



## Activision Reports Record Q4 and Fiscal 2005 Year End Results

**- Fiscal 2005 Net Revenues Increased 48% Year Over Year to \$1.4 Billion -- Fiscal 2005 Net Income Grows 78% Year Over Year to \$138 Million -- Performance Marks 13 Consecutive Years of Revenue Growth -- Q4 Net Revenues Up 25% Year Over Year -**

SANTA MONICA, Calif., May 5, 2005 /PRNewswire-FirstCall via COMTEX/ -- Activision, Inc. (Nasdaq: ATVI) today announced record net revenues for the fourth quarter and fiscal year ended March 31, 2005.

Net revenues for the fiscal year ended March 31, 2005 were a record \$1,405.9 million, or 48% higher, as compared to \$947.7 million for the fiscal year ended March 31, 2004. Net income for the fiscal year was a record \$138.3 million, or \$0.66 per diluted share, a 78% increase over net income of \$77.7 million, or \$0.40 per diluted share reported for the last fiscal year.

Net revenues for the fourth quarter ended March 31, 2005 were \$203.9 million, an increase of 25%, as compared to \$162.9 million that the company reported for the fourth quarter of the last fiscal year. For this fiscal year's fourth quarter, the company reported net income of \$3.6 million, or earnings per diluted share of \$0.02, which is \$0.02 higher than the company's prior guidance. Net income for the fiscal year 2004 fourth quarter was \$6.7 million, or earnings per diluted share of \$0.03.

Robert Kotick, Chairman and CEO of Activision, Inc. commented, "Fiscal 2005 was another record year for Activision. We delivered the highest net revenues, operating margin and earnings in the company's history. Our net revenues reached \$1.4 billion, which was driven by an increase in the number of million-unit selling games year over year. We have one of the industry's strongest balance sheets with \$841 million of cash and short-term investments and for the trailing 12 months our free cash flow was a record \$200 million and return on invested capital was 45%. Perhaps most importantly, our gain in shareholders' equity in fiscal 2005 was \$267 million. Since fiscal 2000, our shareholders' equity has increased from \$132 million to \$1.1 billion, a 53% rate compounded annually."

Kotick added, "We entered fiscal 2006 with the largest installed base of video gaming platforms in the industry's history and, we believe, our strongest product release slate ever. Our lineup includes new versions of our top-selling franchises -- Tony Hawk, Spider-Man, Shrek, Call of Duty, DOOM, X-Men, True Crime and Quake -- as well as, Fantastic Four, Madagascar, The Movies and an original property from the development team behind the Tony Hawk series. We have more depth in our portfolio of franchises, and with over 1,000 talented team members in our internal studios, we have one of the strongest product development operations in the industry. We remain enthusiastic about our long-term prospects and our operating margin expansion programs should enable us to continue delivering long-term value to our shareholders."

### Business Highlights

Activision's fiscal year end results were driven by record worldwide sales of several titles across all platforms. As a result of these strong sales, the company's domestic publishing net revenues increased 56% and its international publishing revenues grew 72%. The company ended the fiscal year with two top-10 best-selling games across the console and handheld platforms in the U.S. -- Spider-Man 2™ and Tony Hawk's Underground 2 and three top-10 best-selling PC games in the U.S. -- DOOM 3™, Rome: Total War™ and Call of Duty™, according to NPD.

During the fourth quarter, the company released Spider-Man 2 and Tony Hawk's Underground 2 Remix for the PSP simultaneously with the North American release of the new handheld platform, as well as three titles from LucasArts that were released in Europe -- Star Wars® Knights of the Old Republic® II: The Sith Lords™, Mercenaries™ and Star Wars Republic Commando™.

Other business highlights are as follows:

- \* Spider-Man 2 for the Nintendo(R) DS topped the charts as the #1 best-selling third-party title for the platform during the holiday period in the U.S., and the #3 best-selling third-party title in the U.K., according to NPD Funworld and Chart Track.
- \* During the quarter, Tony Hawk's Underground 2 Remix, ranked as the #3 best-selling third-party title for the new PSP platform, according

to NPD Funworld.

