was tax free for federal income tax purposes for stockholders.

These transactions had no impact on the Company's consolidated financial statements.

3. PREPAID ROYALTIES AND CAPITALIZED SOFTWARE COSTS

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

ACITIVISION, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the three months ended June 30, 2000
(Unaudited)

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

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

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

As of June 30, 2000, prepaid royalties and unamortized capitalized software costs totaled \$32.6 million (including \$8.6 million classified as non-current) and \$13.8 million, respectively. As of March 31, 2000, prepaid royalties and unamortized capitalized software costs totaled \$29.2 million (including \$9.2 million classified as non-current) and \$11.6 million, respectively.

4. REVENUE RECOGNITION

Product Sales: The Company recognizes revenue from the sale of its products upon shipment. Subject to certain limitations, the Company permits customers to obtain exchanges or return products within certain specified periods and provides price protection on certain unsold merchandise. Management of the Company estimates the amount of future returns and price protections based upon historical results and current known circumstances. Revenue from product sales is reflected net of the allowance for returns and price protection.

Software Licenses: For those license agreements which provide the customers the right to multiple copies in exchange for guaranteed amounts, revenue is recognized at delivery. Per copy royalties on sales which exceed the guarantee are recognized as earned.

ACITIVISION, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the three months ended June 30, 2000
(Unaudited)

5. INTEREST INCOME (EXPENSE)

Interest expense, net is comprised of the following (amounts in thousands):

	June 30,	
	2000	1999
Interest expense	\$ (2,190)	\$ (1,347)
Interest income	467	187
Net interest income (expense)	\$ (1,723)	\$ (1,160)

6. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended June 30,	
	2000	1999
Non-cash investing and financing activities:		
Stock and warrants to acquire common stock issued in exchange for licensing rights	\$ -	\$ 3,113
Tax benefit derived from net operating loss carryforward utilization	533	-
Tax benefit attributable to stock option exercises	3	513
Stock and options issued to effect business combination	-	5,971
Supplemental cash flow information:		
Cash paid for income taxes	\$ 2,187	\$ 762
Cash paid for interest	\$ 2,874	\$ 4,304

7. OPERATIONS BY REPORTABLE SEGMENTS AND GEOGRAPHIC AREA

The Company publishes, develops and distributes interactive entertainment and leisure products for a variety of game platforms, including PCs, the Sony PlayStation console system, the Nintendo 64 console system, the Nintendo Gameboy and the Sega Dreamcast console system. Based on its organizational structure, the Company operates in two reportable segments: publishing and distribution.

The Company's publishing segment publishes titles that are developed both internally through the studios owned by the Company and externally through third party developers. In the United States, the Company's products are sold primarily on a direct basis to major computer and software retailing organizations, mass market retailers, consumer electronic stores, discount warehouses and mail order companies. The Company conducts its international publishing activities through offices in the United Kingdom, Germany, France, Australia and Japan. The Company's products are sold internationally on a direct to retail basis and through third party distribution and licensing arrangements and through the Company's wholly-owned distribution subsidiaries located in the United Kingdom, the Netherlands and Germany.

ACITIVISION, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the three months ended June 30, 2000
(Unaudited)

The Company's distribution segment, located in the United Kingdom, the Netherlands and Germany, distributes interactive entertainment software and hardware and provides logistical services for a variety of publishers and manufacturers.

The President and Chief Operating Officer allocates resources to each of these segments using information on their respective revenues and operating profits before interest and taxes. The President and Chief Operating Officer has been identified as the Chief Operating Decision Maker as defined by SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," ("SFAS No. 131").

The President and Chief Operating Officer does not evaluate individual segments based on assets or depreciation.

The accounting policies of these segments are the same as those described in the Summary of Significant Accounting Policies in the Company's Annual Report on Form 10-K for the year ended March 31, 2000. Revenue derived from sales between segments is eliminated in consolidation.

Information on the reportable segments for the three months ended June 30, 2000 and 1999 is as follows:

	Three months ended June 30, 2000		
	Publishing	Distribution	Total
Total segment revenues	\$ 60,999	\$ 23,559	\$ 84,558
Revenue from sales between segments	(5,860)	5,860	-
Revenues from external customers	\$ 55,139	\$ 29,419	\$84,558
Operating income (loss)	\$ (5,907)	\$ (591)	\$(6,498)

	Three months ended June 30, 1999		
	Publishing	Distribution	Total
Total segment revenues	\$ 53,366	\$ 30,776	\$ 84,142
Revenue from sales between segments	(5,246)	5,246	-
Revenues from external customers	\$ 48,120	\$ 36,022	\$ 84,142
Operating income (loss)	\$ (5,947)	\$ (154)	\$ (6,101)

Geographic information for the three months ended June 30, 2000 and 1999 is based on the location of the selling entity. Revenues from external customers by geographic region were as follows:

	Three months ended March 31,	
	2000	1999
United States	\$ 45,995	\$ 35,428
Europe	37,370	47,146
Other	1,193	1,568
Total	\$ 84,558	\$ 84,142

ACITIVISION, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the three months ended June 30, 2000
(Unaudited)

Revenues by platform were as follows:

	Three months ended June 30,	
	2000	1999
Console	\$ 47,748	\$ 52,212
PC	36,810	31,930
Total	\$ 84,558	\$ 84,142

8. COMPUTATION OF EARNINGS PER SHARE

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

	Three months ended June 30,	
	2000	1999
NUMERATOR		
Numerator for basic and diluted earnings per share-income available to common shareholders	\$ (5,179)	\$ (4,575)
DENOMINATOR		
Denominator for basic earnings per share- weighted average common shares outstanding	24,688	23,557
Denominator for diluted earnings per share-weighted average common shares outstanding plus assumed conversions	24,688	23,557
Basic loss per share	\$ (0.21)	\$ (0.19)
Diluted loss per share	\$ (0.21)	\$ (0.19)

Options to purchase 13,575,542 shares of common stock at exercise prices ranging from \$0.75 to \$23.04 and options to purchase 11,968,659 shares of common stock at exercise prices ranging from \$0.51 to \$23.04 were outstanding for the three months ended June 30, 2000 and 1999, respectively, but were not included in the calculations of diluted loss per share because their effect would be antidilutive. Shares issuable upon the conversion of convertible subordinated notes were not included in the calculations of diluted loss per share because their effect would be antidilutive.

ACITIVISION, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the three months ended June 30, 2000
(Unaudited)

9. COMMITMENTS

BANK LINES OF CREDIT AND OTHER DEBT

In June 1999, the Company obtained a \$125.0 million revolving credit facility and term loan (the "U.S. Facility") with a group of banks ("the lender"). The U.S. Facility provides the Company with the ability to borrow up to \$100.0 million and issue letters of credit up to \$80.0 million on a revolving basis against eligible accounts receivable and inventory. The \$25.0 million term loan portion of the U.S. Facility was used to acquire Expert Software, Inc. in June 1999 and to pay costs related to such acquisition and the securing of the U.S. Facility. The term loan has a three year term with principal amortization on a straight-line quarterly basis which began December 31, 1999 and a borrowing rate based on the banks' base rate (which is generally equivalent to the published prime rate) plus 2% or LIBOR plus 3%. The revolving portion of the U.S. Facility has a borrowing rate based on the banks' base rate plus 1.75% or LIBOR plus 2.75% (weighted average interest rate of approximately 11.25% for the three months ended June 30, 2000) and matures June 2002. The Company pays a commitment fee of 1/2% on the unused portion of the revolving line. The U.S. Facility is collateralized by substantially all of the assets of the Company and its U.S. subsidiaries. The U.S. Facility contains various covenants that limit the ability of the Company to incur additional indebtedness, pay dividends or make other distributions, create certain liens, sell assets, or enter into certain mergers or acquisitions. The Company is also required to maintain specified financial ratios related to net worth and fixed charges. As of June 30, 2000, the Company did not meet the fixed charges coverage ratio covenant of its U.S. Facility. A waiver was obtained from the lender on August 11, 2000. As of June 30, 2000, \$15.4 million was outstanding under the term loan portion of the U.S. Facility and \$6.0 million was outstanding under the revolving portion of the U.S. Facility. No letters of credit were outstanding against the revolving portion of the U.S. Facility at June 30, 2000.

