

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark one)

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

FOR THE FISCAL YEAR ENDED MARCH 31, 1999

OR

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

For the transition period from _____ to _____

Commission File Number 0-12699

ACTIVISION, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

94-2606438

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

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

90405
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (310) 255-2000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Common Stock, par value \$.000001 per share

(Title of Class)

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

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

The aggregate market value of the Common Stock of the registrant held by non-affiliates of the registrant on June 25, 1999 was \$295,741,675.

The number of shares of the registrant's Common Stock outstanding as of June 25, 1999 was 22,982,248.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K, with respect to the 1999 Annual Meeting of Shareholders, are incorporated by reference into Part III of this Annual Report.

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PART I

Item 1. BUSINESS

(a) GENERAL

Activision, Inc. (together with its subsidiaries, "Activision" or the "Company") is a leading international publisher, developer and distributor of interactive entertainment and leisure products. The Company was incorporated in California in 1979. In December 1992, the Company reincorporated in Delaware.

The Company's products span a wide range of genres (including action, adventure, strategy and simulation) and target markets (including game enthusiasts, value buyers and children). In addition to its genre and market diversity, the Company publishes, develops and distributes products for a variety of game platforms, including personal computers ("PCs"), the Sony Playstation console system and the Nintendo 64 console system.

The Company completed the acquisition of Raven Software Corporation ("Raven") on July 13, 1997, NBG EDV Handels- und Verlags GmbH ("NBG") on November 26, 1997, S.B.F. Services, Limited dba Head Games Publishing ("Head Games") on June 30, 1998, and CD Contact Data GmbH ("CD Contact") on September 29, 1998. Each of the above transactions originally had been accounted for by the Company as an immaterial pooling of interests. The financial results for each such acquired company and related cash flows had therefore been included in the reported operations of the Company beginning only on the date of acquisition. Based on a reevaluation of these transactions, including the results of operations of each entity, statements by the Securities and Exchange Commission (the "SEC") on materiality of pooling transactions and requirements to evaluate the impact on each line item in the financial statements and the impact on the Company's trends, the Company has restated all financial information reported in this Annual Report on Form 10-K for all periods prior to the consummation of each transaction to include the financial position, results of operations and cash flows of such acquired companies.

(b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The Company has two reportable segments: publishing CD-based and cartridge based interactive entertainment and leisure software; and distributing interactive entertainment and leisure products. Publishing relates to the development (both internally and externally), marketing and sale of products owned or controlled by the Company, either directly or through its affiliate label program. Distribution refers to the sale by the Company's European distribution subsidiaries of other publishers' software and related products to the marketplace. See the Consolidated Financial Statements and Notes thereto included in Item 8 of this Annual Report on Form 10-K for certain financial information required by Item 1.

(c) NARRATIVE DESCRIPTION OF BUSINESS

FACTORS AFFECTING FUTURE PERFORMANCE

In connection with the Private Securities Litigation Reform Act of 1995 (the "Litigation Reform Act"), the Company is hereby disclosing certain cautionary information to be used in connection with written materials (including this Annual Report on Form 10-K) and oral statements made by or on behalf of 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. The discussion below highlights some of the more important risks identified by management, but should not be assumed to be the only factors that could affect future performance. 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.

FLUCTUATIONS IN QUARTERLY RESULTS; FUTURE OPERATING RESULTS UNCERTAIN; SEASONALITY. The Company's quarterly operating results have varied significantly in the past and will likely vary significantly in the future depending on numerous factors, several of which are not under the Company's control. Such factors include, but are not limited to, demand for products published or distributed by the Company, the size and rate of growth of the interactive entertainment and leisure markets, development and promotional expenses relating to the introduction of new products, changes in computing platforms, product returns, the timing of orders from major customers, delays in shipment, the level of price competition, the timing of

product introductions by the Company and its competitors, product life cycles, product defects and other quality problems, the level of the Company's international revenues, and personnel changes. Products are generally shipped as orders are received, and consequently, the Company operates with little or no backlog. Net revenues in any quarter are, therefore, substantially dependent on orders booked and shipped in that quarter.

The Company's expenses are based in part on the Company's product development and marketing budgets. Many of the costs incurred by the Company to produce and sell its products are expensed as such costs are incurred, which often is before a product is released. In addition, a significant portion of the Company's expenses are fixed. As the Company increases its production and sales activities, current expenses will increase and, if sales from previously released products are below expectations, net income is likely to be disproportionately affected.

Due to all of the foregoing, revenues and operating results for any future quarter are not predictable with any significant degree of accuracy. Accordingly, the Company believes that period-to-period comparisons of its operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

The Company's business has experienced and is expected to continue to experience significant seasonality, in part due to consumer buying patterns. Net revenues typically are significantly higher during the fourth calendar quarter, primarily due to the increased demand for consumer software during the year-end holiday buying season. Net revenues and net income in other quarters are generally lower and vary significantly as a result of new product introductions and other factors. For example, the Company's net revenues in its last five quarters were \$68.1 million for the quarter ended March 31, 1998, \$61.5 million for the quarter ended June 30, 1998, \$66.2 million for the quarter ended September 30, 1998, \$193.5 million for the quarter ended December 31, 1998 and \$115.2 million for the quarter ended March 31, 1999. The Company's net income (loss) for the last five quarters was \$689,000 for the quarter ended March 31, 1998, \$(3.7) million for the quarter ended June 30, 1998, \$(2.2) million for the quarter ended September 30, 1998, \$16.0 million for the quarter ended December 31, 1998 and \$5.2 million for the quarter ended March 31, 1999. The Company expects its net revenues and operating results to continue to reflect significant seasonality.

DEPENDENCE ON NEW PRODUCT DEVELOPMENT; PRODUCT DELAYS. The Company's future success depends in part on the timely introduction of successful new products to replace declining revenues from older products. If, for any reason, revenues from new products were to fail to replace declining revenues from older products, the Company's business, operating results and financial condition would be materially and adversely affected. In addition, the Company believes that the competitive factors in the marketplace for premium-priced interactive products create the need for higher quality, distinctive products that incorporate increasingly sophisticated effects and the need to support product releases with increased marketing, resulting in higher development, acquisition and marketing costs. The lack of market acceptance or significant delay in the introduction of, or the presence of a defect in, one or more premium-priced products could have a material adverse effect on the Company's business, operating results and financial condition, particularly in view of the seasonality of the Company's business. Further, because a large portion of a product's revenue generally is associated with initial shipments, the delay of a product introduction expected near the end of a fiscal quarter may have a material adverse effect on operating results for that quarter.

The Company has, in the past, experienced significant delays in the introduction of certain new products. The timing and success of interactive entertainment products remain unpredictable due to the complexity of product development, including the uncertainty associated with technological developments. Although the Company has implemented substantial development controls, there likely will be delays in developing and introducing new products in the future. There can be no assurance that new products will be introduced on schedule, or at all, or that they will achieve market acceptance or generate significant revenues.

RELIANCE ON THIRD PARTY DEVELOPERS AND INDEPENDENT CONTRACTORS. The percentage of products published by the Company that are developed by independent third party developers has increased over the last several fiscal years. From time to time, the Company also utilizes independent contractors for certain aspects of product development and production. The Company has less control over the scheduling and the quality of work by independent contractors and third party developers than that of its own employees. A delay in the work performed by independent contractors and third party developers or poor quality of such work may result in product delays. Although the Company intends to continue to rely in part on products that are developed primarily by its own employees, the Company's ability to grow its business and its future operating results will depend, in significant part, on the Company's continued ability to maintain relationships with skilled independent contractors and third party developers. There can be no assurance that the Company will be able to maintain such relationships.

UNCERTAINTY OF MARKET ACCEPTANCE; SHORT PRODUCT LIFE CYCLES.

The market for interactive entertainment and leisure systems and interactive software has been characterized by shifts in consumer preferences and short product life cycles. Consumer preferences for entertainment and leisure software products are difficult to predict and few products achieve sustained market acceptance. There can be no assurance that new products introduced by the Company will achieve any significant degree of market acceptance, that such acceptance will be sustained for any significant period, or that product life cycles will be sufficient to permit the Company to recoup development, marketing and other associated costs. In addition, if market acceptance is not achieved, the Company could be forced to accept substantial product returns to maintain its relationships with retailers and its access to distribution channels. Failure of new products to achieve or sustain market acceptance or product returns in excess of the Company's expectations would have a material adverse effect on the Company's business, operating results and financial condition.

PRODUCT CONCENTRATION; DEPENDENCE ON HIT PRODUCTS. The Company derives a significant portion of its revenues from a relatively small number of products released each year, and many of these products have substantial production or acquisition costs and marketing budgets. During fiscal 1998, one product accounted for approximately 10.2% of the Company's consolidated net revenues. All other products were individually less than 10% of the Company's consolidated net revenues. During fiscal 1999, no single product accounted for greater than 10% of the Company's consolidated net revenues. However, the Company anticipates that a limited number of products will continue to produce a disproportionate amount of revenues. Due to this dependence on a limited number of products, the failure of one or more of these products to achieve anticipated results may have a material adverse effect on the Company's business, operating results and financial results.

The Company's strategy also includes as a key component publishing titles that have franchise value, such that sequels, enhancements and add-on products can be released over time, thereby extending the life of the property in the market. While the focus on franchise properties, if successful, results in extending product life cycles, it also results in the Company depending on a limited number of titles for its revenues. There can be no assurance that the Company's existing franchise titles can continue to be exploited as successfully as in the past. In addition, new products that the Company believes will have potential value as franchise properties may not achieve market acceptance and therefore may not be a basis for future releases.

INDUSTRY COMPETITION; COMPETITION FOR SHELF SPACE. The interactive entertainment and leisure industries are intensely competitive. Competition in these industries is principally based on product quality and features, the compatibility of products with popular platforms, company or product line brand name recognition, access to distribution channels, marketing effectiveness, reliability and ease of use, price and technical support. Significant financial resources also have become a competitive factor in these industries, principally due to the substantial cost of product development and marketing that is required to support best-selling titles. In addition, competitors with broad product lines and popular titles typically have greater leverage with distributors and other customers who may be willing to promote titles with less consumer appeal in return for access to such competitor's most popular titles.

The Company's competitors range from small companies with limited resources to large companies with substantially greater financial, technical and marketing resources than those of the Company. The Company's competitors currently include Electronic Arts, LucasArts, Microsoft, Sega, Nintendo, Sony, Havas, Infogrames, Hasbro, GT Interactive and Eidos, among many others.

As competition increases, significant price competition, increased production costs and reduced profit margins may result. Prolonged price competition or reduced demand would have a material adverse effect on the Company's business, operating results and financial condition. There can be no assurance that the Company will be able to compete successfully against current or future competitors or that competitive pressures faced by the Company will not have a material adverse effect on its business, operating results and financial condition.

Retailers typically have a limited amount of shelf space, and there is intense competition among entertainment and leisure software producers for adequate levels of shelf space and promotional support from retailers. As the number of interactive entertainment and leisure products increase, the competition for shelf space has intensified, resulting in greater leverage for retailers and distributors in negotiating terms of sale, including price discounts and product return policies. The Company's products constitute a relatively small percentage of a retailer's sales volume, and there can be no assurance that retailers will continue to purchase the Company's products or promote the Company's products with adequate levels of shelf space and promotional support.

DEPENDENCE ON DISTRIBUTORS AND RETAILERS; RISK OF CUSTOMER BUSINESS FAILURE; PRODUCT RETURNS. Certain mass market retailers have established exclusive buying relationships under which such retailers will buy consumer software only from one intermediary. In such

instances, the price or other terms on which the Company sells to such retailers may be adversely effected by the terms imposed by such intermediary, or the Company may be unable to sell to such retailers on terms which the Company deems acceptable. The loss

of, or significant reduction in sales attributable to, any of the Company's principal distributors or retailers could materially adversely effect the Company's business, operating results and financial condition.

Retailers in the computer industry have from time to time experienced significant fluctuations in their businesses and there have been a number of business failures among these entities. The insolvency or business failure of any significant retailer or other wholesale purchaser of the Company's products could have a material adverse effect on the Company's business, operating results and financial condition. Sales are typically made on credit, with terms that vary depending upon the customer and the nature of the product. The Company does not hold collateral to secure payment. Although the Company has obtained insolvency risk insurance to protect against any bankruptcy, insolvency, or liquidation that may occur to its customers, such insurance contains a significant deductible as well as a co-payment obligation, and the policy does not cover all instances of non-payment. In addition, the Company maintains a reserve for uncollectible receivables that it believes to be adequate, but the actual reserve which is maintained may not be sufficient in every circumstance. As a result of the foregoing, a payment default by a significant customer could have a material adverse effect on the Company's business, operating results and financial condition.

The Company also is exposed to the risk of product returns from retailers and other wholesale purchasers. Although the Company provides reserves for returns that it believes are adequate, and although the Company's agreements with certain of its customers place certain limits on product returns, the Company could be forced to accept substantial product returns to maintain its relationships with retailers and its access to distribution channels. Product returns that exceed the Company's reserves could have a material adverse effect on the Company's business, operating results and financial condition.

CHANGES IN TECHNOLOGY AND INDUSTRY STANDARDS. The consumer software industry is undergoing rapid changes, including evolving industry standards, frequent new platform introductions and changes in consumer requirements and preferences. The introduction of new technologies, including new console systems such as Sega's Dreamcast and Sony's PlayStation 2, technologies that support multi-player games, and new media formats such as on-line delivery and digital video disks ("DVD"), could render the Company's previously released products obsolete or unmarketable. The development cycle for products utilizing new operating and console systems, microprocessors or formats may be significantly longer than the Company's current development cycle for products on existing operating systems, microprocessors and formats and may require the Company to invest resources in products that may not become profitable. There can be no assurance that the mix of the Company's future product offerings will keep pace with technological changes or satisfy evolving consumer preferences, or that the Company will be successful in developing and marketing products for any future operating system or format. Failure to develop and introduce new products and product enhancements in a timely fashion could result in significant product returns and inventory obsolescence and could have a material adverse effect on the Company's business, operating results and financial condition.

RISKS ASSOCIATED WITH LEVERAGE. As of March 31, 1999, the Company had outstanding \$60,000,000 of subordinated convertible notes due 2005. In June 1999, the Company obtained a term loan and revolving credit facility composed of \$25 million of term loans and up to \$100 million of revolving credit loans and letters of credit. The proceeds of the term loan, which is due in June 2002, were used to complete the acquisition of Expert Software, Inc. and to pay expenses associated with the acquisition and the financing transaction. The revolving credit facility will be used for working capital and general corporate purposes.

The term loan and the revolving credit facility are secured by a pledge of substantially all of the asset of the Company and of its US subsidiaries. The facility contains various financial and other covenants that the Company and its subsidiaries must comply with. If the Company were to default under the terms of the credit facility, either as a result of a failure to pay principal or interest when due or as a result of a breach of a financial or other covenant, the lenders could stop providing funds and letters of credit to the Company and could declare an event of default and foreclose on the collateral. This could also result in an acceleration of the subordinated notes. A default by the Company under the revolving credit and term loan facility would materially adversely effect the Company's business and could result in the Company declaring bankruptcy.

YEAR 2000. Like many other software companies, the year 2000 computer issue creates risk for the Company. If internal computer and embedded systems do not correctly recognize date information when the year changes to 2000, there could be an adverse impact on the Company's operations. The Company has initiated a comprehensive plan to prepare its internal computer and embedded systems for the year 2000 and is currently implementing changes to alleviate year 2000 incapacibilities. As part of such plan, the Company has purchased software programs that have been independently developed by third parties which will test year 2000 compliance for the majority of the Company's systems.

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

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

The Company also has contacted critical suppliers of products and services to determine that the suppliers' operations and the products and services they provide are year 2000 compliant. To assist suppliers (particularly trading partners using electronic data interchange) in evaluating their year 2000 issues, the Company has developed a questionnaire designed to assess the ability of each supplier to address year 2000

incompatibilities. All critical suppliers and trading partners of the Company have responded to the questionnaire and confirmed the expectation that they will continue providing services and products through the change to 2000.

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

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

EURO CONVERSION. On January 1, 1999, eleven of the fifteen member countries of the European Union adopted the "euro" as their common currency. The sovereign currencies of the participating countries are scheduled to remain legal tender as denominations of the euro between January 1, 1999 and January 1, 2002. Beginning January 1, 2002, the participating countries will issue new euro-denominated bills and coins for use in cash transactions. No later than July 1, 2002, the participating countries will withdraw all bills and coins denominated in the sovereign currencies, so that the sovereign currencies no longer will be legal tender for any transactions, making conversion to the euro complete. The Company has performed an internal analysis of the possible implications of the euro conversion on the Company's business and financial condition, and has determined that the impact of the conversion will be immaterial to its overall operations. The Company's wholly owned subsidiaries operating in participating countries represented 24.1% and 22.1% of the Company's consolidated net revenues for the fiscal year ended March 31, 1999 and 1998, respectively.

LIMITED PROTECTION OF INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS; RISK OF LITIGATION. The Company holds copyrights on the products, manuals, advertising and other materials owned by it and maintains trademark rights in the Company name, the ACTIVISION logo, and the names of the products owned by the Company. The Company regards its software as proprietary and relies primarily on a combination of trademark, copyright and trade secret laws, employee and third-party nondisclosure agreements, and other methods to protect its proprietary rights. Unauthorized copying is common within the software industry, and if a significant amount of unauthorized copying of the Company's products were to occur, the Company's business, operating results and financial condition could be adversely effected. There can be no assurance that third parties will not assert infringement claims against the Company in the future with respect to current or future products. As is common in the industry, from time to time the Company receives notices from third parties claiming infringement of intellectual property rights of such parties. The Company investigates these claims and responds as it deems appropriate. Any claims or litigation, with or without merit, could be costly and could result in a diversion of management's attention, which could have a material adverse effect on the Company's business, operating results and financial condition. Adverse determinations in such claims or litigation could also have a material adverse effect on the Company's business, operating results and financial condition.

Policing unauthorized use of the Company's products is difficult, and while the Company is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to be a persistent problem. In selling its products, the Company relies primarily on "shrink wrap" licenses that are not signed by licensees and, therefore, may be unenforceable under the laws of certain jurisdictions. Further, the Company enters into transactions in countries where intellectual property laws are not well developed or are poorly enforced. Legal protections of the Company's rights may be ineffective in such countries.

DEPENDENCE ON KEY PERSONNEL. The Company's success depends to a significant extent on the performance and continued service of its senior management and certain key employees. Competition for highly skilled employees with technical, management, marketing, sales, product development and other specialized training is intense, and there can be no assurance that the Company will be successful in attracting and

retaining such personnel. Specifically, the Company may experience increased costs in order

to attract and retain skilled employees. Although the Company enters into term employment agreements with most of its skilled employees and management personnel, there can be no assurance that such employees will not leave the Company or compete against the Company. The Company's failure to attract or retain qualified employees could have a material adverse effect on the Company's business, operating results and financial condition.

RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS: CURRENCY FLUCTUATIONS. International sales and licensing accounted for 65%, 71% and 66% of the Company's total revenues in the fiscal years 1997, 1998 and 1999, respectively. The Company intends to continue to expand its direct and indirect sales, marketing and localization activities worldwide. This expansion will require significant management time and attention and financial resources in order to develop adequate international sales and support channels. There can be no assurance, however, that the Company will be able to maintain or increase international market demand for its products. International sales are subject to inherent risks, including the impact of possible recessionary environments in economies outside the United States, the costs of transferring and localizing products for foreign markets, longer receivable collection periods and greater difficulty in accounts receivable collection, unexpected changes in regulatory requirements, difficulties and costs of staffing and managing foreign operations, and political and economic instability. There can be no assurance that the Company will be able to sustain or increase international revenues or that the foregoing factors will not have a material adverse effect on the Company's future international revenues and, consequently, on the Company's business, operating results and financial condition. The Company currently does not engage in currency hedging activities. Although exposure to currency fluctuations to date has been insignificant, fluctuations in currency exchange rates may in the future have a material adverse impact on revenues from international sales and licensing and thus the Company's business, operating results and financial condition.

RISK OF DEFECTS. Products such as those offered by the Company frequently contain errors or defects. Despite extensive product testing, in the past the Company has released products with defects and has discovered errors in certain of its product offerings after their introduction. In particular, the PC hardware environment is characterized by a wide variety of non-standard peripherals (such as sound cards and graphics cards) and configurations that make pre-release testing for programming or compatibility errors very difficult and time-consuming. Despite testing by the Company, new products or releases may contain errors after commencement of commercial shipments, resulting in a loss of or delay in market acceptance, which could have a material adverse effect on the Company's business, operating results and financial condition.

RISKS ASSOCIATED WITH ACQUISITIONS. The Company is in the process of integrating the operations of its recently acquired subsidiaries, Head Games, CD Contact and Expert Software, Inc. ("Expert") with its previously existing operations. This process, as well as the process of managing two significant new operations, requires substantial management time and effort and diverts the attention of management from other matters. In addition, there is a risk of loss of key employees, customers and vendors of the recently acquired operations as well as existing operations as this process is implemented. The Company may not be successful in integrating these operations.

Consistent with the Company's strategy of enhancing its distribution and product development capabilities, the Company intends to continue to pursue acquisitions of companies, intellectual property rights and other assets that can be purchased or licensed on acceptable terms and which the Company believes can be operated or exploited profitably. Some of these transactions could be material in size and scope. While the Company will continually be searching for appropriate acquisition opportunities, the Company may not be successful in identifying suitable acquisitions. If any potential acquisition opportunities are identified, the Company may not be able to consummate such acquisitions and if any such acquisition does occur, it may not be successful in enhancing the Company's business or be accretive to the Company's earnings. As the interactive entertainment and leisure businesses continue to consolidate, the Company faces significant competition in seeking acquisitions and may in the future face increased competition for acquisition opportunities. This may inhibit the Company's ability to complete suitable transactions. Future acquisitions could also divert substantial management time, could result in short term reductions in earnings or special transaction or other charges and may be difficult to integrate with existing operations or assets.

The Company may, in the future, issue additional shares of common stock in connection with one or more acquisitions, which may dilute its existing shareholders. The Company's shareholders will not have an opportunity, with respect to most of its future acquisitions, to review the financial statements of the entity being acquired or to evaluate the benefits of the intellectual property rights being purchased or licensed, or to vote on the acquisitions.

RISK OF DISTRIBUTION COMPANIES' VENDOR DEFECTIONS; VENDOR CONCENTRATION. The Company's CD Contact subsidiary and CenterSoft subsidiary perform software distribution services in the Benelux

territory and in the United Kingdom, respectively, and, via export, in other European territories for a variety of entertainment software publishers, many of which are competitors of the Company. These services are

generally performed under limited term contracts, some of which provide for cancellation in the event of a change of control. While the Company expects to use reasonable efforts to retain these vendors, the Company may not be successful in this regard. The cancellation or non-renewal of one or more of these contracts could have a material adverse effect on the Company's business, operating results and financial condition. Three of CD Contact's vendors accounted for 50%, 11% and 11%, respectively, of CD Contact's net revenues in fiscal year 1999. The net revenues from these vendors represents 6%, 1% and 1%, respectively, of consolidated net revenues of the Company. Two of CentreSoft's vendors accounted for 30% and 11%, respectively, of CentreSoft's net revenues in fiscal year 1999. The net revenues from these vendors represented 11% and 4%, respectively, of consolidated net revenues of the Company. All other vendors contributed less than 10% individually to the respective subsidiary's net revenues.

STRATEGY

The Company's objective is to be a worldwide leader in the development, publishing and distribution of quality interactive entertainment and leisure products that deliver, at each point of the value spectrum, a highly satisfying experience. The Company's strategy includes the following elements:

CREATE AND MAINTAIN A BALANCED AND DIVERSIFIED PORTFOLIO OF OPERATIONS. The Company has assembled a large diversified portfolio of development, publishing and distribution operations and relationships which are complementary and, at the same time, reduce the Company's risk of concentration on any one developer, brand, platform, customer or market. The Company has focused historically on the development and publishing of premium games which provide the most sophisticated game play and entertainment experience at the top price point. While the Company will continue to take advantage of its expertise in this area, it has recently diversified its business operations and product and audience mix, and plans on continuing such diversification in the future. For example, the Company acquired several separate companies in the last two years in order to establish the distribution business. Additionally, the Company believes that its recent acquisition of Expert Software Inc., along with the Company's acquisition in June 1998 of Head Games, positions the Company as a leading publisher of "value" products for the PC, which are characterized by less sophisticated game play and lower price points. Further, the Company publishes and distributes titles that run on a variety of platforms (PC, Sony PlayStation and Nintendo 64). This diversification significantly reduces the risk of downturn or underperformance in any of the Company's individual operations.

CREATE AND MAINTAIN STRONG BRANDS. The Company focuses its development and publishing activities principally on titles that are, or have the potential to become, franchise properties with sustainable consumer appeal and brand recognition. These titles can thereby serve as the basis for sequels, prequels, mission packs and other add-ons and related new titles that can be released over an extended period of time. The Company believes that the publishing and distribution of products based in large part on franchise properties enhances revenue predictability and the probability of high unit volume sales and operating profits. In addition, the Company has entered into a series of strategic partnerships with the owners of intellectual property pursuant to which the Company has acquired the rights to publish titles based on franchises such as STAR TREK, various Disney films such as TOY STORY 2, A BUG'S LIFE and TARZAN, and SPIDERMAN.

FOCUS ON ON-TIME DELIVERY. The success of the Company's publishing business is dependent, in significant part, on its ability to develop games that will generate high unit volume sales that can be completed in accordance with planned budgets and schedules. In order to increase its ability to achieve this objective, the Company's publishing units have implemented a formal control process for the development of the Company's products. This process includes three key elements: (i) in-depth reviews are conducted for each project at five intervals during the development process by a team that includes several of the Company's highest ranking operating managers; (ii) each project is led by a small team which is heavily incentivized to deliver a high-quality product, on-schedule and within budget; and (iii) day-to-day progress is monitored by a dedicated process manager in order to insure that issues, if any, are promptly identified and addressed in a timely manner.

LEVERAGE INFRASTRUCTURE AND ORGANIZATION. The Company is continually striving to reduce its risk and increase its operating leverage and efficiency through the variabilization of expenses. For example, the Company has significantly increased its product making capabilities by allocating a larger portion of its product development investments to experienced independent development companies. These companies generally are small firms focused on a particular product type, run and owned by individuals willing to take development risk by accepting payments based on the completion of fixed performance milestones in exchange for a royalty on the revenue stream of the game after the Company recoups its development costs. The Company has also broadly instituted objective-based reward programs that provide incentives to management and staff to produce results that meet the Company's financial objectives.

GROW THROUGH CONTINUED STRATEGIC ACQUISITIONS. The interactive

entertainment and leisure industries are consolidating, and the Company believes that success in these industries will be driven in part

by the ability to take advantage of scale. Specifically, smaller companies are more capital constrained, enjoy less predictability of revenues and cashflow, lack product diversity and must spread fixed costs over a smaller revenue base. Several industry leaders are emerging that combine the entrepreneurial and creative spirit of the industries with professional management, the ability to access the capital markets and the ability to maintain favorable relationships with strategic developers, property owners, and retailers. Through seven completed acquisitions since 1997, the Company believes that it has successfully diversified its operations, its channels of distribution and its library of titles and has emerged as one of the industry's leaders.

PRODUCTS

The Company currently is best known for its action, adventure, strategy and simulation products, although the Company also distributes products in other categories such as sports, leisure and role playing. The Company may in the future expand its product offerings into new categories.

The Company's current and upcoming releases are based on a combination of characters, worlds and concepts derived from the Company's extensive library of titles, original characters and concepts owned and created by the Company, and intellectual property or other character or story rights licensed from third parties. In publishing products based on licensed intellectual property rights, the Company generally seeks to capitalize on the name recognition, marketing efforts and goodwill associated with the underlying property.

In the past year, the Company has entered into a series of long term or multi-product agreements with the owners of intellectual property that is well known throughout the world. In addition to the strategic relationships established by the Company with Disney Interactive for several animated film properties and with Viacom Consumer Products for STAR TREK, the Company also has entered into an exclusive distribution agreement with LucasArts Entertainment which gives the Company the right during the term of the agreement to distribute all past and future LucasArts PC and PlayStation products in the United Kingdom and over 40 other international countries, including titles based on STAR WARS: EPISODE ONE and INDIANA JONES.

In addition to its own internally developed products, the Company publishes and distributes software products for other independent developers and publishers such as id Software, Nihilistic Software, Ritual Entertainment and Kalisto Entertainment. As the Company seeks to associate the "ACTIVISION" mark only with the highest quality interactive entertainment products, the Company attempts to be selective in acquiring publishing and distribution rights from third party developers. Such products typically are marketed under the Company's name as well as the name of the original developer. The Company believes that these efforts enable the Company to leverage its investment in worldwide sales and marketing and add a new source of products while balancing the risks inherent in internal product development and production. This activity also allows the Company to enter new product genres more quickly and provide consumers with a wider variety of products.

In addition, during the last year, the Company entered the "value priced" software publishing business through its acquisition of Head Games Publishing in June 1998 and of Expert Software Inc. in June 1999. Products published by the Company in this category are generally developed by third parties, often under contract with the Company, and are marketed under the Head Games and Expert Software names.

PRODUCT DEVELOPMENT AND SUPPORT

The Company uses both internal and external resources to develop products. The Company also acquires rights to products through publishing and distribution arrangements with other interactive entertainment and leisure companies.

INTERNAL DEVELOPMENT

The Company's internal development and production groups are located at the Company's headquarters in Santa Monica, California and at the Company's Raven Software subsidiary located in Madison, Wisconsin.

Activision internally develops and produces titles using a model in which a core group of creative, production and technical professionals on staff at the Company, in cooperation with the Company's marketing and finance departments, have overall responsibility for the entire development and production process and for the supervision and coordination of internal and external resources. This team assembles the necessary creative elements to complete a title, using where appropriate outside programmers, artists, animators, musicians and songwriters, sound effects and special effects experts, and sound and video studios. The Company believes that this model allows the Company to supplement internal expertise with top quality external resources on an as needed basis.

The Company has adopted and implemented a rigorous procedure for the selection, development, production and quality assurance of its

internally produced entertainment software titles. The process involves one or more pre-development, development and production phases, each of which includes a number of specific performance milestones. This procedure is designed to enable the Company to manage and control production and development budgets and timetables, to identify and address production and

technical issues at the earliest opportunity, and to coordinate marketing and quality control strategies throughout the production and development phases, all in an environment that fosters creativity. Checks and balances are intended to be provided through the structured interaction of the project team with the Company's creative, technical, marketing and quality assurance/customer support personnel, as well as the legal, accounting and finance departments.

EXTERNAL DEVELOPMENT

The Company licenses or acquires software products from independent developers for publishing or distribution by the Company. Acquired titles generally are marketed under the Company's name as well as the name of the original developer. The agreements with developers provide the Company with exclusive publishing or distribution rights for a specific period of time for specified platforms and territories. These agreements often grant to the Company the right to publish or distribute sequels, enhancements and add-ons to the product originally being developed and produced by the developer. In consideration for its services, the developer receives a royalty based on sales of the product that it has developed. Typically, the developer also receives a nonrefundable advance which is recoupable by the Company from the royalties otherwise required to be paid to the developer. The royalty generally is paid in stages, with the payment of each stage tied to the completion of a detailed performance milestone.

The Company acquires titles from developers during various phases of the development and production processes for such titles. To the extent the Company acquires rights early in the development process, the Company generally will cause the independent developer to comply with the requirements of the pre-development, development and production processes applicable to titles internally produced by Activision. The Company will assign a game producer to each title who will serve as the principal liaison to the independent developer and help insure that performance milestones are timely met. The Company generally has the right to cease making payments to an independent developer if the developer fails to complete its performance milestones in a timely fashion.

The Company may make, from time to time, an investment and hold a minority equity interest in the third party developer in order to create a closer relationship between the Company and the developer. In this regard, the Company recently acquired a minority equity interest in each of Pandemic Studios, Savage Entertainment and Hammerhead Studios in connection with several new entertainment software products to be developed by each of these developers for the Company. There can be no assurance that the Company will realize long term benefits from any of these investments or that it will continue to carry such investments at its current value.

PRODUCT SUPPORT

The Company provides various forms of product support to both its internally and externally developed titles. The Company's quality assurance personnel are involved throughout the development and production processes for each title published by the Company. All such products are subjected to extensive testing before release in order to insure compatibility with the widest possible array of hardware configurations and to minimize the number of bugs and other defects found in the products. To support its products after release, the Company provides on-line support to its customers on a 24-hour basis as well as operator help lines during regular business hours. The customer support group tracks customer inquiries and this data is used to help improve the development and production processes.

PUBLISHING AND DISTRIBUTION ACTIVITIES

MARKETING

The Company's marketing efforts include on-line activities (such as the creation of World Wide Web pages to promote specific Company titles), public relations, print and broadcast advertising, coordinated in-store and industry promotions including merchandising and point of purchase displays, participation in cooperative advertising programs, direct response vehicles, and product sampling through demonstration software distributed through the Internet or on compact discs. In addition, the Company's products contain software that enables customers to "electronically register" their purchases with the Company via modem. Through this process, the Company captures electronic mail addresses for its customers as well as a variety of additional market research data.

The Company believes that certain of its franchise properties have loyal and devoted audiences who purchase the Company's sequels as a result of dedication to the property and satisfaction from previous product purchases. Marketing of these sequels is therefore directed both toward the established market as well as broader audiences. In marketing titles based on licensed properties, the Company believes that it derives marketing synergies and related benefits from the marketing and promotional activities of the property owners. In marketing titles owned by third party developers, the Company believes that it derives

marketing synergies and related benefits from the previously established reputation of the properties owned by the developer.

SALES AND DISTRIBUTION

DOMESTIC SALES AND DISTRIBUTION. The Company's products are available for sale or rental in thousands of retail outlets domestically. The Company's domestic customers include Best Buy, CompUSA, Computer City, Electronic Boutique, Babbages, WalMart, K-Mart, Target and Toys "R" Us. During fiscal 1999, no single domestic customer accounted for more than 10% of consolidated net revenues.

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 and discount warehouses and mail order companies. The Company believes that a direct relationship with retail accounts results in more effective inventory management, merchandising and communications than would be possible through indirect relationships. The Company has implemented electronic data interchange ("EDI") linkage with many of its retailers to facilitate the placing and shipment of orders. The Company seeks to continue to increase the number of retail outlets reached directly through its internal sales force. To a lesser extent, the Company sells its products through wholesale distributors, such as Ingram Micro and Merisel.

INTERNATIONAL SALES AND DISTRIBUTION. The Company conducts its international publishing and distribution activities through offices in the United Kingdom, Germany, France, Australia and Japan. The Company seeks to maximize its worldwide revenues and profits by releasing high quality foreign language localizations concurrently with the English language releases, whenever practicable, and by continuing to expand the number of direct selling relationships it maintains with key retailers in major territories.

In November 1997, the Company commenced its European distribution operations through the acquisitions of NBG in Germany and CentreSoft in the United Kingdom. CentreSoft is Sony's exclusive distributor of PlayStation products to the independent channel in the United Kingdom and employs approximately 150 people, including one of the largest entertainment software sales and marketing organizations in that country. In September 1998, the Company acquired CD Contact, a company specializing in the localization and marketing of entertainment software products in the Benelux territories. The assets and personnel of CD Contact currently are being combined with the Company's other distribution operations to form the core of Activision's international distribution operations and a base for further expansion into European territories. The Company will emphasize the expansion of CentreSoft's, NBG's and CD Contact's channel relations and intends to leverage the management expertise of these companies into other territories.

AFFILIATE LABELS. In addition to its own products, the Company distributes interactive entertainment products that are developed and marketed by other third party publishers through its "affiliate label" programs. The distribution of other publishers' products allows the Company to maximize the efficiencies of its sales force and provides the Company with the ability to better insure adequate shelf presence at retail stores for all of the products that it distributes. It also mitigates the risk associated with a particular title or titles published by Activision failing to achieve expectations. Services provided by the Company under its affiliate label program include order solicitation, in-store marketing, logistics and order fulfillment, and sales channel management.

The Company's affiliate label partners include LucasArts, as described above, Psygnosis, with respect to all of its PC and PlayStation products in North America, and Fox Interactive, with respect to all Fox Sports branded interactive products in Europe, Africa and Asia, excluding Japan.

OEM SALES AND DISTRIBUTION. The Company seeks to enhance the distribution of its products through licensing arrangements with original equipment manufacturers ("OEMs"). Under these arrangements, one or more of the Company's titles are "bundled" with hardware or peripheral devices sold and distributed by the OEM so that the purchaser of the hardware or device obtains the Company's software as part of the purchase or on a discounted basis. Although it is customary for the Company to receive a lower per unit price on sales through OEM bundle arrangements, the OEM customer makes a high unit volume commitment to the Company with little associated marketing costs. In addition, the Company from time to time receives substantial advance payments from the OEM customer. The Company also believes that such arrangements can substantially expand the distribution of its titles to a broader audience. Recent OEM partners include Diamond Multimedia, Gateway, Philips, Epson and Toshiba.

LICENSING AND MERCHANDISING

The Company believes that a number of its products have the potential to be exploited in ancillary markets and media, such as product merchandising and traditional entertainment media. The Company seeks opportunities for the exploitation of these ancillary rights directly and through third party agents. Potential opportunities include the publication of strategy guides for selected titles, the adaptation of titles into comic books, novels, television series or motion pictures, and the licensing of product merchandising rights. The Company believes that these types of licensing activities can provide additional sources of revenue and increase the visibility of the title, thereby leading to additional unit sales and greater potential for additional sequels. There can be no assurance that the Company will be successful in exploiting its properties in ancillary markets or media.

Similarly, the Company believes that there are opportunities for further exploitation of its titles through the Internet, on-line services such as America Online and the Microsoft Network, and through recently created on-line gaming services such as Heat and WON. The Company has established "900" telephone numbers as hint lines for certain of its titles, and has realized revenues from the calls made to these numbers. The Company also is actively exploring the establishment of on-line game playing opportunities, on-line hint sites, and Internet services as a method for realizing additional revenues from its products. There can be no assurance that the Company will be successful in exploiting these opportunities.

HARDWARE LICENSES

The Company's console products currently are being developed or published primarily for the Sony PlayStation and Nintendo 64. In order to maintain general access to the console systems marketplace, the Company has obtained licenses for the PlayStation, Nintendo 64, Nintendo Game Boy and other console systems. Each license allows the Company to create one or more products for the applicable system, subject to certain approval rights as to quality which are reserved by each licensor. Each license also requires that the Company pay the licensor a per unit license fee from product sales.

In contrast, the Company currently is not required to obtain any license for the development and production of PC-CD products. Accordingly, the Company's per unit manufacturing cost for PC-CD products is less than the per unit manufacturing cost for console products.

MANUFACTURING

The Company prepares a set of master program copies, documentation and packaging materials for its products for each respective hardware platform on which the product will be released. Except with respect to products for use on the Sony and Nintendo systems, the Company's disk duplication, packaging, printing, manufacturing, warehousing, assembly and shipping are performed by third party subcontractors.

In the case of products for the Sony and Nintendo systems, in order to maintain protection over their hardware technologies, such hardware producers generally specify and/or control the manufacturing and assembly of finished products. The Company delivers the master materials to the licensor or its approved replicator which then manufactures finished goods and delivers them to the Company for distribution under the Company's label. At the time the Company's product unit orders are filled by the manufacturer, the Company becomes responsible for the costs of manufacturing and the applicable per unit royalty on such units, even if the units do not ultimately sell.

To date, the Company has not experienced any material difficulties or delays in the manufacture and assembly of its products or material returns due to product defects.

COMPETITION

The interactive entertainment and leisure industries are intensely competitive and are in the process of substantial consolidation. The availability of significant financial resources has become a major competitive factor in these industries primarily as a result of the increasing development, acquisition, production and marketing budgets required to publish quality titles. In addition, competitors with large product lines and popular titles typically have greater leverage with distributors and other customers who may be willing to promote titles with less consumer appeal in return for access to such competitor's most popular titles. See "Factors Affecting Future Performance".

The Company seeks to compete by publishing high quality titles and by supporting these titles with substantial marketing efforts; by focusing on properties with sustainable consumer appeal; by working to strengthen its relationships with retailers and other resellers and otherwise expanding its channels of distribution; and by pursuing opportunities for strategic acquisitions. See "Strategy."

EMPLOYEES

As of March 31, 1999, the Company had 634 employees, including 207 in product development, 71 in North American publishing, 55 in corporate finance, operations and administration, 67 in international publishing, and 234 in European distribution activities.

As of March 31, 1999, approximately 120 of the Company's full-time employees were subject to term employment agreements with the Company. These agreements commit such employees to employment terms of between one and three years from the commencement of their respective agreements. Most of the employees subject to such agreements are senior executives of the Company or members of the product development, sales or marketing divisions. These individuals perform services to the Company as executives, directors, producers, associate producers, computer programmers, game designers, sales directors and marketing product managers. The execution by the Company of employment agreements with such employees, in the Company's experience, significantly reduces the Company's turnover during the development and production of its entertainment software products and allows the Company to plan more effectively for future development activities.