- \* During the fiscal year, we grew our publishing revenues from the handheld platform by 456% or \$114 million.
- \* During the fiscal year, Activision's Call of Duty franchise established itself as the best-selling console game franchise based on a new intellectual property.
- \* For calendar 2004, Spider-Man 2 was the #1 best-selling movie-based game in the U.S. and Shrek 2 was the #1 best-selling children's video game in the U.S., according to NPD Funworld.
- \* On January 20, 2005, Activision announced that the company further strengthened its next-generation development capabilities through the acquisition of game developer Vicarious Visions, the creative studio behind the #1 best-selling third-party Nintendo DS title, Spider-Man 2.
- \* On May 3, 2005, Activision announced that the company acquired game developer Toys For Bob. As a result of the acquisition, Activision now has approximately 1,000 employees in its studio operations.

During the fourth quarter, the Board of Directors approved a four-for- three split of its outstanding common shares. The split was approved on February 23, 2005 and was paid on March 22, 2005 to shareholders of record as of the close of business on March 7, 2005.

We have already seen a strong start to the first quarter of fiscal year 2006 with the releases of DOOM 3 for the Xbox and the DOOM 3: Resurrection of Evil expansion pack for the PC. The remainder of our first quarter slate is being driven by games based on two highly anticipated summer movie releases, "Madagascar" and "Fantastic Four."

#### Company Outlook

Activision reaffirmed its net revenues and earnings per diluted share outlook for fiscal 2006 of \$1.43 billion in net revenues and earnings per diluted share of \$0.68. For the first quarter of the fiscal year 2006, the company expects net revenues of \$200 million and a loss per share of \$0.03.

#### Non-GAAP Financial Measures

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

#### Conference Call

Today at 4:30 p.m. EDT, Activision's management will host a conference call and Webcast to discuss its fiscal 2005 year-end results and outlook for fiscal 2006. The company welcomes all members of the financial and media communities to visit the "Investor Relations" area of [www.activision.com](http://www.activision.com) to listen to the conference call via a live Webcast or to listen to the call live by dialing into (719) 457-2657 in the U.S.

#### About Activision

Headquartered in Santa Monica, California, Activision, Inc. is a leading worldwide developer, publisher and distributor of interactive entertainment and leisure products. Founded in 1979, Activision posted net revenues of \$1.4 billion for the fiscal year ended March 31, 2005.

Activision maintains operations in the U.S., Canada, the United Kingdom, France, Germany, Italy, Japan, Australia, Scandinavia and the Netherlands. More information about Activision and its products can be found on the company's World Wide Web site, which is located at [www.activision.com](http://www.activision.com).

Note: The statements made in this press release that are not historical facts are "forward-looking" statements. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties. The

company cautions readers of this press release that a number of important factors could cause Activision's actual future results to differ materially from those expressed in any such forward-looking statements.

Such factors include, without limitation, product delays, retail acceptance of our products, industry competition, rapid changes in technology and industry standards, protection of proprietary rights, maintenance of relationships with key personnel, vendors and third-party developers, international economic and political conditions, integration of recently acquired subsidiaries and identification of suitable future acquisition opportunities.

These important factors and other factors that potentially could affect the company's financial results are described in our filings with the Securities and Exchange Commission, including the company's most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. Readers of this press release are referred to such filings. The company may change its intention, belief or expectation, at any time and without notice, based upon any changes in such factors, in the company's assumptions or otherwise. The company undertakes no obligation to release publicly any revisions to its forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

ACTIVISION, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except earnings per share data)