On June 8, 2000, the Company amended certain of the covenants of its U.S. Facility. The amended U.S. Facility permits the Company to purchase up to \$15.0 million in shares of its common stock as well as its convertible subordinated notes in accordance with the Company's stock repurchase program (described in Note 10), to distribute "Rights" under the Company's shareholders' rights plan (described in Note 11), and to reorganize the Company's organizational structure into a holding company form.

The Company has a revolving credit facility through its CD Contact subsidiary in the Netherlands (the "Netherlands Facility"). The Netherlands Facility permits revolving credit loans and letters of credit up to Netherlands Guilders ("NLG") 45 million (\$19.3 million), based upon eligible accounts receivable and inventory balances. The Netherlands Facility is due on demand, bears interest at a Eurocurrency rate plus 1.25% (weighted average interest rate of 5.5% as of June 30, 2000), is collateralized by GBP 6.0 million (\$9.1 million) letters of credit issued by the Company's CentreSoft subsidiary and matures March 2001. As of June 30, 2000, letters of credit outstanding under the Netherlands Facility were approximately NLG 273,000 (\$117,000) and borrowings outstanding were \$4.9 million.

The Company also has revolving credit facilities with its CentreSoft subsidiary located in the United Kingdom (the "UK Facility") and its NBG subsidiary located in Germany (the "German Facility"). The UK Facility provides for British Pounds ("GBP") 7.0 million (\$10.6 million) of revolving loans and GBP 6.0 million (\$9.1 million) of letters of credit, bears interest at LIBOR plus 2%, is collateralized by substantially all of the assets of the subsidiary and matures July 2001. The UK Facility also contains various covenants that require the subsidiary to maintain specified financial ratios related to, among others, fixed charges. The Company was in compliance with these covenants as of June 30, 2000. No borrowings were outstanding against the UK facility at June 30, 2000. Letters of credit of GBP 6.0 million (\$9.1 million) were outstanding against the UK Facility at June 30, 2000. The German Facility provides for revolving loans up to Deutsche Mark ("DM") 4 million (\$1.9 million), bears interest at 6.25%, is collateralized by a cash deposit of approximately GBP 650,000 (\$983,000) made by the Company's CentreSoft subsidiary and has no expiration date. No borrowings were outstanding against the German Facility as of June 30, 2000.

ACITIVISION, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the three months ended June 30, 2000
(Unaudited)

DEVELOPER CONTRACTS

In the normal course of business, the Company enters into contractual arrangements with third parties for the development of products. Under these agreements, the Company commits to provide specified payments to a developer, contingent upon the developer's achievement of contractually specified milestones. Assuming all contractually specified milestones are achieved, the total future minimum contract commitment for contracts in place as of June 30, 2000 is approximately \$50.9 million and is scheduled to be distributed as follows (amounts in thousands):

Fiscal

2001	\$	29,160
2002		8,158
2003		4,300
2004		3,000
2005		2,125
Thereafter		4,125

Total	\$	50,868
		=====

Additionally, under the terms of a production financing arrangement, the Company has a commitment to purchase three future PlayStation 2 titles from independent third party developers upon their completion for an estimated \$12.2 million in the aggregate. Failure by the developers to complete the project within the contractual time frame or specifications alleviates the Company's commitment.

LEGAL PROCEEDINGS

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

ACITIVISION, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the three months ended June 30, 2000
(Unaudited)

10. REPURCHASE PLAN

As of May 9, 2000, the Board of Directors authorized the Company to purchase up to \$15.0 million in shares of its common stock as well as its convertible subordinated notes. The shares and notes could be purchased from time to time through the open market or in privately negotiated transactions. The amount of shares and notes purchased and the timing of purchases was based on a number of factors, including the market price of the shares and notes, market conditions, and such other factors as the Company's management deemed appropriate. The Company has financed the purchase of shares with available cash. As of June 30, 2000, the Company has repurchased 2.3 million shares of its common stock for approximately \$15.0 million.

11. SHAREHOLDERS' RIGHTS PLAN

On April 18, 2000, the Company's Board of Directors approved a shareholders rights plan (the "Rights Plan"). Under the Rights Plan, each common stockholder at the close of business on April 19, 2000 will receive a dividend of one right for each share of common stock held. Each right represents the right to purchase one one-hundredth (1/100) of a share of the Company's Series A Junior Preferred Stock at an exercise price of \$40.00. Initially, the rights are represented by the Company's common stock certificates and are neither exercisable nor traded separately from the Company's common stock. The rights will only become exercisable if a person or group acquires 15% or more of the common stock of the Company, or announces or commences a tender or exchange offer which would result in the bidder's beneficial ownership of 15% or more of the Company's common stock.

In the event that any person or group acquires 15% or more of the Company's 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 the Company having a value equal to two times the then current exercise price of the right. If the Company is acquired in a merger or other business combination transaction after a person has acquired 15% or more the Company's 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 the Company, the Rights Plan "grandfathers" their current level of ownership, so long as they do not purchase additional shares in excess of certain limitations.

The Company 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 the Company's common stock. At any time after a person has acquired 15% or more (but before any person has acquired more than 50%) of the Company's common stock, the Company 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.

As discussed in Note 9, the Company obtained an amendment to its U.S. Facility relating to the Rights Plan and the Company's repurchase plan.

ACITIVISION, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the three months ended June 30, 2000
(Unaudited)

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

OVERVIEW

The Company is a leading international publisher, developer and distributor of interactive entertainment and leisure products. The Company currently focuses its publishing, development and distribution efforts on products designed for personal computers ("PCs") as well as the Sony PlayStation ("PSX") and PlayStation 2, Sega Dreamcast ("Dreamcast") and Nintendo N64 ("N64") console systems and Nintendo Gameboy handheld game devices. The Company's products span a wide range of genres and target markets.

The Company distributes its products worldwide through its direct sales forces, through its distribution subsidiaries, and through third party distributors and licensees.

The consolidated financial statements for the period ended June 30, 1999 have been retroactively restated to reflect the Company's acquisition of JCM Productions, Inc. dba Neversoft Entertainment ("Neversoft") on September 30, 1999, which was accounted for as a pooling of interests.

The Company recognizes revenue from the sale of its products upon shipment. Subject to certain limitations, the Company permits customers to obtain exchanges and returns within certain specified periods and provides price protection on certain unsold merchandise. Revenue from product sales is reflected after deducting the estimated allowance for returns and price protection. Management of the Company estimates the amount of future returns and price protection based upon historical results and current known circumstances. With respect to license agreements that provide customers the right to multiple copies in exchange for guaranteed amounts, revenue is recognized upon delivery. Per copy royalties on sales that exceed the guarantee are recognized as earned.

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

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

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

ACITIVISION, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the three months ended June 30, 2000
(Unaudited)

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

	Three months ended June 30,			
	(In thousands)			
			Restated	
	2000		1999	
Net revenues	\$ 84,558	100.0%	\$ 84,142	100.0%
Costs and expenses:				
Cost of sales - product costs	43,633	51.6%	53,542	63.6%
Cost of sales - royalties and software amortization	13,647	16.1%	9,867	11.7%
Product development	7,424	8.8%	4,523	5.4%
Sales and marketing	17,872	21.1%	15,250	18.1%
General and administrative	8,102	9.6%	6,592	7.8%
Amortization of intangible assets	378	0.5%	469	0.6%
Total costs and expenses	91,056	107.7%	90,243	107.2%
Loss from operations	(6,498)	(7.7%)	(6,101)	(7.2%)
Interest expense, net	(1,723)	(2.0%)	(1,160)	(1.4%)
Loss before income tax provision	(8,221)	(9.7%)	(7,261)	(8.6%)
Income tax provision (benefit)	(3,042)	3.6%	(2,686)	3.2%
Net loss	\$ (5,179)	(6.1%)	\$ (4,575)	(5.4%)
NET REVENUES BY TERRITORY:				
United States	\$ 45,995	54.4%	\$ 35,428	42.1%
Europe	37,370	44.2%	47,146	56.0%
Other	1,193	1.4%	1,568	1.9%
Total net revenues	\$ 84,558	100.0%	\$ 84,142	100.0%
NET REVENUES BY CHANNEL:				
Retailer/Reseller	\$ 81,801	96.7%	\$ 80,303	95.4%
OEM, Licensing, on-line and other	2,757	3.3%	3,839	4.6%
Total net revenues	\$ 84,558	100.0%	\$ 84,142	100.0%
ACTIVITY/PLATFORM MIX:				
Publishing:				
Console	\$ 31,259	37.0%	\$ 31,676	37.6%
PC	29,740	35.1%	21,690	25.8%
Total publishing net revenues	\$ 60,999	72.1%	\$ 53,366	63.4%
Distribution:				