None of the Company's employees are subject to a collective bargaining agreement, and the Company has experienced no labor-related work stoppages.

(d) FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 6 of Notes to Consolidated Financial Statements included in Item 8.

Item 2. PROPERTIES

The Company's principal corporate, administrative, and product development offices are located in approximately 98,000 square feet of leased space in a building located at 3100 Ocean Park Boulevard, Santa Monica, California 90405. The following is a listing of the principal offices maintained by the Company at June 25, 1999:

Location of Principal Facilities	Square Feet	Lease Expiration Date
Santa Monica, California	98,000	April 30, 2007
Birmingham, United Kingdom	82,000	March 25, 2011 - June 1, 2012
Burglengenfeld, Germany	35,000	Owned
Coral Gables, Florida	12,994	August 29, 2000
Berchem, Belgium	10,659	April 1, 2001
London, United Kingdom	10,625	July 23, 2005
Venlo, the Netherlands	7,778	February 15, 2000
Madison, Wisconsin	6,660	December 31, 2000
Sydney, Australia	3,400	Month-to-Month
Eden Prairie, Minnesota	3,193	September 30, 2003
Eemnes, The Netherlands	2,000	January 1, 2001
Munich, Germany	4,311	November 30, 2001
New York, New York	1,200	April 30, 2001
Tokyo, Japan	531	August 31, 2000

Item 3. 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.

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

Not applicable.

PART II

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

The Company's Common Stock is quoted on the NASDAQ National Market under the symbol "ATVI."

The following table sets forth for the periods indicated the high and low reported closing sale prices for the Company's Common Stock.

	High	Low
	-----	-----
Fiscal 1998		

First Quarter ended June 30, 1997	\$ 14.75	\$ 9.87
Second Quarter ended September 30, 1997	\$ 15.50	\$ 11.00
Third Quarter ended December 31, 1997	\$ 18.62	\$ 13.00
Fourth Quarter ended March 31, 1998	\$ 17.87	\$ 9.50
Fiscal 1999		

First Quarter ended June 30, 1998	\$ 11.62	\$ 9.37
Second Quarter ended September 30, 1998	\$ 13.75	\$ 9.37
Third Quarter ended December 31, 1998	\$ 14.87	\$ 8.75
Fourth Quarter ended March 31, 1999	\$ 13.81	\$ 9.75
Fiscal 2000		

First Quarter through June 25, 1999	\$ 14.25	\$ 10.12

On June 25, 1999, the reported last sales price for the Common Stock was \$13.69. As of March 31, 1999, the Company had approximately 5,000 stockholders of record, excluding banks, brokers and depository companies that are the stockholders of record for the account of beneficial owners.

The Company paid no cash dividends in 1999 and does not intend to pay any cash dividends at any time in the foreseeable future. The Company expects that earnings will be retained for the continued growth and development of the Company's business. Future dividends, if any, will depend upon the Company's earnings, financial condition, cash requirements, future prospects and other factors deemed relevant by the Company's Board of Directors.

In July 1998, the Company granted warrants to purchase 250,000 shares of the Company's common stock to Disney Enterprises, Inc. ("Disney") in connection with a license agreement between the Company and Disney's affiliate, Disney Interactive. The warrants have an exercise price of \$12.70 per share, vest in full on July 2, 1999 and expire on July 2, 2008.

In September 1998, the Company granted warrants to purchase 750,000 shares of the Company's common stock to Viacom Consumer Products, Inc. ("Viacom") in connection with a license agreement. 500,000 of the warrants have an exercise price of \$10.27 per share, vest ratably over five years, beginning on the date of issuance, and expire on September 16, 2008. The warrant to purchase the remaining 250,000 shares also expires on September 16, 2008. These 250,000 warrants are exercisable ratably over five years beginning September 16, 2003 and have an exercise price equal to the average closing price of the Company's common stock on the NASDAQ National Market for the thirty days immediately preceding September 16, 2003.

In June 1998, the Company issued a total of 1,000,000 shares of the Company's common stock in connection with the acquisition of Head Games. The Company also granted options to purchase 295,000 shares of common stock to certain employees and consultants and at the time of the acquisition.

In September 1998, the Company issued a total of 1,900,000 shares of the Company's common stock in connection with the acquisition of CD Contact.

On March 23, 1999, options to purchase 1,000,000 shares of the Company's common stock were granted to each of Robert A. Kotick, the Company's Co-Chairman and Chief Executive Officer, and Brian G. Kelly, the Company's Co-Chairman. The options were granted in connection with employment agreements between the Company and each of Mr. Kotick and Mr. Kelly, dated January 12, 1999. The options vest in five equal

annual installments beginning on the date of issuance, have an exercise price of \$10.50 per share, and expire on January 12, 2009.

None of the shares, warrants, options or shares into which the warrants or options are exercisable were registered under the Securities Act of 1933, as amended (the "Securities Act"), by reason of the exemption under Section 4(2) of the Securities Act. The Company subsequently registered the shares, as well as the shares issuable to the former shareholders of Head Games upon the exercise of options, issued in connection with the Head Games and CD Contact transactions for resale by the holders thereof.

Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table summarizes certain selected consolidated financial data, which should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein. Selected Consolidated Financial Data as of and for each the fiscal years in the four year period ended March 31, 1998 have been retroactively restated to reflect the effect of pooling of interests transactions as discussed in Item 1 of this Report. The selected consolidated financial data presented below as of and for each of the fiscal years in the five-year period ended March 31, 1999 are derived from the audited consolidated financial statements of the Company. The Consolidated Balance Sheets as of March 31, 1999 and 1998 and the Consolidated Statements of Operations and Statements of Cash Flows for each of the fiscal years in the three-year period ended March 31, 1999, and the report thereon, are included elsewhere in this Form 10-K.

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Fiscal Years ended March 31,				

	Restated				
	1999	1998	1997	1996	1995
	-----	-----	-----	-----	-----
STATEMENT OF OPERATIONS DATA:					
Net revenues	\$436,485	\$312,058	\$189,239	\$ 86,591	\$57,750
Cost of sales - product costs	260,041	176,188	103,124	34,034	31,731
Cost of sales - royalties and software amortization	37,825	29,840	13,108	7,333	1,794
Operating income (loss)	27,245	9,486	11,531	3,233	(3,275)
Income (loss) before income taxes	24,215	8,374	11,612	4,841	(1,776)
Net income (loss)	15,254	5,139	7,631	5,895	(1,875)
Preferred dividends paid and/or accumulated	-	(116)	(151)	-	-
Basic net income (loss) per common share	\$ 0.69	\$ 0.24	\$ 0.37	\$ 0.34	\$ (0.11)
Diluted net income (loss) per common share	\$ 0.66	\$ 0.23	\$ 0.36	\$ 0.32	\$ (0.11)
Weighted average number of shares used in computing basic net income (loss) per common share (1)	22,162	21,339	20,262	17,232	17,404
Weighted average number of shares used in computing diluted net income (loss) per common share (1)	23,233	22,210	20,951	18,294	17,404
SELECTED OPERATING DATA:					
EBITDA (2)	\$ 56,665	\$ 42,760	\$ 23,878	\$ 13,727	\$(1,333)
CASH (USED IN) PROVIDED BY:					
Operating activities	\$ 18,078	\$ 31,180	\$ 4,956	\$ 3,807	\$ (393)
Investing activities	\$(64,331)	(43,371)	(19,588)	(11,455)	(61)
Financing activities	7,220	62,862	11,981	(4,378)	1,055
	As of March 31,				

	Restated				
	1999	1998	1997	1996	1995
	-----	-----	-----	-----	-----
BALANCE SHEET DATA:					
Working capital	\$141,314	\$115,773	\$ 51,997	\$39,871	\$39,606
Cash and cash equivalents	32,847	74,241	23,320	25,792	38,013
Intangible assets	21,647	23,473	23,756	19,583	20,865
Total assets	283,612	229,280	131,952	84,442	71,672
Long-term debt	61,150	61,780	5,907	1,222	986
Redeemable and convertible preferred stock	-	-	1,500	-	-
Shareholders' equity	127,475	97,397	81,634	62,439	61,693

(1) The Company has presented basic and diluted net income (loss) per share for all periods in accordance with Statement of Financial Accounting Standards No. 128 "Earnings per Share."

(2) EBITDA represents income (loss) before interest, income taxes, depreciation and amortization. The Company believes that EBITDA provides useful information regarding the Company's ability to service its debt; however, EBITDA does not represent cash flow from operations as defined by generally accepted accounting principles and should not be considered a substitute for net income, as an indicator of the Company's operating performance or cash flow, as a measure of liquidity.

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

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

OVERVIEW

The Company is a leading international publisher, developer and distributor of interactive entertainment 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 and the Nintendo 64 console systems. The Company's products span a wide range of genres and target markets.

Activision distributes its products worldwide through its direct sales forces, through its distribution subsidiaries, and through its third party distributors and licensees. In addition, in September 1998 the Company acquired CD Contact, significantly increasing its European distribution capabilities.

The Company's financial information as of and for the year ended March 31, 1999, 1998 and 1997, have been restated to reflect the effect of pooling of interests transactions as discussed in Item 1 of this Report.

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

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

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

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

	Fiscal Years Ended March 31,					
	(In thousands)					
	1999		1998		1997	
			Restated		Restated	
STATEMENT OF OPERATIONS DATA:						
Net revenues:	\$436,485	100.0%	\$312,058	100.0%	\$189,239	100.0%
Costs and expenses:						
Cost of sales - product costs	260,041	59.6%	176,188	56.5%	103,124	54.5%
Cost of sales - royalties and software amortization	37,825	8.7%	29,840	9.6%	13,108	6.9%
Product development	21,422	4.9%	27,393	8.8%	20,470	10.8%
Sales and marketing	66,419	15.2%	47,714	15.3%	31,178	16.5%
General and administrative	21,348	4.9%	18,401	5.9%	8,284	4.4%
Amortization of intangible assets	1,585	0.4%	1,562	0.5%	1,505	0.8%
Merger expenses	600	0.1%	1,474	0.4%	39	-
Total costs and expenses	409,240	93.8%	302,572	97.0%	177,708	93.9%
Income from operations	27,245	6.2%	9,486	3.0%	11,531	6.1%
Interest income (expense), net	(3,030)	(0.7%)	(1,112)	(0.3%)	81	-
Net income before provision for income taxes	24,215	5.5%	8,374	2.7%	11,612	6.1%
Income tax provision	8,961	2.0%	3,235	1.1%	3,981	2.1%
Net income	\$ 15,254	3.5%	\$ 5,139	1.6%	\$ 7,631	4.0%
NET REVENUES BY TERRITORY:						
United States	\$149,664	34.3%	\$ 89,936	28.8%	\$ 65,695	34.7%
Europe	278,032	63.7%	208,817	66.9%	113,456	60.0%
Other	8,789	2.0%	13,305	4.3%	10,088	5.3%
Total net revenues	\$436,485	100.0%	\$312,058	100.0%	\$189,239	100.0%
NET REVENUES BY CHANNEL:						
Retailer/Reseller	\$417,447	95.6%	\$286,953	92.0%	\$168,190	88.9%
OEM, Licensing, on-line and other	19,038	4.4%	25,105	8.0%	21,049	11.1%
Total net revenues	\$436,485	100.0%	\$312,058	100.0%	\$189,239	100.0%
ACTIVITY/PLATFORM MIX:						
Publishing:						
Console	\$111,621	54.3%	\$ 26,302	19.8%	\$ 18,182	20.7%
PC	93,880	45.7%	106,524	80.2%	69,812	79.3%
Total publishing net revenues	\$205,501	47.1%	\$132,826	42.6%	\$ 87,994	46.5%
Distribution:						
Console	\$156,584	67.8%	\$105,588	58.9%	\$ 50,298	49.7%
PC	74,400	32.2%	73,644	41.1%	50,947	50.3%
Total distribution net revenues	\$230,984	52.9%	\$179,232	57.4%	101,245	53.5%
Total net revenues	\$436,485	100.0%	\$312,058	100.0%	\$189,239	100.0%

RESULTS OF OPERATIONS - FISCAL YEARS ENDED MARCH 31, 1998 AND 1999

NET REVENUES

Net revenues for the fiscal year ended March 31, 1999 increased 39.9%, from \$312.1 million to \$436.5 million, over the prior year. The United States and international net revenues increased 66.5%, from \$89.9 million to \$149.7 million, and 29.1%, from \$222.1 million to \$286.8 million, respectively, over the prior year. The increase in overall net revenues was composed of a 103.3% increase in console net revenues, from \$131.9 million to \$268.2 million, and a 6.6% decrease in PC net revenues, from \$180.2 million to \$168.3 million, respectively, over the prior year.

Publishing net revenues for the year ended March 31, 1999 increased 54.7%, from \$132.8 million to \$205.5 million, over the prior year. Distribution net revenues for the year ended March 31, 1999 increased 28.9%, from \$179.2 million to \$231.0 million, over the prior year. These increases were primarily attributable to the increases in publishing and distribution console net revenues.

Publishing console net revenues for the year ended March 31, 1999 increased 324.3%, from \$26.3 million to \$111.6 million, over the prior year. This increase was primarily attributable to the initial release of Tenchu (PlayStation), Apocalypse (PlayStation), Vigilante 8 (PlayStation and N64), Asteroids (PlayStation), Nightmare Creatures (PlayStation and N64) and Activision Classics (PlayStation). Publishing PC net revenues for the year ended March 31, 1999 decreased 11.8%, from \$106.5 million to \$93.9 million, over the prior year. This decrease was primarily due to the release of Quake II (Windows 95) in the prior year. Publishing PC initial releases during the year ended March 31, 1999 included Civilization: Call to Power, Cabela's Big Game Hunter, Cabela's Big Game Hunter 2, Asteroids and Sin.

Distribution console net revenues increased 48.3%, from \$105.6 million to \$156.6 million, over the prior year. This increase was primarily attributable to an increase in the number of products released for PlayStation and Nintendo N64 and an increase in the PlayStation and N64 hardware installed base. Distribution PC net revenues increased 1.1%, from \$73.6 million to \$74.4 million, over the prior year. Distribution PC net revenues remained relatively constant during this period as the number of new PC titles released by the publishers utilizing the Company's distribution services in each year were approximately the same.

Net OEM, licensing, on-line and other revenues for the fiscal year ended March 31, 1999 decreased 24.3% to \$19.0 million from \$25 million in the prior year. This decrease was due to the release of fewer PC titles during the fiscal year that were compatible with OEM customers' products.

COSTS AND EXPENSES

Cost of sales - product costs represented 59.6% and 56.5% of net revenues for the years ended March 31, 1999 and 1998, respectively. The increase in cost of sales - product costs as a percentage of net revenues was due to the increase in the sales mix related to console products. Console products have a higher per unit product cost than PC products.

Cost of sales - royalties and software amortization expense represented 8.7% and 9.6% of net revenues for the years ended March 31, 1999 and 1998, respectively. The decrease in cost of sales - royalties and software amortization expense as a percentage of net revenues was due to changes in the Company's product mix, with an increase in products with lower royalty obligations as compared to the prior year.

Product development expenses for the year ended March 31, 1999 decreased 21.9% from the prior year, from \$27.4 million to \$21.4 million. The decrease in the amount of product development expenses for the year ended March 31, 1999 was primarily due to an increase in capitalizable development costs relating to sequel products being developed on proven engine technologies which have been capitalized 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".

As a percentage of net revenues, total product creation costs (i.e., royalties and software amortization expenses plus product development expenses) for the year ended March 31, 1999, decreased to 13.6% from 18.4% in the prior year. This decrease was attributable to decrease in the effective royalty rate, as discussed above, and an increase in development costs capitalized under SFAS 86, also as discussed above.

Sales and marketing expenses for the year ended March 31, 1999 increased 39.2% from the same period last year, from \$47.7 million to \$66.4 million. As a percentage of net revenues, sales and marketing expenses decreased slightly from 15.3% to 15.2%. The increase in the amount of sales and marketing expenses for the year ended March 31, 1999 was primarily due to a significant increase in television advertising and an increase in the number of products released during the current year. However, as a percentage of net revenues, such expenses have remained relatively constant.

General and administrative expense for the year ended March 31, 1999 increased 15.8% from the same period last year, from \$18.4 million to \$21.3 million. As a percentage of net revenues, general and administrative expenses decreased from 5.9% to 4.9%. The period over period increase in the amount of general and administrative expenses primarily was due to an increase in worldwide administrative support needs and headcount related expenses. The decrease as a percentage of net revenues relates primarily to efficiencies gained in controlling fixed costs and the increase in net revenues.

OTHER INCOME (EXPENSE)

Interest expense, net of interest income, increased to \$3.0 million for the year ended March 31, 1999, from \$1.1 million for the year ended March 31, 1998. This increase primarily was the result of interest costs associated with the Company's convertible subordinated notes issued in December 1997 and short term borrowings under bank line of credit agreements which had a greater average outstanding balance in the fiscal year ended March 31, 1999.

PROVISION FOR INCOME TAXES

The income tax provision of \$9.0 million for the year ended March 31, 1999, reflects the Company's effective income tax rate of approximately 37%. The realization of deferred tax assets primarily is dependent on the generation of future taxable income. Management believes that it is more likely than not that the company will generate taxable income sufficient to realize the benefit of deferred tax assets recognized.

RESULTS OF OPERATIONS - FISCAL YEARS ENDED MARCH 31, 1997 AND 1998

NET REVENUES

Net revenues for the year ended March 31, 1998 increased 65.0%, from \$189.2 million to \$312.1 million over the prior year. Net revenues in the United States and internationally increased 36.8%, from \$65.7 million to \$89.9 million and 79.8%, from \$123.5 million to \$222.1 million, respectively, over the prior year. The increase in overall net revenues was comprised of a 92.6% increase in console net revenues, from \$68.5 million to \$131.9 million, and a 49.2% increase in PC net revenues, from \$120.8 million to \$180.2 million, respectively, over the prior year.

Publishing net revenues for the year ended March 31, 1998 increased 50.9%, from \$88.0 million to \$132.8 million, over the prior year. Distribution net revenues for the year ended March 31, 1998 increased 77.1%, from \$101.2 million to \$179.2 million, over the prior year. These increases primarily were attributable to the increases in publishing PC net revenues and distribution console net revenues.

Publishing console net revenues for the year ended March 31, 1998 increased 44.5%, from \$18.2 million to \$26.3 million, over the prior year. This increase primarily was attributable to the initial release of Pitfall 3D (PlayStation), Nightmare Creatures (PlayStation) and Car and Driver's Grand Tour Racing (PlayStation.) Publishing PC net revenues for the year ended March 31, 1998 increased 52.6%, from \$69.8 million to \$106.5 million, over the prior year. This increase was primarily due to the release of Quake II (Windows 95), Dark Reign: The Future of War (Windows 95), Hexen II (Windows 95), Battlezone (Windows 95) and Heavy Gear (Windows 95).

Distribution console net revenues increased 109.9%, from \$50.3 million to \$105.6 million, over the prior year. This increase was primarily attributable to an increase in the number of products released for PlayStation and N64 and an increase in the PlayStation and N64 hardware installed base. Distribution PC net revenues increased 44.6%, from \$50.9 million to \$73.6 million, over the prior year. Additionally, distribution net revenues increased over the prior fiscal year due to the fact that CentreSoft, which began operations in June 1996, contributed only ten months of revenue for the year ended March 31, 1997, as opposed to twelve months for the year ended March 31, 1998.

Net OEM, licensing, on-line and other revenue, increased 19.5% to \$25.1 million from \$21.0 million over the prior year. This increase was due to an increase in the number of titles made available during the year to OEMs, including enhanced 3-D versions of various products.

COSTS AND EXPENSES

Cost of sales - product costs represented 56.5% and 54.5% of net revenues for the years ended March 31, 1998 and 1997, respectively. The increase in cost of sales - product costs as a percentage of net revenues was due to the increase in the sales mix of console net revenues versus PC net revenues.

Cost of sales - royalties and software amortization expense represented 9.6% and 6.9% of net revenues for the years ended March 31, 1998 and 1997, respectively. The increase in cost of sales - royalties and software amortization expense as a percentage of net revenues was due to changes in the Company's product mix and primarily was due to royalties related to Quake II.

Product development expenses for the year ended March 31, 1998 increased 33.7% from the prior year, from \$20.5 million to \$27.4 million. As a percentage of net revenues, product development expenses decreased from 10.8% to 8.8%. The increase in the amount of product development expenses for the year ended March 31, 1998 was primarily due to the increased number of new products in development and the increased costs associated with the enhanced content and new technologies incorporated into such products. In addition, product development expense as a percentage of net revenues decreased primarily as a result of an increase in net revenues and an increase in costs capitalized in accordance with SFAS No. 86.

As a percentage of net revenues, total product creation costs (i.e., royalties and software amortization expense plus product development expense) for the year ended March 31, 1998, increased to 18.4% from 17.7% in the prior year. This increase was attributable to increase in the effective royalty rate, as discussed above.

Sales and marketing expenses for the year ended March 31, 1998 increased 52.9% from the period year, from \$31.2 million to \$47.7 million. As a percentage of net revenues, sales and marketing expenses decreased slightly from 16.5% to 15.3%. The increase in the amount of sales and marketing expenses for the year ended March 31, 1998 was primarily due to increased marketing and promotional activities necessary to release new titles in an increasingly competitive environment and the Company's expansion of its European sales and marketing infrastructure. However, as a percentage of net revenues, such expense has remained fairly consistent.

General and administrative expense for the year ended March 31, 1998 increased 121.7% from the same period last year, from \$8.3 million to \$18.4 million. As a percentage of net revenues, general and administrative expenses increased from 4.4% to 5.9%. The period over period increase in the amount and as a percentage of net revenues of general and administrative expenses for the year ended March 31, 1998 primarily was due to an increase in worldwide administrative support needs and headcount related expenses.

OTHER INCOME (EXPENSE)

Interest expense, net of interest income, increased to \$1.1 million for the year ended March 31, 1998, from net interest income of \$81,000 for the year ended March 31, 1997. This increase primarily was the result of interest costs associated with the Company's convertible subordinated notes issued in December 1997 and short term borrowings under bank line of credit agreements.

PROVISION FOR INCOME TAXES

The income tax provision of \$3.2 million for the year ended March 31, 1998, reflects the Company's estimated effective income tax rate of approximately 38.6%. The realization of deferred tax assets primarily is dependent on the generation of future taxable income. Management believes that it is more likely than not that the company will generate taxable income sufficient to realize the benefit of deferred tax assets recognized.

QUARTERLY OPERATING RESULTS

The Company's quarterly operating results have in the past varied significantly and will likely vary significantly in the future, depending on numerous factors, several of which are not under the Company's control. See Item 1. Business - "Certain Cautionary Information." Accordingly, the Company believes that period-to-period comparisons of its operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

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

	Quarter ended							
	March 31, 1999	Dec. 31, 1998	Sept. 30, 1998	June 30, 1998	March 31, 1998	Dec. 31, 1997	Sept. 30, 1997	June 30, 1997
Net revenues	\$115,235	\$193,537	\$66,182	\$61,531	\$68,123	\$139,587	\$65,788	\$38,560
Operating income (loss)	9,337	26,328	(2,783)	(5,637)	1,536	13,742	3,591	(9,383)
Net income (loss)	5,210	16,022	(2,234)	(3,744)	689	8,334	2,041	(5,925)
Net income (loss) per basic share	\$ 0.23	\$ 0.72	\$ (0.10)	\$ (0.17)	\$ 0.03	\$ 0.39	\$ 0.09	\$ (0.28)
Net income (loss) per diluted share	\$ 0.22	\$ 0.64	\$ (0.10)	\$ (0.17)	\$ 0.03	\$ 0.36	\$ 0.09	\$ (0.28)

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents decreased \$41.4 million, from \$74.2 million at March 31, 1998 to \$32.8 million at March 31, 1999. Approximately \$18.1 million in cash and cash equivalents was provided by operating activities during the year ended March 31, 1999 versus \$31.1 million provided by operating activities in fiscal 1998. This change was primarily attributable to the increases during the year ended March 31, 1999 in accounts receivable, other current assets, inventories, and a decrease in accounts payable resulting from the Company's overall growth during the fiscal year ended March 31, 1999 partially offset by an increase in accrued expenses.

Cash and cash equivalents used in investing activities was approximately \$64.3 million during the year ended March 31, 1999 versus \$43.3 million used in investing activities during the year ended March 31, 1998. The increase in cash used in investing activities was due to the significant increase in prepaid royalties and capitalized software costs incurred by the Company as a result of its execution of new license agreements granting the Company long term rights to the intellectual property of third parties, as well as the acquisition of publishing or distribution rights to products being developed by third parties. Capital expenditures totaled approximately \$3.8 million for the year ended March 31, 1999 versus \$9.3 million in the prior year. The decrease in capital expenditures was due to the cost relating to the Company moving its Los Angeles office to a new facility in Santa Monica, California in the prior year.

Cash and cash equivalents provided by financing activities totaled \$7.2 million for the year ended March 31, 1999 versus \$62.9 million in the prior year. The decrease was due to the issuance of \$60 million of convertible subordinated debt in December 1997.

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

As of March 31, 1999, the Company had a \$40.0 million revolving credit and letter of credit facility (the "Prior Facility") with a group of banks. The Prior Facility currently provides the Company with the ability to borrow funds and issue letters of credit against eligible accounts receivable up to \$40.0 million. The Prior Facility was scheduled to expire in October 2001. As of March 31, 1999, the Company had \$22.4 million in letters of credit outstanding and no borrowings against the Prior Facility (there were no outstanding letters of credit or borrowings against the Prior Facility in the fiscal year ended March 31, 1998). In addition, the Company had a \$2 million line of credit agreement (the "Asset Line") with a bank that expired in September 1998. Approximately \$1.1 million and \$1.2 million was outstanding on this line as of March 31, 1999 and 1998, respectively.

In June 1999, the Company replaced the Prior Facility with a \$125 million revolving credit facility and term loan (the "New Facility") with a new group of banks that provides the Company with the ability to borrow up to \$100 million and issue letters of credit up to \$80 million against eligible accounts receivable and inventory. (See Note 13, "Subsequent Events" in the footnotes to the Consolidated Financial Statements.) The \$25 million term loan portion of the New Facility was used to acquire Expert and pay costs related to such acquisition and the securing of the New Facility. The term loan has a three year term with principal amortization on a straight line quarterly basis beginning December 31, 1999 and a borrowing rate of the banks' base rate (which is generally equivalent to the published prime rate) plus 2.0%, or the LIBOR rate 3.0%. The revolving portion of the New Facility has a borrowing rate of the banks' base rate plus 1.75% or the LIBOR rate of 2.75%. The Company pays a commitment fee of 1/2% based on the unused portion of the line.

In addition, the Company's CentreSoft subsidiary has a revolving credit facility (the "UK Facility") with its bank in the United Kingdom for approximately \$11.2 million. The UK Facility can be used for working capital requirements and expires in June 2000. The Company had no borrowings outstanding against the UK facility as of March 31, 1999. In the Netherlands, the Company's CD Contact subsidiary has a credit facility ("the Netherlands Facility") with a bank that permits borrowings against eligible accounts receivable and inventory up to approximately \$25 million. Borrowings under the Netherlands Facility are due on demand and totaled \$6.0 as of March 31, 1999. Letters of credit outstanding under the Netherlands Facility totaled \$6.9 million as of March 31, 1999.

The Company will use its working capital (\$141.3 million at March 31, 1999), as well as the proceeds available from the New Facility, the UK Facility and the Netherlands Facility, to finance the Company's operational

requirements for at least the next twelve months, including acquisitions of inventory and equipment, the funding of development, production, marketing and selling of new products, the acquisition of Expert, and the acquisition of intellectual property rights for future products from third parties.

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

YEAR 2000

Like many other software companies, the year 2000 computer issue creates risk for the Company. If internal computer and embedded systems do not correctly recognize date information when the year changes to 2000, there could be an adverse impact on the Company's operations. The Company has initiated a comprehensive plan to prepare its internal computer and embedded systems for the year 2000 and is currently implementing changes to alleviate any year 2000 incapacibilities. As part of such plan, the Company has purchased software programs that have been independently developed by third parties which will test year 2000 compliance for the majority of the Company's systems.

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

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

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

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

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

EURO CONVERSION

On January 1, 1999, eleven of the fifteen member countries of the European Union adopted the "euro" as their common currency. The sovereign currencies of the participating countries are scheduled to remain legal tender as denominations of the euro between January 1, 1999 and January 1, 2002. Beginning January 1, 2002, the participating countries will issue new euro-denominated bills and coins for use in cash transactions. No later than July 1, 2002, the participating countries will withdraw all bills and coins denominated in the sovereign currencies, so that the sovereign currencies no longer will be legal tender for any transactions, making conversion to the euro complete. The Company has performed an internal analysis of the possible implications of the euro conversion on the

Company's business and financial condition, and has determined that the impact of the conversion will be immaterial to its overall operations. The Company's wholly owned subsidiaries operating in participating countries represented 24.1% and 22.1% of the Company's consolidated net revenues for the years ended March 31, 1999 and 1998, respectively.

RECENTLY ISSUED ACCOUNTING STANDARDS

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," 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.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company transacts business in many different foreign currencies and may be exposed to financial market risk resulting from fluctuations in foreign currency exchange rates, particularly the British Pound sterling. The volatility of the pound (and all other applicable currencies) will be monitored frequently throughout the coming year and the Company may use hedging programs, currency forward contracts, currency options and/or other derivative financial instruments commonly utilized to reduce financial market risks.

In June 1999, the Company obtained a \$125 million revolving credit facility and term loan (the "New Facility") with a group of banks. The interest rate applied to any debt outstanding under the New Facility is based on the published prime rate or LIBOR rate and is, therefore subject to a certain amount of risk arising from fluctuations in these rates.

Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference to the sections of the Company's definitive Proxy Statement for its 1999 Annual Meeting of Shareholders, entitled "Election of Directors" and "Executive Officers and Key Employees" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the sections of the Company's definitive Proxy Statement for its 1999 Annual Meeting of Shareholders, entitled "Executive Compensation" and "Indebtedness of Management" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the sections of the Company's definitive Proxy Statement for its 1999 Annual Meeting of Shareholders, entitled "Security Ownership of Certain Beneficial Owners and Management" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the sections of the Company's definitive Proxy Statement for its 1999 Annual Meeting of Shareholders, entitled "Certain Relationships and Related Transactions" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

- (a) 1. FINANCIAL STATEMENTS See Item 8. - Consolidated Financial Statements and Supplementary Data Index for Financial Statements and Schedule on page 25 herein.
2. FINANCIAL STATEMENT SCHEDULE The following financial statement schedule of Activision, Inc. for the years ended March 31, 1999, 1998 and 1997 is filed as part of this report and should be read in conjunction with the Consolidated Financial Statements of Activision, Inc.

Schedule II -- Valuation and Qualifying Accounts and Reserves

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

3. EXHIBITS REQUIRED BY ITEM 601 OF REGULATION S-K

Exhibit Number -----	Exhibit -----
3.1	Amended and Restated Articles of Incorporation of Activision, Inc., dated October 15, 1992 (incorporated by reference to Exhibit 4.5 of Amendment No. 1 to the Company's Form S-8, Registration No. 33-48411 filed on June 1, 1993).
3.2	Bylaws of Activision, Inc. (incorporated by reference to Exhibit 4.6 of Amendment No. 1 to the Company's Form S-8, Registration No. 33-48411 filed on June 1, 1993).
10.1	Mediagenic 1991 Stock Option and Stock Award Plan, as amended (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, Registration No. 33-63638, filed on December 8, 1995).
10.2	Mediagenic 1991 Director Warrant Plan as amended (incorporated by reference to Exhibit 28.2 to the Company's Registration Statement on Form S-8, Registration No. 33-63638, filed on June 1, 1993).
10.3	Activision, Inc. Employee Stock Purchase Plan (incorporated by reference to Exhibit 4.1 the Company's Form S-8 filed on September 25, 1996).
10.4	Activision, Inc. 1998 Incentive Plan (incorporated by reference to Appendix I of the Company's 1998 Proxy Statement).
10.5	Lease Agreement dated as of December 20, 1996, between the Company and Barclay Curci Investment Company (incorporated by reference to Exhibit 10.14 of the Company's Form 10-Q for the quarter ended December 31, 1996).
10.6	Share Exchange Agreement dated November 23, 1997, among the Company and the holders of all of the issued and outstanding capital stock of Combined Distribution (Holdings), Inc. (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed December 5, 1997).
10.7	Purchase Agreement dated as of December 16, 1997, among the Company and Credit Suisse First Boston Corporation, Piper Jaffray, Inc. and UBS Securities LLC (the "Initial Purchasers") (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed December 23, 1997).
10.8	Registration Rights Agreement dated as of December 16, 1997, among the Company and the Initial Purchasers (incorporated

- by reference to Exhibit 10.2 of the Company's Form 8-K filed December 23, 1997).
- 10.9 Indenture dated as of December 22, 1997, between the Company and State Street Bank and Trust Company of California, N.A., as Trustee (incorporated by reference to Exhibit 10.3 of the Company's Form 8-K filed December 23, 1997).
 - 10.10 Employment agreement dated January 12, 1999 between the Company and Robert A. Kotick.
 - 10.11 Employment agreement dated January 12, 1999 between the Company and Brian G. Kelly.
 - 10.12 Employment agreement dated October 19, 1998 between the Company and Ronald Doornink.
 - 10.13 Employment agreement dated March 4, 1999 between the Company and Lawrence Goldberg.
 - 10.14 Employment agreement dated March 4, 1999 between the Company and Barry J. Plaga.
 - 10.15 Employment agreement dated April 1, 1998 between the Company and Mitchell Lasky.
 - 10.16 Employment agreement dated April 1, 1998 between the Company and Ronald Scott.
 - 10.17 Service Agreement dated November 24, 1997 between the Combined Distribution (Holdings) Limited and Richard Andrew Steele.
 - 10.18 Employment Agreement dated September 1, 1997 between the Company and Robert Dewar.
 - 10.19 Articles of Merger dated June 30, 1998 between S.B.F. Acquisition Corp., a wholly owned subsidiary of the Company, and S.B.F. Services Limited, Head Games Publishing, (incorporated by reference to Exhibit 2.1 of the Company's Form 8-K, filed on July 2, 1998).
 - 10.20 Share Exchange Agreement dated September 29, 1998 by and between the Company and Mr. Frank d'Oleire, Mrs. Christa d'Oleire, Ms. Fiona d'Oleire, Ms. Alexa d'Oleire acting as Dr. d'Oleire Beteiligungsgesellschaft bR, Mr. Martinus J.C. Bubbert, and Mr. Dennis W. Buis (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed on October 8, 1998).
 - 10.21 Amended and Restated Agreement and Plan of Merger dated April 19, 1999 by and among the Company, Expert Acquisition Corp. and Expert Software, Inc. (incorporated by reference to Exhibit 2.1 of the Form 8-K of Expert Software, Inc., filed April 29, 1999).
 - 10.22 Credit Agreement dated as of June 21, 1999 among the Company, Head Games Publishing, Inc., Expert Software, Inc., various lenders, PNC Bank, National Association, as issuing bank, administrative agent and collateral agent for such lenders, and Credit Suisse First Boston, as syndication agent.
 21. Principal subsidiaries of the Company.
 23. Independent Auditors' Consent.

- 27.1 Fiscal 1996 Year to Date financial Data Schedule.
- 27.2 Fiscal 1997 Year to Date Financial Data Schedule.
- 27.3 Fiscal 1998 Year to Date Financial Data Schedule.
- 27.4 Fiscal 1999 Year to Date Financial Data Schedule.