	Quarter ended March 31, 2005		Year ended March 31, 2004	
	2005	2004 Restated	2005	2004 Restated
Net revenues	\$203,861	\$162,897	\$1,405,857	\$947,656
Costs and expenses:				
Cost of sales - product costs	130,190	91,239	658,949	475,541
Cost of sales - software royalties and amortization	6,954	9,169	123,800	59,744
Cost of sales - intellectual property licenses	4,400	4,854	62,197	31,862
Product development	20,489	18,031	86,543	97,859
Sales and marketing	29,842	26,196	230,058	128,221
General and administrative	14,885	8,765	59,739	44,612
Total operating expenses	206,760	158,254	1,221,286	837,839
Operating income (loss)	(2,899)	4,643	184,571	109,817
Investment income, net	5,138	2,050	13,092	6,175
Income before provision (benefit) for income taxes	2,239	6,693	197,663	115,992
Provision (benefit) for income taxes	(1,334)	29	59,328	38,277
Net income	\$3,573	\$6,664	\$138,335	\$77,715
Basic earnings per share	\$0.02	\$0.04	\$0.74	\$0.44
Weighted average common shares outstanding	195,413	180,735	187,517	177,665
Diluted earnings per share	\$0.02	\$0.03	\$0.66	\$0.40
Weighted average common shares outstanding assuming dilution	215,614	200,307	209,145	193,191

Share and earnings per share data have been restated to reflect our four-for-three stock split for shareholders of record as of March 7, 2005, paid March 22, 2005.

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

	March 31, 2005	March 31, 2004
<b>ASSETS</b>		
Current assets:		
Cash, cash equivalents and short-term investments	\$840,864	\$587,649
Accounts receivable, net	109,144	62,577
Inventories	48,018	26,427
Software development	73,096	58,320
Intellectual property licenses	21,572	32,115
Deferred income taxes	6,760	26,127
Other current assets	23,010	18,660
Total current assets	1,122,464	811,875
Software development	18,518	28,386
Intellectual property licenses	14,154	16,380
Property and equipment, net	30,490	25,539
Deferred income taxes	28,041	9,064
Other assets	1,635	1,080
Goodwill	91,661	76,493
Total assets	\$1,306,963	\$968,817

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current liabilities:		
Accounts payable	\$108,984	\$72,874
Accrued expenses	98,067	63,205
Total liabilities	207,051	136,079
Shareholders' equity:		
Common stock	--	--
Additional paid-in capital	741,680	758,626
Retained earnings	346,614	208,279
Treasury stock	--	(144,128)
Accumulated other comprehensive income	11,618	9,961
Total shareholders' equity	1,099,912	832,738
Total liabilities and shareholders' equity	\$1,306,963	\$968,817

ACTIVISION, INC. AND SUBSIDIARIES

FINANCIAL INFORMATION

For the Quarter and Year Ended March 31, 2005 and 2004

(Amounts in thousands)

	Quarter Ended				Percent Increase (Decrease)
	March 31, 2005		March 31, 2004		
	Amount	% of Total	Amount	% of Total	
<b>Geographic</b>					
<b>Revenue Mix</b>					
United States	\$69,087	34%	\$65,509	40%	5%
International	134,774	66%	97,388	60%	38%
Total net revenues	\$203,861	100%	\$162,897	100%	25%
<b>Activity/Platform</b>					
<b>Mix</b>					
<b>Publishing:</b>					
Console	\$66,878	33%	\$68,919	42%	-3%

Hand-held	33,353	16%	2,795	2%	1093%
PC	30,398	15%	24,896	15%	22%
Total					
publishing	\$130,629	64%	\$96,610	59%	35%
Distribution:					
Console	\$52,826	26%	\$52,293	32%	1%
Hand-held	8,148	4%	3,802	3%	114%
PC	12,258	6%	10,192	6%	20%
Total					
distribution	\$73,232	36%	\$66,287	41%	10%
Total net					
revenues	\$203,861	100%	\$162,897	100%	25%

	Year Ended				Percent Increase (Decrease)
	March 31, 2005		March 31, 2004		
	Amount	% of Total	Amount	% of Total	
Geographic					
Revenue Mix					
United States	\$696,325	50%	\$446,812	47%	56%
International	709,532	50%	500,844	53%	42%
Total net					
revenues	\$1,405,857	100%	\$947,656	100%	48%
Activity/Platform					
Mix					
Publishing:					
Console	\$713,947	51%	\$508,418	54%	40%
Hand-held	138,695	10%	24,945	2%	456%
PC	220,087	15%	132,369	14%	66%
Total					
publishing	\$1,072,729	76%	\$665,732	70%	61%
Distribution:					
Console	\$256,452	18%	\$223,802	24%	15%
Hand-held	23,282	2%	18,361	2%	27%
PC	53,394	4%	39,761	4%	34%
Total					
distribution	\$333,128	24%	\$281,924	30%	18%
Total net					
revenues	\$1,405,857	100%	\$947,656	100%	48%