Console	\$ 16,489	19.5%	\$ 20,536	24.4%
PC	7,070	8.4%	10,240	12.2%
	-----	-----	-----	-----
Total distribution net revenues	\$ 23,559	27.9%	\$ 30,776	36.6%
	-----	-----	-----	-----
Total net revenues	\$ 84,558	100.0%	\$ 84,142	100.0%
	=====	=====	=====	=====

OPERATING LOSS BY SEGMENT:

Publishing	\$	(5,907)	90.9%	\$	(5,947)	97.5%
Distribution		(591)	9.1		(154)	2.5%
		-----	-----		-----	-----
Total operating loss	\$	(6,498)	100.0%	\$	(6,101)	100.0%
		=====	=====		=====	=====

RESULTS OF OPERATIONS - THREE MONTHS ENDED JUNE 30, 2000 AND 1999

NET REVENUES

Net revenues for the three months ended June 30, 2000 increased 0.5% from the same period last year, from \$84.1 million to \$84.6 million. Publishing net revenues increased 14.2% from \$53.4 million to \$61.0 million. This increase was in large part offset by a 23.5% decline in distribution net revenues from \$30.8 million to \$23.6 million. Domestic net revenues grew 29.8% from \$35.4 million to \$46.0 million driven by an increase in publishing net revenues. International net revenues decreased 20.8% from \$48.7 million to \$38.6 million driven primarily by a decrease in distribution net revenues.

The increase in publishing net revenues for the three months ended June 30, 2000 was due to publishing PC net revenues increasing 37.1% from \$21.7 million to \$29.7 million. This increase was attributable to several new launches during the quarter, including Vampire: The Masquerade Redemption and Dark Reign 2, as well as continuing sales of Star Trek Armada, Soldier of Fortune and Quake 3 Arena. Publishing console net revenues for the three months ended June 30, 2000 and 1999 were \$31.3 million to \$31.7 million, respectively. Publishing console net revenues for the three months ended June 30, 2000 included net revenues from the release of X-Men Mutant Academy for the Nintendo Gameboy and Covert Ops for Playstation.

The decrease in distribution net revenues for the three months ended June 30, 2000, mainly was attributable to the continued weakness in the European console market.

COSTS AND EXPENSES

Cost of sales - product costs represented 51.6% and 63.6% of net revenues for the three months ended June 30, 2000 and 1999, respectively. The decrease in cost of sales - product costs as a percentage of net revenues for the three months ended June 30, 2000 was due to product mix. In the first quarter of fiscal 2001, the publishing product release schedule included more PC titles than console titles. PC products have a higher gross margin per unit compared to console products. Additionally, there was an overall increase in publishing net revenues versus distribution net revenues as a percentage of total net revenues. Publishing generates a higher gross margin per unit than distribution.

Cost of sales - royalty and software amortization expense represented 16.1% and 11.7% of net revenues for the three months ended June 30, 2000 and 1999, respectively. The increase in cost of sales - royalty and software amortization expense as a percentage of net revenues was primarily due to changes in the Company's product mix, with an increase in the number of branded products with higher royalty obligations as compared to the prior fiscal year.

Product development expenses of \$7.4 million and \$4.5 million represented 8.8% and 5.4% of net revenues for the three months ended June 30, 2000 and 1999, respectively. The increase in product development expenses as a percentage of net revenues was due to an increase in the number of titles being developed during the three months ended June 30, 2000 for current and next-generation platforms.

Sales and marketing expenses for the three months ended June 30, 2000 and 1999 were \$15.3 million (18.1% of net revenues) and \$17.9 million (21.1% of net revenues), respectively. The increase in the amount of sales and marketing and the increase as a percentage of net revenues was due to an increase in the number of titles released and the advertising necessary to promote these titles. These increases are also the result of an increased sales force as the Company is utilizing an increased direct to market sales approach as opposed to the use of third party distributors.

General and administrative expenses for the three months ended June 30, 2000 and 1999 were \$6.6 million (7.8% of net revenues) and \$8.1 million (9.6% of net revenues), respectively. These increases in general and administrative expenses were due to an increase in headcount related expenses for worldwide administrative support.

OPERATING LOSS

Operating loss for the three months ended June 30, 2000, was (\$6.5 million), compared to (\$6.1 million) for the three months ended June 30, 1999.

Publishing operating loss remained constant at (\$5.9 million), for the three months ended June 30, 2000 and 1999. Distribution operating loss for the three months ended June 30, 2000 increased to (\$591,000), compared to (\$154,000) in the year ago period. The period over period change primarily was due to the continued weakness in the European console market, as noted earlier.

OTHER INCOME (EXPENSE)

Interest expense, net of interest income, increased to \$1.7 million for the three months ended June 30, 2000, from \$1.2 million for the year ago period. This was primarily the result of increased average borrowings associated with the Company's \$125 million term loan and revolving credit facility obtained in June 1999 and higher interest rates experienced in the first quarter of fiscal 2001.

PROVISION FOR INCOME TAXES

The income tax benefit of \$3.0 million for the three months ended June 30, 2000 reflects the Company's effective income tax rate of approximately 37%. The significant items generating the variance between the Company's effective rate and its statutory rate of 35% are state taxes and nondeductible goodwill amortization, partially offset by a decrease in the Company's deferred tax asset valuation allowance and research and development tax credits. The realization of deferred tax assets primarily is dependent on the generation of future taxable income. Management believes that it is more likely than not that the Company will generate taxable income sufficient to realize the benefit of net deferred tax assets recognized.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents decreased \$38.4 million, from \$50.0 million at March 31, 2000 to \$11.6 million at June 30, 2000. The decrease in cash during the first quarter of fiscal 2001 resulted principally from \$1.6 million, \$19.7 million and \$14.8 million of cash used in operating activities, investing activities and financing activities, respectively. The cash used in operating activities primarily was the result of changes in accounts payable, accrued liabilities and accounts receivable driven by a seasonal increase in working capital demands. The cash used in investing activities primarily is the result of the Company's continued investment in product development. Approximately \$18.1 million was utilized in connection with the acquisition of publishing or distribution rights to products being developed by third parties, the execution of new license agreements granting the Company long-term rights to intellectual property of third parties, as well as the capitalization of product development costs relating to internally developed products. The cash used in financing activities primarily is reflective of the Company's \$15.0 million purchase of its common stock under its repurchase program.

In connection with the Company's purchases of Nintendo N64 software cartridges for distribution in North America and Europe, Nintendo requires the Company to provide irrevocable letters of credit prior to accepting purchase orders from the Company. Furthermore, Nintendo maintains a policy of not accepting returns of Nintendo N64 software cartridges. Because of these and other factors, the carrying of an inventory of Nintendo N64 software cartridges entails significant capital and risk. As of June 30, 2000, the Company had \$3.4 million of Nintendo N64 hardware and software cartridge inventory on hand, which represented approximately 8.0% of all inventory.

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

The Company has a \$125.0 million revolving credit facility and term loan (the "U.S. Facility") with a group of banks ("the lender"). The U.S. Facility provides the Company with the ability to borrow up to \$100.0 million and issue letters of credit up to \$80.0 million on a revolving basis against eligible accounts receivable and inventory. The \$25.0 million term loan portion of the U.S. Facility was used to fund the acquisition of Expert Software, Inc. in June 1999 and to pay costs related to such acquisition and the securing of the U.S. Facility. The term loan has a three year term with principal amortization on a straight-line quarterly basis which began December 31, 1999 and a borrowing rate based on the banks' base rate (which is generally equivalent to the published prime rate) plus 2% or LIBOR plus 3%. The revolving portion of the U.S. Facility has a borrowing rate based on the banks' base rate plus 1.75% or LIBOR plus 2.75% (weighted average interest rate of approximately 11.25% for the three months ending June 30, 2000) and matures June 2002. The Company pays a commitment fee of 1/2% on the unused portion of the revolving line. The U.S. Facility is collateralized by substantially all of the assets of the Company and its U.S. subsidiaries. The U.S. Facility contains various covenants which limit the ability of the Company to incur additional indebtedness, pay dividends or make other distributions, create certain liens, sell assets, or enter into certain mergers or acquisitions. The Company is also required to maintain specified financial ratios related to net worth and fixed charges. As of June 30, 2000, the Company did not meet the fixed charges coverage ratio covenant of its U.S. Facility. A waiver was obtained from the lender on August 11, 2000. As of June 30, 2000, \$15.4 million was outstanding under the term loan portion of the U.S. Facility and \$6.0 million was outstanding under the revolving portion of the U.S. Facility. No letters of credit were outstanding against the revolving portion of the U.S. Facility at June 30, 2000.