(b) 1. Reports on Form 8-K. The following reports on Form 8-K have been filed by the Company during the last quarter of the fiscal year ended March 31, 1999:

- 1.1 Form 8-K dated March 10, 1999, containing items 5 and 7.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders:

We have audited the accompanying consolidated balance sheets of ACTIVISION, INC. and subsidiaries as of March 31, 1999 and 1998 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years in the three-year period ended March 31, 1999. In connection with our audit of the consolidated financial statements, we also have audited financial statement schedule II for each of the years in the three-year period ended March 31, 1999. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ACTIVISION, INC. and subsidiaries as of March 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 1999, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule for each of the years in the three-year period ended March 31, 1999, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

Los Angeles, California
May 3, 1999

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

ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

	March 31, 1999	March 31, 1998
	-----	-----
		Restated

ASSETS		
Current assets:		
Cash and cash equivalents	\$ 32,847	\$ 74,241
Accounts receivable, net of allowances of \$14,979 and \$15,582, respectively	117,522	73,926
Inventories, net	30,931	19,425
Prepaid royalties and capitalized software costs	38,997	12,444
Deferred income taxes	6,044	3,852
Other current assets	9,960	1,988
	-----	-----
Total current assets	236,301	185,876
Prepaid royalties and capitalized software costs	6,923	-
Property and equipment, net	10,841	11,944
Deferred income taxes	2,618	4,665
Excess purchase price over identifiable assets acquired, net	21,647	23,473
Other assets	5,282	3,322
	-----	-----
Total assets	\$ 283,612	\$ 229,280
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of notes payable to bank	\$ 5,992	\$ 4,292
Accounts payable	43,853	50,473
Accrued expenses	45,142	15,338
	-----	-----
Total current liabilities	94,987	70,103
Notes payable to bank, less current portion	1,143	1,692
Convertible subordinated notes	60,000	60,000
Other liabilities	7	88
	-----	-----
Total liabilities	156,137	131,883
	-----	-----
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$.000001 par value, 50,000,000 shares authorized, 23,104,927 and 22,408,415 shares issued and 22,604,927 and 21,908,415 outstanding, respectively	-	-
Additional paid-in capital	109,251	91,825
Retained earnings	26,012	10,758
Accumulated other comprehensive income (loss)	(2,510)	92
Less: Treasury stock, cost of 500,000 shares	(5,278)	(5,278)
	-----	-----
Total shareholders' equity	127,475	97,397
	-----	-----
Total liabilities and shareholders' equity	\$ 283,612	\$ 229,280
	=====	=====

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

ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands except per share data)

	For the years ended March 31,		
	1999	1998	1997
		Restated	Restated
Net revenues	\$ 436,485	\$ 312,058	\$ 189,239
Costs and expenses:			
Cost of sales - product costs	260,041	176,188	103,124
Cost of sales - royalties and software amortization	37,825	29,840	13,108
Product development	21,422	27,393	20,470
Sales and marketing	66,419	47,714	31,178
General and administrative	21,348	18,401	8,284
Amortization of intangible assets	1,585	1,562	1,505
Merger expenses	600	1,474	39
Total costs and expenses	409,240	302,572	177,708
Income from operations	27,245	9,486	11,531
Interest income (expense), net	(3,030)	(1,112)	81
Income before income tax provision	24,215	8,374	11,612
Income tax provision	8,961	3,235	3,981
Net income	\$ 15,254	\$ 5,139	\$ 7,631
Basic net income per share	\$ 0.69	\$ 0.24	\$ 0.37
Diluted net income per share	\$ 0.66	\$ 0.23	\$ 0.36
Number of shares used in computing basic net income per share	22,162	21,339	20,262
Number of shares used in computing diluted net income per share	23,233	22,210	20,951

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

	Common Stock		Additional Paid-in Capital	Retained Earnings
	Shares	Amount		
BALANCE MARCH 31, 1996	18,471	-	\$ 67,990	\$ 2
Components of comprehensive income:				
Net income for the year	-	-	-	7,631
Foreign currency translation adjustment	-	-	-	-
Total comprehensive income	-	-	-	-
Issuance of common stock	63	-	848	-
Issuance of common stock pursuant to employee stock option plan	313	-	2,209	-
Issuance of common stock pursuant to employee stock purchase plan	19	-	179	-
Tax benefit attributable to employee stock option plan	-	-	736	-
Tax benefit derived from net operating loss carryforward utilization	-	-	6,634	-
Issuance of stock on formation of CentreSoft	2,468	-	268	-
Conversion of notes payable to common stock	-	-	283	-
Dividends declared	-	-	-	(1,270)
BALANCE MARCH 31, 1997	21,334	-	\$ 79,147	\$ 6,363
Components of comprehensive income:				
Net income for the year	-	-	-	5,139
Foreign currency translation adjustment	-	-	-	-
Total comprehensive income	-	-	-	-
Issuance of common stock and common stock warrants	82	-	-	1,214
Issuance of common stock pursuant to employee stock option plan	599	-	4,756	-
Issuance of common stock pursuant to employee stock purchase plan	64	-	582	-
Tax benefit attributable to employee stock option plan	-	-	1,247	-
Adjustment for change in year-end of pooled subsidiary	-	-	-	(639)
Conversion of Redeemable Preferred Stock	87	-	1,286	-
Conversion of Convertible Preferred Stock	15	-	214	-
Conversion of Subordinated Loan Stock Debentures	217	-	3,216	-
Issuance of stock to affect business combination	10	-	163	11
Dividends declared	-	-	-	(116)
BALANCE MARCH 31, 1998	22,408	-	\$ 91,825	\$ 10,758
Components of comprehensive income:				
Net income for the year	-	-	-	15,254
Foreign currency translation adjustment	-	-	-	-
Total comprehensive income	-	-	-	-
Issuance of common stock and common stock warrants	-	-	3,368	-
Issuance of common stock pursuant to employee stock option plan	605	-	5,271	-
Issuance of common stock pursuant to employee stock purchase plan	92	-	798	-
Tax benefit attributable to employee stock option plan	-	-	1,059	-
Tax benefit derived from net operating loss carryforward utilization	-	-	2,430	-
Conversion of notes payable to common stock	-	-	4,500	-
BALANCE MARCH 31, 1999	\$23,105	\$ -	\$ 109,251	\$ 26,012

	Treasury Stock		Accumulated Other Comprehensive Income (loss)	Shareholders' Equity
	Shares	Amount		
BALANCE MARCH 31, 1996	(500)	\$ (5,278)	\$ (335)	\$ 62,379
Components of comprehensive income:				
Net income for the year	-	-	-	7,631
Foreign currency translation adjustment	-	-	177	177
Total comprehensive income	-	-	-	7,808
Issuance of common stock	-	-	-	848
Issuance of common stock pursuant to employee stock option plan	-	-	-	2,209
Issuance of common stock pursuant to employee stock purchase plan	-	-	-	179
Tax benefit attributable to employee stock option plan	-	-	-	736
Tax benefit derived from net operating loss carryforward utilization	-	-	-	6,634
Issuance of stock on formation of CentreSoft	-	-	-	268
Conversion of notes payable to common stock	-	-	-	283
Dividends declared	-	-	-	(1,270)
BALANCE MARCH 31, 1997	(500)	\$ (5,278)	\$ (158)	\$ 80,074
Components of comprehensive income:				
Net income for the year	-	-	-	5,139
Foreign currency translation adjustment	-	-	250	250
Total comprehensive income	-	-	-	5,389

Issuance of common stock and common stock warrants	-	-	-	1,214
Issuance of common stock pursuant to employee stock option plan	-	-	-	4,756
Issuance of common stock pursuant to employee stock purchase plan	-	-	-	582
Tax benefit attributable to employee stock option plan	-	-	-	1,247
Adjustment for change in year-end of pooled subsidiary	-	-	-	(639)
Conversion of Redeemable Preferred Stock	-	-	-	1,286
Conversion of Convertible Preferred Stock	-	-	-	214
Conversion of Subordinated Loan Stock Debentures	-	-	-	3,216
Issuance of stock to affect business combination	-	-	-	174
Dividends declared	-	-	-	(116)

BALANCE MARCH 31, 1998	(500)	\$ (5,278)	\$ 92	\$ 97,397
Components of comprehensive income:				
Net income for the year	-	-	-	15,254
Foreign currency translation adjustment	-	-	(2,602)	(2,602)

Total comprehensive income	-	-	-	12,652

Issuance of common stock and common stock warrants	-	-	-	3,368
Issuance of common stock pursuant to employee stock option plan	-	-	-	5,271
Issuance of common stock pursuant to employee stock purchase plan	-	-	-	798
Tax benefit attributable to employee stock option plan	-	-	-	1,059
Tax benefit derived from net operating loss carryforward utilization	-	-	-	2,430
Conversion of notes payable to common stock	-	-	-	4,500

BALANCE MARCH 31, 1999	\$ (500)	\$ (5,278)	\$ (2,510)	\$ 127,475
	=====			

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

ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the years ended March 31,		
	1999	1998	Restated 1997
Cash flows from operating activities:			
Net income	\$ 15,254	\$ 5,139	\$ 7,631
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	3,344	(1,327)	2,929
Adjustment for change in fiscal year-end for pooled subsidiaries	-	(639)	-
Depreciation and amortization	6,488	5,315	4,167
Amortization of prepaid royalties and capitalized software costs	27,055	29,167	9,045
Expense related to common stock warrants	-	200	-
Loss on disposal of fixed assets	-	-	34
Change in assets and liabilities (net of effects of purchases and acquisitions):			
Accounts receivable	(43,596)	(25,079)	(13,244)
Inventories	(11,506)	(6,798)	(5,169)
Other current assets	(7,972)	458	(1,137)
Other assets	1,408	168	(600)
Accounts payable	(6,620)	25,410	5,688
Accrued expenses	34,304	(308)	(5,652)
Deferred revenue	-	-	1,301
Other liabilities	(81)	(83)	(37)
Net cash provided by operating activities	18,078	31,180	4,956
Cash flows from investing activities:			
Cash paid by Combined Distribution (Holdings) Ltd. to acquire CentreSoft (net of cash acquired)	-	(812)	(3,878)
Capital expenditures	(3,800)	(8,872)	(4,580)
Cash used in purchase acquisitions	-	(246)	-
Investment in prepaid royalties and capitalized software costs	(60,531)	(33,213)	(11,130)
Other	-	(228)	-
Net cash used in investing activities	(64,331)	(43,371)	(19,588)
Cash flows from financing activities:			
Proceeds from issuance of common stock	-	-	282
Proceeds from issuance of common stock upon exercise of warrants	-	-	2,209
Issuance of common stock pursuant to employee stock option plans	5,271	4,756	-
Issuance of common stock pursuant to employee stock purchase plan	798	582	179
Proceeds from issuance of subordinated loan stock debentures	-	-	3,216
Proceeds from issuance of convertible preferred stock	-	-	214
Proceeds from issuance of redeemable preferred stock	-	-	1,286
Dividends paid (Combined Distribution (Holdings) Ltd.)	-	(1,256)	(130)
Borrowing under line-of-credit agreement	5,300	8,800	1,600
Payment under line-of-credit agreement	(5,300)	(8,800)	-
Note payable to bank, net	1,151	886	3,123
Proceeds from issuance of subordinated convertible notes	-	57,900	-
Other	-	(6)	2
Net cash provided by financing activities	7,220	62,862	11,981
Effect of exchange rate changes on cash	(2,361)	250	179
Net increase (decrease) in cash and cash equivalents	(41,394)	50,921	(2,472)
Cash and cash equivalents at beginning of period	74,241	23,320	25,792
Cash and cash equivalents at end of period	\$ 32,847	\$ 74,241	\$ 23,320

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

ACTIVISION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

Activision, Inc. (together with its subsidiaries, "Activision" or the "Company") is a leading international publisher, developer and distributor of interactive entertainment and leisure products. The Company was incorporated in California in 1979. In December 1992, the Company reincorporated in Delaware.

The Company's products span a wide range of genres (including action, adventure, strategy and simulation) and target markets (including game enthusiasts, value buyers and children). In addition to its genre and market diversity, the Company publishes, develops and distributes products for a variety of game platforms, including personal computers ("PCs"), the Sony Playstation console system and the Nintendo 64 console system.

PRINCIPLES OF CONSOLIDATION

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

BASIS OF PRESENTATION

These consolidated financial statements have been retroactively restated to reflect the pooling of interests of the Company with Raven Software Corporation ("Raven"), NBG EDV Handels- und Verlags GmbH ("NBG"), S.B.F. Services, Limited dba Head Games Publishing ("Head Games") and CD Contact Data GmbH ("CD Contact"). Each of the above transactions originally had been accounted for by the Company as an immaterial pooling of interests. The financial results for each such acquired company and related cash flows had therefore been included in the reported operations of the Company beginning on the date of acquisition. Based on a reevaluation of these transactions, including the results of operations of each entity, statements by the Securities and Exchange Commission ("the SEC") on materiality of pooling transactions and requirements to evaluate the impact on each line item in the financial statements and the impact on the Company's trends, the Company has restated all financial information reported in this Annual Report on Form 10-K for all periods prior to the consummation of each transaction to include the financial position, results of operations and cash flows of such acquired companies.

CASH AND CASH EQUIVALENTS

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

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of temporary cash investments and accounts receivable. The Company places its temporary cash investments with financial institutions. At various times during the fiscal years ended March 31, 1999, 1998 and 1997, the Company had deposits in excess of the \$100,000 Federal Deposit Insurance Corporation ("FDIC") limit at these financial institutions. At March 31, 1999, the Company had approximately \$3.9 million invested in short-term commercial paper and short-term United States government backed securities. The Company's customer base includes retail outlets and distributors including consumer electronics and computer specialty stores, discount chains, video rental stores and toy stores in the United States and countries worldwide. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. The Company generally does not require collateral or other security from its customers.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of the Company's cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate their carrying values due to the relatively short maturities of these instruments. Trade receivables are primarily due from retailers and original equipment manufacturers ("OEMs").

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.

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

Capitalized software development costs are amortized to cost of sales - royalties and software amortization on a straight-line basis over the estimated product life (generally one year or less) commencing upon product release, or on the ratio of current revenues to total projected revenues, whichever amortization amount is greater. Prepaid royalties are amortized to cost of sales - 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 March 31, 1999, prepaid royalties and unamortized capitalized software costs totaled \$37.1 million (including \$6.9 million classified as non-current) and \$8.8 million, respectively. As of March 31, 1998, prepaid royalties and unamortized capitalized software costs totaled \$10.7 million and \$1.7 million, respectively. At March 31, 1998, all prepaid royalties and unamortized capitalized software costs were classified as current. Amortization of prepaid royalties and capitalized software costs was \$27.1 million, \$29.2 million and \$9.0 million for the years ended March 31, 1999, 1998 and 1997, respectively. Write-offs of prepaid royalties and capitalized software costs prior to product release were \$2.4 million, \$363,000 and \$588,000 for the years ended March 31, 1999, 1998 and 1997, respectively.

INVENTORIES

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

REVENUE RECOGNITION

The American Institute of Certified Public Accountant's (the "AICPA") Statement of Position 97-2 "Software Revenue Recognition" (SOP 97-2) was effective for all transactions entered into subsequent to March 31, 1998. The adoption of SOP 97-2 did not have a material impact on the Company's financial position, results of operations or liquidity.

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 has the ability to estimate the amount of future exchanges, returns, and price protections. 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 of the product master or the first copy. Per copy royalties on sales which exceed the guarantee are recognized as earned.

ADVERTISING EXPENSES

The Company expenses advertising and the related costs as incurred. Advertising expenses for the years ended March 31, 1999, 1998 and 1997 were approximately \$15,572,000 \$6,336,000 and \$3,285,000, respectively, and are included in sales and marketing expense in the consolidated statements of operations.

EXCESS PURCHASE PRICE OVER IDENTIFIABLE ASSETS ACQUIRED, NET AND
LONG-LIVED ASSETS

The excess cost over net assets acquired is being amortized on a straight-line basis over a 20 year period. As of March 31, 1999 and 1998, accumulated amortization amounted to \$9,069,000 and \$7,904,000, respectively. The Company adopted the provisions of SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of," on April 1, 1996. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. Adoption of this Statement did not have a material impact on the Company's financial position, results of operations, or liquidity.

INTEREST INCOME (EXPENSE)

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

	1999 -----	1998 ----- Restated -----	1997 ----- Restated -----
Interest expense	\$(4,973)	\$(2,223)	\$ (843)
Interest income	1,943	1,111	924
	-----	-----	-----
Net interest income (expense)	\$(3,030) =====	\$(1,112) =====	\$ 81 =====

INCOME TAXES

The Company accounts for income taxes using Statement of Financial Accounting Standards No. 109 (SFAS No. 109), "Accounting for Income Taxes." Under SFAS No. 109, income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

FOREIGN CURRENCY TRANSLATION

The Company's foreign subsidiaries maintain their accounting records in their local currency. The currencies are then converted to United States dollars and the effect of the foreign currency translation is reflected as a component of shareholders' equity in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation."

ESTIMATES

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

STOCK BASED COMPENSATION

Prior to April 1, 1996, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. As such, compensation expense would be recorded on the date of the grant only if the current market price of the underlying stock exceeded the exercise price. On April 1, 1996 the Company adopted SFAS No. 123, Accounting for Stock-Based Compensation, which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of the grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

RECLASSIFICATIONS

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

2. ACQUISITIONS

1999 TRANSACTIONS

As stated below, the acquisition of Head Games and CD Contact were originally treated as immaterial poolings of interest. However, after reviewing the results of operations of the entities, including the materiality and impact on the the Company's trends, the Company has restated the financial statements for all periods prior to the closing of each respective transaction.

ACQUISITION OF HEAD GAMES

On June 30, 1998, the Company acquired Head Games in exchange for 1,000,000 shares of the Company's common stock. The acquisition of Head Games was initially accounted for as an immaterial pooling of interests; accordingly, periods prior to April 1, 1998 were not retroactively restated for this transaction. However with this Annual Report on Form 10-K, all prior periods have been retroactively restated to reflect the effect of the Head Games acquisition in all periods presented.

ACQUISITION OF CD CONTACT

On September 29, 1998, the Company acquired CD Contact in exchange for 1,900,000 shares of the Company's common stock. In addition, \$9.1 million in outstanding debt was acquired in connection with the CD Contact acquisition. The debt is evidenced by notes payable which are due on demand and bear interest at approximately 8% per annum. The acquisition of CD Contact was initially accounted for as an immaterial pooling of interests; accordingly, periods prior to July 1, 1998 were not retroactively restated for this transaction. However with this Annual Report on Form 10-K, all prior periods have been retroactively restated to reflect the effect of the CD Contact acquisition in all periods presented.

The following table represents the results of operations of the previously separate companies for the period before the combination was consummated that are included in the current combined net income of the Company:

	Fiscal Year 1999			
	Activision Year Ended March 31, 1999	Head Games 3 Months Ended June 30, 1998	CD Contact 6 Months Ended September 30, 1998	Total Year Ended March 31, 1999
Revenues	\$412,225	\$ 2,195	\$ 22,065	\$436,485
Net income (loss)	\$ 14,194	\$ 394	\$ 666	\$ 15,254

Results for Head Games from July 1, 1998, subsequent to its acquisition by the Company and for CD Contact from October 1, 1998, subsequent to its acquisition by the Company, are included in the Activision year ended March 31, 1999 column above.

1998 TRANSACTIONS

As discussed below, the acquisitions of NBG and Raven were originally accounted for as immaterial poolings of interest. However, based on statements by the SEC regarding materiality and the requirement to evaluate the impact on each line item of the Company's financial statement and the impact on the Company's trends, the Company has restated the financial statements for periods prior to the closing of each respective transaction.

ACQUISITION OF NBG

On November 26, 1997, the Company acquired NBG in exchange for 281,206 shares of the Company's common stock. The acquisition of NBG was initially accounted for as an immaterial pooling of interests; accordingly, periods prior to October 1, 1997 were not retroactively restated for this transaction. However, with this Annual Report on Form 10-K, all prior periods have been retroactively restated to reflect the effect of the NBG acquisition in all periods presented.

ACQUISITION OF RAVEN SOFTWARE CORPORATION

On August 26, 1997, the Company acquired Raven in exchange for 1,040,000 shares of the Company's common stock. The acquisition of Raven was initially accounted for as an immaterial pooling of interests; accordingly, periods prior to April 1, 1997 were not retroactively restated for this transaction. However, with this Annual Report on Form 10-K, all prior periods have been retroactively restated to reflect the effect of the Raven acquisition in all periods presented.

Fiscal Year 1998

	Activision as Previously Reported Year Ended March 31, 1998	NBG 6 Months Ended Sept. 30, 1997	Head Games Year Ended March 31, 1998	CD Contact Year Ended March 31, 1998	Total Restated Year Ended March 31, 1998
Revenues	\$259,926	\$ 7,081	\$ 3,715	\$ 41,336	\$312,058
Net income (loss)	\$ 5,827	\$ (106)	\$ (70)	\$ (512)	\$ 5,139

Fiscal Year 1997

	Activision as Previously Reported Year Ended March 31, 1997	Raven Year Ended March 31, 1997	NBG Year Ended March 31, 1997	Head Games Year Ended March 31, 1997	CD Contact Year Ended March 31, 1997	Total Year Ended March 31, 1997
Revenues	\$154,644	\$ 428	\$ 19,628	\$ 1,083	\$ 13,456	\$189,239
Net income (loss)	\$ 9,226	\$ (419)	\$ 179	\$ (1,510)	\$ 155	\$ 7,631

Acquisition of Centresoft

On November 26, 1997, the Company acquired Centresoft in exchange for 2,787,043 shares and 50,325 options to acquire shares of the Company's common stock. The acquisition of Centresoft was accounted for in accordance with the pooling of interests method of accounting and accordingly, the Company's consolidated financial statements were retroactively adjusted as if Centresoft and the Company had operated as one since June 28, 1996 (inception of Centresoft).

3. INVENTORIES

Inventories at March 31, 1999, 1998 and 1997 are stated net of an adjustment to net realizable value of approximately \$1,493,000, \$828,000 and \$471,000, respectively. The provisions to adjust inventories to net realizable value for the years ended March 31, 1999, 1998 and 1997 were approximately \$828,000, \$1,082,000 and \$478,000, respectively. Inventories, net of reserves, consisted of (amounts in thousands):

	March 31, 1999	March 31, 1998
		Restated
Purchased parts and components	\$ 2,326	\$ 1,409
Finished goods	28,605	18,016
	\$30,931	\$19,425

4. PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation and amortization are provided using the straight-line method over the shorter of the estimated useful lives or the lease term: buildings, 30 years; computer equipment, office furniture and other equipment, 3 years; leasehold improvements, through the life of the lease. Property and equipment, stated at cost, was as follows (amounts in thousands):

	March 31, 1999	March 31, 1998
		Restated
Land	\$ 581	\$ 581
Buildings	759	801
Computer equipment	18,067	15,576
Office furniture and other equipment	3,522	3,480
Leasehold improvements	3,189	2,974
Total cost of property and equipment	26,118	23,412
Less accumulated depreciation	(15,277)	(11,468)
Net cost of property and equipment	\$ 10,841	\$ 11,944

Depreciation expense for the years ended March 31, 1999, 1998 and 1997 was \$4,903,000, \$3,753,000 and \$2,662,000, respectively.

5. ACCRUED EXPENSES

Accrued expenses were as follows (amounts in thousands):

	March 31, 1999	March 31, 1998
	-----	-----
		Restated

Accrued royalties payable	\$11,249	\$ 5,996
Affiliated label payable	11,999	-
Accrued selling and marketing costs	3,082	2,937
Income tax payable	5,068	1,360
Accrued interest expense	1,013	1,125
Accrued bonus and vacation pay	4,473	1,210
Other	8,258	2,710
	-----	-----
	\$45,142	\$15,338
	=====	=====

6. OPERATIONS BY REPORTABLE SEGMENTS AND GEOGRAPHIC AREA

The Company adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," as of April 1, 1998. SFAS No. 131 establishes standards for reporting information about an enterprise's operating segments and related disclosures about its products, geographic areas and major customers.

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

The Company's publishing segment develops and publishes titles 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, through third party distribution and licensing arrangements, and through the Company's owned distribution subsidiaries located in the United Kingdom, the Benelux territories and Germany.

The Company's distribution segment, located in the United Kingdom, the Benelux territories and Germany, distributes interactive entertainment software and hardware and provides logistical services for a variety of publishers and manufacturers. A small percentage of distribution sales is derived from Activision-published titles.

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.

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. Revenue derived from sales between segments is eliminated in consolidation.

Information on the reportable segments for the three years ended March 31, 1999 is as follows:

	Fiscal Year Ended March 31, 1999			
	Publishing	Distribution	Corporate	Total
	-----	-----	-----	-----
Revenues from external customers	\$186,299	\$250,186	\$ -	\$436,485
Revenue from sales between segments	\$ 19,202	\$ -	\$ -	\$ 19,202
Operating income (loss)	\$ 17,784	\$ 10,685	\$ (1,224)	\$ 27,245

	Fiscal Year Ended March 31, 1998			
	Publishing	Distribution	Corporate	Total
Revenues from external customers	\$125,067	\$186,991	\$ -	\$312,058
Revenue from sales between segments	\$ 7,759	\$ -	\$ -	\$ 7,759
Operating income (loss)	\$ 5,836	\$ 4,842	\$ (1,192)	\$ 9,486

	Fiscal Year Ended March 31, 1997			
	Publishing	Distribution	Corporate	Total
Revenues from external customers	\$ 87,994	\$101,245	\$ -	\$189,239
Revenue from sales between segments	\$ -	\$ -	\$ -	\$ -
Operating income (loss)	\$ 10,077	\$ 2,721	\$ (1,267)	\$ 11,531

Operating expenses in the Corporate column consist entirely of amortization of goodwill resulting from the Company's merger with the Disc Company Inc., on April 1, 1992.

Geographic information for the three years ended March 31, 1999 is based on the location of the selling entity. Revenues from external customers by geographic region were as follows:

	Fiscal Year Ended March 31,		
	1999	1998	1997
United States	\$149,664	\$ 89,936	\$ 65,695
Europe	278,032	208,817	113,456
Other	8,789	13,305	10,088
Total	\$436,485	\$312,058	\$189,239

Revenues by platform were as follows:

	1999	1998	1997
		Restated	Restated
Console	\$268,205	\$131,890	\$ 68,480
PC	168,280	180,168	120,759
Total	\$436,485	\$312,058	\$189,239

7. COMPUTATION OF NET INCOME PER SHARE

The following table sets forth the computations of basic and diluted net income per share:

	(amounts in thousands, except per share data)		
	1999	1998	1997
		Restated	
NUMERATOR			
Net income	\$ 15,254	\$ 5,139	\$ 7,631
Preferred stock dividends	-	(116)	(151)
<hr/>			
Numerator for basic and diluted net income per share-income available to common stockholders	\$ 15,254	\$ 5,023	\$ 7,480
<hr/>			
DENOMINATOR			
Denominator for basic net income per share-weighted average shares outstanding	22,162	21,339	20,262
Effect of dilutive securities:			
Employee stock options	942	801	689
Warrants to purchase common stock	129	70	-
Potential dilutive common shares	1,071	871	689
<hr/>			
Denominator for diluted net income per share-adjusted weighted average shares and assumed conversions	23,233	22,210	20,951
<hr/>			
Basic net income per share	\$ 0.69	\$ 0.24	\$ 0.37
<hr/>			
Diluted net income per share	\$ 0.66	\$ 0.23	\$ 0.36
<hr/>			

Options to purchase 2,188,175, 1,978,000 and 2,838,000 shares of common stock were outstanding for the years ended March 31, 1999, 1998 and 1997, respectively, but were not included in the calculations of diluted net income per share because their effect would be antidilutive. Convertible subordinated notes and convertible preferred stock were not included in the calculations of diluted net income per share because their effect would be antidilutive.

The components of the net deferred tax asset and liability were as follows (amounts in thousands):

	March 31, 1999	March 31, 1998
		Restated
Deferred asset:		
Allowance for bad debts	\$ 942	\$ 358
Allowance for sales returns	144	2,458
Royalty reserve	1,649	-
Miscellaneous	1,591	1,304
Tax credit carryforwards	6,726	3,320
Net operating loss carryforwards	10,534	9,184
	-----	-----
Deferred asset	21,586	16,624
Valuation allowance	(6,916)	(8,107)
	-----	-----
Net deferred asset	14,670	8,517
	-----	-----
Deferred liability:		
Deferred compensation	110	-
Capitalized research expenses	5,512	-
State taxes	386	-
	-----	-----
Deferred liability	6,008	-
	-----	-----
Net deferred asset	\$ 8,662	\$ 8,517
	=====	=====

In accordance with Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," issued by the AICPA, benefits from loss carryforwards arising prior to the Company's reorganization are recorded as additional paid-in capital. During the year ended March 31, 1999, \$2.4 million of such benefit was recognized through a reduction in the valuation allowance. The reduction in the valuation allowance during the years ended March 31, 1999 was determined based on the Company's assessment of the realizability of its deferred tax assets, which assessment was based on recent operating history, and the Company's expectation that operations will continue to generate taxable income, as well as other factors. Realization of the deferred tax assets is dependent upon the continued generation of sufficient taxable income prior to expiration of tax credits and loss carryforwards. Although realization is not assured, management believes it is more likely than not that the deferred tax asset of \$8.7 million will be realized. The amount of deferred tax assets considered realizable, however, could be reduced in the future if estimates of future taxable income are reduced.

The Company's available net operating loss carryforward for federal tax reporting purposes approximates \$31.0 million and is subject to certain limitations as defined under Section 382 of the Internal Revenue Code. The net operating loss carryforwards expire from 2006 to 2013. The Company has tax credit carryforwards of \$4.6 million and \$2.2 million for federal and state purposes, respectively, which expire from 2006 to 2013.

9. COMMITMENTS, CONTINGENCIES AND DEBT

BANK LINE OF CREDIT

As of March 31, 1999, the Company had a \$40.0 million revolving credit and letter of credit facility (the "Prior Facility") with a group of banks. The Prior Facility currently provides the Company with the ability to borrow funds and issue letters of credit against eligible accounts receivable up to \$40.0 million. The Prior Facility was scheduled to expire in October 2001. As of March 31, 1999 the Company had \$22.4 million in letters of credit outstanding and no borrowings against the Prior Facility (there were no outstanding letters of credit or borrowings against the Prior Facility in the fiscal year ended March 31, 1998). In addition, the Company had a \$2 million line of credit agreement (the "Asset Line") with a bank that expired in September 1998. Approximately \$1.1 million and \$1.2 million was outstanding on this line as of March 31, 1999 and 1998, respectively.

In addition, the Company's CentreSoft subsidiary has a revolving credit facility (the "UK Facility") with its bank in the United Kingdom for approximately \$11.2 million. The UK Facility can be used for working capital requirements and expires in June 2000. The Company had no borrowings outstanding against the UK facility as of March 31, 1999. In the Netherlands, the Company's CD Contact subsidiary has a credit facility ("the Netherlands Facility") with a bank that permits borrowings against eligible accounts receivable and inventory up to approximately \$25 million. Borrowings under the Netherlands Facility are due on demand and totaled \$6.0 as of March 31, 1999. Letters of credit outstanding under the Netherlands facility totaled \$6.9 million as of March 31, 1999.

PRIVATE PLACEMENT OF CONVERTIBLE SUBORDINATED NOTES

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

LEASE OBLIGATIONS

The Company leases certain of its facilities under non-cancelable operating lease agreements. Total future minimum lease commitments as of March 31, 1999 are as follows (amounts in thousands):

Year ending March 31,	
2000	\$ 3,760
2001	3,608
2002	3,281
2003	3,139
2004	3,123
Thereafter	\$11,450

Rent expense for the years ended March 31, 1999, 1998 and 1997 was approximately \$3,900,000, \$3,219,000 and \$2,279,000, respectively.

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.

10. STOCKHOLDERS' EQUITY AND COMPENSATION PLANS

OPTION PLANS

The Company has two stock option plans for the benefit of officers, employees, consultants and others.

The Activision 1991 Stock Option and Stock Award Plan, as amended, (the "1991 Plan") permits the granting of non-qualified stock options, incentive stock options ("ISOs"), stock appreciation rights ("SARs"), restricted stock awards, deferred stock awards and other Common-Stock-based awards. The total number of shares of Common Stock available for distribution under the 1991 Plan is 7,666,667. The 1991 Plan requires available shares to consist in whole or in part of authorized and unissued shares for treasury shares. There were 156,500 shares remaining available for grant under the 1991 Plan as of March 31, 1999.

On September 23, 1998, the stockholders of the Company approved the Activision 1998 Incentive Plan (the "1998 Plan"). The 1998 Plan permits the granting of non-qualified stock options, ISOs, restricted stock awards, deferred stock awards and other common stock-based awards to officers, employees, consultants and others. The total number of shares of Common Stock available for distribution under the 1998 Plan is 3,000,000. The 1998 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. There were 1,087,435 remaining shares available for grant under the Incentive Plan as of March 31, 1999.

The exercise price for stock options issued under the 1991 Plan and 1998 Plan (collectively, the "Plans") is determined at the discretion of the Board of Directors (or the Compensation Committee of the Board of Directors), and for ISOs, is not to be less than the fair market value of the Company's common stock at the date of grant, or in the case of non-qualified options, must exceed or be equal to 85% of fair market value at date of grant. Options typically become exercisable in equal installments over a period not to exceed five years and must be exercised within 10 years of date of grant. Historically, stock options have been granted with exercise prices equal to or greater than the fair market value at the date of grant.

Activity of the Plans during the last three fiscal years was as follows (amounts in thousands, except weighted average exercise price amounts):

	1999		1998		1997	
	Shares (000)	Wtd Avg Ex Price	Shares (000)	Wtd Avg Ex Price	Shares (000)	Wtd Avg Ex Price
Outstanding at beginning of year	6,218	\$ 11.47	5,228	\$ 11.69	3,725	\$ 11.37
Granted	3,538	\$ 10.27	2,776	\$ 12.14	1,997	\$ 11.28
Exercised	(605)	\$ 8.68	(599)	\$ 8.35	(313)	\$ 7.05
Forfeited	(1,202)	\$ 15.33	(1,187)	\$ 14.45	(181)	\$ 9.24
Outstanding at end of year	7,949	\$ 10.54	6,218	\$ 11.47	5,228	\$ 11.69
Exercisable at end of year	3,754	10.00	2,532	\$ 9.78	3,292	\$ 12.62

The range of exercise prices for options outstanding as of March 31, 1999 was \$.75 to \$17.75. The range of exercise prices for options is wide due to increases and decreases in the Company's stock price over the period of the grants. For the year ended March 31, 1999, 3,320,000 options were granted at an exercise price equal to the fair market value on the date of grant and 218,000 options were granted at an exercise price greater than fair market value on the date of grant.

The following tables summarize information about stock options outstanding as of March 31, 1999:

	Outstanding Options			Exercisable Options	
	Shares (000)	Remaining Wtd Avg Contractual Life (in years)	Wtd Avg Exercise Price	Shares (000)	Wtd Avg Exercise Price
Range of exercise prices:					
\$0.75 to \$9.44	1,366	6.67	\$ 6.91	815	\$ 5.52
\$9.46 to \$9.87	1,741	8.45	\$ 9.69	1,268	\$ 9.71
\$10.00 to \$10.50	1,429	8.88	\$10.27	463	\$10.30
\$10.56 to \$11.06	1,324	8.78	\$10.77	341	\$10.77
\$11.12 to \$13.56	1,300	7.60	\$12.62	530	\$13.03
\$13.62 to \$17.00	788	7.98	\$15.37	336	\$15.98
\$17.75 to \$17.75	1	6.49	\$17.75	1	\$17.75

These options will expire if not exercised at specific dates ranging from January 2000 to April 2009. Prices for options exercised during the three year period ended March 31, 1999 ranged from \$.75 to \$15.75.

EMPLOYEE STOCK PURCHASE PLAN

The Company has an employee stock purchase plan for all eligible employees (the "Purchase Plan"). Under the Purchase Plan, shares of the Company's common stock may be purchased at six-month intervals at 85% of the lower of the fair market value on the first or last day of each six-month period (the "Offering Period"). Employees may purchase shares having a value not exceeding 10% of their gross compensation during an Offering Period. Employees purchased 42,093 shares at a price of \$9.24 per share and 45,868 shares at a price of \$8.92 per share during the Purchase Plan's offering period ended September 30, 1998 and March 31, 1999, respectively. As of March 31, 1999, 29,939 shares were reserved for future issuance under the Purchase Plan.

EMPLOYEE RETIREMENT PLAN

The Company has a retirement plan covering substantially all of its eligible employees. The retirement plan is qualified in accordance with Section 401(k) of the Internal Revenue Code. Under the plan, employees may defer up to 15% of their pre-tax salary, but not more than statutory limits. The Company contributes 5% of each dollar contributed by a participant. The Company's matching contributions to the plan were \$40,000, \$40,000 and \$25,000 during the years ended March 31, 1999, 1998 and 1997, respectively.

DIRECTOR WARRANT PLAN

The Director Warrant Plan, which expired on December 19, 1996, provided for the automatic granting of warrants ("Director Warrants") to purchase 16,667 shares of the Common Stock to each director of the Company who was not an officer or employee of the Company or any of its subsidiaries. Director Warrants granted under the Director

Warrant Plan vest 25% on the first anniversary of the date of grant, and 12.5% each six months thereafter. The expiration of the Plan had no effect on the outstanding Warrants. As of March 31, 1999, there were no shares of Common Stock available for distribution under the Director Warrant Plan.

Director Warrant activity was as follows (amounts in thousands, except weighted average exercise price amounts):

	1999		1998		1997	
	Shares (000)	Wtd Avg Ex Price	Shares (000)	Wtd Avg Ex Price	Shares (000)	Wtd Avg Ex Price
Outstanding at beginning and end of year	73	\$4.43	73	\$4.43	73	\$4.43
Exercisable at end of year	73	\$4.43	73	\$4.43	73	\$4.43

The range of exercise prices for Director Warrants outstanding as of March 31, 1999 was \$.75 to 8.50. The range of exercise prices for Director Warrants is wide due to increases and decreases in the Company's stock price over the period of the grants. As of March 31, 1999, 33,300 of the outstanding and vested Director Warrants have a weighted average remaining contractual life of 2.78 years and a weighted average exercise price of \$.75; 20,000 of the outstanding and vested Director Warrants have a weighted average remaining contractual life of 5.82 years and a weighted average exercise price of \$6.50; and 20,000 of the outstanding and vested Director Warrants have a weighted average remaining contractual life of 5.82 years and a weighted average exercise price of \$8.50.

OTHER OPTIONS AND WARRANTS

On March 23, 1999, 1,000,000 options to purchase common stock were issued to each of Robert A. Kotick, the Company's Chairman and Chief Executive Officer, and Brian G. Kelly, the Company's Co-Chairman. The options were granted in connection with employment agreements between the Company and each of Mr. Kotick and Mr. Kelly dated January 12, 1999. The options vest in five equal annual installments beginning on the date of issuance, have an exercise price of \$10.50 per share, and expire on January 12, 2009.

On December 11, 1998, the Company granted options to purchase 80,000 shares of the Company's common stock to four of its outside directors. The options have an exercise price of \$11.50, vest in five equal annual installments beginning a year from the date of issuance, and expire on December 11, 2008.

On June 4, 1998, the Company granted options to purchase 60,000 shares of the Company's common stock to four of its outside directors. The options have an exercise price of \$9.50, vest in two equal annual installments beginning a year from the date of issuance, and expire on June 4, 2008.

During the fiscal year ended March 31, 1998, the Company issued warrants to purchase 40,000 shares of the Company's common stock, with a weighted average exercise price of \$12.88 to two of its outside directors in connection with their election to the Board. Such warrants have vesting terms identical to the Directors Warrants and expire within 10 years. As of March 31, 1999, 19,338 of such warrants were vested and exercisable.

During the fiscal year ended March 31, 1999, the Company issued the following warrants to purchase 1,000,000 shares of common stock in connection with software license agreements:

Warrants	Shares	Exercise Price	Vesting Schedule	Expiration Date
#1	500,000	\$ 10.27	Vest ratably over 5 years beginning on date of grant.	9/16/08
#2	250,000	(a)	Vest ratably over 5 years beginning on 9/16/03.	9/16/08
#3	250,000	\$ 12.70	Vest in full on 7/2/99.	7/2/08
Total	1,000,000			

(a) Exercise price is equal to the average closing price of the Company's common stock on the NASDAQ National Market for the thirty trading days preceding September 16, 2003.

The fair value of the warrants was determined using the Black-Scholes pricing model, assuming a risk-free rate of 4.77%, a volatility factor of .66 and expected terms as noted in the above table. In accordance

with the Financial Accounting Standards Board's Emerging Issues Task Force Issue No. 96-18 "Accounting for Equity Instruments that are Issued To Other Than Employees for Acquiring or in Connection With Selling Goods or Services" (EITF 96-18), the Company measures the fair value of the securities on the measurement date. The measurement date is the earlier of the date on which the other party's performance is completed or the date of a performance commitment, as defined. The fair value of each warrant is capitalized and amortized to royalty expense when the related product is released and the related revenue is recognized. During 1999, \$387,620 was amortized and included in royalty expense relating to warrants. No amortization was recognized in 1998.

PRO FORMA INFORMATION

The Company has elected to follow APB Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for its employee stock options. Under APB No. 25, if the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized in the Company's financial statements.

Pro forma information regarding net income (loss) and net income (loss) per share is required by SFAS No. 123. This information is required to be determined as if the Company had accounted for its employee stock options (including shares issued under the Purchase Plan and Director Warrant Plan, collectively called "options") granted during fiscal 1999, 1998 and 1997 under the fair value method of that statement. The fair value of options granted in the years ended March 31, 1999, 1998 and 1997 reported below has been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	Incentive Plan			Purchase Plan			Director Warrant Plan		
	1999	1998	1997	1999	1998	1997	1999	1998	1997
Expected life (in years)	1.5	3.0	2.2	0.5	0.5	0.5	0.5	-	-
Risk free interest rate	4.77%	5.62%	6.45%	4.77%	5.62%	6.45%	4.77%	-	-
Volatility	.66	.63	.60	.66	.71	.60	.66	-	-
Dividend yield	-	-	-	-	-	-	-	-	-

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options. The weighted average estimated fair value of Plan shares granted during the years ended March 31, 1999, 1998 and 1997 was \$11.12, \$13.47 and \$12.72 per share, respectively. The weighted average estimated fair value of Employee Stock Purchase Plan shares granted during the year ended March 31, 1999 and 1998 were \$2.85 and \$2.65, respectively. No Director Warrants were granted during the year ended March 31, 1999.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (amounts in thousands except for net income (loss) per share information):

	Year ended March 31,		
	1999	1998	1997
		Restated	Restated
Pro forma net income (loss)	\$ 1,111	\$ (2,253)	\$ 633
Pro forma basic net income (loss) per share	\$ 0.05	\$ (0.11)	\$ 0.03
Pro forma diluted net income (loss) per share	\$ 0.05	\$ (0.11)	\$ 0.03

The effects on pro forma disclosures of applying SFAS No. 123 are not likely to be representative of the effects on pro forma disclosures of future years. Because SFAS No. 123 is applicable only to options granted during fiscal 1996 through 1999, the pro forma effect will not be fully reflected until the fiscal year ended March 31, 2000.

11. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash activities and supplemental cash flow information for the fiscal years ended March 31, 1999, 1998 and 1997 is as follows (amounts in thousands):

	For the years ended March 31,		
	1999	1998	1997
Non-cash activities:			
Stock and warrants to acquire common stock issued in exchange for licensing rights	\$3,368	\$1,214	\$ 822
Tax benefit derived from net operating loss carryforward utilization	2,430	-	6,634
Tax benefit attributable to stock option exercises	1,059	1,247	736
Subordinated loan stock debentures converted to common stock in pooling transaction	-	3,216	-
Redeemable preferred stock converted to common stock in pooling transaction	-	1,286	-
Convertible preferred stock converted to common stock in pooling transaction	-	214	-
Stock issued to effect business combination	-	136	-
Conversion of notes payable to common stock	4,500	-	259
Supplemental cash flow information:			
Cash paid for income taxes	\$2,814	\$2,174	\$ 473
Cash paid for interest	5,513	675	-

12. QUARTERLY FINANCIAL AND MARKET INFORMATION (UNAUDITED)

(Amounts in thousands, except per share data)	Quarter Ended				Year Ended
	June 30	Sept 30	Dec 31	Mar 31	
Fiscal 1999 (quarter ended June 30 restated):					
Net revenues	\$61,531	\$66,182	\$193,537	\$115,235	\$436,485
Operating income (loss)	(5,637)	(2,783)	26,328	9,337	27,245
Net income (loss)	(3,744)	(2,234)	16,022	5,210	15,254
Basic income (loss) per share	\$ (0.17)	\$ (0.10)	\$ 0.72	\$ 0.23	\$ 0.69
Diluted net income (loss) per share	\$ (0.17)	\$ (0.10)	\$ 0.64	\$ 0.22	\$ 0.66
Common stock price per share					
High	\$ 11.62	\$ 13.75	\$ 14.87	\$ 13.81	\$ 14.87
Low	\$ 9.37	\$ 9.37	\$ 8.75	\$ 9.75	\$ 8.75
Fiscal 1998 (restated):					
Net revenues	\$38,560	\$65,788	\$139,587	\$ 68,123	\$312,058
Operating income (loss)	(9,383)	3,591	13,742	1,536	9,486
Net income (loss)	(5,925)	2,041	8,334	689	5,139
Basic income (loss) per share	\$ (0.28)	\$ 0.09	\$ 0.39	\$ 0.03	\$ 0.24
Diluted net income (loss) per share	\$ (0.28)	\$ 0.09	\$ 0.36	\$ 0.03	\$ 0.23
Common stock price per share					
High	\$ 14.75	\$ 15.50	\$ 18.62	\$ 17.87	\$ 18.62
Low	\$ 9.87	\$ 11.00	\$ 13.00	\$ 9.50	\$ 9.50

13. SUBSEQUENT EVENTS -- UNAUDITED

BANK LINE OF CREDIT

On June 22, 1999, the Company replaced the Prior Facility with a \$125 million revolving credit facility and term loan (the "New Facility") with a new group of banks that provides the Company with the ability to borrow up to \$100 million and issue letters of credit up to \$80 million against eligible accounts receivable and inventory. The \$25 million term loan portion of the New Facility was used to acquire Expert and pay costs related to such acquisition and the securing of the new facility. The term loan has a three year term with principal amortization on a straight line quarterly basis beginning December 31, 1999 and a borrowing rate of the banks' base rate (which is generally equivalent to the published prime rate) plus 2.0%, or the LIBOR rate plus 3.0%. The revolving portion of the New Facility has a borrowing rate of the banks' base rate plus 1.75%, or the LIBOR rate plus 2.75%. The Company pays a commitment fee of 1/2% based on the unused portion of the line.