ACTIVISION, INC. AND SUBSIDIARIES

FINANCIAL INFORMATION

For the Quarter and Year Ended March 31, 2005 and 2004

	Quarter Ended March 31, 2005	Quarter Ended March 31, 2004	Year Ended March 31, 2005	Year Ended March 31, 2004
Publishing Net Revenues				
PC	23%	26%	21%	20%
Console	51%	71%	66%	76%

PlayStation 2	25%	41%	39%	43%
Microsoft Xbox	22%	23%	18%	22%
Nintendo GameCube	3%	4%	9%	8%
PlayStation	1%	3%	0%	3%
Hand-held	26%	3%	13%	4%
Game Boy Advance	7%	3%	9%	4%
Nintendo Dual Screen	4%	0%	2%	0%
PlayStation Portable	15%	0%	2%	0%
Total publishing net revenues	100%	100%	100%	100%

ACTIVISION, INC. AND SUBSIDIARIES

Non-GAAP Disclosures

Free Cash Flow

(In thousands)

	Three Months Ended 03/31/2005	Three Months Ended 12/31/04	Three Months Ended 9/30/04	Three Months Ended 6/30/04	Three Months Ended 3/31/04
Net Cash Provided by (Used In) Operating Activities	\$118,931	\$85,668	\$62,846	\$(52,136)	\$21,069
Less: Capital Expenditures	\$(6,911)	\$(3,587)	\$(2,562)	\$(1,881)	\$(2,521)
Free Cash Flow Trailing Twelve Month Free Cash Flow	\$112,020	\$82,081	\$60,284	\$(54,017)	\$18,548
	\$200,368	\$106,896	\$121,998	\$30,779	\$55,427

ACTIVISION, INC. AND SUBSIDIARIES

Non-GAAP Disclosures

Return on Invested Capital

(In thousands)

	Three Months Ended 03/31/2005	Three Months Ended 12/31/04	Three Months Ended 9/30/04	Three Months Ended 6/30/04	Three Months Ended 3/31/04
NET OPERATING PROFIT AFTER TAXES					
Net income	\$3,573	\$97,262	\$25,543	\$11,957	\$6,664
Less:					
Investment income	(5,138)	(3,197)	(2,645)	(2,112)	(2,051)
Tax effect on Investment income (B)	1,394	991	846	697	677
Net Operating Profit After Taxes	\$(171)	\$95,056	\$23,744	\$10,542	\$5,290
Trailing Twelve Month Net Operating Profit					

After Taxes	\$129,171	\$134,632	\$115,576	\$80,826	\$73,630
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INVESTED CAPITAL

Total assets	\$1,306,963	\$1,344,629	\$1,104,169	\$985,841	\$968,817
Less:					
Cash and short term investments	840,864	713,180	606,087	539,146	587,649
Current liabilities (non-interest bearing)	207,051	311,433	216,342	132,092	136,079
Invested capital	\$259,048	\$320,016	\$281,740	\$314,603	\$245,089
Trailing Twelve Month Invested capital (A)	284,100	282,288	268,816	260,784	236,584
Return on Invested Capital (C)	0%	30%	8%	3%	2%
Trailing Twelve Month Return on Invested Capital (C)	45%	48%	43%	31%	31%

- (A) Amounts for the trailing twelve months represent averages of the previous four fiscal quarters
- (B) Tax effect represents investment income multiplied by our effective tax rate.
- (C) Return on Invested Capital and Trailing Twelve Month Return on Invested Capital is the percentage of Net Operating Profit After Taxes to Invested Capital, and the percentage of Trailing Twelve Month Net Operating Profit After Taxes to Trailing Twelve Month Invested Capital, respectively

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