On June 8, 2000, the Company amended certain of the covenants of its U.S. Facility. The amended term loan and credit facility allows for the purchase by the Company of up to \$15.0 million in shares of its common stock as well as its convertible subordinated notes in accordance with the Company's stock repurchase program (described in Note 10 to the consolidated financial statements), to distribute "Rights" under the Company's shareholders' rights plan (described in Note 11 to the consolidated financial statements), and to reorganize the Company's organizational structure into a holding company form.

The Company has a revolving credit facility through its CD Contact subsidiary in the Netherlands (the "Netherlands Facility"). The Netherlands Facility permits revolving credit loans and letters of credit up to Netherlands Guilder ("NLG") 45 million (\$19.3 million), based upon eligible accounts receivable and inventory balances. The Netherlands Facility is due on demand, bears interest at a Eurocurrency rate plus 1.25% (weighted average interest rate of 5.5% of June 30, 2000), is collateralized by GBP 6.0 million (\$9.1 million) letters of credit issued by the Company's CentreSoft subsidiary and matures March 2001. As of June 30, 2000, letters of credit outstanding against the Netherlands Facility were approximately NLG 273,000 (\$117,000), and borrowings outstanding were \$4.9 million.

The Company also has revolving credit facilities with its CentreSoft subsidiary located in the United Kingdom, (the "UK Facility") and its NBG subsidiary located in Germany, (the "German Facility"). The UK Facility can be used for working capital requirements and provides for British Pounds ("GBP") 7 million (\$10.6 million) of revolving loans and GBP 6 million (\$9.1 million) of letters of credit, bears interest at LIBOR plus 2%, is collateralized by substantially all of the assets of the subsidiary and matures July 2001. The UK Facility also contains various covenants that require the subsidiary to maintain specified financial ratios related to, among others, fixed charges. The Company was in compliance with these covenants as of June 30, 2000. No borrowings were outstanding against the UK facility at June 30, 2000. Letters of credit of GBP 6.0 million (\$9.1 million) were outstanding against the UK Facility at June 30, 2000. The German Facility can be used for working capital requirements and provides for revolving loans up to Deutsche Mark ("DM") 4 million (\$1.9 million), bears interest at 6.25%, is collateralized by a cash deposit of approximately GBP 650,000 (\$983,000) made by the Company's CentreSoft subsidiary and has no expiration date. No borrowings were outstanding against the German Facility as of June 30, 2000.

In the normal course of business, the Company enters into contractual arrangements with third parties for the development of products. Under these agreements, the Company commits to provide specified payments to a developer, contingent upon the developer's achievement of contractually specified milestones. Assuming all contractually specified milestones are achieved, the total future minimum contract commitment for contracts in place as of June 30, 2000 is approximately \$50.9 million and is scheduled to be distributed as follows:

Fiscal		
2001	\$	29,160
2002		8,158
2003		4,300
2004		3,000
2005		2,125
Thereafter		4,125

Total	\$	50,868
		=====

Additionally, under the terms of a production financing arrangement, the Company has a commitment to purchase three future PlayStation 2 titles from independent third party developers upon their completion for an estimated \$12.2 million in the aggregate. Failure by the developers to complete the project within the contractual time frame or specifications alleviates the Company's commitment.

The Company historically has financed its acquisitions through the issuance of shares of its common stock. The Company will continue to evaluate potential acquisition candidates as to the benefit they bring to the Company and as to the ability of the Company to make such acquisitions and maintain compliance with its bank facilities.

In May 2000, the Board of Directors authorized the Company to purchase up to \$15.0 million in shares of its common stock as well as its convertible subordinated notes. The shares and notes could be purchased in the open market or in privately negotiated transactions at such times and in such amounts as management deemed appropriate, depending on market conditions and other factors. As of June 30, 2000, the Company has repurchased 2.3 million shares of its common stock for approximately \$15.0 million.

The Company believes that it has sufficient working capital (\$127.6 million at June 30, 2000), as well as proceeds available from the U.S. Facility, the UK Facility, the Netherlands Facility and the German Facility, to finance the Company's operational requirements for at least the next twelve months, including acquisitions 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.

YEAR 2000

The Company encountered no significant problems in its critical systems or products sold to customers in the transition to the year 2000. All of the Company's internal systems are functioning normally and no year 2000 problems have been reported by any of its trading partners. The Company will continue to monitor its systems for any latent issues, but expects no significant year 2000 issues to arise. The Company continues to maintain contingency plans that management believes are adequate and customary to address any unexpected year 2000 problems.

FACTORS AFFECTING FUTURE PERFORMANCE

In connection with the Private Securities Litigation Reform Act of 1995 (the "Litigation Reform Act"), the Company has disclosed certain cautionary information to be used in connection with written materials (including this Quarterly Report on Form 10-Q) and oral statements made by or on behalf of its employees and representatives that may contain "forward-looking statements" within the meaning of the Litigation Reform Act. Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology. The listener or reader is cautioned that all forward-looking statements are necessarily speculative and there are numerous risks and uncertainties that could cause actual events or results to differ

materially from those referred to in such forward-looking statements. For a discussion that highlights some of the more important risks identified by management, but which should not be assumed to be the only factors that could affect future performance, see the Company's Annual Report on Form 10-K which is incorporated herein by reference. The reader or listener is cautioned that the Company does not have a policy of updating or revising forward-looking statements and thus he or she should not assume that silence by management over time means that actual events are bearing out as estimated in such forward-looking statements.

RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS No. 133") is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company does not currently participate in hedging activities or own derivative instruments but plans to adopt SFAS No. 133 beginning April 1, 2001. The Company does not expect the adoption of SFAS No. 133 to have a material impact on its financial position or results of operations.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements." SAB 101 provides guidance on the recognition, presentation, and disclosure of revenue in financial statements of all public registrants. Any change in the Company's revenue recognition policy resulting from the implementation of SAB 101 would be reported as a change in accounting principle. In June 2000, the SEC issued SAB 101B which delays the implementation date of SAB 101 until the fourth fiscal quarter of fiscal years beginning after December 15, 1999.

In March 2000, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN 44"). FIN 44 clarifies certain issues related to accounting for stock-based compensation, including (a) the definition of employee for purposes of applying APB Opinion No. 25, "Accounting for Stock Issued to Employees," (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective July 1, 2000, but covers certain specific events that occur either after December 15, 1998 or January 12, 2000. To the extent that FIN 44 covers events occurring during the period after December 15, 1998 or January 12, 2000, but before the effective date of July 1, 2000, the effects of applying FIN 44 are recognized on a prospective basis from July 1, 2000. The Company is evaluating the impact, if any, of FIN 44 on its financial position and results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in the Registrant's Annual Report on Form 10-K for the year ended March 31, 2000. There has been no significant change in the nature or amount of market risk since year end.

PART II. - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1 Employment agreement dated as of April 1, 2000 between the Company and Lawrence Goldberg.

10.2 Employment agreement dated as of July 18, 2000 between the Company and William J. Chardavoyne.

27.1 Financial data schedule for the three months ended June 30, 2000.

27.2 Financial data schedule for the three months ended June 30, 1999.

(b) Reports on Form 8-K

The following reports on Form 8-K have been filed by the Company during the first quarter of the fiscal year ending March 31, 2001:

1.1 The Company filed a Form 8-K on April 19, 2000, reporting under "Item 5. Other Events" the announcement of the Company's shareholders' rights plan.

1.2 The Company filed a Form 8-K on June 16, 2000 reporting under "Item 5. Other Events" the announcement of the organizational restructuring of the Company into a holding company format organizational structure.