ACQUISITION OF EXPERT SOFTWARE

On March 3, 1999, the Company announced that it had entered into a merger agreement with Expert Software ("Expert"), a developer and distributor and value-line interactive leisure products, for \$2.65 per share of outstanding Expert common stock, or total consideration of approximately \$20.4 million. On June 21, 1999, Expert's shareholders approved the merger at a special meeting of shareholders and on June 22, 1999, the merger was consummated. Proceeds from the term loan portion of the New Facility were used to pay the merger consideration. The acquisition of Expert will be accounted for using the purchase method of accounting.

SCHEDULE II

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

Col. A ----- Description	Col. B ----- Balance at Beginning of Period	Col. C ----- Additions	Col. D ----- Deductions (Describe)	Col. E ----- Balance at End of Period
Year ended March 31, 1999				
Allowance for sales returns, price protection and doubtful accounts	\$15,582	\$53,773	\$54,376 (A)	\$14,979
Inventory valuation	\$ 828	\$ 828	\$ 163 (B)	\$ 1,493
Deferred tax valuation allowance	\$ 8,107	\$ 1,239	\$ 2,430	\$ 6,916
Year ended March 31, 1998 (Restated)				
Allowance for sales returns, price protection and doubtful accounts	\$ 7,674	\$39,437	\$31,529 (A)	\$15,582
Inventory valuation	\$ 471	\$ 1,082	\$ 725 (B)	\$ 828
Deferred tax valuation allowance	\$ 8,107	-	-	\$ 8,107
Year ended March 31, 1997 (Restated)				
Allowance for sales returns, price protection and doubtful accounts	\$ 7,005	\$18,878	\$18,209 (A)	\$ 7,674
Inventory valuation	\$ 145	\$ 478	\$ 152 (B)	\$ 471
Deferred tax valuation allowance	\$14,305	\$ 436	\$ 6,634	\$ 8,107

(A) Actual write-offs of uncollectible accounts receivable or sales returns and price protection.

(B) Actual write-offs of obsolete inventory, scrap and reduction in carrying value of certain portions of inventory.

EXHIBIT INDEX

ITEM 14(a). EXHIBITS.

Exhibit Number -----	Exhibit -----	Sequential Page Number -----
3.1	Amended and Restated Articles of Incorporation of Activision, Inc., dated October 15, 1992 (incorporated by reference to Exhibit 4.5 of Amendment No. 1 to the Company's Form S-8, Registration No. 33-48411 filed on June 1, 1993).	
3.2	Bylaws of Activision, Inc. (incorporated by reference to Exhibit 4.6 of Amendment No. 1 to the Company's Form S-8, Registration No. 33-48411 filed on June 1, 1993).	
10.1	Mediagenic 1991 Stock Option and Stock Award Plan, as amended (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, Registration No. 33-63638, filed on December 8, 1995).	
10.2	Mediagenic 1991 Director Warrant Plan as amended (incorporated by reference to Exhibit 28.2 to the Company's Registration Statement on Form S-8, Registration No. 33-63638, filed on June 1, 1993).	
10.3	Activision, Inc. Employee Stock Purchase Plan (incorporated by reference to Exhibit 4.1 the Company's Form S-8 filed on September 25, 1996).	
10.4	Activision 1998 Incentive Plan (incorporated by reference to Appendix I of the Company's 1998 Proxy Statement).	
10.5	Lease Agreement dated as of December 20, 1996, between the Company and Barclay Curci Investment Company (incorporated by reference to Exhibit 10.14 of the Company's Form 10-Q for the quarter ended December 31, 1996).	
10.6	Share Exchange Agreement dated November 23, 1997, among the Company and the holders of all of the issued and outstanding capital stock of Combined Distribution (Holdings), Inc. (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed December 5, 1997).	
10.7	Purchase Agreement dated as of December 16, 1997, among the Company and Credit Suisse First Boston Corporation, Piper Jaffray, Inc. and UBS Securities LLC (the "Initial Purchasers") (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed December 23, 1997).	
10.8	Registration Rights Agreement dated as of December 16, 1997, among the Company and the Initial Purchasers (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed December 23, 1997).	
10.9	Indenture dated as of December 22, 1997, between the Company and State Street Bank and Trust Company of California, N.A., as Trustee (incorporated by reference to Exhibit 10.3 of the Company's Form 8-K filed December 23, 1997).	
10.10	Employment agreement dated January 12, 1999 between the Company and Robert A. Kotick.	
10.11	Employment agreement dated January 12, 1999 between the Company and Brian G. Kelly.	
10.12	Employment agreement dated October 19, 1998 between the Company and Ronald Doornink.	

- 10.13 Employment agreement dated March 4, 1999 between the Company and Lawrence Goldberg.
- 10.14 Employment agreement dated March 4, 1999 between the Company and Barry J. Plaga.
- 10.15 Employment agreement dated April 1, 1998 between the Company and Mitchell Lasky.
- 10.16 Employment agreement dated April 1, 1998 between the Company and Ronald Scott.
- 10.17 Service Agreement dated November 24, 1997 between Combined Distribution (Holdings) Limited and Richard Andrew Steele.
- 10.18 Employment Agreement dated September 1, 1997 between the Company and Robert Dewar.
- 10.19 Articles of Merger dated June 30, 1998 between S.B.F. Acquisition Corp., a wholly owned subsidiary of the Company and S.B.F. Services Limited, Head Games Publishing, (incorporated by reference to Exhibit 2.1 of the Company's Form 8-K, filed on July 2, 1998).
- 10.20 Share Exchange Agreement dated September 29, 1998 by and between the Company and Mr. Frank d'Oleire, Mrs. Christa d'Oleire, Ms. Fiona d'Oleire, Ms. Alexa d'Oleire acting as Dr. d'Oleire Beteiligungsgesellschaft bR, Mr. Martinus J.C. Bubbert, and Mr. Dennis W. Buis (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed on October 8, 1998).
- 10.21 Amended and Restated Agreement and Plan of Merger dated April 19, 1999 by and among the Company, Expert Acquisition Corp. and Expert Software, Inc. (incorporated by reference to Exhibit 2.1 of the Form 8-K of Expert Software, Inc., filed April 29, 1999).
- 10.22 Credit Agreement dated as of June 21, 1999 among the Company, Head Games Publishing, Inc., Expert Software, Inc., various lenders, PNC Bank, National Association, as issuing bank, administrative agent and collateral agent for such lenders, and Credit Suisse First Boston, as syndication agent.
- 21. Principal subsidiaries of the Company.
- 23. Independent Auditors' Consent.
- 27.1 Fiscal 1996 Year to Date financial Data Schedule.
- 27.2 Fiscal 1997 Year to Date Financial Data Schedule.
- 27.3 Fiscal 1998 Year to Date Financial Data Schedule.
- 27.4 Fiscal 1999 Year to Date Financial Data Schedule.

(b) REPORTS ON FORM 8-K. The following reports on Form 8-K have been filed by the Company during the last quarter of the fiscal year ended March 31, 1999:

- 1.1 Form 8-K dated March 10, 1999, containing items 5 and 7.

EMPLOYMENT AGREEMENT

Employment Agreement, dated as of January 12, 1999, by and between ACTIVISION, INC., a Delaware corporation with its principal offices at 3100 Ocean Park Boulevard, Santa Monica, CA 90405 (the "COMPANY"), and ROBERT A. KOTICK (the "EXECUTIVE").

RECITALS:

WHEREAS, the Board of Directors of the Company (the "BOARD") has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication of the Executive by providing him with the compensation and benefit arrangements contained herein;

WHEREAS, the Board approved the execution and delivery of this Agreement by the Company at a meeting of the Board held on January 12, 1999;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. POSITION AND DUTIES.

(a) The Company agrees to continue to employ the Executive, and the Executive agrees to continue to be employed, as Chairman and Chief Executive Officer of the Company, subject to the supervision of, and reporting only to, the Board. The Executive shall have such senior executive powers, duties, authorities and responsibilities as are consistent with the Executive's position and title and as have historically been performed by Executive, including acting as co-chairman of any meeting of the Board, supervising financing, acquisitions and similar major strategic transactions and strategic planning for the Company consistent with his title and position, supervising the President and Chief Operating Officer of the Company and managing all non-operating activities of the Company, including corporate governance, organizational structure, acquisitions and financing, senior executive compensation, stock and stock option issuances and stock option plan management. At all times during the period of Executive's employment, the Executive shall, unless he otherwise elects, be nominated for election by the shareholders of the Company to the Board.

(b) During the Employment Period (as defined in Section 2 below) and excluding any periods of vacation, the Executive agrees to devote such time, attention and efforts to the business and affairs of the Company as may be necessary to discharge the duties and responsibilities assigned to the Executive hereunder and to use the Executive's reasonable best

efforts to perform faithfully and efficiently such duties and responsibilities.

(c) It shall not be a violation of this Agreement for the Executive to engage in any activity which is, in the good faith opinion of the Executive, not inconsistent with the Company's interests and prospects, including, without limitation, (a) serving on civic or charitable boards or committees; (b) serving as an officer or director of any Company that is not in a Competitive Business (as defined herein); (c) delivering lectures, fulfilling speaking engagements or teaching at educational institutions; (d) managing personal investments; and (e) attending conferences conducted by business organizations; provided, however, that such activity does not significantly interfere with the performance of Executive's duties and responsibilities hereunder. It is expressly understood and agreed that to the extent that any activity has been conducted by the Executive prior to the date of this Agreement, the continued conduct of such activity (or the conduct of an activity similar in nature and scope thereto) during the Employment Period shall be deemed not to interfere with the performance of the Executive's duties and responsibilities to the Company and shall not constitute a violation of this Agreement.

(d) Except for periodic travel assignments, the Executive shall not, without his consent, be required to perform services for the Company at any place other than the principal place of the Company's business which shall at all times, unless the Executive otherwise consents, be within a 20 mile radius of the Company's current principal place of business. Notwithstanding anything herein to the contrary, the Executive may, at his sole discretion and upon prior written notice to the Board, relocate at any time to New York City, New York in connection with the establishment by the Company of executive offices in such city.

2. EMPLOYMENT PERIOD. The employment of the Executive under the terms of this Agreement shall become effective on the date hereof and terminate on March 31, 2004 (the "EMPLOYMENT PERIOD"). Notwithstanding anything contained herein to the contrary, the Executive's employment pursuant to the terms of this Agreement is subject to termination pursuant to Section 5 below.

3. COMPENSATION. The Executive shall receive the following compensation (the "Compensation") for his services hereunder:

(a) BASE SALARY. The Company shall pay to the Executive a base salary ("Base Salary") in respect of each fiscal year of the Company or portion thereof during the Employment Period. Commencing on January 12, 1999, the initial Base Salary for the fiscal year ending March 31, 1999 shall be \$297,500. Commencing on April 1, 1999, the Base Salary for the fiscal year ending March 31, 2000 shall be automatically increased to \$350,000. Thereafter, on April 1 of each year of the Employment Period, beginning on April 1, 2000, the Base Salary shall automatically increase to an amount equal to one hundred ten (110%) percent of the Base Salary for the prior fiscal year. The Company may withhold from any amounts payable under this Agreement all applicable tax, Social Security and other legally required withholding pursuant to any law or regulation ("WITHHOLDING"). The Base Salary shall be paid in accordance with the customary payroll practices of the Company at regular intervals, but in no

event less frequently than every month, as the Company may establish from time to time for senior executive employees of the Company. The Board shall conduct an annual performance appraisal and salary review on behalf of the Executive and may adjust the Base Salary for any succeeding fiscal year, but never below the Base Salary that would have been in effect during such succeeding fiscal year in accordance with this Section 3(a). Any period of less than a full fiscal year which the Base Salary is calculated shall be pro rata.

(b) ANNUAL BONUS. The Executive shall be entitled to receive an annual bonus for each fiscal year (the "ANNUAL BONUS"), beginning with the fiscal year ending March 31, 2000, based upon the Company achieving mutually agreed upon financial and business objectives for the fiscal year with respect to which the Annual Bonus accrues. Such financial and business objectives for each fiscal year shall be (i) agreed to by the Executive and the Board not later than fifteen (15) days prior to the beginning of each fiscal year and shall be (ii) made in accordance with Section 11 of the Company's 1998 Incentive Plan. The Company shall pay each Annual Bonus to the Executive no later than thirty (30) days after the completion of the Company's audited consolidated financial statements by the Company's auditors for the subject fiscal year. Each Annual Bonus payment shall be subject to Withholding. Along with the payment of each Annual Bonus, the Company shall also deliver to the Executive a written statement setting forth the basis of its calculation of such Annual Bonus. The Executive and the Executive's representatives shall have the right, at the Executive's cost, to inspect the records of the Company with respect to the calculation of any such Annual Bonus, to make copies of said records utilizing the Company's facilities without charge, and to have free and full access thereto upon reasonable notice during the normal business hours of the Company. Any period of less than a full fiscal year which the Annual Bonus is calculated shall be pro rata. The Annual Bonus is intended to qualify as a Performance Award under Section 11 of the Company's 1998 Incentive Plan and shall be subject to the conditions and limitations of such section.

(c) PERFORMANCE BONUS. The Board, in its sole discretion, may award to the Executive a performance bonus at any time in such amount and in such form as the Board may determine (the "PERFORMANCE BONUS"), after taking into consideration other compensation paid or payable to the Executive under this Agreement, as well as the financial and non-financial progress of the business of the Company and the contributions of the Executive toward that progress. Any Performance Bonus shall be subject to Withholding. Any period of less than a full fiscal year which the Performance Bonus is calculated shall be pro rata. With respect to the fiscal year ending March 31, 1999, the Company shall award to the Executive a Performance Bonus based upon the achievement by the Company of its strategic and financial objectives as heretofore presented to the Board.

4. BENEFITS.

(a) MEDICAL, ETC. The Executive shall be entitled to such medical and other benefits, including hospitalization, disability, life and health insurance, to the extent offered by the Company, as are customarily made available to senior executive officers of the Company and upon the same terms. The Executive shall also be entitled to receive those benefits and

privileges that the Company currently, and may at any time in the future, provide for its executive officers upon the same terms.

(b) EXPENSES. The Executive shall be reimbursed by the Company for all reasonable travel, entertainment, conference expenses, organization dues and other expenses incurred by the Executive in connection with the performance of Executive's services under this Agreement, subject to the Company's policies in effect from time to time with respect to such expenses, including the requirements with respect to reporting and documentation of such expenses.

(c) OFFICE AND SUPPORT STAFF. During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, including personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company at any time during the 90-day period immediately preceding the date of this Agreement, or, if more favorable to the Executive, as provided at any time after such date to Executive or other senior executive officers of the Company.

(d) VACATION. The Executive shall be entitled to four (4) weeks paid vacation each fiscal year during the Employment Period, in addition to regular paid holidays provided to all employees of the Company; provided that unused vacation time shall not be carried over to any subsequent year. Vacation time shall be taken as determined by the Executive in his reasonable and good faith discretion; provided that such time taken is mutually convenient to the Company and not disruptive to the Company's activities or the Executive's responsibilities.

(e) LIFE INSURANCE. The Company shall purchase and maintain a renewable term insurance policy or policies for a period of ten (10) years commencing as soon as practicable after the date hereof covering the life of the Executive in an amount of \$3,000,000 naming the Executive's estate or any other person designated by the Executive as beneficiary of such policy or policies. The Executive has the right to require the Company at any time to prepay all of the premiums associated with such policy or policies so as to ensure such policies remain in force for the full ten (10) year period.

5. TERMINATION. The employment by the Company of the Executive shall be terminated as provided in this Section 5:

(a) DEATH. Upon the Executive's death ("DEATH").

(b) DISABILITY.

(i) The Company or the Executive, upon not less than thirty (30) days written notice to the other party ("DISABILITY NOTICE"), may terminate the employment by the Company of the Executive if the Executive has been unable, by reason of physical or mental disability, to render, for 120 successive days or for shorter periods aggregating 210 days or more

in any twelve month period, services of the character contemplated by this Agreement and will be unable to resume providing such services within a reasonable period of time by reason of such disability (such circumstances being referred to as "DISABILITY").

(ii) The determination of whether the Executive has become disabled within the meaning of this Section 5(b) shall be made (A) in the case of a termination of employment by the Company, by a medical doctor selected by the Company, or (B) in the case of a termination of employment by the Executive, by Executive's medical doctor. In the event the Company gives a notice of termination of employment under this Section 5(b), the Executive or his representative may at any time prior to the effective date of termination contest the termination and cause a determination of Disability to be made by Executive's medical doctor. In the event the Executive gives a notice of termination of employment under this Section 5(b), the Company may at any time prior to the effective date of termination contest the termination and cause a determination of Disability to be made by a medical doctor selected by the Company. In either case, if such medical doctors do not agree with regard to the determination of Disability, they shall mutually choose a third medical doctor to examine the Executive, and the Disability determination of such third medical doctor shall be binding upon both the Company and the Executive.

(c) WITHOUT CAUSE. By the Company, for any reason other than Death, Cause or Disability, but only upon a vote of a majority of the entire Board at a meeting duly called and held at which Executive shall have the right to be present and be heard.

(d) CAUSE. By the Company, for Cause, but only upon a vote of a majority of the entire Board at a meeting duly called and held at which Executive shall have the right to be present and be heard. The term "Cause" means (i) any act of fraud or embezzlement in respect of the Company or its funds, properties or assets; or (ii) conviction of the Executive of a felony relating to his actions as an executive of the Company under the laws of the United States or any state thereof (provided that all rights of appeal have been exercised or have lapsed) unless such acts were committed in the reasonable, good faith belief that his actions were in the best interests of the Company and its stockholders and would not violate criminal law; or (iii) willful misconduct or gross negligence by the Executive in connection with the performance of his duties that has caused or is highly likely to cause severe harm to the Company; or (iv) intentional dishonesty by the Executive in the performance of his duties hereunder which has a material adverse effect on the Company.

(e) RESIGNATION. By the Executive, other than for Good Reason, as hereinafter defined ("RESIGNATION").

(f) GOOD REASON. By the Executive, for Good Reason. As used herein, the term "GOOD REASON" means that, without the Executive's prior written consent, there shall have occurred: (i) a reduction in the Executive's Base Salary other than the dollar amount of the Annual Bonus or the dollar amount of the Performance Bonus; (ii) a material reduction in the Executive's benefits; (iii) the assignment to the Executive of any duties inconsistent with the

Executive's position, duties, responsibilities, authority or status with the Company or a change in Executive's reporting responsibilities, titles or offices as in effect prior to such assignment or change; (iv) the Company's material breach or failure to perform, when due, any of its obligations under this Agreement, unless cured within 10 days after receipt of written notice by the Company from the Executive specifically identifying the manner in which the Executive believes the Company has materially breached such obligations; (v) any purported termination of Executive's employment which is not effected pursuant to a Notice of Termination satisfying the applicable requirements with respect to Section 6 of this Agreement; or (vi) a determination by the Executive, made in good faith, that the Executive is not able to discharge his duties effectively by reason of directives from the Board, a Change of Control or similar circumstances.

6. NOTICE AND DATE OF TERMINATION. Any termination of the Executive's employment under Section 5, other than by reason of Death, shall be communicated by written Notice of Termination from the terminating party to the other party hereto. For purposes of this Agreement, a "NOTICE OF TERMINATION" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. The effective date of any termination of the Executive's employment (the "DATE OF TERMINATION") shall be:

(a) if the Executive's employment is terminated by Death, the date of the Executive's death;

(b) if the Executive's employment is terminated by the Company Without Cause or by the Executive for Good Reason, 30 days after Notice of Termination is given;

(c) if the Executive's employment is terminated by reason of Disability, (i) 30 days after the Disability Notice or (ii) upon a final determination, pursuant to Section 5(b)(ii) above, as the case may be, whichever is later; provided that the Executive shall not have returned to the full-time performance of his duties during such period; and

(d) if the Executive's employment is terminated on account of Cause or Resignation, the date specified in the Notice of Termination, which shall be no less than ten (10) nor more than 30 days after such Notice of Termination is given.

7. COMPENSATION UPON TERMINATION. The Executive shall be entitled to the following Compensation from the Company upon termination of employment pursuant to Section 5 in full discharge of the Company's obligations (each a "TERMINATION COMPENSATION"):

(a) COMPENSATION UPON DEATH. In the event of termination of the Executive's employment upon Death, the Executive's heirs, successors or legal representatives shall be entitled to receive: (i) the Base Salary through the Date of Termination; (ii) any unpaid Annual Bonus and Performance Bonus for any prior fiscal year; (iii) pro rata Annual Bonus for the current fiscal year; (iv) an amount equal to 300% of the dollar amount of the Base Salary paid or payable to the Executive hereunder for the Company's most recent fiscal year immediately prior

to the Executive's date of death; (v) reimbursement due to Executive pursuant to Section 4(b); (vi) the Executive's then current spouse and minor children, if any, shall receive the same level of health/medical insurance or coverage that was provided to Executive immediately prior to the Executive's death for a two year period, with the cost of such continued insurance or coverage being borne by the Company. All such payments shall be in addition to any payments the Executive's widow, beneficiaries or estate may be entitled to receive pursuant to any pension or employee benefit plan or life insurance policy maintained by the Company. In addition, all options granted to the Executive to purchase shares of common stock of the Company, whether granted pursuant to this Agreement or granted at any time prior hereto or hereafter, then held by the Executive shall immediately vest and become exercisable until the later of the fifth anniversary of the Date of Termination or January 12, 2009.

(b) COMPENSATION UPON DISABILITY. In the event of termination of the Executive's employment for Disability, the Executive shall be entitled to receive: (i) the Base Salary through the Date of Termination; (ii) any unpaid Annual Bonus and Performance Bonus for any prior fiscal year; (iii) the pro rata portion of the Annual Bonus and Performance Bonus for the fiscal year in which the Date of Termination occurs; (iv) reimbursement due to Executive pursuant to Section 4(b); (v) an amount equal to three hundred (300%) percent of the average Base Salary paid or payable to the Executive hereunder for the Company's three most recent fiscal years immediately prior to the Executive's disability termination less the amount, if any, of any payments received by the Executive from any Company-funded disability insurance plan, payable in installments at least as frequent as monthly, subject to Withholding for the longer of two (2) years or the balance of the Employment Period; and (vi) the Executive and his then current spouse and minor children, if any, shall receive the same level of health/medical insurance or coverage provided immediately prior to such disability termination for the longer of two (2) years or the balance of the Employment Period, with the cost of such continued insurance or coverage being borne by the Company. In addition, all options granted to the Executive to purchase shares of common stock of the Company, whether granted pursuant to this Agreement or granted at any time prior hereto or hereafter, then held by the Executive shall immediately vest and become exercisable until the later of the fifth anniversary of the Date of Termination or January 12, 2009.

(c) COMPENSATION UPON RESIGNATION OR TERMINATION FOR CAUSE. In the event of termination of the Executive's employment upon Resignation or termination for Cause, the Executive shall be entitled to receive the; and (iii) reimbursement due to Executive pursuant to Section 4(b).

(d) COMPENSATION UPON TERMINATION BY EXECUTIVE FOR GOOD REASON OR BY THE COMPANY WITHOUT CAUSE. In the event the Executive's employment is terminated by the Executive for Good Reason or by the Company Without Cause, then the Executive shall be entitled to receive: (i) the Base Salary through the Date of Termination; (ii) any unpaid Annual Bonus and Performance Bonus for any prior fiscal year; (iii) the pro rata portion of the Annual Bonus and Performance Bonus for the fiscal year in which the Date of Termination occurs; (iv) reimbursement due to Executive pursuant to Section 4(b); (v) an amount (the "SEVERANCE

PAYMENT") equal to the dollar amount of the Base Salary and Annual Bonus paid or payable to the Executive hereunder for the Company's most recent fiscal year immediately prior to the Executive's termination multiplied by the greater of (A) three, or (B) the number of months remaining in the term of this Agreement had the Executive's employment not been terminated, divided by twelve; and (vi) the Executive and his then current spouse and minor children, if any, shall receive the same level of health/medical insurance or coverage provided immediately prior to such termination for the longer of two (2) years or the balance of the Employment Period, with the cost of such continued insurance or coverage being borne by the Company; provided, however, that the Company shall not be required to provide any such coverage after such time as Executive becomes entitled to receive (without regard to any individual waivers of coverage or other similar arrangements) comparable health/medical benefits of the same type from another employer or recipient of Executive's services. In addition, all options granted to the Executive to purchase shares of common stock of the Company, whether granted pursuant to this Agreement or granted at any time prior hereto or hereafter, then held by the Executive shall immediately vest and become exercisable until the later of the fifth anniversary of the Date of Termination or January 12, 2009.

(e) The Executive shall not be required to mitigate the amount of any payment provided for in this Section 7 or in Section 9(c) by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Section 7 or in Section 9(c) be reduced by any compensation earned by him as the result of employment by another employer or by retirement benefits after the Date of Termination, or otherwise, except as specifically provided in this Section 7 or in Section 9(c).

(f) All amount to be paid to the Executive hereunder shall be paid to the Executive in a lump sum no later than ten days following the Date of Termination.

8. GRANT OF STOCK OPTION. In addition to the Compensation described in Section 3 hereof, the Company shall, on or before March 31, 1999, enter into a Stock Option Agreement with the Executive granting the Executive options (the "OPTIONS") to purchase 1,000,000 shares of common stock of the Company (the "SHARES") at the market price on the date of the grant.

9. CHANGE OF CONTROL. In the event that the Executive is an employee of the Company at the moment immediately prior to a Change of Control (as defined herein), the Executive shall be entitled to receive all benefits described in this Section 9.

(a) For purposes of this Agreement, a "CHANGE OF CONTROL" shall be deemed to occur upon the occurrence of any of the following events:

(i) any "person" or "group" (as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT") and the rules and regulations promulgated thereunder), other than any "person" or "group" with which the Executive is an Affiliate, is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 15% of the total outstanding

voting stock of the Company;

(ii) the individuals who constitute the Board as of the date of this Agreement (the "INCUMBENT BOARD") cease to constitute a majority of the Board, for any reason(s) other than (A) the voluntary resignation of one or more Board members; (B) the removal of one or more directors by the Company's shareholders for good cause; provided, however (1) that if the nomination or election of any new director of the Company was approved by a majority of the Incumbent Board, such new director shall be deemed a member of the Incumbent Board and (2) that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened "ELECTION CONTEST" (as described in Rule 14a-11 promulgated under the Securities Exchange Act of 1934, as amended) or as a result of a solicitation of proxies or consents by or on behalf of any "person" or "group" identified in clause (a) (i) above; or

(iii) the Company consolidates with, or merges with or into another person or entity or conveys, transfers, leases or otherwise disposes of all or substantially all of its assets to any person or entity, or any person or entity consolidates with or merges with or into the Company; provided, however that (A) the Executive is not an Affiliate of such person or entity and (B) any such transaction shall not constitute a Change of Control if the shareholders of the Company immediately before such transaction own, directly or indirectly, immediately following such transaction in excess of sixty-five percent (65%) of the combined voting power of the outstanding voting securities of the corporation or other person or entity resulting from such transaction in substantially the same proportion as their ownership of the voting securities of the Company immediately before such transaction.

(iv) For purposes of this subsection, the term "AFFILIATE" means, with respect to any individual or a corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or political subdivision thereof) or other entity of any kind (each a "PERSON"), any other Person that directly or indirectly controls or is controlled by or under common control with such Person. For the purposes of this definition, "CONTROL," when used with respect to any Person, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; and the terms of "AFFILIATED," "CONTROLLING" and "CONTROLLED" have meanings correlative to the foregoing.

(b) In the event that the Executive is an employee of the Company at the moment immediately prior to a Change of Control:

(i) the Company shall pay ("CHANGE OF CONTROL COMPENSATION") to the Executive additional compensation in the form of cash equal to, on the date of a Change of Control and with respect to the Options and all other options to acquire shares of common stock of the Company granted to the Executive prior to the date of the Change of Control (whether or not all such options have vested or are exercisable on such date) (collectively, the Options and

such other options are referred to as "OUTSTANDING OPTIONS"), the product of (x) the number of shares of common stock of the Company underlying each of the Outstanding Options and (y) the amount, if any, that the exercise price of any Outstanding Options or the Closing Share Value (as defined below), whichever is less, exceeds the Initial Share Value (as defined below);

(ii) with respect to each Outstanding Option, in the event that the Closing Share Value is greater than the exercise price of any such Outstanding Options, then the Executive shall have the right to, separately with respect to each of the Outstanding Options, to either (A) retain the Outstanding Options, (B) exercise the Outstanding Options, or (C) forfeit the Outstanding Options and receive, in exchange therefor, a cash payment equal to the number of shares of common stock of the Company underlying the Outstanding Options multiplied by the amount that the Closing Share Value exceeds the exercise price of the Outstanding Options; and

(iii) upon the occurrence of a Change of Control, all Outstanding Options shall immediately vest and become exercisable for a period of ten (10) years commencing on the Date of Termination without regard to Executive's continued employment with the Company pursuant to this Agreement and without regard to the terms of any option agreement or option certificate applicable to any Outstanding Options.

(c) In the event that the Executive's employment is terminated by the Executive upon Resignation during the six month period following the three month anniversary of the effective date of the Change of Control, or by the Executive for Good Reason, or by the Company Without Cause, at any time during the nine month period following the effective date of the Change of Control, the Executive shall receive, in addition to the amounts payable pursuant to Section 7(c), (i) the pro rata portion of the Annual Bonus and Performance Bonus for the fiscal year in which the Change of Control occurs, computed through the Date of Termination; (ii) an amount equal to the dollar amount of the Base Salary and Annual Bonus paid or payable to the Executive hereunder for the Company's most recent fiscal year immediately prior to the Executive's termination multiplied by the greater of (A) five, or (B) the number of months remaining in the term of this Agreement had the Executive's employment not been terminated, divided by twelve; and (iii) the Executive and his then current spouse and minor children, if any, shall receive the same level of health/medical insurance or coverage provided immediately prior to such Change of Control for the longer of two (2) years or the balance of the Employment Period, with the cost of such continued insurance or coverage being borne by the Company; provided, however, that the Company shall in not be required to provide any such coverage after such time as Executive becomes entitled to receive (without regard to any individual waivers of coverage or other similar arrangements) comparable health/medical benefits of the same type from another employer or recipient of Executive's services. All amounts to be paid to the Executive pursuant to this Section (c) shall be paid to the Executive not later than ten days following the Date of Termination.

(d) If in the opinion of tax counsel selected by the Executive and reasonably acceptable to the Company, the Executive has or will receive any compensation or recognize any income (whether or not pursuant to this Agreement or any plan or other arrangement of the Company and whether or not the Executive's employment with the Company has terminated)

which constitute an "excess parachute payment" within the meaning of Section 280G(b)(1) of the Internal Revenue Code of 1986, as amended (the "Code") (or for which a tax is otherwise payable under Section 4999 of the Code), then the Company shall pay the Executive an additional amount (the "ADDITIONAL AMOUNT") equal to the sum of (i) all taxes payable by the Executive under Section 4999 of the Code with respect to (A) all such excess parachute payments (or otherwise) and (B) the Additional Amount, plus (ii) all federal, state and local income taxes payable by Executive with respect to the Additional Amount. The amounts payable pursuant to this Section 9(d) shall be paid by the Company to the Executive concurrently with the payment of such compensation or recognition of income giving rise to the Company's obligations under this Section 9(d).

(e) For purposes of this subsection:

(i) "INITIAL SHARE VALUE" shall mean the average of the Closing Prices of the shares of common stock of the Company for the period commencing on the 180th day prior to the date of the Change of Control and ending on the 150th day prior to the date of the Change of Control;

(ii) "CLOSING SHARE VALUE" shall mean the Closing Price of the shares of common stock of the Company on the date of the Change of Control; and

(iii) the "CLOSING PRICE" of a share of common stock of the Company on any date shall mean the last sale price, regular way, or, in case no such sale takes place on such date, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the such shares are listed or admitted to trading or, if such shares are not listed or admitted to trading on any national securities exchange, the last quoted price, or if not so quoted, the average of the highest bid and lowest ask prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System or, if such system is no longer used, the principal other automated quotation system that may then be in use or, if such shares are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making market in the shares as such person is selected from time to time by the Board or, if there are no professional market makers making a market in the shares, then the value as determined in good faith judgement of the Board.

10. ADVANCES. The Company may, upon written consent of the Board, make an advance to the Executive against any compensation or other amounts to be paid by the Company to the Executive (an "ADVANCE"). Any amounts due under this Agreement to the Executive shall, at the election of the Company, be offset by any then outstanding Advances. In the event of Executive's termination of employment, Executive agrees that the Company shall have the right to offset the amount of any and all outstanding Advance(s) against any compensation or any other amounts due to the Executive from the Company, and that any remaining balance of the Advance(s) shall be repaid by the Executive within ninety (90) days after the termination of Executive's employment by the Company.

11. NON-COMPETITION AND NON-SOLICITATION.

(a) NON-COMPETITION PROHIBITED ACTIVITIES. During the term of his employment hereunder and for two (2) years thereafter (the "NON-COMPETITION PERIOD"), the Executive shall not engage (including, without limitation, as an officer, director, shareholder, owner, partner, joint venturer, member or in a managerial capacity, or as an employee, independent contractor, consultant, advisor or sales representative) in any Competitive Business (as hereinafter defined) in the Territory (as hereinafter defined). For purposes of determining whether the Executive is permitted to be a shareholder of a corporation engaged in a Competitive Business, the Executive's ownership of less than 5% of the issued and outstanding securities of a company whose securities are publicly-traded in any U.S. or non-U.S. securities exchanges or quotation system shall be permitted.

(b) NON-SOLICITATION PROHIBITED ACTIVITIES. During the Non-Competition Period and in the Territory, the Executive covenants and agrees that he shall not solicit, directly or indirectly, any person who is, at that time, or who was at any time within three (3) months prior to that time, an employee of the Company for the purpose or with the intent of enticing such employee away from or out of the employ of the Company.

(c) As used herein, the term "COMPETITIVE BUSINESS" shall mean any business engaged in publishing and distributing video games and entertainment software for personal computers.

(d) As used herein, the term "TERRITORY" shall mean:

(i) The following counties in the State of California:

Alameda, Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Fresno, Glenn, Humboldt, Imperial, Inyo, Kern, Kings, Lake, Lassen, Los Angeles, Madera, Marin, Mariposa, Mendocino, Merced, Modoc, Mono, Monterey, Napa, Nevada, Orange, Placer, Plumas, Riverside, Sacramento, San Benito, San Bernardino, San Diego, San Francisco, San Joaquin, San Luis Obispo, San Mateo, Santa Barbara, Santa Cruz, Shasta, Sierra, Siskiyou, Solano, Sonoma, Stanislaus, Sutter, Tehama, Trinity, Tulare, Tuolumne, Ventura, Yolo, and Yuba;

(ii) Each and every county or other political or geographical subdivision in the balance of the United States of America and the dependent territories of the United States of America; and

(iii) Each and every county or other political or geographical subdivision in the world.

(e) The foregoing prohibitions in subsections (a) and (b) shall bind the Executive only so long as the Company pays him the Termination Compensation pursuant to Section 7 or the Change of Control Compensation pursuant to Section 9 during the Non-

Competition Period and otherwise complies with its obligations hereunder.

12. CONFIDENTIAL INFORMATION. The Executive has executed or, if not previously executed, agrees to execute and be bound by the terms and conditions of the Company's Employee Proprietary Information Agreement ("PROPRIETARY INFORMATION AGREEMENT"), attached hereto as Appendix A.

13. UNENFORCEABILITY. If any of the rights or restrictions contained or provided for in this Agreement shall be deemed by a court of competent jurisdiction to be unenforceable by reason of the extent, duration or geographical scope, the parties hereto contemplate that the court shall reduce such extent, duration, geographical scope and enforce this Agreement in its reduced form for all purposes in the manner contemplated hereby. Should any of the provisions of this Agreement require judicial interpretation, it is agreed that the court interpreting or construing this Agreement shall not apply a presumption that any provision shall be more strictly construed against one party by reason of the rule of construction that a document is to be construed more strictly against the party who itself or through its agents prepared the same, it being agreed that both parties and their respective agents have participated in the preparation of this Agreement.

14. INJUNCTIVE RELIEF. The Executive agrees that the restrictions and covenants contained in Section 11 and in the Proprietary Information Agreement are necessary for the protection of the Company and any breach thereof will cause the Company irreparable damages for which there is no adequate remedy at law. The Executive further agrees that, in the event of a breach by the Executive of any of Executive's obligations thereunder, the Company shall have the absolute right, in addition to any other remedy that might be available to it, to obtain from any court having jurisdiction, such equitable relief as might be appropriate, including temporary, interlocutory, preliminary and permanent decrees or injunctions enjoining any further breach of such provisions.

15. INDEMNIFICATION AND ATTORNEYS' FEES. Subject to applicable laws, during the Employment Period and thereafter, the Company shall indemnify, hold harmless and defend the Executive from all damages, claims, losses, and costs and expenses (including reasonable attorney's fees) arising out of, in connection with, or relating to all acts or omissions taken or not taken by him in good faith while performing services for the Company, and shall further promptly reimburse the Executive for all expenses (including attorney's fees) incurred in enforcing the benefits of this Agreement. The Company shall use its best efforts to continue to maintain, an insurance policy covering the officers and directors of the Company against claims and/or lawsuits at least as favorable as such policy that is currently in effect, and the Company shall cause the Executive to be covered under such policy upon the same terms and conditions as other similarly situated officers and directors during the Employment Period and for a period of at least six (6) years thereafter.

16. MISCELLANEOUS.

(a) SEVERABILITY. If any provision of this Agreement is determined to be invalid

or unenforceable, it shall not affect the validity or enforceability of any of the other remaining provisions hereof.

(b) NOTICES. For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when (i) delivered personally; (ii) sent by facsimile or other similar electronic device and confirmed; (iii) delivered by courier or overnight express; or (iv) three business days after being sent by registered or certified mail, postage prepaid, addressed as follows:

If to the Company:

Activision, Inc.
3100 Ocean Park Boulevard
Santa Monica, CA 90405
Attention: General Counsel

with a copy to:

Robinson Silverman Pearce Aronsohn & Berman, LLP
1290 Avenue of the Americas
New York, NY 10104
Attention: Kenneth L. Henderson, Esq.

If to the Executive:

Robert A. Kotick
1101 Cove Way
Beverly Hills, CA 90210

or to such other address as a party may furnish to the other party in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

(c) WAIVER. No waiver by either party hereto of any breach of any provision of this Agreement shall be deemed a waiver of any preceding or succeeding breach of such provision or any other provision herein contained.

(d) GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of California, without giving effect to the conflict of law principles thereof; provided, however, that Section 11 of this Agreement shall be governed by, and construed in accordance with, the laws of the state in which the Executive has his principal office.

(e) ENTIRE AGREEMENT. This Agreement sets forth the entire agreement of the parties hereto with respect to the subject matter hereof, and is intended to supersede all prior

employment negotiations, understandings and agreements. No provision of this Agreement may be waived or changed, except by a writing signed by the party to be charged with such waiver or change.

(f) SUCCESSORS: BINDING AGREEMENT. Neither of the parties hereto shall have the right to assign this Agreement or any rights or obligations hereunder without the prior written consent of the other party; provided, however, that this Agreement shall inure to the benefit or and be binding upon the successors and assigns of the Company upon any sale of all or substantially all of the Company's assets, or upon any merger or consolidation of the Company with or into any other corporation, all as though such successors and assigns of the Company and their respective successors and assigns were the Company. Insofar as the Executive is concerned this Agreement, being personal, cannot be assigned.

(g) COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be an original, but together shall constitute one and the same instrument.

(h) HEADINGS. The headings and captions set forth in this Agreement are for ease of reference only and shall not be deemed to constitute a part of the agreement formed hereby or be relevant to the interpretation of any provisions of this Agreement.

(i) SATURDAYS, SUNDAYS AND HOLIDAYS. Whenever any determination is to be made or action to be taken on a date specified in this Agreement, if such date shall fall upon a Saturday, Sunday or a legal holiday in the State of California, the date for such determination or action shall be extended to the first business day immediately thereafter.

[SIGNATURE PAGES BEGIN ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

ACTIVISION, INC.

By: _____
Name:
Title:

Robert A. Kotick

EMPLOYMENT AGREEMENT

Employment Agreement, dated as of January 12, 1999, by and between ACTIVISION, INC., a Delaware corporation with its principal offices at 3100 Ocean Park Boulevard, Santa Monica, CA 90405 (the "COMPANY"), and BRIAN G. KELLY (the "EXECUTIVE").