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: August 11, 2000

ACTIVISION, INC.

/s/ William J. Chardavoyne

(William J. Chardavoyne)

Chief Financial Officer and Chief Accounting Officer

August 11, 2000

As of April 1, 2000

Mr. Lawrence Goldberg
1156 Via de la Paz
Pacific Palisades, California 90272

Dear Mr. Goldberg:

This letter confirms the terms of your employment by Activision, Inc.
("Employer").

1. TERM

The term of your employment under this agreement shall commence on April 1, 2000 and expire on April 1, 2003, unless earlier terminated as provided below.

2. SALARY

(a) In full consideration for all rights and services provided by you under this agreement, you shall receive an annual base salary of \$287,500 during the first year of the term, an annual base salary of \$312,500 during the second year of the term and an annual base salary of \$337,500 during the third year of the term.

(b) Base salary payments shall be made in accordance with Employer's then prevailing payroll policy. Each base salary referred to in Paragraph 2(a) shall constitute your minimum base salary during the applicable period, and your base salary may be increased above the minimum at any time if Employer's Board of Directors (or the Compensation Committee of such Board of Directors), in its sole and absolute discretion, elects to do so. In the event of an increase in your base salary beyond the applicable minimum base salary for a particular period, such increased base salary shall then constitute your minimum base salary for all subsequent periods under this agreement, but only to the extent such increased base salary is in excess of the minimum base salary referred to in Paragraph 2(a) for the corresponding period.

(c) Notwithstanding anything to the contrary set forth above but subject to the right of termination granted to you pursuant to Paragraph 11(b), Employer shall not be required to actually use your services, and payment of your base salary during the applicable period of your employment under this agreement will discharge Employer's obligations to you hereunder. Such payment, however, will not discharge your obligations to Employer hereunder.

(d) In addition to your base salary, you shall be eligible to receive an annual performance based bonus targeted at sixty percent (60%) of your annual base salary, in compliance with Employer's standard bonus plan which is established on a yearly basis by Employer's senior management and Board of Directors (or the Compensation Committee of such Board of Directors) and is based on a number of factors that may

include, without limitation, the achievement of corporate earning and operating margin goals.

(e) You also are being granted, on or before April 30, 2000, under Employer's existing or modified stock option plan, options to purchase 125,000 shares of Employer's common stock. Such options are in addition to the stock options previously issued to you by Employer. The 125,000 options will vest as follows: 25,000 options will vest immediately; 33,334 options will vest on March 31, 2001; 33,334 options will vest on March 31, 2002; and 33,333 options will vest on March 31, 2003. Such options will have an exercise price that will be the market price of such common stock on the date the options are issued and will be governed in all other respects by Employer's stock option plan in effect at the time of grant. You also shall be eligible to receive additional options, under Employer's existing or modified stock option plan, if Employer's Board of Directors (or the Compensation Committee of such Board of Directors), in its sole and absolute discretion, determines that the grant to you of additional options is appropriate.

3. TITLE

You are being employed under this agreement in the position of Executive Vice President and Chief Corporate Officer.

4. DUTIES

You shall personally and diligently perform, on a full-time and exclusive basis, such services as Employer or any of its divisions may reasonably require, provided that such services are consistent with your position with Employer. You shall observe all reasonable rules and regulations adopted by Employer in connection with the operation of its business and carry out all instructions of Employer. You will at all times perform all of the duties and obligations required by you under this agreement in a loyal and conscientious manner and to the best of your ability and experience.

5. EXPENSES

To the extent you incur necessary and reasonable business expenses in the course of your employment, you shall be reimbursed for such expenses, subject to Employer's then current policies regarding reimbursement of such business expenses.

6. OTHER BENEFITS

You shall be entitled to those benefits which are standard for persons in similar positions with Employer, including coverage under Employer's health, life insurance and disability plans, and eligibility to participate in Employer's 401(k) plan. Nothing paid to you under any such plans and arrangements (nor any bonus or stock options which Employer's Board of Directors (or the Compensation Committee of such Board of Directors), in its sole and absolute discretion, shall provide to you) shall be deemed in lieu, or paid on account, of your base salary. You expressly agree and acknowledge that after expiration or early termination of the term of your employment under this agreement, you are entitled to no additional benefits not expressly set forth in this

agreement, except as specifically provided under the benefit plans referred to above and those benefit plans in which you subsequently may become a participant, and subject in each case to the terms and conditions of each such plan. Notwithstanding anything to the contrary set forth above, you shall be entitled to receive those benefits provided by COBRA upon the expiration or early termination of the term of your employment under this agreement.

7. VACATION AND PAID HOLIDAYS

(a) You will be entitled to paid vacation days in accordance with the normal vacation policies of Employer in effect from time to time, provided that in no event shall you be entitled to less than twenty (20) days of paid vacation per year.

(b) You shall be entitled to all paid holidays given by Employer to its full-time employees.

8. LOAN

As an additional incentive to the commencement of your employment with Employer under this agreement, Employer will provide you with a loan in the principal amount of \$100,000 by no later than July 31, 2000. Such loan will bear interest at the rate of 6-3/4% per annum and will be due and payable in full on April 1, 2003. However, the principal amount and accrued interest on such loan will be forgiven on March 31, 2003 if the closing price of Employer's common stock as reported on NASDAQ between the date the loan is made and March 31, 2003 does not exceed \$10.00 per share (adjusted to reflect stock splits, stock dividends, combinations of shares and similar transactions occurring after the date the loan is made) for five (5) consecutive trading days during which you are not prohibited from selling shares of Employer's common stock under Employer's policies and procedures or applicable securities laws. In order to receive the foregoing loan, you shall be required to execute a promissory note substantially in the form of Exhibit A attached to this agreement.

9. PROTECTION OF EMPLOYER'S INTERESTS

During the term of your employment by Employer, you will not compete in any manner, whether directly or indirectly, as a principal, employee, agent or owner, with Employer, or any affiliate of Employer, except that the foregoing will not prevent you from holding at any time less than five percent (5%) of the outstanding capital stock of any company whose stock is publicly traded. All rights worldwide with respect to any and all intellectual or other property of any nature produced, created or suggested by you during the term of your employment or resulting from your services which (i) relate in any manner at the time of conception or reduction to practice to the actual or demonstrably anticipated business of Employer, (ii) result from or are suggested by any task assigned to you or any work performed by you on behalf of Employer, or (iii) are based on any property owned or idea conceived by Employer, shall be deemed to be a work made for hire and shall be the sole and exclusive property of Employer. You agree to execute, acknowledge and deliver to Employer, at Employer's request, such further documents, including copyright and patent assignments, as Employer finds

appropriate to evidence Employer's rights in such property. Any confidential and/or proprietary information of Employer or any affiliate of Employer shall not be used by you or disclosed or made available by you to any person except as required in the course of your employment, and upon expiration or earlier termination of the term of your employment, you shall return to Employer all such information which exists in written or other physical form (and all copies thereof) under your control. Without limiting the generality of the foregoing, you acknowledge signing and delivering to Employer the Activision Employee Proprietary Information Agreement and you agree that all terms and conditions contained in such agreement, and all of your obligations and commitments provided for in such agreement, shall be deemed, and hereby are, incorporated into this agreement as if set forth in full herein. The provisions of the immediately preceding four sentences of this paragraph shall survive the expiration or earlier termination of this agreement.

10. SERVICES UNIQUE

You recognize that the services being performed by you under this agreement are of a special, unique, unusual, extraordinary and intellectual character giving them a peculiar value, the loss of which cannot be reasonably or adequately compensated for in damages, and in the event of a breach of this agreement by you (particularly, but without limitation, with respect to the provisions hereof relating to the exclusivity of your services and the provisions of paragraph 9 of this agreement), Employer shall, in addition to all other remedies available to it, be entitled to equitable relief by way of injunction and any other legal or equitable remedies.

11. TERMINATION

(a) At any time during the term of your employment, Employer may terminate your employment under this agreement for (i) your willful, reckless or gross misconduct, (ii) your material breach of this agreement, or (iii) for other good cause, as such term is defined under California law.

(b) You may terminate your employment under this agreement (i) upon any relocation of the place at which you primarily are performing your services to Employer to a location which is outside the metropolitan Los Angeles area, (ii) if Employer elects to not actually use your services and continues to pay your base salary pursuant to Paragraph 2(c) above for a period of one hundred twenty (120) consecutive days, or (iii) in the event Employer commences the production or distribution of an entertainment software or other product which is pornographic.

(c) In the event of the termination of your employment under this agreement pursuant to Paragraph 11(a) or 11(b), all obligations of each party to the other under this agreement shall immediately terminate.

(d) In the event of your death during the term of this agreement, this agreement shall terminate and Employer only shall be obligated to pay your estate or legal representative the salary provided for above to the extent earned by you prior to such event. In the event you are unable to perform the services required of you under this

agreement as a result of any disability, and such disability continues for a period of 60 or more consecutive days or an aggregate of 90 or more days during any 12-month period during the term of this agreement, then Employer shall have the right, at its option, to terminate your employment under this agreement. Unless and until so terminated, during any period of disability during which you are unable to perform the services required of you under this agreement, your base salary shall be payable to the extent of, and subject to, Employer's policies and practices then in effect with regard to sick leave and disability benefits.

12. USE OF EMPLOYEE'S NAME

Employer shall have the right, but not the obligation, to use your name or likeness for any publicity or advertising purpose.

13. ASSIGNMENT

Employer may assign this agreement or all or any part of its rights under this agreement to any entity which succeeds to all or substantially all of Employer's assets (whether by merger, acquisition, consolidation, reorganization or otherwise) or which Employer may own substantially, and this agreement shall inure to the benefit of such assignee.

14. NO CONFLICT WITH PRIOR AGREEMENTS

You represent to Employer that neither your commencement of employment under this agreement nor the performance of your duties under this agreement conflicts or will conflict with any contractual commitment on your part to any third party, nor does it or will it violate or interfere with any rights of any third party.

15. POST-TERMINATION OBLIGATIONS

After the expiration or earlier termination of your employment under this agreement for any reason whatsoever, you shall not, either alone or jointly, with or on behalf of others, directly or indirectly, whether as principal, partner, agent, shareholder, director, employee, consultant or otherwise, at any time during a period of one (1) year following such expiration or termination, offer employment to, or solicit the employment or engagement of, or otherwise entice away from the employment of Employer or any affiliated entity, either for your own account or for any other person firm or company, any person who was employed by Employer or any such affiliated entity during the term of your employment, whether or not such person would commit any breach of his or her contract of employment by reason of his or her leaving the service of Employer or any affiliated entity.

16. ENTIRE AGREEMENT; AMENDMENTS; WAIVER, ETC.

(a) This agreement supersedes all prior or contemporaneous agreements and statements, whether written or oral, concerning the terms of your employment with Employer, and no amendment or modification of this agreement shall be binding against Employer unless set forth in a writing signed by Employer and delivered to you.

Without limiting the generality of the foregoing, you acknowledge that this agreement supersedes your prior written agreement with Employer dated March 4, 1999, and such agreement is hereby declared terminated and of no further force and effect.

(b) You have given no indication, representation or commitment of any nature to any broker, finder, agent or other third party to the effect that any fees or commissions of any nature are, or under any circumstances might be, payable by Employer or any affiliate of Employer in connection with your employment under this agreement.

(c) No waiver by either party of any breach by the other party of any provision or condition of this agreement shall be deemed a waiver of any similar or dissimilar provision or condition at the same or any prior or subsequent time.

(d) Nothing contained in this agreement shall be construed so as to require the commission of any act contrary to law and wherever there is any conflict between any provision of this agreement and any present or future statute, law, ordinance or regulation, the latter shall prevail, but in such event the provision of this agreement affected shall be curtailed and limited only to the extent necessary to bring it within legal requirements.

(e) This agreement does not constitute a commitment of Employer with regard to your employment, express or implied, other than to the extent expressly provided for herein. Upon termination of this agreement, it is the contemplation of both parties that your employment with Employer shall cease, and that neither Employer nor you shall have any obligation to the other with respect to continued employment. In the event that your employment continues for a period of time following the stated expiration date of this contract, unless and until agreed to in a new subscribed written document, such employment or any continuation thereof is "at will," and may be terminated without obligation at any time by either party giving notice to the other.

(f) This agreement shall be governed by and construed in accordance with the laws of the State of California without regard to conflict of law principles.

(g) In accordance with the Immigration Reform and Control Act of 1986, employment under this agreement is conditioned upon satisfactory proof of your identity and legal ability to work in the United States.

(h) To the extent permitted by law, you will keep the terms of this agreement confidential, and you will not disclose any information concerning this agreement to anyone other than your immediate family and professional representatives (provided they also agree to keep the terms of this agreement confidential).

17. NOTICES

All notices which either party is required or may desire to give the other shall be in writing and given either personally or by depositing the same in the United States mail addressed to the party to be given notice as follows:

To Employer:	3100 Ocean Park Boulevard Santa Monica, California 90405 Attention: Senior Vice President and General Counsel
To Employee:	1156 Via de la Paz Pacific Palisades, California 90272

Either party may by written notice designate a different address for giving of notices. The date of mailing of any such notices shall be deemed to be the date on which such notice is given.

18. HEADINGS

The headings set forth herein are included solely for the purpose of identification and shall not be used for the purpose of construing the meaning of the provisions of this agreement.

If the foregoing accurately reflects our mutual agreement, please sign where indicated.

ACCEPTED AND AGREED TO:

EMPLOYER

EMPLOYEE

By: /s/ RON DOORNINK

Ron Doornink
President and Chief
Operating Officer

By: /s/ LAWRENCE GOLDBERG

Lawrence Goldberg

Date: 7/21/00

Date: 7/21/00

EXHIBIT A
PROMISSORY NOTE

\$100,000.00

July __, 2000

Santa Monica, California

FOR VALUE RECEIVED, and subject to the provisions of Paragraph 1 below, the undersigned, Lawrence Goldberg ("Maker"), promises to pay to Activision, Inc. ("Holder"), or its order, the sum of One Hundred Thousand Dollars (\$100,000.00), together with simple interest on the unpaid principal amount from the date hereof at the rate of Six and Three Quarters Percent (6-3/4%) per annum. The entire principal balance of this Promissory Note and all accrued but unpaid interest, or so much thereof as may remain unpaid at the time, shall become due and payable on the earlier of (a) April 1, 2003, (b) the date Maker is no longer employed by Holder on a full time exclusive basis if, during the period from the date hereof to the date of termination of employment, the closing price of Holder's common stock as reported on NASDAQ has been equal to or greater than \$10.00 per share (adjusted to reflect stock splits, stock dividends, combinations of shares and similar transactions occurring after the date hereof) for five (5) consecutive trading days during which Maker is not prohibited from selling shares of Holder's common stock under Holder's policies and procedures or applicable securities laws, and (c) the date which is thirty (30) days after each of the following have occurred: (i) the Maker is no longer employed by Holder on a full time exclusive basis, and (ii) the closing price of Holder's common stock as reported on NASDAQ has been equal to or greater than \$10.00 per share (adjusted to reflect stock splits, stock dividends, combinations of shares and similar transactions occurring after the date hereof) for five (5) consecutive trading days during which Maker is not prohibited from selling shares of Holder's common stock under Holder's policies and procedures or applicable securities laws. Payment of said principal indebtedness, or the balance thereof, and all interest thereon, together with all other sums due under the terms hereof, may be enforced and recovered at once, time being of the essence.

1. FORGIVENESS OF INDEBTEDNESS. Notwithstanding anything to the contrary set forth above, in the event that, at no time between the date of this Promissory Note and March 31, 2003, the closing price of Holder's common stock as reported on NASDAQ equals or exceeds \$10.00 per share (adjusted to reflect stock splits, stock dividends, combinations of shares and similar transactions occurring after the date hereof) for five (5) consecutive trading days during which Maker is not prohibited from selling shares of Holder's common stock under Holder's policies and procedures or applicable securities laws, then on March 31, 2003 the entire principal amount of this Promissory Note and all interest due thereon, to the extent not previously due and payable

pursuant to clause (b) or (c) of the first paragraph of this Promissory Note, will be forgiven and Maker will have no obligation to make any payment to Holder hereunder.

2. PREPAYMENT. Maker may prepay all or any portion of the principal amount of this Promissory Note and the interest due thereon at any time or times during the term of this Promissory Note without any other premium or penalty.