RECITALS:

WHEREAS, the Board of Directors of the Company (the "BOARD") has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication of the Executive by providing him with the compensation and benefit arrangements contained herein;

WHEREAS, the Board approved the execution and delivery of this Agreement by the Company at a meeting of the Board held on January 12, 1999;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. POSITION AND DUTIES.

(a) The Company agrees to continue to employ the Executive, and the Executive agrees to continue to be employed, as Co-Chairman of the Company, subject to the supervision of, and reporting only to, the Board. The Executive shall have such senior executive powers, duties, authorities and responsibilities are consistent with Executive's position and title and as have historically been performed by Executive, including acting as co-chairman of any meeting of the Board, supervising financing, acquisitions and similar major strategic transactions and strategic planning for the Company consistent with his title and position, supervising the President and Chief Operating Officer of the Company and managing all non-operating activities of the Company, including corporate governance, organizational structure, acquisitions and financing, senior executive compensation, stock and stock option issuances and stock option plan management. At all times during the period of Executive's employment, the Executive shall, unless he otherwise elects, be nominated for election by the shareholders of the Company to the Board.

(b) During the Employment Period (as defined in Section 2 below) and excluding any periods of vacation, the Executive agrees to devote such time, attention and efforts to the business and affairs of the Company as may be necessary to discharge the duties and responsibilities assigned to the Executive hereunder and to use the Executive's reasonable best

efforts to perform faithfully and efficiently such duties and responsibilities.

(c) It shall not be a violation of this Agreement for the Executive to engage in any activity which is, in the good faith opinion of the Executive, not inconsistent with the Company's interests and prospects, including, without limitation, (a) serving on civic or charitable boards or committees; (b) serving as an officer or director of any Company that is not in a Competitive Business (as defined herein); (c) delivering lectures, fulfilling speaking engagements or teaching at educational institutions; (d) managing personal investments; and (e) attending conferences conducted by business organizations; provided, however, that such activity does not significantly interfere with the performance of Executive's duties and responsibilities hereunder. It is expressly understood and agreed that to the extent that any activity has been conducted by the Executive prior to the date of this Agreement, the continued conduct of such activity (or the conduct of an activity similar in nature and scope thereto) during the Employment Period shall be deemed not to interfere with the performance of the Executive's duties and responsibilities to the Company and shall not constitute a violation of this Agreement.

(d) Except for periodic travel assignments, the Executive shall not, without his consent, be required to perform services for the Company at any place other than the principal place of the Company's business which shall at all times, unless the Executive otherwise consents, be within a 20 mile radius of the Company's current principal place of business. Notwithstanding anything herein to the contrary, the Executive may, at his sole discretion and upon prior written notice to the Board, relocate at any time to New York City, New York in connection with the establishment by the Company of executive offices in such city.

2. EMPLOYMENT PERIOD. The employment of the Executive under the terms of this Agreement shall become effective on the date hereof and terminate on March 31, 2004 (the "EMPLOYMENT PERIOD"). Notwithstanding anything contained herein to the contrary, the Executive's employment pursuant to the terms of this Agreement is subject to termination pursuant to Section 5 below.

3. COMPENSATION. The Executive shall receive the following compensation (the "Compensation") for his services hereunder:

(a) BASE SALARY. The Company shall pay to the Executive a base salary ("Base Salary") in respect of each fiscal year of the Company or portion thereof during the Employment Period. Commencing on January 12, 1999, the initial Base Salary for the fiscal year ending March 31, 1999 shall be \$297,500. Commencing on April 1, 1999, the Base Salary for the fiscal year ending March 31, 2000 shall be automatically increased to \$350,000. Thereafter, on April 1 of each year of the Employment Period, beginning on April 1, 2000, the Base Salary shall automatically increase to an amount equal to one hundred ten (110%) percent of the Base Salary for the prior fiscal year. The Company may withhold from any amounts payable under this Agreement all applicable tax, Social Security and other legally required withholding pursuant to any law or regulation ("WITHHOLDING"). The Base Salary shall be paid in accordance with the customary payroll practices of the Company at regular intervals, but in no

event less frequently than every month, as the Company may establish from time to time for senior executive employees of the Company. The Board shall conduct an annual performance appraisal and salary review on behalf of the Executive and may adjust the Base Salary for any succeeding fiscal year, but never below the Base Salary that would have been in effect during such succeeding fiscal year in accordance with this Section 3(a). Any period of less than a full fiscal year which the Base Salary is calculated shall be pro rata.

(b) ANNUAL BONUS. The Executive shall be entitled to receive an annual bonus for each fiscal year (the "ANNUAL BONUS"), beginning with the fiscal year ending March 31, 2000, based upon the Company achieving mutually agreed upon financial and business objectives for the fiscal year with respect to which the Annual Bonus accrues. Such financial and business objectives for each fiscal year shall be (i) agreed to by the Executive and the Board not later than fifteen (15) days prior to the beginning of each fiscal year and shall be (ii) made in accordance with Section 11 of the Company's 1998 Incentive Plan. The Company shall pay each Annual Bonus to the Executive no later than thirty (30) days after the completion of the Company's audited consolidated financial statements by the Company's auditors for the subject fiscal year. Each Annual Bonus payment shall be subject to Withholding. Along with the payment of each Annual Bonus, the Company shall also deliver to the Executive a written statement setting forth the basis of its calculation of such Annual Bonus. The Executive and the Executive's representatives shall have the right, at the Executive's cost, to inspect the records of the Company with respect to the calculation of any such Annual Bonus, to make copies of said records utilizing the Company's facilities without charge, and to have free and full access thereto upon reasonable notice during the normal business hours of the Company. Any period of less than a full fiscal year which the Annual Bonus is calculated shall be pro rata. The Annual Bonus is intended to qualify as a Performance Award under Section 11 of the Company's 1998 Incentive Plan and shall be subject to the conditions and limitations of such section.

(c) PERFORMANCE BONUS. The Board, in its sole discretion, may award to the Executive a performance bonus at any time in such amount and in such form as the Board may determine (the "PERFORMANCE BONUS"), after taking into consideration other compensation paid or payable to the Executive under this Agreement, as well as the financial and non-financial progress of the business of the Company and the contributions of the Executive toward that progress. Any Performance Bonus shall be subject to Withholding. Any period of less than a full fiscal year which the Performance Bonus is calculated shall be pro rata. With respect to the fiscal year ending March 31, 1999, the Company shall award to the Executive a Performance Bonus based upon the achievement by the Company of its strategic and financial objectives as heretofore presented to the Board.

4. BENEFITS.

(a) MEDICAL, ETC. The Executive shall be entitled to such medical and other benefits, including hospitalization, disability, life and health insurance, to the extent offered by the Company, as are customarily made available to senior executive officers of the Company and upon the same terms. The Executive shall also be entitled to receive those benefits and

privileges that the Company currently, and may at any time in the future, provide for its executive officers upon the same terms.

(b) EXPENSES. The Executive shall be reimbursed by the Company for all reasonable travel, entertainment, conference expenses, organization dues and other expenses incurred by the Executive in connection with the performance of Executive's services under this Agreement, subject to the Company's policies in effect from time to time with respect to such expenses, including the requirements with respect to reporting and documentation of such expenses.

(c) OFFICE AND SUPPORT STAFF. During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, including personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company at any time during the 90-day period immediately preceding the date of this Agreement, or, if more favorable to the Executive, as provided at any time after such date to Executive or other senior executive officers of the Company.

(d) VACATION. The Executive shall be entitled to four (4) weeks paid vacation each fiscal year during the Employment Period, in addition to regular paid holidays provided to all employees of the Company; provided that unused vacation time shall not be carried over to any subsequent year. Vacation time shall be taken as determined by the Executive in his reasonable and good faith discretion; provided that such time taken is mutually convenient to the Company and not disruptive to the Company's activities or the Executive's responsibilities.

(e) LIFE INSURANCE. The Company shall purchase and maintain a renewable term insurance policy or policies for a period of ten (10) years commencing as soon as practicable after the date hereof covering the life of the Executive in an amount of \$3,000,000 naming the Executive's estate or any other person designated by the Executive as beneficiary of such policy or policies. The Executive has the right to require the Company at any time to prepay all of the premiums associated with such policy or policies so as to ensure such policies remain in force for the full ten (10) year period.

5. TERMINATION. The employment by the Company of the Executive shall be terminated as provided in this Section 5:

(a) DEATH. Upon the Executive's death ("DEATH").

(b) DISABILITY.

(i) The Company or the Executive, upon not less than thirty (30) days written notice to the other party ("DISABILITY NOTICE"), may terminate the employment by the Company of the Executive if the Executive has been unable, by reason of physical or mental disability, to render, for 120 successive days or for shorter periods aggregating 210 days or more

in any twelve month period, services of the character contemplated by this Agreement and will be unable to resume providing such services within a reasonable period of time by reason of such disability (such circumstances being referred to as "DISABILITY").

(ii) The determination of whether the Executive has become disabled within the meaning of this Section 5(b) shall be made (A) in the case of a termination of employment by the Company, by a medical doctor selected by the Company, or (B) in the case of a termination of employment by the Executive, by Executive's medical doctor. In the event the Company gives a notice of termination of employment under this Section 5(b), the Executive or his representative may at any time prior to the effective date of termination contest the termination and cause a determination of Disability to be made by Executive's medical doctor. In the event the Executive gives a notice of termination of employment under this Section 5(b), the Company may at any time prior to the effective date of termination contest the termination and cause a determination of Disability to be made by a medical doctor selected by the Company. In either case, if such medical doctors do not agree with regard to the determination of Disability, they shall mutually choose a third medical doctor to examine the Executive, and the Disability determination of such third medical doctor shall be binding upon both the Company and the Executive.

(c) WITHOUT CAUSE. By the Company, for any reason other than Death, Cause or Disability, but only upon a vote of a majority of the entire Board at a meeting duly called and held at which Executive shall have the right to be present and be heard.

(d) CAUSE. By the Company, for Cause, but only upon a vote of a majority of the entire Board at a meeting duly called and held at which Executive shall have the right to be present and be heard. The term "Cause" means (i) any act of fraud or embezzlement in respect of the Company or its funds, properties or assets; or (ii) conviction of the Executive of a felony relating to his actions as an executive of the Company under the laws of the United States or any state thereof (provided that all rights of appeal have been exercised or have lapsed) unless such acts were committed in the reasonable, good faith belief that his actions were in the best interests of the Company and its stockholders and would not violate criminal law; or (iii) willful misconduct or gross negligence by the Executive in connection with the performance of his duties that has caused or is highly likely to cause severe harm to the Company; or (iv) intentional dishonesty by the Executive in the performance of his duties hereunder which has a material adverse effect on the Company.

(e) RESIGNATION. By the Executive, other than for Good Reason, as hereinafter defined ("RESIGNATION").

(f) GOOD REASON. By the Executive, for Good Reason. As used herein, the term "GOOD REASON" means that, without the Executive's prior written consent, there shall have occurred: (i) a reduction in the Executive's Base Salary other than the dollar amount of the Annual Bonus or the dollar amount of the Performance Bonus; (ii) a material reduction in the Executive's benefits; (iii) the assignment to the Executive of any duties inconsistent with the

Executive's position, duties, responsibilities, authority or status with the Company or a change in Executive's reporting responsibilities, titles or offices as in effect prior to such assignment or change; (iv) the Company's material breach or failure to perform, when due, any of its obligations under this Agreement, unless cured within 10 days after receipt of written notice by the Company from the Executive specifically identifying the manner in which the Executive believes the Company has materially breached such obligations; (v) any purported termination of Executive's employment which is not effected pursuant to a Notice of Termination satisfying the applicable requirements with respect to Section 6 of this Agreement; or (vi) a determination by the Executive, made in good faith, that the Executive is not able to discharge his duties effectively by reason of directives from the Board, a Change of Control or similar circumstances.

6. NOTICE AND DATE OF TERMINATION. Any termination of the Executive's employment under Section 5, other than by reason of Death, shall be communicated by written Notice of Termination from the terminating party to the other party hereto. For purposes of this Agreement, a "NOTICE OF TERMINATION" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. The effective date of any termination of the Executive's employment (the "DATE OF TERMINATION") shall be:

(a) if the Executive's employment is terminated by Death, the date of the Executive's death;

(b) if the Executive's employment is terminated by the Company Without Cause or by the Executive for Good Reason, 30 days after Notice of Termination is given;

(c) if the Executive's employment is terminated by reason of Disability, (i) 30 days after the Disability Notice or (ii) upon a final determination, pursuant to Section 5(b)(ii) above, as the case may be, whichever is later; provided that the Executive shall not have returned to the full-time performance of his duties during such period; and

(d) if the Executive's employment is terminated on account of Cause or Resignation, the date specified in the Notice of Termination, which shall be no less than ten (10) nor more than 30 days after such Notice of Termination is given.

7. COMPENSATION UPON TERMINATION. The Executive shall be entitled to the following Compensation from the Company upon termination of employment pursuant to Section 5 in full discharge of the Company's obligations (each a "TERMINATION COMPENSATION"):

(a) COMPENSATION UPON DEATH. In the event of termination of the Executive's employment upon Death, the Executive's heirs, successors or legal representatives shall be entitled to receive: (i) the Base Salary through the Date of Termination; (ii) any unpaid Annual Bonus and Performance Bonus for any prior fiscal year; (iii) pro rata Annual Bonus for the current fiscal year; (iv) an amount equal to 300% of the dollar amount of the Base Salary paid or payable to the Executive hereunder for the Company's most recent fiscal year immediately prior

to the Executive's date of death; (v) reimbursement due to Executive pursuant to Section 4(b); (vi) the Executive's then current spouse and minor children, if any, shall receive the same level of health/medical insurance or coverage that was provided to Executive immediately prior to the Executive's death for a two year period, with the cost of such continued insurance or coverage being borne by the Company. All such payments shall be in addition to any payments the Executive's widow, beneficiaries or estate may be entitled to receive pursuant to any pension or employee benefit plan or life insurance policy maintained by the Company. In addition, all options granted to the Executive to purchase shares of common stock of the Company, whether granted pursuant to this Agreement or granted at any time prior hereto or hereafter, then held by the Executive shall immediately vest and become exercisable until the later of the fifth anniversary of the Date of Termination or January 12, 2009.

(b) COMPENSATION UPON DISABILITY. In the event of termination of the Executive's employment for Disability, the Executive shall be entitled to receive: (i) the Base Salary through the Date of Termination; (ii) any unpaid Annual Bonus and Performance Bonus for any prior fiscal year; (iii) the pro rata portion of the Annual Bonus and Performance Bonus for the fiscal year in which the Date of Termination occurs; (iv) reimbursement due to Executive pursuant to Section 4(b); (v) an amount equal to three hundred (300%) percent of the average Base Salary paid or payable to the Executive hereunder for the Company's three most recent fiscal years immediately prior to the Executive's disability termination less the amount, if any, of any payments received by the Executive from any Company-funded disability insurance plan, payable in installments at least as frequent as monthly, subject to Withholding for the longer of two (2) years or the balance of the Employment Period; and (vi) the Executive and his then current spouse and minor children, if any, shall receive the same level of health/medical insurance or coverage provided immediately prior to such disability termination for the longer of two (2) years or the balance of the Employment Period, with the cost of such continued insurance or coverage being borne by the Company. In addition, all options granted to the Executive to purchase shares of common stock of the Company, whether granted pursuant to this Agreement or granted at any time prior hereto or hereafter, then held by the Executive shall immediately vest and become exercisable until the later of the fifth anniversary of the Date of Termination or January 12, 2009.

(c) COMPENSATION UPON RESIGNATION OR TERMINATION FOR CAUSE. In the event of termination of the Executive's employment upon Resignation or termination for Cause, the Executive shall be entitled to receive the (i) Base Salary through the Date of Termination; (ii) any unpaid Annual Bonus and Performance Bonus for any prior fiscal year; and (iii) reimbursement due to Executive pursuant to Section 4(b).

(d) COMPENSATION UPON TERMINATION BY EXECUTIVE FOR GOOD REASON OR BY THE COMPANY WITHOUT CAUSE. In the event the Executive's employment is terminated by the Executive for Good Reason or by the Company Without Cause, then the Executive shall be entitled to receive: (i) the Base Salary through the Date of Termination; (ii) any unpaid Annual Bonus and Performance Bonus for any prior fiscal year; (iii) the pro rata portion of the Annual Bonus and Performance Bonus for the fiscal year in which the Date of Termination occurs; (iv)

reimbursement due to Executive pursuant to Section 4(b); (v) an amount (the "SEVERANCE PAYMENT") equal to the dollar amount of the Base Salary and Annual Bonus paid or payable to the Executive hereunder for the Company's most recent fiscal year immediately prior to the Executive's termination multiplied by the greater of (A) three, or (B) the number of months remaining in the term of this Agreement had the Executive's employment not been terminated, divided by twelve; and (vi) the Executive and his then current spouse and minor children, if any, shall receive the same level of health/medical insurance or coverage provided immediately prior to such termination for the longer of two (2) years or the balance of the Employment Period, with the cost of such continued insurance or coverage being borne by the Company; provided, however, that the Company shall not be required to provide any such coverage after such time as Executive becomes entitled to receive (without regard to any individual waivers of coverage or other similar arrangements) comparable health/medical benefits of the same type from another employer or recipient of Executive's services. In addition, all options granted to the Executive to purchase shares of common stock of the Company, whether granted pursuant to this Agreement or granted at any time prior hereto or hereafter, then held by the Executive shall immediately vest and become exercisable until the later of the fifth anniversary of the Date of Termination or January 12, 2009.

(e) The Executive shall not be required to mitigate the amount of any payment provided for in this Section 7 or in Section 9(c) by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Section 7 or in Section 9(c) be reduced by any compensation earned by him as the result of employment by another employer or by retirement benefits after the Date of Termination, or otherwise, except as specifically provided in this Section 7 or in Section 9(c).

(f) All amount to be paid to the Executive hereunder shall be paid to the Executive in a lump sum no later than ten days following the Date of Termination.

8. GRANT OF STOCK OPTION. In addition to the Compensation described in Section 3 hereof, the Company shall, on or before March 31, 1999, enter into a Stock Option Agreement with the Executive granting the Executive options (the "OPTIONS") to purchase 1,000,000 shares of common stock of the Company (the "SHARES") at the market price on the date of the grant.

9. CHANGE OF CONTROL. In the event that the Executive is an employee of the Company at the moment immediately prior to a Change of Control (as defined herein), the Executive shall be entitled to receive all benefits described in this Section 9.

(a) For purposes of this Agreement, a "CHANGE OF CONTROL" shall be deemed to occur upon the occurrence of any of the following events:

(i) any "person" or "group" (as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT") and the rules and regulations promulgated thereunder), other than any "person" or "group" with which the Executive is an Affiliate, is or becomes the "beneficial owner" (as defined in Rules 13d-3 and

13d-5 under the Exchange Act), directly or indirectly, of more than 15% of the total outstanding voting stock of the Company;

(ii) the individuals who constitute the Board as of the date of this Agreement (the "INCUMBENT BOARD") cease to constitute a majority of the Board, for any reason(s) other than (A) the voluntary resignation of one or more Board members; (B) the removal of one or more directors by the Company's shareholders for good cause; provided, however (1) that if the nomination or election of any new director of the Company was approved by a majority of the Incumbent Board, such new director shall be deemed a member of the Incumbent Board and (2) that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened "ELECTION CONTEST" (as described in Rule 14a-11 promulgated under the Securities Exchange Act of 1934, as amended) or as a result of a solicitation of proxies or consents by or on behalf of any "person" or "group" identified in clause (a) (i) above; or

(iii) the Company consolidates with, or merges with or into another person or entity or conveys, transfers, leases or otherwise disposes of all or substantially all of its assets to any person or entity, or any person or entity consolidates with or merges with or into the Company; provided, however that (A) the Executive is not an Affiliate of such person or entity and (B) any such transaction shall not constitute a Change of Control if the shareholders of the Company immediately before such transaction own, directly or indirectly, immediately following such transaction in excess of sixty-five percent (65%) of the combined voting power of the outstanding voting securities of the corporation or other person or entity resulting from such transaction in substantially the same proportion as their ownership of the voting securities of the Company immediately before such transaction.

(iv) For purposes of this subsection, the term "AFFILIATE" means, with respect to any individual or a corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or political subdivision thereof) or other entity of any kind (each a "PERSON"), any other Person that directly or indirectly controls or is controlled by or under common control with such Person. For the purposes of this definition, "CONTROL," when used with respect to any Person, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; and the terms of "AFFILIATED," "CONTROLLING" and "CONTROLLED" have meanings correlative to the foregoing.

(b) In the event that the Executive is an employee of the Company at the moment immediately prior to a Change of Control:

(i) the Company shall pay ("CHANGE OF CONTROL COMPENSATION") to the Executive additional compensation in the form of cash equal to, on the date of a Change of Control and with respect to the Options and all other options to acquire shares of common stock of the Company granted to the Executive prior to the date of the Change of Control (whether or

not all such options have vested or are exercisable on such date) (collectively, the Options and such other options are referred to as "OUTSTANDING OPTIONS"), the product of (x) the number of shares of common stock of the Company underlying each of the Outstanding Options and (y) the amount, if any, that the exercise price of any Outstanding Options or the Closing Share Value (as defined below), whichever is less, exceeds the Initial Share Value (as defined below);

(ii) with respect to each Outstanding Option, in the event that the Closing Share Value is greater than the exercise price of any such Outstanding Options, then the Executive shall have the right to, separately with respect to each of the Outstanding Options, to either (A) retain the Outstanding Options, (B) exercise the Outstanding Options, or (C) forfeit the Outstanding Options and receive, in exchange therefor, a cash payment equal to the number of shares of common stock of the Company underlying the Outstanding Options multiplied by the amount that the Closing Share Value exceeds the exercise price of the Outstanding Options; and

(iii) upon the occurrence of a Change of Control, all Outstanding Options shall immediately vest and become exercisable for a period of ten (10) years commencing on the Date of Termination without regard to Executive's continued employment with the Company pursuant to this Agreement and without regard to the terms of any option agreement or option certificate applicable to any Outstanding Options.

(c) In the event that the Executive's employment is terminated by the Executive upon Resignation during the six month period following the three month anniversary of the effective date of the Change of Control, or by the Executive for Good Reason, or by the Company Without Cause, at any time during the nine month period following the effective date of the Change of Control, the Executive shall receive, in addition to the amounts payable pursuant to Section 7(c), (i) the pro rata portion of the Annual Bonus and Performance Bonus for the fiscal year in which the Change of Control occurs, computed through the Date of Termination; (ii) an amount equal to the dollar amount of the Base Salary and Annual Bonus paid or payable to the Executive hereunder for the Company's most recent fiscal year immediately prior to the Executive's termination multiplied by the greater of (A) five, or (B) the number of months remaining in the term of this Agreement had the Executive's employment not been terminated, divided by twelve; and (iii) the Executive and his then current spouse and minor children, if any, shall receive the same level of health/medical insurance or coverage provided immediately prior to such Change of Control for the longer of two (2) years or the balance of the Employment Period, with the cost of such continued insurance or coverage being borne by the Company; provided, however, that the Company shall in not be required to provide any such coverage after such time as Executive becomes entitled to receive (without regard to any individual waivers of coverage or other similar arrangements) comparable health/medical benefits of the same type from another employer or recipient of Executive's services. All amounts to be paid to the Executive pursuant to this Section (c) shall be paid to the Executive not later than ten days following the Date of Termination.

(d) If in the opinion of tax counsel selected by the Executive and reasonably acceptable to the Company, the Executive has or will receive any compensation or recognize any

income (whether or not pursuant to this Agreement or any plan or other arrangement of the Company and whether or not the Executive's employment with the Company has terminated) which constitute an "excess parachute payment" within the meaning of Section 280G(b)(1) of the Internal Revenue Code of 1986, as amended (the "Code") (or for which a tax is otherwise payable under Section 4999 of the Code), then the Company shall pay the Executive an additional amount (the "ADDITIONAL AMOUNT") equal to the sum of (i) all taxes payable by the Executive under Section 4999 of the Code with respect to (A) all such excess parachute payments (or otherwise) and (B) the Additional Amount, plus (ii) all federal, state and local income taxes payable by Executive with respect to the Additional Amount. The amounts payable pursuant to this Section 9(d) shall be paid by the Company to the Executive concurrently with the payment of such compensation or recognition of income giving rise to the Company's obligations under this Section 9(d).

(e) For purposes of this subsection:

(i) "INITIAL SHARE VALUE" shall mean the average of the Closing Prices of the shares of common stock of the Company for the period commencing on the 180th day prior to the date of the Change of Control and ending on the 150th day prior to the date of the Change of Control;

(ii) "CLOSING SHARE VALUE" shall mean the Closing Price of the shares of common stock of the Company on the date of the Change of Control; and

(iii) the "CLOSING PRICE" of a share of common stock of the Company on any date shall mean the last sale price, regular way, or, in case no such sale takes place on such date, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the such shares are listed or admitted to trading or, if such shares are not listed or admitted to trading on any national securities exchange, the last quoted price, or if not so quoted, the average of the highest bid and lowest ask prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System or, if such system is no longer used, the principal other automated quotation system that may then be in use or, if such shares are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making market in the shares as such person is selected from time to time by the Board or, if there are no professional market makers making a market in the shares, then the value as determined in good faith judgement of the Board.

10. ADVANCES. The Company may, upon written consent of the Board, make an advance to the Executive against any compensation or other amounts to be paid by the Company to the Executive (an "ADVANCE"). Any amounts due under this Agreement to the Executive shall, at the election of the Company, be offset by any then outstanding Advances. In the event of Executive's termination of employment, Executive agrees that the Company shall have the right to offset the amount of any and all outstanding Advance(s) against any compensation or any other amounts due to the Executive from the Company, and that any remaining balance of the

Advance(s) shall be repaid by the Executive within ninety (90) days after the termination of Executive's employment by the Company.

11. NON-COMPETITION AND NON-SOLICITATION.

(a) NON-COMPETITION PROHIBITED ACTIVITIES. During the term of his employment hereunder and for two (2) years thereafter (the "NON-COMPETITION PERIOD"), the Executive shall not engage (including, without limitation, as an officer, director, shareholder, owner, partner, joint venturer, member or in a managerial capacity, or as an employee, independent contractor, consultant, advisor or sales representative) in any Competitive Business (as hereinafter defined) in the Territory (as hereinafter defined). For purposes of determining whether the Executive is permitted to be a shareholder of a corporation engaged in a Competitive Business, the Executive's ownership of less than 5% of the issued and outstanding securities of a company whose securities are publicly-traded in any U.S. or non-U.S. securities exchanges or quotation system shall be permitted.

(b) NON-SOLICITATION PROHIBITED ACTIVITIES. During the Non-Competition Period and in the Territory, the Executive covenants and agrees that he shall not solicit, directly or indirectly, any person who is, at that time, or who was at any time within three (3) months prior to that time, an employee of the Company for the purpose or with the intent of enticing such employee away from or out of the employ of the Company.

(c) As used herein, the term "COMPETITIVE BUSINESS" shall mean any business engaged in publishing and distributing video games and entertainment software for personal computers.

(d) As used herein, the term "TERRITORY" shall mean:

(i) The following counties in the State of California:

Alameda, Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Fresno, Glenn, Humboldt, Imperial, Inyo, Kern, Kings, Lake, Lassen, Los Angeles, Madera, Marin, Mariposa, Mendocino, Merced, Modoc, Mono, Monterey, Napa, Nevada, Orange, Placer, Plumas, Riverside, Sacramento, San Benito, San Bernardino, San Diego, San Francisco, San Joaquin, San Luis Obispo, San Mateo, Santa Barbara, Santa Cruz, Shasta, Sierra, Siskiyou, Solano, Sonoma, Stanislaus, Sutter, Tehama, Trinity, Tulare, Tuolumne, Ventura, Yolo, and Yuba;

(ii) Each and every county or other political or geographical subdivision in the balance of the United States of America and the dependent territories of the United States of America; and

(iii) Each and every county or other political or geographical subdivision in the world.

(e) The foregoing prohibitions in subsections (a) and (b) shall bind the

Executive only so long as the Company pays him the Termination Compensation pursuant to Section 7 or the Change of Control Compensation pursuant to Section 9 during the Non-Competition Period and otherwise complies with its obligations hereunder.

12. CONFIDENTIAL INFORMATION. The Executive has executed or, if not previously executed, agrees to execute and be bound by the terms and conditions of the Company's Employee Proprietary Information Agreement ("PROPRIETARY INFORMATION AGREEMENT"), attached hereto as Appendix A.

13. UNENFORCEABILITY. If any of the rights or restrictions contained or provided for in this Agreement shall be deemed by a court of competent jurisdiction to be unenforceable by reason of the extent, duration or geographical scope, the parties hereto contemplate that the court shall reduce such extent, duration, geographical scope and enforce this Agreement in its reduced form for all purposes in the manner contemplated hereby. Should any of the provisions of this Agreement require judicial interpretation, it is agreed that the court interpreting or construing this Agreement shall not apply a presumption that any provision shall be more strictly construed against one party by reason of the rule of construction that a document is to be construed more strictly against the party who itself or through its agents prepared the same, it being agreed that both parties and their respective agents have participated in the preparation of this Agreement.

14. INJUNCTIVE RELIEF. The Executive agrees that the restrictions and covenants contained in Section 11 and in the Proprietary Information Agreement are necessary for the protection of the Company and any breach thereof will cause the Company irreparable damages for which there is no adequate remedy at law. The Executive further agrees that, in the event of a breach by the Executive of any of Executive's obligations thereunder, the Company shall have the absolute right, in addition to any other remedy that might be available to it, to obtain from any court having jurisdiction, such equitable relief as might be appropriate, including temporary, interlocutory, preliminary and permanent decrees or injunctions enjoining any further breach of such provisions.

15. INDEMNIFICATION AND ATTORNEYS' FEES. Subject to applicable laws, during the Employment Period and thereafter, the Company shall indemnify, hold harmless and defend the Executive from all damages, claims, losses, and costs and expenses (including reasonable attorney's fees) arising out of, in connection with, or relating to all acts or omissions taken or not taken by him in good faith while performing services for the Company, and shall further promptly reimburse the Executive for all expenses (including attorney's fees) incurred in enforcing the benefits of this Agreement. The Company shall use its best efforts to continue to maintain, an insurance policy covering the officers and directors of the Company against claims and/or lawsuits at least as favorable as such policy this is currently in effect, and shall cause the Executive to be covered under such policy upon the same terms and conditions as other similarly situated officers and directors during the Employment Period and for a period of at least six (6) years thereafter.

16. MISCELLANEOUS.

(a) SEVERABILITY. If any provision of this Agreement is determined to be invalid or unenforceable, it shall not affect the validity or enforceability of any of the other remaining provisions hereof.

(b) NOTICES. For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when (i) delivered personally; (ii) sent by facsimile or other similar electronic device and confirmed; (iii) delivered by courier or overnight express; or (iv) three business days after being sent by registered or certified mail, postage prepaid, addressed as follows:

If to the Company:

Activision, Inc.
3100 Ocean Park Boulevard
Santa Monica, CA 90405
Attention: General Counsel

with a copy to:

Robinson Silverman Pearce Aronsohn & Berman, LLP
1290 Avenue of the Americas
New York, NY 10104
Attention: Kenneth L. Henderson, Esq.

If to the Executive:

Brian G. Kelly
843 Yale Street
Santa Monica, CA 90403

or to such other address as a party may furnish to the other party in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

(c) WAIVER. No waiver by either party hereto of any breach of any provision of this Agreement shall be deemed a waiver of any preceding or succeeding breach of such provision or any other provision herein contained.

(d) GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of California, without giving effect to the conflict of law principles thereof; provided, however, that Section 11 of this Agreement shall be governed by, and construed in accordance with, the laws of the state in which the Executive has his principal office.

(e) ENTIRE AGREEMENT. This Agreement sets forth the entire agreement of the

parties hereto with respect to the subject matter hereof, and is intended to supersede all prior employment negotiations, understandings and agreements. No provision of this Agreement may be waived or changed, except by a writing signed by the party to be charged with such waiver or change.

(f) SUCCESSORS: BINDING AGREEMENT. Neither of the parties hereto shall have the right to assign this Agreement or any rights or obligations hereunder without the prior written consent of the other party; provided, however, that this Agreement shall inure to the benefit or and be binding upon the successors and assigns of the Company upon any sale of all or substantially all of the Company's assets, or upon any merger or consolidation of the Company with or into any other corporation, all as though such successors and assigns of the Company and their respective successors and assigns were the Company. Insofar as the Executive is concerned this Agreement, being personal, cannot be assigned.

(g) COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be an original, but together shall constitute one and the same instrument.

(h) HEADINGS. The headings and captions set forth in this Agreement are for ease of reference only and shall not be deemed to constitute a part of the agreement formed hereby or be relevant to the interpretation of any provisions of this Agreement.

(i) SATURDAYS, SUNDAYS AND HOLIDAYS. Whenever any determination is to be made or action to be taken on a date specified in this Agreement, if such date shall fall upon a Saturday, Sunday or a legal holiday in the State of California, the date for such determination or action shall be extended to the first business day immediately thereafter.

[SIGNATURE PAGES BEGIN ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

ACTIVISION, INC.

By: _____
Name:
Title:

Brian G. Kelly

October 19, 1998

Mr. Ron Doornink
25 Oakbrook
Coto de Caza, California 92679

Dear Mr. Doornink:

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 October 27, 1998 and expire on March 31, 2001, 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 a base salary at the annual rate of \$280,000 during the period commencing on October 27, 1998 and ending on March 31, 1999. You also shall receive an annual base salary of \$300,000 during the period commencing on April 1, 1999 and ending on March 31, 2000, and an annual base salary of \$320,000 during the period commencing on April 1, 2000 and ending on March 31, 2001.

(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 11(b), Employer shall not be required to actually use your services, and payment of your base salary during the 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 a performance based bonus of up to 60% of your annual base salary for each fiscal year of Employer during which you are employed under this agreement (pro-rated for the amount of time that you actually perform services for Employer during a particular fiscal year). All bonus payments will be in compliance with Employer's Management Bonus Plan for the applicable fiscal year, each of which is determined by the Compensation Committee of the Board of Directors and is based on a number of factors including the achievement of specific corporate sales and profitability levels as well as a discretionary component which will be based upon your performance, achievement of objectives and contribution to the success of Employer's goals.

(e) You also are being granted, under Employer's 1998 Incentive Plan, options to purchase 200,000 shares of Employer's common stock. The options will be issued on the commencement date of your employment under this agreement and will have an exercise price that will be the market price of Employer's common stock on the date the options are issued. The options will vest as follows: 25,000 of such options will be immediately vested and exercisable; 58,334 of such options will vest on October 27, 1999; 58,333 of such options will vest on October 27, 2000; and 58,333 of such options will vest on October 27, 2001. Notwithstanding the foregoing, if there is a "change of control" of Employer (which term will be fully defined in the stock option certificate issued to you by Employer with respect to such stock options and which will be consistent with the definition contained in other stock option certificates previously issued by Employer under its 1998 Incentive Plan) during the first twelve months of the term of your employment under this agreement, and there is a difference of \$5.00 or greater between the per share consideration to be received by the shareholders of Employer upon consummation of the transaction causing such change of control (the "Transaction Price") and your stock option exercise price, then 50% of the foregoing options which have not yet vested as of the date of the change of control shall instead vest on such change of control date, and the remaining 50% of such unvested options shall instead vest on the first anniversary of such change of control. If there is a change of control of Employer during the first twelve months of the term of your employment under this agreement and there is a difference of less than \$5.00 between the Transaction Price and your stock option exercise price, or there is a change of control of Employer after the first twelve months of the term of your employment under this agreement, then all of the foregoing options which have not yet vested as of the date of the change of control shall instead vest on such change of control date. The foregoing options will be governed in all other respects by Employer's 1998 Incentive Plan.

(f) 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 President and Chief Operating Officer. In such capacity, you shall be responsible for overseeing all of Employer's day to day operations. You will report directly to the Co-Chairmen of Employer.

4. DUTIES

You shall personally and diligently perform, on a full-time and exclusive basis, such services as Employer 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. In addition, Employer shall reimburse you for the cost incurred by you to obtain disability insurance in excess of the insurance provided to you by Employer to the extent necessary to provide you with an aggregate monthly disability insurance benefit of \$15,000, provided that such cost is pre-approved in writing by Employer (such approval not to be unreasonably withheld) and you provide Employer with documentation which adequately evidences such cost. 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, subject in each case to the terms and conditions of each such plan. Notwithstanding anything to the contrary set forth above, you shall be eligible 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, and to help facilitate your relocation to the West Los Angeles area, Employer will provide you with a loan in the principal amount of \$100,000 by no later than October 31, 1998. Such loan will bear interest at the rate of 6-3/4% per annum and will be due and payable in full on October 31, 2000. However, the principal amount and accrued interest on such loan will be forgiven on a pro rata basis over the first twenty-four (24) months of your employment, provided that you remain employed by Employer on the applicable date of forgiveness. 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

(a) 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.

(b) 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.

(c) 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 attached to this agreement as Exhibit B, 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 any term or provision of this agreement, or (iii) for other good cause, as such term is defined under California law. In addition, but subject to the provisions of paragraph 11(c) below, Employer may terminate your employment under this agreement at any time without cause.

(b) You may terminate your employment under this agreement (i) upon Employer's material breach of any term or provision of this agreement, (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) if there is a change of control of Employer and you are then instructed to perform a job for Employer that does not have the same level of responsibility as President or Chief Operating Officer of Employer.

(c) In the event of the termination of your employment under this agreement pursuant to paragraphs 11(a) or 11(b), all obligations of Employer to you under this agreement shall immediately terminate; provided, however: (i) if Employer terminates your employment under paragraph 11(a) without cause on or prior to March 31, 2000, you shall continue to receive your base salary as stated in paragraph 2(a) in accordance with Employer's then prevailing payroll policy; or (ii) if Employer terminates your employment under Paragraph 11(a) without cause after March 31, 2000, or if you terminate your employment under Paragraph 11(b)(iii), then (A) Employer will pay you "continuation payments" at a rate equal to your annual base salary in effect at the time of termination, in accordance with Employer's then prevailing payroll policy, for a period of time expiring on the sooner of (x) the date upon which you accept employment with another employer, and (y) the date which is the first anniversary of your termination date; (B) all accrued but unpaid principal and interest, if any, under the loan reference in paragraph 8 will be immediately forgiven; (C) you shall be entitled to receive a pro-rata bonus under Employer's Management Bonus Plan for the fiscal year in which you are terminated that reflects the services performed by you during the applicable portion of such fiscal year, subject to you achieving the performance objectives stated in the Plan for such period; and (D) to the extent applicable, you shall have a period of one year from the date of termination to exercise all stock options previously issued to you under this agreement that were vested on the date of termination.

(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 on the last day of your employment under this agreement, 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.

(b) Except for the fee payable by Employer to Spencer Stuart, 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) You hereby acknowledge that you have had an opportunity to seek legal counsel of your own choice regarding the effect and import of entering into this Agreement.

(g) 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.

(h) 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.

(i) 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,
Business Affairs and General Counsel

To Employee: 25 Oakbrook
Coto de Caza, California 92679

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:

By:

Robert Kotick
Co-Chairman and Chief
Executive Officer

Ron Doornink

Date:

Date:

EXHIBIT A
PROMISSORY NOTE

\$100,000.00

October __, 1998
Santa Monica, California

FOR VALUE RECEIVED, and subject to the provisions of Paragraph 1 below, the undersigned, Ron Doornink ("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, payable monthly. The entire principal indebtedness under 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 October __, 2000, and 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. The amount of principal due hereunder automatically will be reduced by Four Thousand One Hundred Sixty-Six and 67/100 Dollars (\$4,166.67) per month on the __ day of each month, commencing on November __, 1998, provided that the undersigned continues to be employed by the Holder on the applicable reduction date. All interest which is accrued but unpaid as of a particular principal reduction date also shall be forgiven to the extent a portion of the principal is forgiven on such date.

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. 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.

9. 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.

10. 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.

RON DOORNINK

EXHIBIT B

ACTIVISION, INC.
EMPLOYEE PROPRIETARY INFORMATION AGREEMENT

In consideration of and as a condition of my employment by ACTIVISION, INC. and/or by companies which it owns, controls, or is affiliated with, and their successors in business (the "Company"), and the compensation now and hereafter paid to me for such employment, I hereby agree as follows:

1. CONFIDENTIALITY. I agree to hold in strictest confidence and not to disclose, make any use of, except for the benefit of the Company, lecture upon or publish, at any time either during the term of or subsequent to my employment, any of the Company's Proprietary Information (as defined below) which I may produce, obtain or otherwise acquire during the course of my employment, except as the Company may otherwise consent to in writing in its sole and absolute discretion. I further agree not to deliver, reproduce or in any way allow such Proprietary Information, or any documentation relating to such information, to be delivered or used by any third parties without the specific written direction or consent of a duly authorized representative of the Company.