3. PAYMENT CREDITS. Each payment shall, when made, be credited first to interest then due, then to other expenses payable to Holder, including any collection costs, and the remainder to principal, and interest shall thereupon cease upon the principal so credited. All payments hereunder shall be made in lawful money of the United States of America at the principal executive offices of Holder located at 3100 Ocean Park Boulevard, Santa Monica, California 90405.

4. ATTORNEYS' FEES. Maker promises to pay all costs and expenses, including reasonable attorneys' fees, incurred in the collection and enforcement of this Promissory Note.

5. MAXIMUM INTEREST. The provisions of this Promissory Note shall not have the effect of, or be construed as, requiring or committing Maker to pay interest in excess of the highest rate per annum allowed by the laws for such jurisdiction whose laws shall govern this Promissory Note. If, under any circumstance, Holder shall ever receive as interest an amount which would exceed the highest applicable lawful rate as determined by a court of competent jurisdiction, then such amount which would be excessive interest shall, ipso facto, be applied to the reduction of the unpaid principal balance due hereunder and not to the payment of interest. This provision shall control and supersede every other provision of this Promissory Note.

6. EXERCISE OF RIGHTS. No single or partial exercise of any power granted to Holder under this Promissory Note shall preclude other or further exercise thereof or the exercise of any other power. No delay or omission on the part of Holder in exercising any right under this Promissory Note shall operate as a waiver of such right or of any other right.

7. WAIVER OF NOTICE. The makers, endorsers, guarantors and sureties of this Promissory Note, and each of them, hereby waive diligence, demand, presentment for payment, notice of nonpayment, protest and notice of protest, and specifically consent to and waive notice of any renewals or extensions of this Promissory Note, whether made to or in favor of the makers or any other person or persons. The pleading of any statute of limitations as a defense to any demand against the makers, endorsers, guarantors or sureties is expressly waived by each and all of said parties.

8. RIGHT OF OFFSET. Notwithstanding anything to the contrary set forth in this Promissory Note, Holder shall have the right to offset any and all amounts that may be owed by Holder to Maker for any reason, including, without limitation, wages and other compensation, against any or all of the principal and interest that is due and

payable to Holder under this Promissory Note, and Maker expressly consents to the foregoing right of offset being granted to Holder.

9. SUCCESSORS AND ASSIGNS. The terms of this Promissory Note apply to, inure to the benefit of, and bind all parties hereto, their heirs, legatees, devisees, administrators, executors, successors and assigns.

10. SEVERABILITY. If any portion of this Promissory Note shall be held invalid or unenforceable, then the remainder of this Promissory Note shall be considered valid and enforceable according to its terms.

11. MISCELLANEOUS. This Promissory Note shall be governed and interpreted in accordance with the laws of the State of California. If suit is instituted by Maker against Holder or by Holder against Maker for any cause or matter arising from or in connection with the respective rights or obligations of Maker or the holder of this Promissory Note hereunder, the sole jurisdiction and venue for such action shall be the Superior Court of the State of California in and for the County of Los Angeles. Captions are for convenience only and shall not be used in construing meaning. This Promissory Note may only be changed, modified, or amended in writing by the mutual consent of Maker and the Holder. The provisions of this Promissory Note may only be waived in or by a writing signed by the party against whom enforcement of any waiver is sought.

IN WITNESS WHEREOF, Maker has executed this Promissory Note as of the date first written above.

LAWRENCE GOLDBERG

July 18, 2000

Mr. William Chardavoyne
708 Manhattan Beach Boulevard
Manhattan Beach, California 90266

Dear Mr. Chardavoyne:

This letter confirms the terms of your employment by Activision, Inc.
("Employer").

1. TERM

(a) The initial term of your employment under this agreement shall commence on August 1, 2000 and expire on July 31, 2001, unless earlier terminated as provided below (the "initial period").

(b) Employer shall have the irrevocable option to extend the term of this agreement beyond the initial period for an additional successive one year period.

(c) The option granted to Employer under this agreement may be exercised by Employer by written notice given to you at least sixty (60) days prior to the expiration of the initial period.

2. SALARY

(a) In full consideration for all rights and services provided by you under this agreement, you shall receive an annual base salary of \$287,500 during the initial period. If Employer exercises its option pursuant to Paragraph 1(b), your annual base salary will be \$305,000 during such option period.

(b) Base salary payments shall be made in accordance with Employer's then prevailing payroll policy. Each base salary referred to in Paragraph 2(a) shall constitute your minimum base salary during the applicable period, and your base salary may be increased above the minimum at any time if Employer's Board of Directors (or the Compensation Committee of such Board of Directors), in its sole and absolute discretion, elects to do so. In the event of an increase in your base salary beyond the applicable minimum base salary for a particular period, such increased base salary shall then constitute your minimum base salary for all subsequent periods under this agreement.

(c) Notwithstanding anything to the contrary set forth above but subject to the right of termination granted to you pursuant to Paragraph 10(b), Employer shall not be required to actually use your services, and payment of your base salary during the applicable period of your employment under this agreement will discharge Employer's obligations to you hereunder. Such payment, however, will not discharge your obligations to Employer hereunder.

(d) In addition to your base salary, you shall be eligible to receive an annual performance base bonus of up to sixty percent (60%) of your annual base salary, in

compliance with Employer's standard bonus plan which is established on a yearly basis by Employer's senior management and Board of Directors (or the Compensation Committee of such Board of Directors) and is based on a number of factors that may include, without limitation, the achievement of corporate earning and operating margin goals.

(e) You also are being granted, under Employer's existing or modified stock option plan, options to purchase 100,000 shares of Employer's common stock. The options are being issued on July 6, 2000 (i.e., the date Employer began negotiations with you regarding the terms of your employment) and will vest ratably over four years, with one fourth (1/4) of the amount granted vesting at the end of each such year. Such options will have an exercise price that will be the market price of such common stock on the date the options are issued and will be governed in all other respects by Employer's stock option plan in effect at the time of grant. You also shall be eligible to receive additional options, under Employer's existing or modified stock option plan, if Employer's Board of Directors (or the Compensation Committee of such Board of Directors), in its sole and absolute discretion, determines that the grant to you of additional options is appropriate.

3. TITLE

You are being employed under this agreement in the position of Executive Vice President and Chief Financial Officer.

4. DUTIES

You shall personally and diligently perform, on a full-time and exclusive basis, such services as Employer or any of its divisions may reasonably require, provided that such services are consistent with your position with Employer. You shall observe all reasonable rules and regulations adopted by Employer in connection with the operation of its business and carry out all instructions of Employer. You will at all times perform all of the duties and obligations required by you under this agreement in a loyal and conscientious manner and to the best of your ability and experience.

5. EXPENSES

To the extent you incur necessary and reasonable business expenses in the course of your employment, you shall be reimbursed for such expenses, subject to Employer's then current policies regarding reimbursement of such business expenses.

6. OTHER BENEFITS

You shall be entitled to those benefits which are standard for persons in similar positions with Employer, including coverage under Employer's health, life insurance and disability plans, and eligibility to participate in Employer's 401(k) plan. Nothing paid to you under any such plans and arrangements (nor any bonus or stock options which Employer's Board of Directors (or the Compensation Committee of such Board of Directors), in its sole and absolute discretion, shall provide to you) shall be deemed in lieu, or paid on account, of your base salary. You expressly agree and acknowledge that

after expiration or early termination of the term of your employment under this agreement, you are entitled to no additional benefits not expressly set forth in this agreement, except as specifically provided under the benefit plans referred to above and those benefit plans in which you subsequently may become a participant, and subject in each case to the terms and conditions of each such plan. Notwithstanding anything to the contrary set forth above, you shall be entitled to receive those benefits provided by COBRA upon the expiration or early termination of the term of your employment under this agreement.

7. VACATION AND PAID HOLIDAYS

(a) You will be entitled to paid vacation days in accordance with the normal vacation policies of Employer in effect from time to time, provided that in no event shall you be entitled to less than twenty (20) days of paid vacation per year.

(b) You shall be entitled to all paid holidays given by Employer to its full-time employees.

8. PROTECTION OF EMPLOYER'S INTERESTS

During the term of your employment by Employer, you will not compete in any manner, whether directly or indirectly, as a principal, employee, agent or owner, with Employer, or any affiliate of Employer, except that the foregoing will not prevent you from holding at any time less than five percent (5%) of the outstanding capital stock of any company whose stock is publicly traded. All rights worldwide with respect to any and all intellectual or other property of any nature produced, created or suggested by you during the term of your employment or resulting from your services which (i) relate in any manner at the time of conception or reduction to practice to the actual or demonstrably anticipated business of Employer, (ii) result from or are suggested by any task assigned to you or any work performed by you on behalf of Employer, or (iii) are based on any property owned or idea conceived by Employer, shall be deemed to be a work made for hire and shall be the sole and exclusive property of Employer. You agree to execute, acknowledge and deliver to Employer, at Employer's request, such further documents, including copyright and patent assignments, as Employer finds appropriate to evidence Employer's rights in such property. Any confidential and/or proprietary information of Employer or any affiliate of Employer shall not be used by you or disclosed or made available by you to any person except as required in the course of your employment, and upon expiration or earlier termination of the term of your employment, you shall return to Employer all such information which exists in written or other physical form (and all copies thereof) under your control. Without limiting the generality of the foregoing, you acknowledge signing and delivering to Employer the Activision Employee Proprietary Information Agreement and you agree that all terms and conditions contained in such agreement, and all of your obligations and commitments provided for in such agreement, shall be deemed, and hereby are, incorporated into this agreement as if set forth in full herein. The provisions of the immediately preceding four sentences of this paragraph shall survive the expiration or

earlier termination of this agreement.

9. SERVICES UNIQUE

You recognize that the services being performed by you under this agreement are of a special, unique, unusual, extraordinary and intellectual character giving them a peculiar value, the loss of which cannot be reasonably or adequately compensated for in damages, and in the event of a breach of this agreement by you (particularly, but without limitation, with respect to the provisions hereof relating to the exclusivity of your services and the provisions of paragraph 8 of this agreement), Employer shall, in addition to all other remedies available to it, be entitled to equitable relief by way of injunction and any other legal or equitable remedies.

10. TERMINATION

(a) At any time during the term of your employment, Employer may terminate your employment under this agreement for (i) your willful, reckless or gross misconduct, (ii) your material breach of this agreement, or (iii) for other good cause, as such term is defined under California law.

(b) You may terminate your employment under this agreement (i) upon any relocation of the place at which you primarily are performing your services to Employer to a location which is outside the metropolitan Los Angeles area, (ii) if Employer elects to not actually use your services and continues to pay your base salary pursuant to Paragraph 2(c) above for a period of one hundred twenty (120) consecutive days, or (iii) in the event Employer commences the production or distribution of an entertainment software or other product which is pornographic.

(c) In the event of the termination of your employment under this agreement pursuant to Paragraph 10(a) or 10(b), all obligations of Employer to you under this agreement shall immediately terminate.

(d) In the event of your death during the term of this agreement, this agreement shall terminate and Employer only shall be obligated to pay your estate or legal representative the salary provided for above to the extent earned by you prior to such event. In the event you are unable to perform the services required of you under this agreement as a result of any disability, and such disability continues for a period of 60 or more consecutive days or an aggregate of 90 or more days during any 12-month period during the term of this agreement, then Employer shall have the right, at its option, to terminate your employment under this agreement. Unless and until so terminated, during any period of disability during which you are unable to perform the services required of you under this agreement, your base salary shall be payable to the extent of, and subject to, Employer's policies and practices then in effect with regard to sick leave and disability benefits.

11. USE OF EMPLOYEE'S NAME

Employer shall have the right, but not the obligation, to use your name or likeness for any publicity or advertising purpose.

12. ASSIGNMENT

Employer may assign this agreement or all or any part of its rights under this agreement to any entity which succeeds to all or substantially all of Employer's assets (whether by merger, acquisition, consolidation, reorganization or otherwise) or which Employer may own substantially, and this agreement shall inure to the benefit of such assignee.

13. NO CONFLICT WITH PRIOR AGREEMENTS

You represent to Employer that neither your commencement of employment under this agreement nor the performance of your duties under this agreement conflicts or will conflict with any contractual commitment on your part to any third party, nor does it or will it violate or interfere with any rights of any third party.

14. POST-TERMINATION OBLIGATIONS

After the expiration or earlier termination of your employment under this agreement for any reason whatsoever, you shall not, either alone or jointly, with or on behalf of others, directly or indirectly, whether as principal, partner, agent, shareholder, director, employee, consultant or otherwise, at any time during a period of one (1) year following such expiration or termination, offer employment to, or solicit the employment or engagement of, or otherwise entice away from the employment of Employer or any affiliated entity, either for your own account or for any other person firm or company, any person who was employed by Employer or any such affiliated entity during the term of your employment, whether or not such person would commit any breach of his or her contract of employment by reason of his or her leaving the service of Employer or any affiliated entity.

15. ENTIRE AGREEMENT; AMENDMENTS; WAIVER, ETC.

(a) This agreement supersedes all prior or contemporaneous agreements and statements, whether written or oral, concerning the terms of your employment with Employer, and no amendment or modification of this agreement shall be binding against Employer unless set forth in a writing signed by Employer and delivered to you.

(b) You have given no indication, representation or commitment of any nature to any broker, finder, agent or other third party to the effect that any fees or commissions of any nature are, or under any circumstances might be, payable by Employer or any affiliate of Employer in connection with your employment under this agreement.

(c) No waiver by either party of any breach by the other party of any provision or condition of this agreement shall be deemed a waiver of any similar or dissimilar provision or condition at the same or any prior or subsequent time.

(d) Nothing contained in this agreement shall be construed so as to require the commission of any act contrary to law and wherever there is any conflict between any provision of this agreement and any present or future statute, law, ordinance or

regulation, the latter shall prevail, but in such event the provision of this agreement affected shall be curtailed and limited only to the extent necessary to bring it within legal requirements.

(e) This agreement does not constitute a commitment of Employer with regard to your employment, express or implied, other than to the extent expressly provided for herein. Upon termination of this agreement, it is the contemplation of both parties that your employment with Employer shall cease, and that neither Employer nor you shall have any obligation to the other with respect to continued employment. In the event that your employment continues for a period of time following the stated expiration date of this contract, unless and until agreed to in a new subscribed written document, such employment or any continuation thereof is "at will," and may be terminated without obligation at any time by either party giving notice to the other.

(f) This agreement shall be governed by and construed in accordance with the laws of the State of California without regard to conflict of law principles.

(g) In accordance with the Immigration Reform and Control Act of 1986, employment under this agreement is conditioned upon satisfactory proof of your identity and legal ability to work in the United States.

(h) To the extent permitted by law, you will keep the terms of this agreement confidential, and you will not disclose any information concerning this agreement to anyone other than your immediate family and professional representatives (provided they also agree to keep the terms of this agreement confidential).

16. NOTICES

All notices which either party is required or may desire to give the other shall be in writing and given either personally or by depositing the same in the United States mail addressed to the party to be given notice as follows:

To Employer:	3100 Ocean Park Boulevard Santa Monica, California 90405 Attention: Executive Vice President and Chief Corporate Officer
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To Employee:	708 Manhattan Beach Boulevard Manhattan Beach, California 90266
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Either party may by written notice designate a different address for giving of notices. The date of mailing of any such notices shall be deemed to be the date on which such notice is given.

17. HEADINGS

The headings set forth herein are included solely for the purpose of identification and shall not be used for the purpose of construing the meaning of the provisions of this agreement.

If the foregoing accurately reflects our mutual agreement, please sign where indicated.

ACCEPTED AND AGREED TO:

EMPLOYER

EMPLOYEE

By: /s/ LAWRENCE GOLDBERG

Lawrence Goldberg
Executive Vice President
and Chief Corporate Officer

By: /s/ WILLIAM CHARDAVOYNE

William Chardavoyne

Date: 7/26/00

Date: 7/26/00

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(0.21)

5
1,000

3-MOS

MAR-31-2000
APR-01-1999
JUN-30-1999
17,956
0
121,937
23,765
40,028
219,859
30,758
20,112
304,000
87,421
95,862
0
0
0
135,717
304,000
84,142
84,142
53,542
63,409
26,834
17,078
1,160
(7,261)
(2,686)
(4,575)
0
0
0
(4,575)
(0.19)
(0.19)