The term "Proprietary Information" shall mean any and all trade secrets, confidential knowledge, data or any other proprietary information pertaining to any business of the Company or any of its clients, customers or consultants, licensees or affiliates. By way of illustration but not limitation, "Proprietary Information" includes (a) inventions, ideas, improvements, discoveries, trade secrets, processes, data, programs, knowledge, know-how, designs, techniques, formulas, test data, computer code, other works of authorship and designs whether or not patentable, copyrightable, or otherwise protected by law, and whether or not conceived of or prepared by me, either alone or jointly with others (hereinafter collectively referred to as "Inventions"); (b) information regarding research, development, new products and services, marketing plans and strategies, merchandising and selling, business plans, strategies, forecasts, projections, profits, investments, operations, financings, records, budgets and unpublished financial statements, licenses, prices and costs, suppliers and customers; and (c) identity, requirements, preferences, practices and methods of doing business of specific parties with whom the Company transacts business, and information regarding the skills and compensation of other employees of the Company and independent contractors performing services for the Company.

2. THIRD PARTY INFORMATION. I understand that the Company, from time to time, may enter into agreements with other parties which impose obligations or restrictions on the Company regarding Inventions made during the course of the work under such agreements or regarding the confidential nature of such works, or otherwise receive from third parties confidential or proprietary information ("Third Party Information") subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. During the term of my employment and thereafter, I agree to be bound by all such obligations and restrictions, will hold Third Party Information in the strictest confidence, will not disclose (to anyone other than Company personnel who need to know such information in connection with their work for the Company) or use, except in connection with my work for the Company, Third Party Information unless expressly authorized by the Company in writing, and will otherwise take all action necessary to discharge the obligations to the Company arising in connection with such Third Party Information.

3. WORK FOR HIRE STATEMENT. I hereby acknowledge and agree that all original works of authorship (the "Works of Authorship") which are produced, developed or authored by me (whether alone or jointly with others), or otherwise resulting from my work within the scope of my employment with the Company and which are protectible by copyright are "works made for hire," as that term is defined in the United States Copyright Act (17 U.S.C., Section 101). In the event that any rights to the Works of Authorship are deemed not to be works made for hire, or in the event that I should, by operation of law, be deemed to retain any rights in such Works of

Authorship, I hereby irrevocably assign, without any further consideration and regardless of any use by the Company of any such Work of Authorship, all of my rights, title and interest, if any, in and to such Works of Authorship to the Company. I agree that the Company, as the owner of all rights to the Works of Authorship, has the full and complete right to prepare and create derivative works based upon the Works of Authorship and any derivative works of such Works of Authorship and to use, reproduce, publish, print, copy, market, advertise, distribute, transfer, sell, publicly perform and publicly display, and otherwise exploit by all means now known or later developed, such Works of Authorship and derivative works anywhere throughout the world.

4. MORAL RIGHTS. I hereby irrevocably and unconditionally transfer and assign to the Company, without any further consideration, any and all Moral Rights (as defined below) I may have in or with respect to any and all Works of Authorship. To the extent that I cannot assign such rights, I hereby waive and agree never to assign such rights against the Company, the Company's successors-in-interest, or any of their licensees. "Moral Rights" shall mean any right to (i) divulge such Inventions to the public; (ii) retract such Invention from the public; (iii) claim authorship of such Invention; (iv) object to any distortion, mutilation, or other modification of such Invention; and (v) any and all similar rights, existing under judicial or statutory law of any country or jurisdiction in the world, or under any treaty regardless of whether or not such right is called or generally referred to as a "moral right."

5. ASSIGNMENT OF INVENTIONS.

(a) In addition to the foregoing, I hereby assign and transfer to the Company my entire right, title and interest in and to all Inventions, whether or not patentable, and whether or not reduced to practice, made, learned or conceived by me (whether alone or jointly with others) during the period of my employment with the Company which relate in any manner at the time of conception or reduction to practice to the actual or demonstrably anticipated research or product development by the Company or to its business, or result from or are suggested by any task assigned to me or any work performed by me for or on behalf of the Company. I agree that all such Inventions shall be the sole and exclusive property of the Company and its assigns, and the Company and its assigns shall be the sole owners of all Inventions and any and all patents, copyrights and other proprietary rights related thereto; provided, however, that I hereby acknowledge and agree that this Agreement does not require assignments of an Invention which qualifies fully and expressly for protection under Section 2870 of the California Labor Code.

(b) If I have any right or rights to Inventions that cannot be assigned to the Company or waived by me, I unconditionally grant to the Company during the term of such rights, an exclusive, irrevocable, perpetual, worldwide, fully paid and royalty-free license, with rights to sublicense through multiple levels of sublicenses, to use, reproduce, publish, create derivative works of, market, advertise, distribute, sell, publicly perform and publicly display and otherwise exploit by all means now known or later developed, such Inventions.

6. DISCLOSURE OF INVENTIONS; PATENTS. I agree that in connection with any Invention:

(a) I will disclose such Invention promptly in writing to my immediate supervisor at the Company, with a copy to the Company's then acting Chief Operating Officer, regardless of whether I believe the invention is protected by Section 2870 of the California Labor Code, in order to permit the Company to claim rights to which it may be entitled under this Agreement. Such disclosure shall be received in confidence by the Company.

(b) I will, at the Company's request, promptly execute a written assignment of title to the Company for any Invention required to be assigned by Paragraph 4 ("Assignable Invention") and I will preserve any such Assignable Invention as confidential information of the Company.

(c) Upon request, I agree to assist the Company or its nominee (at its expense) during and at any time subsequent to my employment in every reasonable way to obtain for its

own benefit patents and copyrights for such Assignable Inventions in any and all countries, which Inventions shall be and remain the sole and exclusive property of the Company or its nominee whether or not patented or copyrighted. I agree to execute such papers and perform such lawful acts as the Company deems to be necessary to allow it to exercise all rights and interest in such patents and copyrights.

7. EXECUTION OF DOCUMENTS.

(a) In connection with this Agreement, I further agree to execute, acknowledge and deliver to the Company or its nominee upon request and at its expense all such documents, including application for patents and copyrights and assignments of inventions, patents and copyrights to be issued therefor, as the Company may determine necessary or desirable to apply for, and obtain letters, patents and copyrights on such assignable invention in any and all countries and/or to protect the interest of the Company or its nominee in such inventions, patents or copyrights and to vest title thereto in the Company or its nominee.

(b) In the event the Company is unable, after reasonable efforts, to secure my signature on any document or documents needed to apply for or prosecute any patent, copyright or other right of protection relating to an Invention, whether because of my physical or mental incapacity or for any other reason whatsoever, I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney-in-fact, to act for and in my behalf and stead to execute and file any such application or applications and to do all other lawfully permitted acts to further the prosecution and issuance of patents, copyrights or similar protections thereon with the same legal force and effect as if executed by me; it is being expressly understood and intended by me that the grant of the foregoing irrevocable power of attorney is coupled with an interest.

8. MAINTENANCE OF RECORDS. I agree to keep and maintain adequate and current written records of all inventions made by me (in the form of notes, sketches, and drawings as may be specified by the Company), which records shall be available to and remain the sole property of the Company at all times.

9. PRIOR INVENTIONS. It is understood that all Inventions, if any, patented or unpatented, which are made by me prior to my employment by the Company, are excluded from the scope of this Agreement. To preclude any possible uncertainty, I have set forth on Exhibit I attached to this Agreement a complete list of all my prior Inventions, including those which are the property of a previous employer. I represent and covenant that the list is complete and that, if no items are on the list, I have no such prior Inventions. I agree to notify the Company in writing before I make any disclosure or perform any work on behalf of the Company which appears to threaten or conflict with proprietary rights I claim in any Invention or idea. In the event of my failure to give such notice, I agree that I will make no claim against the Company with respect to such Inventions or ideas.

10. RETURN OF COMPANY PROPERTY. I acknowledge and agree that all files, accounts, records, materials, documents, drawings, sketches, designs, diagrams, models, blue-prints, plans, specifications, manuals, books, forms, receipts, notes, reports, memoranda, studies, data, calculations, recordings, catalogues, compilations of information, correspondence and all copies, abstracts and summaries of the foregoing, instruments, tools and equipment and all other physical items related to the Company or to my employment with the Company, other than merely personal items, whether of a public nature or not, and whether prepared by me or not, are and shall remain the sole and exclusive property of the Company and shall not be removed from the premises of the Company, except as required in the course of employment by the Company, without prior written consent of the Company in each instance. In the event of termination of my employment with the Company for any reason whatsoever, I agree to promptly surrender and deliver to the Company all of the foregoing property, and I will not take with me any description containing or pertaining to any Proprietary Information which I may produce or obtain during the course of my employment. I agree to sign and deliver the "Termination Certification" attached to this Agreement as Exhibit II.

11. TRADE SECRETS OF OTHERS. I represent that my performance of all the terms of this Agreement and as an employee of the Company does not and will not breach any agreement to keep in confidence Proprietary Information, knowledge or data acquired by me in confidence or in trust prior to my employment with the Company, and during my employment by the Company, I will not improperly use or disclose to the Company, or induce the Company to use, any confidential or proprietary information or material belonging to any previous employer or other parties. I have not brought and will not bring onto the premises of the Company or use in the performance of my responsibilities at the Company any unpublished documents or any property belonging to any previous employer or any other person to whom I have an obligation of confidentiality unless consented to in writing by that previous employer or person. I agree not to enter into any agreement either written or oral in conflict with this Agreement.

12. CONFLICTING EMPLOYMENT. I agree that during my employment with the Company, I will not engage in any other employment, occupation, consulting or other activity relating to the business in which the Company is now or may hereafter become engaged, or which would otherwise conflict with my obligations to the Company.

13. ENFORCEMENT.

(a) I understand and agree that in the event of a prospective or actual breach of this Agreement by me, damages would not be an adequate remedy to compensate the Company for the losses suffered as a result of such breach. Accordingly, in addition to all other rights and remedies the Company has at law or in equity, in the event of a threatened or actual breach of any of the terms and provisions of this Agreement, the Company shall be entitled to a temporary restraining order, and to temporary and permanent injunctive relief, to prevent or terminate such anticipated or actual breach, without the necessity of proving actual damages or being required to post any bond or other undertaking in connection with any such action, provided that nothing in this Agreement shall be construed to limit the damages otherwise recoverable by the Company in any such event.

(b) In addition, the Company shall have the right to inform any person, company, organization or business entity, and the principals of the foregoing, and any other third parties that the Company reasonably believes to be receiving or intending to receive from me any Proprietary Information in violation of the terms of this Agreement, that participation by such entity or persons with me in activities in violation of this Agreement may give rise to claims by Activision against such entity, persons or third parties.

14. PURPOSE AND INTENT. I acknowledge and agree that this Agreement does not constitute an agreement of employment and that nothing in this Agreement shall confer any right upon me with respect to my employment by the Company, including, without limitation continuation of such employment.

15. REPRESENTATIONS. I represent and warrant to the Company that:

(a) This Agreement does not constitute a violation of any other agreement to which I am a party and it has been executed and delivered by me after having an opportunity to consult with my legal and other professional counsel and advisors.

(b) I have full power and authority to enter into, and have obtained all necessary authorizations and approvals required for the execution and deliver of, this Agreement.

(c) I have taken all necessary actions to execute and deliver this Agreement, and this Agreement constitutes my valid and binding agreement, enforceable in accordance with its terms.

16. MODIFICATION. This Agreement may not be changed, modified, released, discharged, abandoned, or otherwise amended, in whole or in part, except by an instrument in

writing, signed by me and the Company. I agree that any subsequent change or changes in duties, salary, or compensation shall not affect the validity of this Agreement.

17. ENTIRE AGREEMENT. I acknowledge receipt of this Agreement, and agree that with respect to the subject matter of this Agreement it is my entire agreement with the Company, superseding any previous written communications, representations, understandings or agreements with the Company or any of its officers or representatives.

18. SEVERABILITY. The provisions of this Agreement are severable and if any one or more provisions may be determined to be unenforceable, in whole or in part, the remaining provisions, and any partially unenforceable provisions to the extent enforceable, shall nevertheless be binding and enforceable.

19. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon my heirs, executors, administrators and other legal representatives and is for the benefit of the Company, its successors and assigns.

20. GOVERNING LAW. This Agreement has been executed and delivered by the parties hereto in California, and shall be governed by and construed in accordance with the internal laws (and not laws pertaining to conflicts or choice of law) of the State of California in all respects, including all matters of validity, construction and performance of this Agreement. All parties consent to the exercise of personal jurisdiction over them in California and agree that any lawsuit or arbitration arising out of or relating to this Agreement shall be brought exclusively in a court of competent subject matter jurisdiction located within the County of Los Angeles, State of California.

21. COUNTERPARTS. This Agreement may be signed in two counterparts, each of which shall be deemed an original and both of which shall together constitute one agreement.

22. FAILURE TO ENFORCE. The failure of the Company to enforce any threatened or existing violation, default or breach of this Agreement shall not be deemed a waiver of such a violation, default or breach, and the Company shall have the right to enforce the same at a later time and the right to waive in writing any condition imposed herein for its benefit without thereby waiving any other provision or condition.

ACTIVISION, INC.

By: _____

Name: _____

Title: _____

Date: _____

Accepted and Agreed:

By: _____

Employee Signature

Employee Name (Please Print)

Title: _____

Employee Job Title

Date: _____

March 4, 1999

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, 1999 and expire on April 1, 2001, 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 \$220,000 during the first year of the term and an annual base salary of \$240,000 during the second 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.

(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 earnings, return on equity goals, as well as discretionary component which will be based upon your individual performance, achievement of objectives and contribution to the success of the corporate goals and objectives.

(e) You also are being granted, under Employer's existing or modified stock option plan, options to purchase 33,000 shares of Employer's common stock. The options will be issued on March 4, 1999 and will vest ratably over three years, with one third (1/3) 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 Senior Vice President, Business Affairs and General Counsel.

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 eligible 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 fifteen (15) days of paid vacation per year.

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

(c) You also shall be eligible to receive paid time off in addition to your paid vacation days and paid holidays if Employer, in its sole and absolute discretion, determines that your receipt of such additional paid time off is appropriate.

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 any term or provision 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 Paragraphs 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 on the last day of your employment under this agreement, 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) You hereby acknowledge that you have had an opportunity to seek legal counsel of your own choice regarding the effect and import of entering into this Agreement.

(g) 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.

(h) 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.

(i) 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: President and
 Chief Operating Officer

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.

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: _____

By: _____

Ron Doornink
President and Chief
Operating Officer

Lawrence Goldberg

Date: _____

Date: _____

March 4, 1999

Mr. Barry J. Plaga
2421 Frances Street
La Crescenta, California 91214

Dear Mr. Plaga:

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, 1999 and expire on April 18, 2001, 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 \$190,000 during the first year of the term and an annual base salary of \$195,000 during the second 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.

(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 earnings, return on equity goals, as well as discretionary component which will be based upon your individual performance, achievement of objectives and contribution to the success of the corporate goals and objectives.

(e) You also shall be eligible to receive additional options to purchase shares of Employer's common stock, 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 Senior 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 eligible 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 fifteen (15) days of paid vacation per year.

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

(c) You also shall be eligible to receive paid time off in addition to your paid vacation days and paid holidays if Employer, in its sole and absolute discretion, determines that your receipt of such additional paid time off is appropriate.

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 any term or provision 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 Paragraphs 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 on the last day of your employment under this agreement, 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. Without limiting the generality of the foregoing, you acknowledge that this agreement supersedes your prior written agreement with Employer dated as of April 1, 1997, and upon the commencement of your employment under this agreement, such prior agreement will be 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) You hereby acknowledge that you have had an opportunity to seek legal counsel of your own choice regarding the effect and import of entering into this Agreement.

(g) 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.

(h) 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.

(i) 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: President and
Chief Operating Officer

To Employee: 2421 Frances Street
La Crescenta, California 91214

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:

By:

Ron Doornink
President and Chief
Operating Officer

Barry J. Plaga

Date:

Date:

As of April 1, 1998

Mr. Mitchell Lasky
10368 Ilona Avenue
Los Angeles, California 90064

Dear Mr. Lasky:

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, 1998 and expire on April 1, 2001, unless earlier terminated as provided below.

2. SALARY

(a) In full consideration for all rights and services provided by you under this agreement, and subject to the provisions of Paragraph 2(b) of this agreement, you shall receive a base salary at the annual rate of \$225,000 during the first year of the term, \$245,000 during the second year of the term, and \$260,000 during the third year of the term.

(b) Notwithstanding the provisions of Paragraph 2(a) of this agreement, if the actual operating income for the division(s) of Employer over which you have primary authority and responsibility during Employer's fiscal year ending March 31, 1999 (the "FY99 Operating Income") is greater than 107.5%, but less than or equal to 115%, of the established target for such division(s) as set forth in Employer's internally published annual operating plan for such fiscal year, then your annual base salary for the second year of the term will be \$247,500. If the FY Operating Income exceeds 115% of the established target for such division(s), then your annual base salary will be \$258,750. If the actual operating income for the division(s) of Employer over which you have primary authority and responsibility during Employer's fiscal year ending March 31, 2000 (the "FY 2000 Operating Income") is greater than 100%, but less than or equal to 107.5%, of the established target for such division(s) as set forth in Employer's internally published annual operating plan for such fiscal year, then your annual base salary during the third year of the term will be 106% of your annual base salary for the second year of the term. If the FY 2000 Operating Income is greater than 107.5%, but less than or equal to 115%, of the established target for such division(s), then your annual base salary during the third year of the term will be 110% of your annual base salary for the

second year of the term. If the FY 2000 Operating Income is greater than 115% of the established target for such division(s), then your annual base salary during the third year of the term will be 115% of your annual base salary for the second year of the term.

(c) All base salary payments shall be made to you in accordance with Employer's then prevailing payroll policy.

(d) 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.

(e) In addition to your base salary, you shall be eligible to receive bonus compensation if Employer's Board of Directors (or the Compensation Committee of such Board of Directors), in its sole and absolute discretion, determines that such bonus compensation is appropriate.

(f) You also have been granted, under Employer's existing or modified stock option plan, options to purchase 85,000 shares of Employer's common stock. Such options are in addition to the stock options of Employer previously granted to you. The 85,000 options referred to above were issued on March 24, 1998. 25,000 of such options will vest on March 24, 1999; 25,000 of such options will vest on March 24, 2000; and 35,000 of such options will vest on March 24, 2001. All of such options will have an exercise price equal to the market price of such common stock on the date the options were issued and are 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 Senior Vice President, Studios.

4. AUTHORITY

(a) During the first year of the term of your employment, you will be responsible for managing all of Employer's external studio operations. By no later than the commencement of the second year of the term of your employment, you will become responsible for managing all of Employer's studio operations.

(b) In addition to any authority that you have with respect to your management of Employer's external studio operations, during the first year of the term of your employment, you also will have the authority to: (i) finally approve the commencement of development on any software product within Employer's internal studio operations if such product is not scheduled to be completed until the second or third year of the term of your employment, and (ii) finally approve the hiring or promotion of any person to the following positions within Employer's internal studio operations: vice president of production; director of production; producer; director; lead designer; lead programmer or lead artist.

5. MANNER OF PERFORMING 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.

6. 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.

7. 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 eligible to receive those benefits provided by COBRA upon the expiration or early termination of the term of your employment under this Agreement.

8. 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 ten (10) days of paid vacation per year.

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

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 any term or provision 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(d) 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 Paragraphs 11(a) or 11(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.

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 on the last day of your employment under this agreement, 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 as of May 1, 1998, 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) You hereby acknowledge that you have had an opportunity to seek legal counsel of your own choice regarding the effect and import of entering into this Agreement.

(g) 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.

(h) 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.

(i) 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,
Business Affairs and General Counsel

To Employee: 10368 Ilona Avenue
Los Angeles, California 90064

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: _____
Lawrence Goldberg
Senior Vice President, Business
Affairs and General Counsel

By: _____
Mitchell Lasky

Date: _____

Date: _____

As of April 1, 1998

Mr. Ronald Scott
846 Pleasant Dale Place
Westlake Village, California

Dear Mr. Scott:

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, 1998 and expire on April 1, 2001, 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 \$185,000 during the first year of the term, \$205,000 during the second year of the term, and \$225,000 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.

(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 bonus compensation if Employer's Board of Directors (or the Compensation Committee of such Board of Directors), in its sole and absolute discretion, determines that such bonus compensation is appropriate.

(e) You also have been granted, under Employer's existing or modified stock option plan, options to purchase 65,000 shares of Employer's common stock. Such options are in addition to the stock options of Employer previously granted to you. The 65,000 options referred to above were issued on March 24, 1998. 21,667 of such options will vest on April 1, 1999; 21,667 of such options will vest on April 1, 2000; and 21,666 of such options will vest on April 1, 2001. All of such options have an exercise price equal to the market price of such common stock on the date the options were issued and are 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 Senior Vice President, Domestic Distribution.

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 eligible 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 ten (10) 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 any term or provision 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 Paragraphs 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 on the last day of your employment under this agreement, 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. Without limiting the generality of the foregoing, you acknowledge that this agreement supersedes your prior written agreement with Employer dated as of April 1, 1997, 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) You hereby acknowledge that you have had an opportunity to seek legal counsel of your own choice regarding the effect and import of entering into this Agreement.

(g) 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.

(h) 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.

(i) 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: Senior Vice President,
 Business Affairs and General Counsel

To Employee: 846 Pleasant Dale Place
 Westlake Village, California

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:

By:

Lawrence Goldberg
Senior Vice President, Business
Affairs and General Counsel

Ronald Scott

Date:

Date:

SERVICE AGREEMENT

(1) Combined Distribution (Holdings) Limited

(2) Richard Andrew Steele

Dated 24 November 1997

OSBORNE CLARKE

LONDON OFFICE

Hillgate House, 26 Old Bailey, London EC4M 7HS
Telephone 0171 600 0155 Facsimile 0171 248 9934

BRISTOL OFFICE

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THIS AGREEMENT is made the 24th day of November 1997

BETWEEN:

- (1) COMBINED DISTRIBUTION (HOLDINGS) LIMITED (company number: 3136477) whose registered office is at Unit 4/5 Holford Way Holford Birmingham B6 7AX ("THE COMPANY"); and
- (2) Richard Andrew Steele of 213 Station Road, Knowle, Solihull, B93 0PU ("THE EXECUTIVE").

IT IS AGREED as follows:

1. DEFINITIONS AND INTERPRETATION

- 1.1 In this Agreement, unless the context otherwise requires, the following expressions have the following meanings:

- | | |
|--------------|---|
| "ACTIVISION" | Activision Inc., a Delaware corporation and the holding company of the Company; |
| "THE BOARD" | the board of directors of the Company from time to time and includes any committee of the Board duly appointed by it; |
| "BUSINESSES" | any trade or other commercial activity of any Group Company: <ol style="list-style-type: none">(a) with which the Executive is concerned or involved to any material extent at any time during his Employment; or(b) which any Group Company shall at the Termination Date have determined to carry on with a view to profit in the immediate or foreseeable future and in relation to which the Executive, at the Termination Date, possesses any Confidential Information; |

"COMPANY INVENTION" any improvement, invention or discovery made by the Executive which in accordance with Section 39, Patents Act 1977 is the property of the Company or any Group Company ;

"CONFIDENTIAL INFORMATION" any information relating to the business methods, corporate plans, management systems, finances, new business opportunities, research and development projects, marketing or sales of any past, present or future product or service, trade secrets, secret formulae, processes, inventions, designs, know-how discoveries, technical specifications and other technical information relating to the creation, production or supply of any past, present or future product or service of any Group Company and any other information (whether or not recorded in documentary form or on computer disk or tape) which any Group Company identifies or treats as confidential or in respect of which it owes an obligation of confidentiality to any third party;

"CUSTOMER" any person:

(a) with whom or which the Executive has dealt or of whom or of which he has knowledge by virtue of his Duties in the 12 months preceding the Termination Date; and

(b) either:

(i) who or which shall at the Termination Date be negotiating with any Group Company for the supply of any Restricted Products or the provision of any Restricted Services; or

(ii) to whom or which any Group Company shall at any time during the period of 12 months prior to the Termination Date have supplied any Restricted Products or Restricted Services;

"DUTIES" the duties of the Executive as set out in clause 4;

"EMPLOYMENT" the Executive's employment under this Agreement;

"ERA96" Employment Rights Act 1996;

"GROUP COMPANIES" the Company, its subsidiaries or subsidiary undertakings, any holding company or parent undertaking and any subsidiary or subsidiary undertaking of any holding company or parent undertaking and "GROUP COMPANY" means any of them;

"MATERIAL INTEREST" (a) the holding of any position as director, officer, employee, consultant, adviser, partner, principal or agent;

(b) the direct or indirect control or ownership (whether jointly or alone) of any shares (or any voting rights attached to them) or debentures save for the ownership for investment purposes only of not more than 5 per cent of the issued ordinary shares of any company whose shares are listed on any Recognised Investment Exchange; or

(c) the provision of any financial assistance;

"NOTICE"	includes any notice, demand, consent or other communication;
"RECOGNISED INVESTMENT EXCHANGE"	as defined in Section 207, Financial Services Act, 1986;
"RESTRICTED AREA"	the United Kingdom of Great Britain and Northern Ireland;
"RESTRICTED PRODUCTS"	any products of a kind which are the same or substantially the same as those dealt in, marketed or sold by any Group Company in the ordinary course of the Businesses;
"RESTRICTED SERVICES"	any services of a kind which are the same or substantially the same as those provided by any Group Company in the ordinary course of the Businesses; and
"TERMINATION DATE"	the date on which the Employment terminates.

1.2 In this Agreement, unless the context otherwise requires:

- (a) words in the singular include the plural and vice versa and words in one gender include any other gender;
- (b) a reference to a statute or statutory provision includes:
 - (i) any subordinate legislation (as defined in Section 21(1), Interpretation Act 1978) made under it; and
 - (ii) any statute or statutory provision which modifies, consolidates, re-enacts or supersedes it;
- (c) a reference to:
 - (i) a "PERSON" includes any individual, firm, body corporate, association or partnership, government or state (whether or not having a separate legal personality);
 - (ii) clauses and schedules are to clauses and schedules of this Agreement and references to sub-clauses and paragraphs are references to sub-clauses and paragraphs of the clause or schedule in which they appear;

(d) the table of contents and headings are for convenience only and shall not affect the interpretation of this Agreement; and

(e) words and phrases defined in the City Code on Take-overs and Mergers or in the Companies Act 1985 have the same meaning in this Agreement.

2. APPOINTMENT

2.1 The Company appoints the Executive and the Executive agrees to serve as Managing Director of the Company.

2.2 The Executive warrants that he is not bound by, nor subject to, any court order, arrangement, restriction or undertaking which prohibits or restricts him from entering into this Agreement or performing his Duties.

3. TERM

3.1 The Employment shall commence on 24 November 1997 and, unless terminated in accordance with clause 12 (Termination of and suspension from Employment), shall continue for a fixed period, to terminate on 30 November 1999. The Company shall have the option, at its absolute discretion, to extend the fixed term for up to three additional successive one year periods by not less than four months prior notice before each such relevant one year period.

3.2 The Executive's previous employment with Combined Distribution (Holdings) Limited shall be treated as part of his continuous period of employment, which accordingly began on 1 July 1985.

4. DUTIES OF THE EXECUTIVE

4.1 RELATING TO THE COMPANY

The Executive shall at all times during his Employment:

(a) unless prevented by ill health and except during holidays taken in accordance with clause 10 (Holidays), devote the whole of his working time and attention to the service of the Company;

(b) faithfully and diligently perform the duties attaching to his office or which are from time to time assigned to or vested in him and exercise the powers consistent with them;

(c) obey all lawful and reasonable directions of the Board and

implement and abide by any relevant Company policy which may be promulgated or operated in practice from time to time;

- (d) use all reasonable endeavours to promote the interests of each Group Company; and
- (e) keep the Board fully informed (in writing if so requested) of his conduct of the business or affairs of each Group Company and provide such explanations as the Board may require.

4.2 RELATING TO THE GROUP COMPANIES

The Executive shall (without further remuneration and in addition to his duties to the Company) if and for so long as the Company requires during his Employment:

- (a) carry out any duties as may from time to time be assigned to him in relation to any Group Company; and
- (b) act as an officer of any Group Company or hold any other appointment or office as nominee or representative of any Group Company; and

in each case as if they were to be performed or held by him for or in relation to the Company.

5. HOURS OF WORK

The normal business hours of the Company are 9.00am to 5.30p.m. Monday to Friday. The Executive shall work such further hours as may be necessary for the proper discharge of his Duties and he shall not be entitled to receive any additional remuneration for work outside normal business hours

6. PRINCIPAL PLACE OF WORK

- 6.1 The Executive's principal place of work shall be at Holford Way, Holford, Birmingham, or such other location in the U.K. as constitutes the Company's principal place of business from time to time.
- 6.2 The Company may require the Executive to work at a location other than the principal place of work for a period not exceeding 2 weeks as the Company may determine. The Executive shall travel in the UK and abroad as the Board may reasonably require for the performance of his Duties.

7. SALARY

7.1 During his Employment the Company shall pay to the Executive:

- (a) a basic salary at the rate of L84,500 per annum. This salary shall accrue from day to day, be payable by equal monthly instalments in arrears on or about the last Friday of each month and shall include any fees to which the Executive is entitled as a director of any Group Company ; and
- (b) a bonus calculated in accordance with the provisions of the schedule to this Agreement.

7.2 The Executive's basic salary shall be reviewed with effect from 1 July in each year. The review shall be at the discretion of Activision, provided that the annual basic salary increase shall not be less than 6% of the immediately preceding basic salary.

8. EXPENSES

8.1 Subject to clause 8.2 below, the Company shall reimburse to the Executive all hotel, travelling, entertainment and other out of pocket expenses reasonably and properly incurred by him in the performance of his Duties subject to him producing to the Company any vouchers or other evidence of actual payment of the expenses as the Company may reasonably require.

8.2 The Company shall reimburse the Executive in respect of his home telephone bill and private and business petrol expenses, provided that such reimbursements shall not be made at a level materially greater than that at which they were made in the six months prior to the date of this Agreement.

8.3 Any credit card or charge card supplied to the Executive by the Company shall be used solely for expenses incurred by him in carrying out his Duties and for private petrol.

9. OTHER BENEFITS

During his Employment the Executive shall be entitled to the following benefits:

9.1 MOTOR CAR

- (a) The Company shall provide and maintain for the sole use of the Executive a Motor Car and all expenses and petrol in

connection with its private and business use shall be paid or reimbursed to the Executive by the Company on presentation of appropriate receipts if required, subject to the provisions of clause 8.2 above.

- (b) A new Motor Car will be supplied to the Executive after 3 years or 75,000 miles, whichever occurs first.
- (c) The Motor Car may be used by persons other than the Executive with the Executive's permission and provided that such use is in compliance with the Company's motor insurance policy covering the Motor Car.
- (d) The Executive shall not authorise any person to use the Motor Car who is not in possession of a valid driving licence.
- (e) The Company reserves the right to vary the terms and/or rules regarding Company vehicles.
- (f) The Executive shall abide by the Company's Car Scheme Rules in force from time to time.

9.2 MOBILE TELEPHONE

The Company shall provide to the Executive a mobile telephone and will pay all running expenses except the cost of non-business calls made by him in connection with it.

9.3 PENSION

- (a) Subject to the terms of its deed and rules from time to time, the Executive shall be eligible to join the Stanplan A Pension Scheme details of which are available from the Company Secretary.
- (b) The Company shall pay into the Scheme or a pension scheme of the Executive's choice an annual sum not less than 10% of the Executive's annual basic salary.
- (c) On the Executive's election to cease to be a member of the Scheme or on termination of this Agreement, benefits accrued under the Scheme shall be capable of transfer to alternative pension arrangements of the Executive's direction subject to the rules of the Scheme.

(d) No contracting-out certificate pursuant to the Pension Schemes Act 1993 is in force in respect of the Employment.

9.4 STOCK OPTIONS

You will be granted, under Activision's existing or modified stock option plan, options to purchase 50,000 shares of Activision's common stock. The options will be issued on the commencement date of your employment under this Agreement and will vest rateably over five years, with one fifth (1/5) 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 Activision's stock option plan in effect at the time of grant. You also shall be eligible to receive additional options, under Activision's existing or modified stock option plan, if Activision'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.

9.5 LIFE ASSURANCE

The Executive shall be entitled to participate during his employment in the Company's group life assurance scheme from time to time whereby the Executive's life is insured for the benefit of his estate for four times his salary referred to in clause 7.1(a).

10. HOLIDAYS

10.1 The Company's holiday year runs from 1 January to 31 December.

10.2 In addition to public holidays and any other holidays observed by the Company, the Executive is entitled to 30 working days' paid holiday in each holiday year, to be taken at such time or times as are agreed with the Board .

10.3 The Executive may not, without the consent of the Board:

(a) carry forward any unused part of his holiday entitlement to a subsequent holiday year; or

(b) be entitled to payment in lieu for any unused holiday entitlement.

- 10.4 For the holiday year during which his Employment commences or terminates, the Executive's entitlement to holiday shall accrue on a pro rata basis for each complete month of his Employment during that holiday year.
- 10.5 On the termination of his Employment the Executive shall be entitled to pay in lieu of outstanding holiday entitlement and shall be required to repay to the Company any salary received for holiday taken in excess of his actual entitlement. The basis for calculating the payment and repayment shall be 1/253 of the Executive's annual basic salary for each day.
- 10.6 Other than at the request of, or with the permission of, the Company, the Executive may not take holiday during a period of notice to terminate his Employment.

11. SICKNESS OR INJURY

- 11.1 If the Executive is unable to perform his Duties due to sickness or injury he shall report this fact as soon as possible and, if practicable, by 10 am on the first working day of incapacity to the Company Secretary, and provide, so far as practicable, an expected date of return to work.
- 11.2 The Executive shall:
- (a) if absent for under 7 days, on his return to work complete a self-certification form detailing the reason for his absence; and
 - (b) if absent for 7 or more consecutive days and for shorter absence if so required, produce a doctor's certificate on the eighth day and weekly after that so that the whole period of absence is covered by these certificates.
- 11.3 Except as set out in sub-clause 11.4, if the Executive is absent due to sickness or injury duly certified in accordance with the provisions of sub-clause 11.2, he shall be paid his full salary for up to 6 months absence in any period of 12 consecutive months and after that such remuneration, if any, as the Board shall determine from time to time.
- 11.4 Any remuneration paid under sub-clause 11.3 shall:
- (a) not be less than any proceeds received by the Company in respect of the Executive under the Company's permanent health insurance scheme; and

(b) be inclusive of any Statutory Sick Pay to which the Executive is entitled under the provisions of the Social Security and Housing Benefits Act 1982 and any Social Security Sickness Benefit or other benefits recoverable by the Executive (whether or not recovered) which may be deducted from it.

11.5 For Statutory Sick Pay purposes, the Executive's qualifying days are his normal working days.

11.6 At any time during the period of his Employment, (but not normally more often than once every second year) the Executive shall, at the request and expense of the Company:

(a) consent to an examination by a doctor to be selected by the Company; and

(b) authorise this doctor to disclose to and discuss with the Company's medical adviser, or other nominated officer of the Company, the results of or any matter arising out from this examination.

11.7 The Company shall provide and maintain on behalf of the Executive permanent health insurance.

11.8 The Company shall provide and maintain on behalf of the Executive, his wife or partner and any dependent children membership in a BUPA Scheme or any other scheme providing equivalent benefits.

12. TERMINATION OF AND SUSPENSION FROM EMPLOYMENT

12.1 AUTOMATIC TERMINATION

The Employment shall automatically terminate:

(a) when the Executive reaches the age of 60; or

(b) if the Executive becomes prohibited by law from being a director; or

(c) if the Executive resigns his office.

12.2 SUSPENSION

In order to investigate a complaint against the Executive of misconduct the Company may suspend the Executive on full pay for so long as may be necessary to carry out a proper investigation and hold a disciplinary hearing.

12.3 IMMEDIATE DISMISSAL

The Company may by notice terminate the Employment with immediate effect if the Executive:

- (a) fails or neglects efficiently, diligently and competently to carry out his Duties or repeats or continues (after a written warning) any other material breach of his obligations under this Agreement;
- (b) commits any act of gross misconduct or is guilty of any conduct which in the opinion of the Board brings him or any Group Company into disrepute or is calculated or likely prejudicially to affect the interests of any Group Company, whether or not the conduct occurs during or in the context of his Employment;
- (c) is convicted of any criminal offence punishable with imprisonment (other than an offence under road traffic legislation in the United Kingdom or elsewhere for which he is not sentenced to any term of imprisonment whether immediate or suspended);
- (d) commits any act of dishonesty relating to any Group Company, any of its employees or otherwise;
- (e) becomes a patient within the meaning of the Mental Health Act 1983;
or
- (f) becomes bankrupt or makes any arrangement or composition with his creditors generally.

12.4 PAY IN LIEU

On serving notice for any reason to terminate the Employment or at any time during the currency of the notice the Company may elect (but shall not be obliged) to terminate the Employment forthwith and to pay to the Executive his basic salary (at the rate then payable under sub-clause 7.1(a) for the unexpired portion of the duration of his

Employment or entitlement to notice as the case may be during this period. The Company will pay the salary due and payable under this sub-clause (subject to deduction of tax and national insurance contributions at source) in 4 equal instalments at equally spaced intervals in advance during the period.

12.5 GARDEN LEAVE

- (a) After notice to terminate the Employment has been given by the Executive or the Company, the Company may in its absolute discretion:
- (i) require the Executive to perform only such duties (including without limitation research projects) as it may allocate to him;
 - (ii) require the Executive not to perform any of his duties;
 - (iii) require the Executive not to have any contact with clients of the Company;
 - (iv) require the Executive not to have any contact with such employees of the Company as the Company shall determine;
 - (v) exclude the Executive from any Company premises
- provided always that throughout the period of any such action referred to in this clause 12.6(a), the Executive's salary and contractual benefits shall not cease to accrue or be paid or provided subject to the other provisions of this Agreement.
- (b) The Executive acknowledges that such action taken on the part of the Company shall not constitute a breach of this Agreement of any kind whatsoever nor shall the Executive have any claim against the Company in respect of any such action.
- (c) The Executive shall during any such period of garden leave remain readily contactable and available for work and, should he fail to make himself available for work having been requested by the Company to attend, he shall, notwithstanding any other provision of this Agreement, forfeit his right to salary and contractual benefits in respect of such period of non-availability.

12.6 EFFECT OF TERMINATION

On the Termination Date:

- (a) the Executive shall at the request of the Company resign (without prejudice to any claims which he may have against any Group Company arising out of the Employment or its termination) from all and any offices which he may hold as a director of any Group Company and from all other appointments or offices which he holds as nominee or representative of any Group Company and if he should fail to do so within 7 days the Company is irrevocably authorised to appoint some person in his name and on his behalf to sign any documents or do any things necessary or requisite to effect such resignation(s) and/or transfer(s);
- (b) the Executive shall:
 - (i) return to the Company all documents, computer disks and tapes and other tangible items in his possession or under his control which belong to any Group Company or which contain or refer to any Confidential Information; and
 - (ii) delete all Confidential Information from any computer disks, tapes or other re-usable material in his possession or under his control and destroy all other documents and tangible items in his possession or under his control which contain or refer to any Confidential Information; and
- (c) the Company shall be entitled to deduct from any salary or other sum due under to the Executive any sums owed by the Executive to any Group Company.

13. ACKNOWLEDGEMENT BY THE EXECUTIVE

The Executive acknowledges that:

- (a) each Group Company possesses a valuable body of Confidential Information;
- (b) each Group Company will give him access to Confidential Information to enable him to carry out his Duties;

- (c) his Duties include, amongst other things, a duty of trust and confidence and a duty to act at all times in the best interests of each Group Company;
- (d) the Company requires all its senior employees to accept restrictions which are similar to those set out in clause 14 (Obligations during Employment) and clause 15 (Obligations after Employment) for the mutual protection of its Businesses and employees;
- (e) the following would be likely to place that company at a serious competitive disadvantage and cause immeasurable (financial and other) damage to the Businesses:
 - (i) the disclosure of Confidential Information to any customer or actual or potential competitor of any Group Company; and
 - (ii) if, on leaving the Employment, the Executive was to hold any Material Interest in a Customer or any actual or potential competitor of any Group Company;
- (f) the Confidential Information known by the Executive enables him to perform his management duties;
- (g) the success of the Businesses depends, in part, on the Executive's successor and/or fellow employees establishing business relationships with the customers of and suppliers to the Businesses which are similar to those established and maintained by the Executive during his Employment for the purposes of ensuring an orderly hand over to a successor.

14. OBLIGATIONS DURING EMPLOYMENT

14.1 INVENTIONS

- (a) The Executive shall promptly disclose to the Company full details, including drawings and models, of any improvement, invention or discovery which he (whether alone or with any other person) makes at any time during his Employment and which relates or could relate, directly or indirectly, to the Businesses.
- (b) If the improvement, invention or discovery is a Company Invention, the Executive shall (to the extent that it does not automatically vest in the Company by operation of law) hold it

in trust for the Company and, at the request and expense of the Company, do all things necessary or desirable to enable the Company or its nominee to obtain for itself the full benefit of and to secure patent or other appropriate forms of protection for the Company Invention throughout the world.

- (c) If the improvement, invention or discovery is not a Company Invention, the Company shall treat all information disclosed to it by the Executive as confidential property of the Executive.
- (d) The patenting and exploitation of any Company Invention shall be at the sole discretion of the Company.

14.2 COPYRIGHT ETC

- (a) The Executive shall promptly disclose to the Company all copyright works or designs originated, conceived, written or made by him alone or with others during his Employment which relate, or could relate, to the Businesses and shall (to the extent that they do not automatically vest in the Company by operation of law) hold them in trust for the Company until such rights have been fully and absolutely vested in the Company.
- (b) The Executive assigns to the Company by way of future assignment (to the extent not already vested in the Company by operation of law) all copyright, design rights and other proprietary rights (if any) for their full terms throughout the world in respect of all copyright works and designs originated, conceived, written or made by him alone or with others during his Employment which relate, or could relate, to the Businesses.
- (c) The Executive irrevocably and unconditionally waives in favour of the Company any and all moral rights conferred on him by Chapter IV, Part I, Copyright Designs and Patents Act 1988 and any other moral rights provided for under the laws now or in future in force in any part of the world for any work the rights in which are vested in the Company whether by sub-clause (b) or otherwise.
- (d) The Executive shall, at the request and expense of the Company, do all things necessary or desirable to substantiate the rights of the Company under sub-clauses (b) and (c).

14.3 SHARE DEALINGS ETC

- (a) The Executive shall comply, where relevant, with every rule of law, every requirement of the London Stock Exchange Limited, the United States Security and Exchange Commission or any other Recognised Investment Exchange and every regulation of any Group Company from time to time in force relating to dealings in shares, debentures or other securities of any Group Company and, in relation to overseas dealings, the Executive shall also comply with all laws of the state and all regulations of the stock exchange, market or dealing system in which such dealings take place.
- (b) The Executive shall not (and shall procure so far as he is able that his spouse and children shall not) deal or become or cease to be interested (within the meaning of Part I, Schedule 13, Companies Act 1985) in any securities of Group Company without complying with such Group Company rules or guidelines from time to time relating to securities transactions by directors.

14.4 CONFLICT OF INTEREST

The Executive agrees that during his Employment:

- (a) he shall not:
 - (i) directly or indirectly disclose to any person or use other than for any legitimate purposes of any Group Company any Confidential Information;
 - (ii) without the Board's prior written permission hold any Material Interest in any person which:
 - (A) is or shall be wholly a party in competition with any of the Businesses;
 - (B) impairs or might reasonably be thought by the Company to impair his ability to act at all times in the best interests of any Group Company; or
 - (C) requires or might reasonably be thought by the Company to require him to disclose or make use of any Confidential Information in order properly to discharge his duties to or to further his interest in that person;

- (iii) at any time make any untrue or misleading statement in relation to any Group Company.
 - (iv) directly or indirectly receive or obtain in respect of any goods or services sold or purchased or other business transacted (whether or not by him) by or on behalf of any Group Company any discount, rebate, commission or other inducement (whether in cash or in kind) which is not authorised by any company rules or guidelines from time to time and if he or any person in which he holds any Material Interest shall obtain any such discount, rebate, commission or inducement, he shall immediately account to the Company for the amount so received;
 - (v) other than to carry out his Duties, without the prior authority of the Company remove from the premises of any Group Company or copy or allow others to copy the contents of any document, computer disk, tape or other tangible item which contains or refers to any Confidential Information or which belongs to any Group Company;
- (b) he shall, at the request of the Company:
- (i) return to the Company all documents, computer disks and tapes and other tangible items in his possession or under his control which belong to any Group Company or which contain or refer to any Confidential Information; and
 - (ii) delete all Confidential Information from any computer disks, tapes or other re-usable material in his possession or under his control and destroy all other documents and tangible items in his possession or under his control which contain or refer to any Confidential Information.

14.5 POWER OF ATTORNEY

The Executive irrevocably appoints the Company as his attorney in his name and on his behalf to execute documents, to use his name and to do all things which may be necessary or desirable for the Company to obtain for itself or its nominee the full benefit of the provision of sub-clause 14.1(b) and 14.2(b) and a certificate in writing signed by any director or the Company Secretary that any instrument or act falls

within the authority conferred by this paragraph shall be conclusive evidence that such is the case so far as any third party is concerned.

15. OBLIGATIONS AFTER EMPLOYMENT

15.1 The Executive shall not within the Restricted Area directly or indirectly for the period of 12 months after the Termination Date, hold any Material Interest in any person which:

- (a) is or shall be wholly or partly in competition with any of the Businesses; or
- (b) requires or might reasonably be thought by the Company to require him to disclose or make use of any Confidential Information in order properly to discharge his duties to or to further his interest in that person.

15.2 The Executive shall not directly or indirectly, whether on his own behalf or on the behalf of another person:

- (a) for the period of 12 months after the Termination Date:
 - (i) seek, canvass or solicit in any capacity whatsoever any business, orders or custom for any Restricted Products or Restricted Services from any Customer;
 - (ii) accept in any capacity whatsoever orders for any Restricted Products or Restricted Services from any Customer; or
 - (iii) solicit or entice away or seek to entice away from any Group Company any person who is and was at the Termination Date employed by any Group Company in any of the Businesses in a managerial, technical, supervisory, sales, marketing or senior financial capacity;
- (b) at any time after the Termination Date:
 - (i) induce or seek to induce by any means involving the disclosure or use of Confidential Information any Customer to cease dealing with any Group Company or to restrict or vary the terms upon which it deals with any Group Company;
 - (ii) represent himself or permit himself to be held out by

any person, as being in any way connected with or interested in any Group Company; and

(iii) disclose to any person, or make use of any Confidential Information.

16. GRIEVANCE PROCEDURE

16.1 The Executive is subject to the Company's disciplinary rules and procedures, poor performance procedure frequent sickness absence Procedure for the time being in force a copy of which is available from the Company Secretary and such other procedures of this nature as may from time to time be adopted.

16.2 If the Executive has any grievance relating to his Employment (other than one relating to a disciplinary decision) he should refer such grievance to the Chairman of the Board and if the grievance is not resolved by discussion with him it will be referred to the Board for resolution.

17. GENERAL

17.1 PRIOR AGREEMENTS

This Agreement is in substitution for any previous contracts of employment and such prior agreements are hereby terminated.

17.2 ACCRUED RIGHTS

The expiration or termination of the Employment or this Agreement however arising shall not operate to affect such of the provisions of this Agreement as are expressed to operate or have effect after that date and shall be without prejudice to any accrued rights or remedies of the parties.

17.3 VARIATION

No purported variation of this Agreement shall be effective unless it is in writing and signed by or on behalf of each of the parties.

17.4 INVALIDITY

To the extent that any provision of this Agreement is found by any court or competent authority to be invalid, unlawful or unenforceable in any jurisdiction, that provision shall be deemed not to be a part of this Agreement, it shall not affect the enforceability of the remainder of

this Agreement nor shall it affect the validity, lawfulness or enforceability of that provision in any other jurisdiction.

17.5 ASSIGNMENT

The rights and obligations of the Company under this Agreement shall be transferred to its successors and assignors. The Executive may not, however, transfer or assign his rights or obligations under this Agreement.

17.6 UNDERTAKINGS

The Executive has given the undertakings contained in clause 15 (Obligations after Employment) to the Company as trustee for itself and for each Group Company and will at the request and cost of the Company enter into direct undertakings with any Group Company which correspond to the undertakings in clause 15, (Obligations after Employment) or which are less onerous only to the extent necessary (in the opinion of the Company or its legal advisors) to ensure that such undertakings are valid and enforceable.

17.7 INDEMNITY

The Executive will indemnify each Group Company from and against all actions, claims, costs, proceedings, expenses, loss or damage (including, without limitation, legal costs) which may arise directly or indirectly from the unauthorised disclosure or use of the Confidential Information by the Executive or directly from any other breach of the terms of this Agreement by the Executive.

17.8 RELEASES AND WAIVERS

- (a) The rights, powers and remedies conferred on any party by this Agreement and remedies available to the Company are cumulative and are additional to any right, power or remedy which it may have under general law or otherwise.
- (b) The Company may, in whole or in part, release, compound, compromise, waive or postpone, in its absolute discretion, any liability owed to it or right granted to it in this Agreement by the Executive without in any way prejudicing or affecting its rights in respect of that or any other liability or right not so released, compounded, compromised, waived or postponed.
- (c) No single or partial exercise, or failure or delay in exercising any right, power or remedy by the Company shall constitute a

waiver by it of, or impair or preclude any further exercise of, that or any right, power or remedy arising under this Agreement or otherwise.

18. GOVERNING LAW AND JURISDICTION

18.1 This Agreement shall be governed by and construed in accordance with English law.

18.2 Each of the parties irrevocably submits for all purposes in connection with this Agreement to the exclusive jurisdiction of the courts of England.

THIS AGREEMENT has been signed on the date appearing at the head of page 1.

THE SCHEDULE

BONUS

FOR THE FINANCIAL PERIOD FROM 1 MAY 1997 TO 30 APRIL 1998

1. Subject to the following provisions the Executive's entitlement to a bonus under Clause 7.1(b) for the above financial period is as follows;
2. If Net Profits (as defined in paragraph 8 below) are less than L3.17 million ("the Target Profit") the Executive's bonus entitlement shall be nil.
3. If Net Profits are equal to or greater than the Target Profit then the Executive's basic bonus entitlement ("the Basic Bonus") shall be as follows:
 - (a) 0.5 per cent of his basic salary for each L29,250 by which Net Profits exceed L2,000,000 (the "Base Level Profit") up to a maximum of 20 per cent of his basic salary in respect of any financial period; and
 - (b) 0.833 per cent of his basic salary each month for achievement of the targeted monthly closing cash position as agreed and set by the Board by a Board Resolution dated 27 June 1997
 - (c) The Executive's entitlement to the Basic Bonus under this paragraph is limited to a maximum of 30 per cent of his basic salary in respect of any one financial period ("the Maximum Basic Bonus")
4.
 - 4.1 If an Executive is entitled to a Maximum Basic Bonus in any one financial year then subject to the following provisions the Executive's entitlement to an additional bonus under Clause 7.1(b) ("the Additional Bonus") shall be 25 per cent of x/y of the amount by which Net Profits exceed the aggregate of the Target Profit and all Basic Bonuses payable to Executives under paragraph 3 ("the Second Target Profit").

4.2 For the purposes of paragraph 4.1

x = Agreed basic salary of the Executive

y = the total of the basic salaries for R A Steele, N C Brown, A R Waterhouse, D Neal, S G Varnish, G Hawkins and R G Swindells (or, in each case, their replacements).

5. If during the currency of this Agreement any financial period of the Company shall have a duration other than 365 days (or 366 days in the case of a leap year) the Target Profit and the Second Target Profit shall be adjusted in the same proportion as the number of completed days of the financial period bears to 365.
6. If the Executive's employment is terminated during the course of a financial year (save as a result of the Executive's resignation or if the Executive's employment is terminated pursuant to clause 12.3 of the Agreement), the Executive shall be entitled to a pro-rata bonus in respect of the financial year in which his employment terminates calculated by reference to the proportion of the financial year worked by the Executive.
7. The certificate of the auditors of the Company as to the amount of the Basic and Additional Bonuses payable shall, in the absence of manifest error, be final and binding upon the parties and in so certifying the auditors shall be deemed to be acting as experts and not liable in negligence to any person in respect thereof.
8. "Net Profits" for the purpose of this Schedule means the consolidated net revenue profits shown in the audited consolidated profit and loss account of the Company and its subsidiaries for the relevant financial period subject to the following adjustments (if not already taken into account in the profit and loss accounts):
 - (a) before deducting taxation shown by the audited consolidated profit and loss account of the Company and its subsidiaries;
 - (b) before deducting the bonus payable to the Executive and any other remuneration calculated on or variable with profits payable to any other director, officer or employee of the Company and its subsidiaries;
 - (c) before adjustment for extraordinary items not deriving from ordinary activities of the Company and its subsidiaries as required by the Statement of Standard Accounting Practice No6 (SSAP6) save for any charges actually arising from the

amortisation of a payment of L500,000 by the Company to EIDOS PLC as a result of Activision's acquisition of the Company, but subject to a maximum charge of L50,000;

- (d) excluding profits or losses of a capital nature;
- (e) before deducting any payments made to holders of preference shares, whether by way of dividend or redemption;
- (f) before deducting all payments to holders of fifteen per cent Secured Subordinated Loan Stock whether by way of redemption or interest;
- (g) before deducting all payments made to the Company's bankers in respect of fixed term loans, whether by way of interest or capital repayments.
- (h) subject to the provisions of clause 8(c) before deducting any charge arising from the amortisation of goodwill purchased by the Company upon the acquisition by the Company of CentreSoft Limited and its subsidiaries on 28th June 1996.
- (i) before deducting any directors fees paid or payable by the Company to employees of Activision, Inc.

FOR EACH FINANCIAL PERIOD OF THE COMPANY SUBSEQUENT TO 30 APRIL 1998

The Target Profit, Base Level Profit and Second Target Profit figures for each financial period shall be reviewed each year and adjusted to take into account the reasonable projected growth rates of the Company and its subsidiaries and such other areas of responsibility assumed by the Executive during such financial periods and shall be subject to the agreement and approval of such figures by Activision having consulted with the Board and the provisions of paragraph 5 - 8 above shall apply accordingly to the revised bonus entitlement.

EXECUTED as a DEED)
(but not delivered until the date)
appearing at the head of page 1))
by COMBINED DISTRIBUTION)
(HOLDINGS) LIMITED acting by:)

/s/ Lawrence Goldberg

Director Secretary

/s/ Norman Brown

Director

EXECUTED as a Deed) /s/ Richard Steele
by RICHARD ANDREW STEELE) -----
in the presence of:)

Signature of witness:

Name:

Address:

Occupation:

As of September 1, 1997

Mr. Robert Dewar
The Vinery
Eastrop Grange
Highworth, Swindon
Wiltshire SN6 7AT
United Kingdom

Dear Mr. Dewar:

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 September 1, 1997 and shall expire on August 31, 1998, 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 three additional successive one year periods.

(c) The options granted to Employer in Paragraph 1(b) of this agreement will be exercised by Employer by written notice given to you at least six (6) months prior to the expiration of the initial period, the first annual option period or the second annual option period, as applicable.

2. COMPENSATION

(a) In full consideration for all rights and services provided by you under this agreement, you shall receive an annual base salary of L135,000 during the initial period. If Employer exercises its option pursuant to Paragraph 1(b) with respect to the first annual option period, your annual base salary shall be L142,500 during such first annual option period. If Employer exercises its option pursuant to Paragraph 1(b) with respect to the second annual option period, your annual base salary shall be L150,000 during such second annual option period. If Employer exercises its option pursuant to Paragraph 1(b) with respect to the third annual option period, your annual base salary will be L157,500 during such third annual 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 may be entitled to receive an annual performance based bonus of up to 60% of your annual base salary, in compliance with the standard company plans and procedures which is determined by Employer's senior management and Board of Directors (or the Compensation Committee of such Board of Directors) based on a number of factors including the achievement of specific corporate sales, profitability and return on equity goals, as well as a discretionary component which will be based upon your performance, achievement of objectives, and contribution to the success of the corporate goals and objectives.

(e) You also are being granted, under Employer's existing or modified stock option plan, options to purchase 7,500 shares of Employer's common stock. Such options are in addition to the stock options previously issued to you by Employer. The 7,500 options will be issued on the commencement date of your employment under this agreement and will vest ratably over five years, with one fifth (1/5) 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 the company'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.

(f) Employer and you acknowledge that, as of the execution date of this agreement, you have accrued but have not yet been paid bonus compensation in the amount of L10,903 for services previously rendered by you to Employer. Employer and you agree that such L10,903 bonus shall not actually be paid to you but instead shall be applied as a reduction of the L50,000 loan previously made to you by Employer. In addition, the outstanding loan balance of L39,097 shall automatically be reduced by L1,629.04 per month on the last day of each month, commencing on September 30, 1997,

provided that you continue to be employed by Employer under this agreement on the applicable reduction date.

3. TITLE

You are being employed under this agreement in the position of Senior Vice President, International, with your principal responsibility being the management and supervision of all of Employer's international business operations.

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

(a) During the term of your employment by Employer, you shall be provided with a car allowance pursuant to which you will be reimbursed the sum of L300 per month.

(b) You also 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. 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.

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 ten (10) 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 any term or provision 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) 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 (ii) 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 Paragraphs 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 on the last day of your employment under this agreement, 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. Without limiting the generality of the foregoing, you acknowledge that this agreement supersedes your prior written agreement with Employer dated August 7, 1996, 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) You hereby acknowledge that you have had an opportunity to seek legal counsel of your own choice regarding the effect and import of entering into this Agreement.

(g) 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.

(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: Senior Vice President,
Business Affairs and General Counsel

To Employee: The Vinery
Eastrop Grange
Highworth, Swindon
Wiltshire SN6 7AT
United Kingdom

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: _____
Lawrence Goldberg
Senior Vice President, Business
Affairs and General Counsel

By: _____
Robert Dewar

Date: _____

Date: _____

CREDIT AGREEMENT

CREDIT AGREEMENT dated as of June 21, 1999, among ACTIVISION, INC., a Delaware corporation ("ACTIVISION"), HEAD GAMES PUBLISHING, INC., a Minnesota corporation ("HEAD") and, following the Merger, Expert Software, Inc., a Delaware corporation ("EXPERT"; each of Activision, Head and Expert, a "BORROWER" and collectively, "BORROWERS"), the Lenders (as defined in Article I), PNC BANK, NATIONAL ASSOCIATION, a national banking association, as issuing bank (in such capacity, the "ISSUING BANK"), and as administrative agent (in such capacity, the "ADMINISTRATIVE AGENT") and collateral agent (in such capacity, the "COLLATERAL AGENT") for the Lenders and CREDIT SUISSE FIRST BOSTON, a bank organized under the laws of Switzerland, acting through its New York branch, as syndication agent (in such capacity, the "SYNDICATION AGENT").

Pursuant to the Merger Agreement (such term and each other capitalized term used but not defined herein having the meaning given it in Article I), Sub will merge (the "MERGER") with and into Expert, with Expert surviving such Merger as a wholly owned Subsidiary of Activision. In connection with the Merger, the existing stockholders of Expert will be entitled to receive an aggregate of approximately \$23,000,000 in cash (the "MERGER CONSIDERATION"). Promptly following the Merger, Expert will become a party to this Agreement, the Security Documents, the Borrower Guarantee Agreement and the Indemnity, Subrogation and Contribution Agreement.

The Borrowers have requested the Lenders to extend credit in the form of (a) Term Loans to be made to Activision on the Closing Date, in an aggregate principal amount not in excess of \$25,000,000, and (b) Revolving Loans on and after the Closing Date and at any time and from time to time prior to the Revolving Credit Maturity Date, in an aggregate principal amount at any time outstanding not in excess of \$100,000,000. The Borrowers have requested the Issuing Bank to issue Letters of Credit, in an aggregate face amount at any time outstanding not in excess of \$80,000,000, to support payment obligations incurred in the ordinary course of business by the Borrowers. The proceeds of the Term Loans and up to \$36,000,000 of the Revolving Loans are to be used solely (a) to pay the Merger Consideration, (b) to repay all amounts outstanding under the Existing Credit Agreement and (c) to pay related fees and expenses. The proceeds of the Revolving Loans (other than proceeds used as described above) are to be used solely for general corporate purposes.

The Lenders are willing to extend such credit to the Borrowers and the Issuing Bank is willing to issue Letters of Credit for the account of the Borrowers on the terms and subject to the conditions set forth herein. Accordingly, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. DEFINED TERMS. As used in this Agreement, the following terms shall have the meanings specified below:

"ABR BORROWING" shall mean a Borrowing comprised of ABR Loans.

"ABR LOAN" shall mean any ABR Term Loan or ABR Revolving Loan.

"ABR REVOLVING LOAN" shall mean any Revolving Loan bearing interest at a rate determined by reference to the Alternate Base Rate in accordance with the provisions of Article II.

"ABR TERM BORROWING" shall mean a Borrowing comprised of ABR Term Loans.

"ABR TERM LOAN" shall mean any Term Loan bearing interest at a rate determined by reference to the Alternate Base Rate in accordance with the provisions of Article II.

"ACQUIRED DEBT" shall mean Indebtedness of an Acquired Entity existing at the time of a Permitted Acquisition which was not incurred in contemplation of such Permitted Acquisition, is Indebtedness permitted under Section 6.01 and, if owed by a Domestic Subsidiary, the terms of such Indebtedness permit the Domestic Subsidiary to become a party to the Subsidiary Guarantee Agreement, the Pledge Agreement and the Security Agreement, to grant to the Collateral Agent a first priority Lien on its assets and to make loans, dividends and other distributions to Activision and, if owed by a Foreign Subsidiary, is not Guaranteed by any Loan Party.

"ACQUIRED ENTITY" shall have the meaning set forth in Section 6.04(h).

"ADJUSTED EBITDA" of a person for any period shall mean (a) EBITDA for such period PLUS (b) the aggregate amortization with respect to Development Costs for such period which are not otherwise included as amortization expenses in calculating EBITDA in accordance with GAAP, MINUS (c) the principal amount of loans made during such period to officers and employees permitted under Section 6.04(n), to the extent not included in calculating EBITDA in accordance with GAAP.

"ADJUSTED LIBO RATE" shall mean, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to the product of (a) the LIBO Rate in effect for such Interest Period and (b) Statutory Reserves.

"ADMINISTRATIVE QUESTIONNAIRE" shall mean an Administrative Questionnaire in the form of Exhibit A, or such other form as may be supplied from time to time by the Administrative Agent.

"ADVANCE RATES" shall have the meaning assigned to such term in Section 2.01(a).

"AFFILIATE" shall mean, when used with respect to a specified person, another person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the person specified; PROVIDED, HOWEVER, that for purposes of Section 6.07, the term "Affiliate" shall also include any person that directly or indirectly owns 5% or more of any class of Equity Interests of the person specified or that is an officer or director of the person specified.

"AGENT FEES" shall have the meaning assigned to such term in Section 2.08(b).

"AGGREGATE REVOLVING CREDIT EXPOSURE" shall mean the aggregate amount of the Lenders' Revolving Credit Exposures.

"ALTERNATE BASE RATE" shall mean, for any day, a rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the greater of (a) the Base Rate in effect on such day and (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. If for any reason the Administrative Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Effective Rate for any reason, including the inability or failure of the Administrative Agent to obtain sufficient quotations in accordance with the terms of the definition thereof, the Alternate Base Rate shall be determined without regard to clause (b) of the preceding sentence until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Base Rate or the Federal Funds Rate shall be effective on the effective date of such change in the Base Rate or the Federal Funds Rate, respectively. The term "BASE RATE" shall mean the base commercial lending rate of PNC as publicly announced to be in effect from time to time, such rate to be adjusted automatically, without notice, on the effective date of any change in such rate. This rate of interest is determined from time to time by PNC as a means of pricing some loans to its customers and is neither tied to any external rate of interest or index nor does it necessarily reflect the lowest rate of interest actually charged by PNC to any particular class or category of customers of PNC.

"ASSET SALE" shall mean the sale, transfer or other disposition (by way of merger or otherwise, and including any casualty event or condemnation that results in the receipt of any insurance or condemnation proceeds) by any Borrower or any of the Subsidiaries to any person other than a Borrower or any Subsidiary Guarantor of (a) any Equity Interests of any of the Subsidiaries or (b) any other assets of a Borrower or any of its Subsidiaries (other than (i) inventory, excess, damaged, obsolete or worn out assets, scrap

and Permitted Investments, in each case disposed of in the ordinary course of business, (ii) assets transferred for an aggregate purchase price not exceeding \$1,000,000 in any four consecutive fiscal quarters of the Borrowers, (iii) dispositions between or among Foreign Subsidiaries or (iv) license, distribution or development agreements entered into in the ordinary course of business which do not transfer all or substantially all of the rights owned by a Borrower or its Subsidiary), PROVIDED that any asset sale or series of related asset sales described in clause (b) above having a value not in excess of \$250,000 shall be deemed not to be an "Asset Sale" for purposes of this Agreement.

"ASSIGNMENT AND ACCEPTANCE" shall mean an assignment and acceptance entered into by a Lender and an assignee, and accepted by the Administrative Agent, in the form of Exhibit B, or such other form as shall be approved by the Administrative Agent.

"BOARD" shall mean the Board of Governors of the Federal Reserve System of the United States of America.

"BLOCKED ACCOUNTS" shall have the meaning set forth in Section 5.15.

"BORROWER GUARANTEE AGREEMENT" shall mean the Borrower Guarantee Agreement substantially in the form of Exhibit M, made by the Borrowers in favor of the Collateral Agent for the benefit of the Secured Parties.

"BORROWERS" shall mean Activision, Head, Expert and any other Subsidiary of Activision which becomes a Borrower hereunder.

"BORROWERS' ACCOUNT" shall have the meaning given such term in Section 2.07.

"BORROWING" shall mean a group of Loans of a single Type made by the Lenders on a single date and as to which a single Interest Period is in effect.

"BORROWING AGENT" shall mean Activision.

"BORROWING BASE AVAILABILITY" shall mean that amount determined under clauses (i) and (ii) (A) of the definition of Formula Amount contained in Section 2.01(a).

"BORROWING REQUEST" shall mean a request by the Borrowing Agent on behalf of a Borrower in accordance with the terms of Section 2.03 and substantially in the form of Exhibit C, or such other form as shall be approved by the Administrative Agent.

"BUSINESS DAY" shall mean any day other than a Saturday, Sunday or day on which banks in New York City are authorized or required by law to close; PROVIDED, HOWEVER, that when used in connection with a Eurodollar Loan, the term "BUSINESS DAY" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London and New York interbank markets.

"CAPITAL EXPENDITURES" shall mean, for any period and with respect to any person, the aggregate amount of all expenditures during such period by such person that (a) would be classified as capital expenditures in accordance with GAAP or are made in property that is the subject of a synthetic lease to which such person becomes a lessee party during such period but excluding any such expenditure made (i) to restore, replace or rebuild property to the condition of such property immediately prior to any damage, loss, destruction or condemnation of such property, to the extent such expenditure is made with insurance proceeds or condemnation awards relating to any such damage, loss, destruction or condemnation, (ii) with proceeds from the sale or exchange of property to the extent utilized to purchase functionally equivalent property or equipment or (iii) as the purchase price of any Permitted Acquisition; and (b) constitute Development Costs.

"CAPITAL LEASE OBLIGATIONS" of any person shall mean the obligations of such person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

"CASH COLLATERAL" shall mean money or Permitted Investments in the possession of the Collateral Agent (including in the Investment Account) as collateral hereunder or under any other Loan Document and in which the Collateral Agent has a first priority perfected Lien.

"CASH COMPONENTS" shall mean, with respect to any Permitted Acquisition, the cash expenditures and (without duplication) Indebtedness (including Acquired Indebtedness) incurred in connection therewith.

"CASUALTY" shall have the meaning set forth in each of the Mortgages.

"CASUALTY PROCEEDS" shall have the meaning set forth in each of the Mortgages.

"CHANGE IN CONTROL" shall be deemed to have occurred if (a) any person or group (within the meaning of Rule 13d-5 of the Securities Exchange Act of 1934, as amended, as in effect on the date hereof) shall own directly or indirectly, beneficially or of record, shares representing more than 35% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of Activision, (b) a majority of the seats (other than vacant seats) on the board of directors of Activision shall at any time be occupied by persons who were neither (i) nominated by the board of directors of Activision, nor (ii) appointed by directors so nominated, or (c) any change in control (or similar event, however denominated) with respect to Activision or any of its Subsidiaries shall occur under and as defined in any indenture or agreement in respect of Indebtedness in an aggregate principal amount in excess of \$2,000,000 to which Activision or any of the

Subsidiaries is a party, or (d) any Subsidiary of Activision which is a Borrower or UK Sub ceases to be a wholly-owned Subsidiary of Activision.

"CHANGE IN LAW" shall mean (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender or the Issuing Bank (or, for purposes of Section 2.15, by any lending office of such Lender or by such Lender's or the Issuing Bank's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

"CLOSING DATE" shall mean June 22, 1999.

"CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"COLLATERAL" shall mean all the "Collateral" as defined in any Security Document and shall also include any Mortgaged Properties.

"COMMITMENT" shall mean, with respect to any Lender, such Lender's Revolving Credit Commitment and Term Loan Commitment.

"COMMITMENT FEE" shall have the meaning assigned to such term in Section 2.08(a).

"CONDEMNATION" shall have the meaning set forth in each of the Mortgages.

"CONDEMNATION PROCEEDS" shall have the meaning set forth in each of the Mortgages.

"CONFIDENTIAL INFORMATION MEMORANDUM" shall mean the Confidential Information Memorandum of Activision dated April 1999.

"CONTROL" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a person, whether through the ownership of voting securities, by contract or otherwise, and the terms "CONTROLLING" and "CONTROLLED" shall have meanings correlative thereto.

"CONVERTIBLE SUBORDINATED NOTE DOCUMENTS" shall mean the Convertible Subordinated Notes, the Convertible Subordinated Note Indenture and all other documents executed and delivered with respect to the Convertible Subordinated Notes or the Convertible Subordinated Note Indenture.

"CONVERTIBLE SUBORDINATED NOTE INDENTURE" shall mean the Indenture dated as of December 22, 1997, between Activision and State Street Bank and Trust Company of California, N.A., as trustee, as in effect on the Closing Date and as thereafter amended from time to time in accordance with the requirements hereof and thereof.

"CONVERTIBLE SUBORDINATED NOTES" shall mean Activision's 6-3/4% Convertible Subordinated Notes due 2005 issued pursuant to the Convertible Subordinated Note Indenture.

"CREDIT EVENT" shall have the meaning assigned to such term in Section 4.01.

"DEFAULT" shall mean any event or condition which upon notice, lapse of time or both would constitute an Event of Default.

"DEFAULTING LENDER" shall have the meaning set forth in Section 2.25(a).

"DEPOSITORY ACCOUNTS" shall have the meaning set forth in Section 5.15.

"DEVELOPMENT COSTS" shall mean prepaid or guaranteed royalties paid to independent software developers, license fees paid to holders of intellectual property rights and expenses incurred for product development, in each case to the extent such amounts are capitalized in accordance with the Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed".

"DILUTION RESERVE" shall mean the percentage of dilution of Receivables for the most recent 12 months as determined in the most recent audit by the Administrative Agent LESS 20% multiplied by the amount of Eligible Receivables.

"DOLLARS" or "\$" shall mean lawful money of the United States of America.

"DOMESTIC SUBSIDIARIES" shall mean all Subsidiaries incorporated or organized under the laws of the United States of America, any State thereof or the District of Columbia.

"EBITDA" for any person for any period shall mean the Net Income of such person for such period, to which shall be added back, to the extent deducted in calculating Net Income for such period (a) the Interest Expense of such person for such period, (b) all charges against income for foreign, Federal, state and local income taxes of such person for such period, (c) the aggregate depreciation expense of such person for such period, and (d) the aggregate amortization expense of such person for such period, each such component determined in accordance with GAAP.

"ELIGIBLE INVENTORY" shall mean and include, with respect to each Borrower,

Inventory owned by such Borrower (excluding (a) work in process, (b) Inventory not located at a facility owned or leased by a Borrower in the U.S. or a warehouse located in the U.S., (c) Inventory on consignment and (d) components), valued at the lower of cost or market value, determined on a first-in-first-out basis, which is not, in the Administrative Agent's Permitted Discretion, obsolete, slow moving or unmerchantable and which the Administrative Agent, in its Permitted Discretion, shall not deem ineligible Inventory, based on such considerations as the Administrative Agent may from time to time in its Permitted Discretion deem appropriate, including, without limitation, whether the Inventory is subject to a perfected, first priority security interest in favor of the Collateral Agent, subject to no other Lien, and whether the Inventory conforms to all standards imposed by any governmental agency, division or department thereof which has regulatory authority over such goods or the use or sale thereof applicable. Eligible Inventory shall include all Inventory in-transit for which title has passed to the Borrower, which is insured to the full value thereof, under policies for which the Collateral Agent is a loss payee and for which the Administrative Agent shall have in its possession (a) all negotiable bills of lading properly endorsed and (b) all non-negotiable bills of lading issued in the Administrative Agent's name.

"ELIGIBLE RECEIVABLES" shall mean and include with respect to each Borrower each Receivable of such Borrower arising in the ordinary course of such Borrower's business and which the Administrative Agent, in its Permitted Discretion, shall deem to be an Eligible Receivable, based on such considerations as the Administrative Agent may from time to time in its Permitted Discretion deem appropriate. A Receivable shall not be deemed eligible unless such Receivable is subject to the Collateral Agent's first priority perfected security interest and no other Lien (other than a Permitted Lien on terms acceptable to the Administrative Agent in its Permitted Discretion and for which adequate reserves have been established), and is evidenced by an invoice or other documentary evidence satisfactory to the Administrative Agent. In addition, no Receivable shall be an Eligible Receivable if:

- (a) it arises out of a sale made by a Borrower to an Affiliate of such Borrower or to a Person controlled by an Affiliate of such Borrower;
- (b) it is due or unpaid more than one hundred twenty (120) days after the original invoice date or more than sixty (60) days after the due date;
- (c) fifty percent (50%) or more of the Receivables from such Customer are not deemed Eligible Receivables hereunder;
- (d) any covenant, representation or warranty contained in this Agreement or the Security Agreement with respect to such Receivable has been breached in any material respect;
- (e) the Customer shall (i) apply for, suffer, or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of

all or a substantial part of its property or call a meeting of its creditors, (ii) admit in writing its inability, or be generally unable, to pay its debts as they become due or cease operations of its present business, (iii) make a general assignment for the benefit of creditors, (iv) commence a voluntary case under any state or federal bankruptcy laws (as now or hereafter in effect), (v) be adjudicated a bankrupt or insolvent, (vi) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vii) acquiesce to, or fail to have dismissed, any petition which is filed against it in any involuntary case under such bankruptcy laws, or (viii) take any action for the purpose of effecting any of the foregoing;

(f) the sale is to a Customer not domiciled in the United States of America or Canada unless the sale is on letter of credit, guaranty or acceptance terms, or backed by credit insurance, in each case acceptable to the Administrative Agent in its Permitted Discretion;

(g) the sale to the Customer is on a bill-and-hold, guaranteed sale, sale-and-return, sale on approval, consignment or any other similar repurchase or return basis (other than return rights customary in the Borrower's business) or is evidenced by chattel paper;

(h) the Administrative Agent believes, in its Permitted Discretion, that collection of such Receivable is insecure or that such Receivable may not be paid by reason of the Customer's financial inability to pay;

(i) the Customer is the United States of America or Canada, any state or province or any department, agency or instrumentality of any of them, unless the Borrower assigns its right to payment of such Receivable to the Administrative Agent pursuant to the Assignment of Claims Act of 1940, as amended (31 U.S.C. Sub-Section 3727 ET SEQ. and 41 U.S.C. Sub-Section 15 ET SEQ.) or has otherwise complied with other applicable statutes or ordinances;

(j) the goods giving rise to such Receivable have not been shipped and delivered to the Customer or the services giving rise to such Receivable have not been fully performed by the Borrower or the Receivable otherwise does not represent a final sale;

(k) the Receivables of the Customer exceed a credit limit determined by the Administrative Agent, in its Permitted Discretion, to the extent such Receivable exceeds such limit;

(l) the Receivable is subject to any unwaived offset, deduction, defense, dispute, or counterclaim, the Customer is also a creditor or supplier of a Borrower or the Receivable is contingent in any respect or for any reason;

(m) the Borrower has made any agreement with the Customer for any deduction therefrom, except for discounts or allowances made in the ordinary course of

business, all of which discounts or allowances are reflected in the calculation of the face value of each respective invoice related thereto;

(n) any return, rejection or repossession of the merchandise has occurred but only to the extent of the portion of the Receivable relating to the returned, rejected or repossessed goods;

(o) such Receivable is not payable to a Borrower;

(p) such Receivable is not otherwise satisfactory to the Administrative Agent in its Permitted Discretion;

(q) the Borrower has not observed and complied with all laws of the jurisdiction in which the Customer or the Receivable is located which, if not observed or complied with, would deny the Borrower access to the courts of such jurisdiction;

(r) the Receivable arises out of sales of Inventory for which the Borrower acts solely as a collection agent. or

(s) Receivables from original equipment manufacturers or licensees unless such Receivables arise out of an invoice issued for shipment of goods on normal trade terms.

"ENVIRONMENT" shall mean ambient air, surface water and groundwater (including potable water, navigable water and wetlands), the land surface or subsurface strata, the workplace or as otherwise defined in any Environmental Law.

"ENVIRONMENTAL CLAIM" shall mean any written accusation, allegation, notice of violation, claim, demand, order, directive, cost recovery action or other cause of action by, or on behalf of, any Governmental Authority or any person for damages, injunctive or equitable relief, personal injury (including sickness, disease or death), Remedial Action costs, tangible or intangible property damage, natural resource damages, nuisance, pollution, any adverse effect on the environment caused by any Hazardous Material, or for fines, penalties or restrictions, resulting from or based upon (a) the existence, or the continuation of the existence, of a Release (including sudden or non-sudden, accidental or non-accidental Releases), (b) exposure to any Hazardous Material, (c) the presence, use, handling, transportation, storage, treatment or disposal of any Hazardous Material or (d) the violation or alleged violation of any Environmental Law or Environmental Permit.

"ENVIRONMENTAL LAW" shall mean any and all applicable present and future treaties, laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, Release or threatened Release of any

Hazardous Material or to health and safety matters, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. Section 9601 ET SEQ. (collectively "CERCLA"), the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and Hazardous and Solid Waste Amendments of 1984, 42 U.S.C. Section 6901 ET SEQ., the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, 33 U.S.C. Section 1251 ET SEQ., the Clean Air Act of 1970, as amended 42 U.S.C. Section 7401 ET SEQ., the Toxic Substances Control Act of 1976, 15 U.S.C. Section 2601 ET SEQ., the Occupational Safety and Health Act of 1970, as amended, 29 U.S.C. Section 651 ET SEQ., the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C. Section 11001 ET SEQ., the Safe Drinking Water Act of 1974, as amended, 42 U.S.C. Section 300(f) ET SEQ., the Hazardous Materials Transportation Act, 49 U.S.C. Section 5101 ET SEQ., and any similar or implementing state, local or foreign law, and all amendments or regulations promulgated under any of the foregoing.

"ENVIRONMENTAL PERMIT" shall mean any permit, approval, authorization, certificate, license, variance, filing or permission required by or from any Governmental Authority pursuant to any Environmental Law.

"EQUITY INTERESTS" shall mean shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a person.

"EQUITY ISSUANCE" shall mean any issuance or sale by Activision or any Subsidiary of any Equity Interests of Activision or any Subsidiary, as applicable, or any obligations convertible into or exchangeable for, or giving any person a right, option or warrant to acquire such Equity Interests or such convertible or exchangeable obligations, except in each case for (a) any issuance or sale to a Borrower or any Subsidiary, (b) any issuance of directors' qualifying shares, (c) sales or issuances of common stock of Activision to management or key employees of Activision or any Subsidiary under any employee stock option or stock purchase plan or employee benefit plan in existence from time to time or other stock options from time to time granted to employees or directors, or in connection with license, distribution or development agreements, (d) conversion of the Convertible Subordinated Notes into common stock of Activision, (e) issuance of common stock (or options or warrants to purchase common stock) of Activision as consideration for any Permitted Acquisition and (f) other issuances of Equity Interests for non-cash consideration.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as the same may be amended from time to time.

"ERISA AFFILIATE" shall mean any trade or business (whether or not incorporated) that, together with any Borrower, is treated as a single employer under Section 414(b) or

(c) of the Code, or solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"ERISA EVENT" shall mean (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder, with respect to a Plan (other than an event for which the 30-day notice period is waived); (b) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by a Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by the Borrower or any of its ERISA Affiliates from the PBGC or a plan administrator of any notice relating to the intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal from any Plan or Multiemployer Plan; (g) the receipt by a Borrower or any of its ERISA Affiliates of any notice, or the receipt by any Multiemployer Plan from a Borrower or any of its ERISA Affiliates of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA; or (h) any Foreign Benefit Event.

"EURODOLLAR BORROWING" shall mean a Borrowing comprised of Eurodollar Loans.

"EURODOLLAR LOAN" shall mean any Eurodollar Revolving Loan or Eurodollar Term Loan.

"EURODOLLAR REVOLVING LOAN" shall mean any Revolving Loan bearing interest at a rate determined by reference to the Adjusted LIBO Rate in accordance with the provisions of Article II.

"EURODOLLAR TERM BORROWING" shall mean a Borrowing comprised of Eurodollar Term Loans.

"EURODOLLAR TERM LOAN" shall mean any Term Loan bearing interest at a rate determined by reference to the Adjusted LIBO Rate in accordance with the provisions of Article II.

"EUROPEAN DISTRIBUTION SUBSIDIARIES" shall mean Combined Distribution (Holdings) Limited, PDQ Distribution Limited, CentreSoft Limited, NBG EDV Handels und Verlags GmbH & Co. KG, Target Software Vertriebs GmbH, CD Contact Data GmbH, Contact Data N.V., and Contact Data Belgium NV and their respective successors and assignors and any other Foreign Subsidiary engaged primarily in the business of distributing a Borrower's and other persons' products in Europe.

"EVENT OF DEFAULT" shall have the meaning assigned to such term in Article VII.

"EXCESS CASH FLOW" shall mean, for any fiscal year of Activision, the excess of (a) the sum, without duplication, of (i) Adjusted EBITDA of the Loan Parties for such fiscal year, (ii) extraordinary cash receipts of the Loan Parties during such fiscal year and not included in Adjusted EBITDA and (iii) Net Cash Proceeds from the issuance of common stock or stock options which are not Equity Issuances over (b) the sum, without duplication, of (i) the amount of any cash income taxes payable by the Loan Parties with respect to such fiscal year, (ii) cash interest paid (net of cash interest received) by the Loan Parties during such fiscal year, (iii) Capital Expenditures made by the Loan Parties in cash during such fiscal year, except to the extent financed with the proceeds of Indebtedness, casualty proceeds or condemnation proceeds, (iv) permanent repayments of Indebtedness made by the Loan Parties during such fiscal year, but only to the extent that such repayments by their terms cannot be reborrowed or redrawn and do not occur in connection with a refinancing of all or any portion of such Indebtedness, and (v) extraordinary cash expenses (including fees paid to lenders which are capitalized in accordance with GAAP) paid by the Loan Parties, if any, during such fiscal year and not included in Adjusted EBITDA; PROVIDED that to the extent otherwise included therein, the Net Cash Proceeds of Asset Sales and dispositions resulting in Casualty Proceeds or Condemnation Proceeds shall be excluded from the calculation of Excess Cash Flow.

"EXCLUDED TAXES" shall mean, with respect to the Administrative Agent, any Lender, the Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of a Borrower hereunder, (a) income or franchise taxes imposed on (or measured by) its net income by the United States of America, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which a Borrower is located and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrowers under Section 2.24(a)), any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement (or designates a new lending office) or is attributable to such Foreign Lender's failure to comply with Section 2.23(e), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrowers with respect to such withholding tax pursuant to Section 2.23(a).

"EXISTING CREDIT AGREEMENT" shall mean the Amended and Restated Credit Agreement dated as of January 14, 1999, among Activision, the banks party thereto and PNC Bank, National Association, as agent.

"EXISTING LETTER OF CREDIT" shall mean each letter of credit previously issued for the account of Activision or its Domestic Subsidiaries pursuant to the Existing Credit Agreement that (a) is outstanding on the Closing Date and (b) is listed on Schedule 1.01(a).

"EXPERT" shall mean Expert Software, Inc., a Delaware corporation.

"FEDERAL FUNDS RATE" shall mean, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or if such rate is not so published for any day which is a Business Day, the average of quotations for such day on such transactions received by PNC from three Federal funds brokers of recognized standing selected by PNC.

"FEE LETTER" shall mean the Fee Letter dated concurrently herewith, between Activision, the Administrative Agent and the Collateral Agent.

"FEES" shall mean the Commitment Fees, the Agent Fees, the L/C Participation Fees and the Issuing Bank Fees.

"FINANCIAL OFFICER" of any corporation shall mean the chief financial officer, principal accounting officer, Treasurer or Controller of such corporation.

"FIXED CHARGE COVERAGE RATIO" with respect to any person for any period shall mean the ratio of (a) Adjusted EBITDA of such person PLUS, in the case of any Borrower (and without duplication of any amounts included in the Borrowers' Net Income) the amount of dividends or loans or repayments of loans actually received from its Foreign Subsidiaries during such period LESS the amount of loans or capital contributions made to the Foreign Subsidiaries during such period to (b) Fixed Charges for such period.

"FIXED CHARGES" with respect to any person for any period shall mean, without duplication, the sum of (a) Interest Expense for such period, PLUS (b) payments on long term Indebtedness (including Capital Lease Obligations) of such person for such period, PLUS (c) Capital Expenditures made by such person during such period, PLUS (d) taxes paid in cash by such person during such period.

"FOREIGN BENEFIT EVENT" shall mean, with respect to any Foreign Pension Plan, (a) the existence of unfunded liabilities in excess of the amount permitted under any applicable law, or in excess of the amount that would be permitted absent a waiver from a Governmental Authority, (b) the failure to make the required contributions or payments, under any applicable law, on or before the due date for such contributions or payments, (c) the receipt of a notice by a Governmental Authority relating to the intention to terminate any such Foreign Pension Plan or to appoint a trustee or similar official to

administer any such Foreign Pension Plan, or alleging the insolvency of any such Foreign Pension Plan and (d) the incurrence of any liability in excess of \$2,000,000 (or the Dollar equivalent thereof in another currency) by a Borrower or any of its Subsidiaries under applicable law on account of the complete or partial termination of such Foreign Pension Plan or the complete or partial withdrawal of any participating employer therein, or (e) the occurrence of any transaction that is prohibited under any applicable law and could reasonably be expected to result in the incurrence of any liability by the Borrower or any of its Subsidiaries, or the imposition on a Borrower or any of its Subsidiaries of any fine, excise tax or penalty resulting from any noncompliance with any applicable law, in each case in excess of \$2,000,000 (or the Dollar equivalent thereof in another currency).

"FOREIGN LENDER" shall mean any Lender that is organized under the laws of a jurisdiction other than that in which a Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

"FOREIGN PENSION PLAN" shall mean any plan, fund (including any super annuating fund) or other similar program established or maintained outside the United States by a Borrower or any one or more of its Subsidiaries primarily for the benefit of employees of such Borrower or such Subsidiaries residing outside the United States, which plan, fund or other similar program provides, or results in, retirement income, a deferral of income in contemplation of retirement or payments to be made upon termination of employment, and which plan is not subject to ERISA or the Code.

"FOREIGN SUBSIDIARY" shall mean any Subsidiary that is not a Domestic Subsidiary.

"FORMULA AMOUNT" shall have the meaning set forth in Section 2.01(a).

"GAAP" shall mean generally accepted accounting principles in the United States applied on a consistent basis.

"GOVERNMENTAL AUTHORITY" shall mean any Federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory body.

"GRANTING LENDER" shall have the meaning specified in Section 9.04(i).

"GUARANTEE" of or by any person shall mean any obligation, contingent or otherwise, of such person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other person (the "PRIMARY OBLIGOR") in any manner, whether directly or indirectly, and including any obligation of such person, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply

funds for the purchase of) any security for the payment of such Indebtedness or other obligation, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment of such Indebtedness or other obligation or (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation; PROVIDED, HOWEVER, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business.

"HAZARDOUS MATERIALS" shall mean all explosive or radioactive substances or wastes, hazardous or toxic substances or wastes, pollutants, solid, liquid or gaseous wastes, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls ("PCBS") or PCB-containing materials or equipment, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"HEDGING AGREEMENT" shall mean any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, foreign exchange contract, currency swap agreement or other similar agreement or arrangement designed to protect against fluctuations in interest or currency exchange rates and not entered into for speculation.

"INDEBTEDNESS" of any person shall mean, without duplication, (a) all obligations of such person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such person upon which interest charges are customarily paid, (d) all obligations of such person under conditional sale or other title retention agreements relating to property or assets purchased by such person, (e) all obligations of such person issued or assumed as the deferred purchase price of property or services (excluding trade accounts payable and accrued obligations incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such person, whether or not the obligations secured thereby have been assumed, (g) all Guarantees by such person of Indebtedness of others, (h) all Capital Lease Obligations of such person, (i) all obligations of such person in respect of Hedging Agreements and (j) all obligations of such person as an account party in respect of letters of credit and bankers' acceptances. The Indebtedness of any person shall include the Indebtedness of any partnership in which such person is a general partner. Prepaid or guaranteed royalties to independent software developers, license fees paid or guaranteed to holders of intellectual property rights and expenses incurred for product development, whether or not capitalized, are not Indebtedness hereunder.

"INDEMNIFIED TAXES" shall mean Taxes other than Excluded Taxes.

"INDEMNITY, SUBROGATION AND CONTRIBUTION AGREEMENT" shall mean the Indemnity, Subrogation and Contribution Agreement, substantially in the form of Exhibit D, among the Borrowers, the Subsidiary Guarantors and the Collateral Agent.

"INDIVIDUAL FORMULA AMOUNT shall mean, at the date of determination thereof, with respect to each Borrower an amount equal to: (a) up to the Receivables Advance Rate of the sum of Eligible Receivables of such Borrower LESS its Dilution Reserve, PLUS (b) up to the Inventory Advance Rate of the value of Eligible Inventory of such Borrower; PLUS (c) the product of (i) the aggregate amount of outstanding Trade L/C Exposure of such Borrower TIMES (ii) the Inventory Advance Rate, PLUS (d) Cash Collateral of such Borrower, MINUS (e) such other reserves as the Administrative Agent in its Permitted Discretion deems proper and necessary from time to time.

"INTERCOMPANY NOTE" shall mean the demand promissory note in the original principal amount of approximately \$23,000,000 from UK Sub to Activision evidencing the obligations of UK Sub to Activision, which is secured by the UK Charge Documents.

"INTEREST COVERAGE RATIO" with respect to any person for any period shall mean the ratio of Adjusted EBITDA of such person for such period to the Interest Expense of such person for such period.

"INTEREST EXPENSE" with respect to any person for any period shall mean the total cash interest expense of such person (including amortization of deferred financing fees, premiums or interest rate protection agreements and original issue discounts) for such period determined in accordance with GAAP.

"INTEREST PAYMENT DATE" shall mean (a) with respect to any ABR Loan, the last Business Day of each month, and (b) with respect to any Eurodollar Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurodollar Borrowing with an Interest Period of more than three months' duration, each day that would have been an Interest Payment Date had successive Interest Periods of three months' duration been applicable to such Borrowing, and, in addition, the date of any prepayment of a Eurodollar Borrowing or conversion of a Eurodollar Borrowing to an ABR Borrowing.

"INTEREST PERIOD" shall mean, with respect to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day (or, if there is no numerically corresponding day, on the last day) in the calendar month that is 1, 2, 3 or 6 months thereafter, as the Borrowing Agent may elect (or such other period thereafter as the Borrowing Agent may request and all the Lenders with Loans included in such Borrowing may agree); PROVIDED, HOWEVER, that if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period

shall end on the next preceding Business Day. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

"INVESTMENT ACCOUNT" shall mean a cash collateral account maintained by the Collateral Agent invested in Permitted Investments and under the control of the Collateral Agent.

"INVENTORY" with respect to any person shall mean and include all of its now owned or hereafter acquired goods, merchandise and other personal property, wherever located, to be furnished under any contract of service or held for sale or lease, all raw materials, work in process, finished goods and materials and supplies of any kind, nature or description which are or might be used or consumed in its business or used in selling or furnishing such goods, merchandise and other personal property, and all documents of title or other documents representing them.

"INVENTORY ADVANCE RATE" shall have the meaning set forth in Section 2.01(a)(ii) hereof.

"ISSUING BANK" shall mean as the context may require, (a) PNC Bank, National Association, with respect to Letters of Credit issued by it, (b) with respect to each Existing Letter of Credit, the Lender that issued such Existing Letter of Credit, (c) any other Lender that may become an Issuing Bank pursuant to Section 2.26(h) or (j), with respect to Letters of Credit issued by such Lender, or (d) collectively, all the foregoing.

"ISSUING BANK FEES" shall have the meaning assigned to such term in Section 2.08(c).

"JOINDER AGREEMENT" shall mean a Borrower Joinder Agreement substantially in the form attached hereto as Exhibit E executed by a Domestic Subsidiary which becomes a Borrower hereunder.

"L/C COMMITMENT" shall mean the commitment of the Issuing Bank to issue Letters of Credit pursuant to Section 2.26.

"L/C DISBURSEMENT" shall mean a payment or disbursement made by the Issuing Bank pursuant to a Letter of Credit.

"L/C EXPOSURE" shall mean at any time of determination, the sum of (a) the Trade L/C Exposure and (b) the Standby L/C Exposure and "L/C Exposure" of a Borrower shall mean the sum of (a) the Trade L/C Exposure with respect to Trade Letters of Credit issued for the account of such Borrower and the Standby L/C Exposure with respect to Standby Letters of Credit issued for the account of such Borrower.

"L/C PARTICIPATION FEE" shall have the meaning assigned to such term in Section 2.06(c).

"LENDERS" shall mean (a) the financial institutions listed on Schedule 2.01 (other than any such financial institution that has ceased to be a party hereto pursuant to an Assignment and Acceptance) and (b) any financial institution that has become a party hereto pursuant to an Assignment and Acceptance.

"LETTER OF CREDIT" shall mean Trade Letters of Credit, Standby Letters of Credit and any Existing Letter of Credit.

"LEVERAGE RATIO" shall mean, (a) with respect to the Loan Parties on any date, the ratio of the daily average amount of Total Debt of the Loan Parties for the two months ended on such date to Adjusted EBITDA of the Loan Parties for the applicable period; and (b) with respect to Activision and its Subsidiaries on any date, the ratio of Total Debt of Activision and its Subsidiaries on a consolidated basis on such date to Adjusted EBITDA of Activision and its Subsidiaries on a consolidated basis for the applicable period.

"LIBO RATE" shall mean for any Eurodollar Borrowing for the then current Interest Period relating thereto the interest rate per annum determined by PNC by dividing (the resulting quotient rounded upwards, if necessary, to the nearest 1/100th of 1% per annum) (i) the rate of interest determined by PNC in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the eurodollar rate two (2) Business Days prior to the first day of such Interest Period for an amount comparable to such Eurodollar Borrowing and having a borrowing date and a maturity comparable to such Interest Period by (ii) a number equal to 1.00 minus the Reserve Percentage.

"LIEN" shall mean, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, encumbrance, charge or security interest in or on such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"LOAN DOCUMENTS" shall mean this Agreement, the Letters of Credit, the Borrower Guarantee Agreement, the Subsidiary Guarantee Agreement, the Security Documents, the Indemnity, Subrogation and Contribution Agreement, any Joinder Agreement and any and all agreements, instruments and documents now or hereafter executed by a Borrower or a Subsidiary Guarantor and delivered to the Administrative Agent, the Issuing Bank or any Lender in connection with this Agreement.

"LOAN PARTIES" shall mean the Borrowers and the Subsidiary Guarantors.

"LOANS" shall mean the Revolving Loans and the Term Loans.

"MARGIN STOCK" shall have the meaning assigned to such term in Regulation U.

"MASTER NOTE" shall mean any demand promissory note evidencing loans from a Loan Party to a Foreign Subsidiary.

"MATERIAL ADVERSE EFFECT" shall mean a material adverse effect on (a) the condition, operations, assets, business or prospects of the Loan Parties, taken as a whole, or on Activision and its Subsidiaries, taken as a whole; (b) the ability of the Loan Parties taken as a whole to pay or perform the Obligations in accordance with the terms thereof; (c) the value of the Collateral or the Collateral Agent's Liens on the Collateral or the priority of such Liens; (d) the validity or enforceability of any Loan Document (other than with respect to a Subsidiary which is not a Material Subsidiary) or (e) the practical realization of the benefits of the Administrative Agent's, the Collateral Agent's and each Lender's rights and remedies under this Agreement and the other Loan Documents.

"MATERIAL CONTRACT" shall mean any and all contracts or agreements of a Borrower or any Domestic Subsidiary involving amounts remaining to be paid in excess of \$1,000,000.

"MATERIAL SUBSIDIARY" shall mean any Subsidiary which has assets with a book value in excess of \$5,000 as of the date of determination.

"MERGER" shall have the meaning given such term in the preamble to this Agreement.

"MERGER AGREEMENT" shall mean the Amended and Restated Agreement and Plan of Merger dated as of April 19, 1999, by and among Activision, Sub and Expert, as amended, supplemented or otherwise modified from time to time in accordance with the terms hereof and thereof.

"MORTGAGED PROPERTIES" shall mean the owned real properties and leasehold and subleasehold interests of the Loan Parties at the time subject to the Mortgages.

"MORTGAGES" shall mean the mortgages, deeds of trust, leasehold mortgages, assignments of leases and rents, modifications and other security documents delivered pursuant to Section 5.12, each in form and substance satisfactory to the Administrative Agent.

"MULTIEMPLOYER PLAN" shall mean a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"NET CASH PROCEEDS" shall mean (a) with respect to any Asset Sale, the cash proceeds (including cash proceeds subsequently received (as and when received) in respect of noncash consideration initially received), net of (i) selling expenses (including reasonable broker's fees or commissions, legal fees, transfer and similar taxes and the Borrowers' good faith estimate of income taxes paid or payable in connection with such sale), (ii) amounts provided as a reserve, in accordance with GAAP, against any liabilities under any indemnification obligations associated with such Asset Sale (PROVIDED that, to the extent and at the time any such amounts are released from such reserve, such amounts shall constitute Net Cash Proceeds) and (iii) the principal amount, premium or penalty, if any, interest and other amounts on any Indebtedness for borrowed money which is secured by the asset sold in such Asset Sale and which is repaid with such proceeds (other than any such Indebtedness assumed by the purchaser of such asset or repayments of the Revolving Loans) and (b) with respect to any issuance or disposition of Indebtedness or any Equity Issuance, the cash proceeds thereof, net of all taxes and customary fees, commissions, costs and other expenses incurred in connection therewith. Notwithstanding the foregoing, Net Cash Proceeds shall not include any amounts received by the Borrowers or any Subsidiary in respect of any casualty or condemnation to the extent Borrower or such Subsidiary uses the amounts so received within 180 days of the receipt thereof to rebuild, restore or replace the property subject to such casualty or condemnation.

"NET INCOME" shall mean, for any period, net income or loss of Activision and its Subsidiaries, or of the Loan Parties, as the case may be, for such period determined on a consolidated basis in accordance with GAAP; PROVIDED that there shall be excluded (a) the income of any Subsidiary to the extent that the declaration or payment of dividends or similar distributions by the Subsidiary of that income is prohibited by operation of the terms of its charter or any agreement, instrument, judgment, decree, statute, rule or governmental regulation applicable to the Subsidiary except to the extent that dividends or distributions are actually paid in compliance therewith, (b) the income (or loss) of any person accrued prior to the date it becomes a Subsidiary or is merged into or consolidated with a Borrower or any of the Subsidiaries or the date that person's assets are acquired by a Borrower or any of the Subsidiaries, and (c) the income of any Subsidiary which is not a wholly owned Subsidiary except to the extent that dividends or distributions are actually paid to Activision.

"OBLIGATIONS" shall mean and include any and all of each Borrower's Indebtedness and/or liabilities to the Administrative Agent, the Collateral Agent, the Issuing Bank or Lenders or any corporation that directly or indirectly controls or is controlled by or is under common control with the Administrative Agent, the Collateral Agent, the Issuing Bank or any Lender of every kind, nature and description, direct or indirect, secured or unsecured, joint, several, joint and several, absolute or contingent, due or to become due, now existing or hereafter arising, contractual or tortious, liquidated or unliquidated, regardless of how such indebtedness or liabilities arise or by what agreement or instrument they may be evidenced or whether evidenced by any agreement

or instrument, including, but not limited to, any and all of any Borrower's Indebtedness and/or liabilities under this Agreement, the other Loan Documents or under any other agreement between the Administrative Agent, the Collateral Agent, the Issuing Bank or Lenders and any Borrower and all obligations of any Borrower to the Administrative Agent, the Collateral Agent, the Issuing Bank or Lenders to perform acts or refrain from taking any action.

"OTHER TAXES" shall mean any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made under any Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, any Loan Document.

"PAYMENT OFFICE" shall mean initially Two Tower Center Boulevard, East Brunswick, New Jersey 08816; thereafter, such other office of the Administrative Agent, if any, which it may designate by notice to the Borrowing Agent and to each Lender to be the Payment Office.

"PBG" shall mean the Pension Benefit Guaranty Corporation referred to and defined in ERISA.

"PNC" shall mean PNC Bank, National Association.

"PERFECTION CERTIFICATE" shall mean the Perfection Certificate substantially in the form of Annex 2 to the Security Agreement.

"PERMITTED ACQUISITION" shall have the meaning assigned to such term in Section 6.04(h).

"PERMITTED DISCRETION" means the Administrative Agent's reasonable and good faith judgment based upon any factor which the Administrative Agent believes in good faith (a) could reasonably be expected to adversely affect the value of any Collateral, the enforceability or priority of the Collateral Agent's Liens or the amount that the Lenders would be likely to receive upon a liquidation of the Collateral; (b) suggests that any report of Collateral or financial information is incomplete, inaccurate or misleading in any material respect; (c) could reasonably be expected to create a Default or Event of Default or increase the likelihood of an insolvency or bankruptcy proceeding. In exercising such judgment with respect to matters relating to the determination of Eligible Inventory and Eligible Receivables, changes in advance rates or the imposition, increase or reduction of reserves, the Administrative Agent may reasonably take into account factors included in the definitions of Eligible Inventory and Eligible Receivables, as well as changes in concentration of risk of Receivables, changes in collection history and dilution, changes in demand for and pricing of Inventory, and other changes in the value of the Inventory or Receivables that tend to increase the credit risk of lending to the

Borrowers on the security of Inventory or Receivables. The burden of establishing lack of good faith shall be on the Borrowers.

"PERMITTED INVESTMENTS" shall mean any of the following:

- (a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of acquisition thereof;
- (b) investments in commercial paper maturing within 180 days from the date of acquisition thereof and having, at such date of acquisition, the highest credit rating obtainable from Standard & Poor's Ratings Service or from Moody's Investors Service, Inc.;
- (c) investments in certificates of deposit, banker's acceptances and time deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof that has a combined capital and surplus and undivided profits of not less than \$500,000,000;
- (d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria of clause (c) above; and
- (e) such other investments that are acceptable to the Administrative Agent.

"PERSON" shall mean any natural person, corporation, business trust, joint venture, association, company, limited liability company, partnership or government, or any agency or political subdivision thereof.

"PLAN" shall mean any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 307 of ERISA, and in respect of which the Borrowers or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"PLEDGE AGREEMENT" shall mean the Pledge Agreement, substantially in the form of Exhibit F, between the Borrowers, the Subsidiaries party thereto and the Collateral Agent for the benefit of the Secured Parties, together with any pledge or similar agreement required or advisable under the laws of any foreign jurisdiction to perfect the pledge the stock of the Foreign Subsidiaries.

"PRO RATA PERCENTAGE" of any Revolving Credit Lender at any time shall mean the percentage of the Total Revolving Credit Commitment represented by such Lender's Revolving Credit Commitment.

"RECEIVABLES" of a person shall mean and include all of its accounts, contract rights, instruments (including those evidencing indebtedness owed to it by its Affiliates), documents, chattel paper, general intangibles relating to accounts, drafts and acceptances, and all other forms of obligations owing to such person arising out of or in connection with the sale or lease of Inventory or the rendition of services, all guarantees and other security therefor, whether secured or unsecured, now existing or hereafter created, and whether or not specifically sold or assigned to the Administrative Agent or Collateral Agent hereunder.

"RECEIVABLES ADVANCE RATE" shall have the meaning set forth in Section 2.01(a)(i) hereof.

"REGISTER" shall have the meaning given such term in Section 9.04(d).

"REGULATION T" shall mean Regulation T of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"REGULATION U" shall mean Regulation U of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"REGULATION X" shall mean Regulation X of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"RELATED FUND" shall mean, with respect to any Lender that is a fund that invests in bank loans, any other fund that invests in bank loans and is advised or managed by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

"RELEASE" shall mean any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing, depositing, dispersing, emanating or migrating of any Hazardous Material in, into, onto or through the environment.

"REMEDIAL ACTION" shall mean (a) "remedial action" as such term is defined in CERCLA, 42 U.S.C. Section 9601(24), and (b) all other actions required by any Governmental Authority or voluntarily undertaken to: (i) cleanup, remove, treat, abate or in any other way address any Hazardous Material in the environment; (ii) prevent the Release or threat of Release, or minimize the further Release of any Hazardous Material so it does not migrate or endanger or threaten to endanger public health, welfare or the

environment; or (iii) perform studies and investigations in connection with, or as a precondition to, (i) or (ii) above.

"REPAYMENT DATE" shall have the meaning given such term in Section 2.12.

"REQUIRED LENDERS" shall mean, at any time, Lenders having Loans, L/C Exposure and unused Revolving Credit and Term Loan Commitments representing at least a majority of the sum of all Loans outstanding, L/C Exposure and unused Revolving Credit and Term Loan Commitments at such time, subject, however, to the provisions of Section 2.25 with respect to Defaulting Lenders.

"RESPONSIBLE OFFICER" of any corporation shall mean any executive officer or Financial Officer of such corporation and any other officer or similar official thereof responsible for the administration of the obligations of such corporation in respect of this Agreement.

"REVOLVING CREDIT BORROWING" shall mean a Borrowing comprised of Revolving Loans.

"REVOLVING CREDIT COMMITMENT" shall mean, with respect to each Lender, the commitment of such Lender to make Revolving Loans hereunder as set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender assumed its Revolving Credit Commitment, as applicable, as the same may be (a) reduced from time to time pursuant to Section 2.11 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04.

"REVOLVING CREDIT EXPOSURE" shall mean, with respect to any Lender at any time, the aggregate principal amount at such time of all outstanding Revolving Loans of such Lender, PLUS the aggregate amount at such time of such Lender's L/C Exposure.

"REVOLVING CREDIT LENDER" shall mean a Lender with a Revolving Credit Commitment.

"REVOLVING CREDIT MATURITY DATE" shall mean June 21, 2002.

"REVOLVING LOANS" shall mean the revolving loans made by the Lenders to the Borrowers pursuant to Section 2.01. Each Revolving Loan shall be a Eurodollar Revolving Loan or an ABR Revolving Loan.

"SCHEDULE OF RECEIVABLES" shall mean, as to each Borrower, a detailed aged trial balance of all then existing Receivables of such Borrower in form and substance satisfactory to the Administrative Agent, specifying in each case the names, addresses, face amount and dates of invoice(s) for each Customer obligated on a Receivable so listed and, if requested by the Administrative Agent, copies of proof of delivery and customer

statements and the original copy of all documents, including, without limitation, repayment histories and present status reports, and such other matters and information relating to the status of the Receivables and/or the Customers so scheduled as the Administrative Agent may from time to time reasonably request.

"SCHEDULE OF PAYABLES" shall mean, as to each Borrower, a detailed aged listing of such Borrower's existing accounts payable, specifying the names of each creditor and the amount owed to such creditor and such matters and information relating to the status of such Borrower's accounts payable so scheduled as the Administrative Agent may from time to time reasonably request.

"SECURED PARTIES" shall have the meaning assigned to such term in the Security Agreement.

"SECURITY AGREEMENT" shall mean the Security Agreement, substantially in the form of Exhibit G, among the Borrowers, the Subsidiaries party thereto and the Collateral Agent for the benefit of the Secured Parties.

"SECURITY DOCUMENTS" shall mean the Mortgages, the Security Agreement, the Pledge Agreement and each of the security agreements, mortgages and other instruments and documents executed and delivered pursuant to any of the foregoing or pursuant to Section 5.12.

"SETTLEMENT DATE" shall mean the Closing Date and thereafter Wednesday of each Week unless such day is not a Business Day in which case it shall be the next succeeding Business Day.

"SPC" shall have the meaning specified in Section 9.04(i).

"STANDBY L/C EXPOSURE" shall mean, at any time of determination, the sum of (a) the aggregate undrawn amount of all outstanding Standby Letters of Credit and (b) the aggregate amount that has been drawn under any Standby Letter of Credit but for which the Issuing Bank or the Lenders, as the case may be, have not been reimbursed by the Borrowers at such time.

"STANDBY LETTER OF CREDIT" shall mean (a) each irrevocable letter of credit issued pursuant to Section 2.26(a) under which the Issuing Bank agrees to make payments for the account of a Borrower, on behalf of such Borrower, in respect of obligations of such Borrower incurred pursuant to contracts made or performances undertaken or to be undertaken or like matters relating to contracts to which a Borrower is or proposes to become a party in the ordinary course of such Borrower's business and (b) each Existing Letter of Credit.

"STATUTORY RESERVES" shall mean a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board and any other banking authority, domestic or foreign, to which the Administrative Agent or any Lender (including any branch, Affiliate, or other fronting office making or holding a Loan) is subject with respect to the Adjusted LIBO Rate, for Eurocurrency Liabilities (as defined in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurodollar Loans shall be deemed to constitute Eurocurrency Liabilities and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D. Statutory Reserves shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"SUB" shall mean Expert Acquisition Corp., a Delaware corporation.

"SUBORDINATED DEBT" shall mean unsecured Indebtedness of Activision which has a maturity date at least one year after the Revolving Credit Maturity Date, no principal payments due prior to one year after the Revolving Credit Maturity Date and is otherwise on terms and conditions set forth on Exhibit K hereto.

"SUBSIDIARY" shall mean, with respect to any person (herein referred to as the "PARENT"), any corporation, partnership, association or other business entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or more than 50% of the general partnership interests are, at the time any determination is being made, owned, controlled or held, or (b) that is, at the time any determination is made, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent and that is consolidated with such person in accordance with GAAP.

"SUBSIDIARY" shall mean any subsidiary of Activision.

"SUBSIDIARY GUARANTEE AGREEMENT" shall mean the Subsidiary Guarantee Agreement, substantially in the form of Exhibit H, made by the Subsidiary Guarantors in favor of the Collateral Agent for the benefit of the Secured Parties.

"SUBSIDIARY GUARANTOR" shall mean each Subsidiary listed on Schedule 1.01(c), and each other Subsidiary that is or becomes a party to the Subsidiary Guarantee Agreement.

"TANGIBLE NET WORTH" for any person shall mean, at a particular date (a) the aggregate amount of all assets of such person as may be properly classified as such in accordance with GAAP consistently applied, excluding such assets as are properly

classified as intangible assets under GAAP and assets evidencing any receivable from or investments in any Affiliate LESS (b) the aggregate amount of all liabilities of such person.

"TAXES" shall mean any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

"TERM BORROWING" shall mean a Borrowing comprised of Term Loans.

"TERM LOAN COMMITMENT" shall mean, with respect to each Lender, the commitment of such Lender to make Term Loans hereunder as set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender assumed its Term Loan Commitment, as applicable, as the same may be (a) reduced from time to time pursuant to Section 2.11 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04.

"TERM LOAN MATURITY DATE" shall mean June 21, 2002.

"TERM LOANS" shall mean the term loans made by the Lenders to Activision pursuant to Section 2.01. Each Term Loan shall be a Eurodollar Term Loan or an ABR Term Loan.

"TOTAL DEBT" at any time and with respect to any person shall mean the total Indebtedness of such person at such time (excluding Indebtedness of the type described in clause (i) of the definition of such term).

"TOTAL REVOLVING CREDIT COMMITMENT" shall mean, at any time, the aggregate amount of the Revolving Credit Commitments, as in effect at such time.

"TRADE L/C EXPOSURE" shall mean, at any time of determination, the sum of (a) the aggregate undrawn amount of all outstanding Trade Letters of Credit, (b) the aggregate unpaid amount of all accepted usance drafts drawn under Letters of Credit and (c) the aggregate amount that has been drawn under any Trade Letter of Credit but for which the Issuing Bank or the Lenders, as the case may be, have not been reimbursed by the Borrowers at such time.

"TRADE LETTER OF CREDIT" shall mean each sight or usance commercial documentary letter of credit issued by the Issuing Bank for the account of a Borrower pursuant to Section 2.26(a) for the purchase of goods in the ordinary course of business.

"TRANSACTIONS" shall have the meaning assigned to such term in Section 3.02.

"TYPE", when used in respect of any Loan or Borrowing, shall refer to the Rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is

determined. For purposes hereof, the term "RATE" shall include the Adjusted LIBO Rate and the Alternate Base Rate.

"UK SUB" shall mean Activision UK, Ltd., a corporation organized under the laws of England and Wales.

"UK CHARGE DOCUMENTS" shall mean the various pledge and security agreements securing the Intercompany Note.

"UNDRAWN AVAILABILITY" at a particular date shall mean an amount equal to (a) the lesser of (i) the Formula Amount or (ii) the Total Revolving Credit Commitment MINUS (b) the sum of (i) the Aggregate Revolving Credit Exposure, PLUS (ii) all amounts due and owing to the Loan Parties' trade creditors which are outstanding more than 60 days after the due date, PLUS (iii) fees and expenses for which Borrowers are liable but which have not been paid or charged to Borrowers' Account.

"WEEK" shall mean the time period commencing with the opening of business on a Wednesday and ending on the end of business the following Tuesday.

"WHOLLY OWNED SUBSIDIARY" of any person shall mean a subsidiary of such person of which securities (except for directors' qualifying shares) or other ownership interests representing 100% of the equity or 100% of the ordinary voting power or 100% of the general partnership interests are, at the time any determination is being made, owned, controlled or held by such person or one or more wholly owned subsidiaries of such person or by such person and one or more wholly owned subsidiaries of such person.

"WITHDRAWAL LIABILITY" shall mean liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. TERMS GENERALLY. The definitions in Section 1.01 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". All references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, (a) any reference in this Agreement to any Loan Document shall mean such document as amended, restated, supplemented or otherwise modified from time to time and (b) all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; PROVIDED, HOWEVER, that if the Borrowing Agent notifies the Administrative Agent that the Borrowers wish to amend any covenant in Article VI or any related definition to eliminate the effect of any change in GAAP occurring after the date of this Agreement on the operation of such

covenant (or if the Administrative Agent notifies the Borrowing Agent that the Required Lenders wish to amend Article VI or any related definition for such purpose), then the Borrowers' compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrowers and the Required Lenders.

ARTICLE II

The Credits

SECTION 2.01. COMMITMENTS; FORMULA AMOUNT. (a) Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Lender agrees, severally and not jointly, (i) to make a Term Loan to Activision on the Closing Date in a principal amount not to exceed its Term Loan Commitment, and (ii) to make Revolving Loans to the Borrowers, at any time and from time to time on or after the Closing Date and until the earlier of the Revolving Credit Maturity Date and the termination of the Revolving Credit Commitment of such Lender in accordance with the terms hereof, in an aggregate principal amount at any time outstanding that will not result in such Lender's Revolving Credit Exposure exceeding the lesser of (x) such Lender's Revolving Credit Commitment and (y) such Lender's Pro Rata Percentage of an amount equal to the sum of the following (the "Formula Amount"):

(i) up to 70%, subject to the provisions of Section 2.01(c) hereof ("Receivables Advance Rate"), of the sum of (A) Eligible Receivables of the Borrowers LESS (B) the Dilution Reserve, PLUS

(ii) up to the lesser of (A) the sum of (a) 50%, subject to the provisions of Section 2.01(c) hereof ("Inventory Advance Rate"), of the value of the Eligible Inventory of the Borrowers (the Receivables Advance Rate and the Inventory Advance Rate shall be referred to collectively, as the "Advance Rates") and (b) the product of (x) the Trade L/C Exposure for Inventory for which title has not yet passed to the Borrower TIMES (y) the Inventory Advance Rate, or (B) the greater of (a) \$15,000,000 or (b) forty percent (40%) of the Borrowing Base Availability in the aggregate at any one time, MINUS

(iii) the L/C Exposure, MINUS

(iv) during at least 1 month (as designated by the Borrowing Agent by written notice to the Administrative Agent at least 3 Business Days prior to the beginning of the month) in each of the 6 month periods of January to June and July to December, an amount equal to the

outstanding principal balance of the Term Loans and during at least 1 month (as so designated) during each of such periods, an amount equal to 60% of the outstanding principal balance of the Term Loans; PLUS

(v) Cash Collateral; MINUS

(vi) such other reserves as the Administrative Agent may deem proper and necessary from time to time in its Permitted Discretion.

(b) Each Revolving Credit Lender agrees, severally and not jointly, to make Revolving Loans to each Borrower in aggregate amounts outstanding at any time not greater than such Lender's Pro Rata Percentage of such Borrower's Individual Formula Amount less such Borrower's L/C Exposure.

(c) The Advance Rates may be increased or decreased by the Administrative Agent at any time and from time to time in the exercise of its Permitted Discretion; PROVIDED, HOWEVER, that (i) any decrease in any Advance Rate shall only be effective on the fifth day after the Administrative Agent has given the Borrowing Agent notice of such decrease and (ii) any increase or decrease in the Receivables Advance Rate shall only apply to Eligible Receivables created and assigned to the Administrative Agent after such change in Advance Rate becomes effective, but any increase or decrease in the Inventory Advance Rate shall apply to all Eligible Inventory whether then owned or thereafter acquired. Each Borrower consents to any such increases or decreases and acknowledges that decreasing the Advance Rates or increasing the reserves may limit or restrict Revolving Loans or Letters of Credit requested by the Borrowing Agent..

(d) For purposes of calculating the Formula Amount, Individual Formula Amount, Eligible Inventory, and Eligible Receivables, the Receivables and Inventory acquired in any Permitted Acquisition shall not be included until such time as the Administrative Agent has performed an audit with results satisfactory to it in its Permitted Discretion.

SECTION 2.02. LOANS. (a) Each Loan shall be made as part of a Borrowing consisting of Loans made by the Lenders ratably in accordance with their applicable Commitments; PROVIDED, HOWEVER, that the failure of any Lender to make any Loan shall not in itself relieve any other Lender of its obligation to lend hereunder (it being understood, however, that no Lender shall be responsible for the failure of any other Lender to make any Loan required to be made by such other Lender). Except for Loans deemed made pursuant to Section 2.03(a), the Loans comprising any Borrowing shall be in an aggregate principal amount that is (i) an integral multiple of \$1,000,000 or (ii) equal to the remaining available balance of the applicable Commitments.

(b) Subject to Sections 2.15 and 2.17, each Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans as the Borrowing Agent may request

pursuant to Section 2.03. Each Lender may at its option make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; PROVIDED that any exercise of such option shall not affect the obligation of the Borrowers to repay such Loan in accordance with the terms of this Agreement. Borrowings of more than one Type may be outstanding at the same time; PROVIDED, HOWEVER, that the Borrowers shall not be entitled to request any Borrowing that, if made, would result in more than five Eurodollar Borrowings outstanding hereunder at any time. For purposes of the foregoing, Borrowings made by a Borrower having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Borrowings.

(c) Notwithstanding any other provision of this Agreement, the Borrowing Agent shall not be entitled to request any Revolving Credit Borrowing if the Interest Period requested with respect thereto would end after the Revolving Credit Maturity Date.

SECTION 2.03. PROCEDURE FOR REVOLVING CREDIT BORROWINGS. (a) The Borrowing Agent on behalf of any Borrower may notify the Administrative Agent prior to 1:00 p.m., New York time, on a Business Day of a Borrower's request to make, on that day, a Revolving Credit Borrowing hereunder. Should any amount required to be paid as interest hereunder, or as fees or other charges under this Agreement or any other agreement with the Administrative Agent, the Collateral Agent or Lenders, or any L/C Disbursement, or with respect to any other Obligation, become due, same shall be deemed a request for a Revolving Credit Borrowing as of the date such payment is due, in the amount required to pay in full such interest, fee, charge or Obligation under this Agreement or any other agreement with the Administrative Agent, the Collateral Agent or Lenders, and such request shall be irrevocable. The Administrative Agent is hereby irrevocably authorized, in its sole discretion, to make Revolving Loans from time to time, or to charge Borrowers' Account, to pay any interest, fees or other amounts (including any L/C Disbursement) for which payment is due under this Agreement, or at any time after the occurrence of an Event of Default to cash collateralize the L/C Exposure.

(b) Notwithstanding the provisions of Section 2.03(a) above, in the event a Borrower desires to make a Eurodollar Borrowing, the Borrowing Agent shall give the Administrative Agent at least three (3) Business Days' prior written notice, specifying (i) the date of the proposed Borrowing (which shall be a Business Day), (ii) the amount on the date of such Revolving Credit Borrowing, which amount shall be an integral multiple of \$1,000,000, and (iii) the duration of the first Interest Period therefor. No Eurodollar Borrowing shall be made available to the Borrowers during the continuance of a Default or an Event of Default.

(c) The Borrowing Agent shall elect the initial Interest Period applicable to a Eurodollar Borrowing by its notice of borrowing given to the Administrative Agent pursuant to Section 2.03 (a) or by its notice of conversion given to the Administrative

Agent pursuant to Section 2.03(d), as the case may be. The Borrowing Agent shall elect the duration of each succeeding Interest Period by giving irrevocable written notice to the Administrative Agent of such duration not less than three (3) Business Days prior to the last day of the then current Interest Period applicable to such Eurodollar Borrowing. If the Administrative Agent does not receive timely notice of the Interest Period elected by the Borrowing Agent, the applicable Borrower shall be deemed to have elected to convert to an ABR Loan, subject to Section 2.03(d) hereinbelow.

(d) Provided that no Default or Event of Default shall have occurred and be continuing, the Borrowing Agent may, on the last Business Day of the then current Interest Period applicable to any outstanding Eurodollar Loan, or on any Business Day with respect to ABR Loans, convert any such Loan into a Loan of another type in the same aggregate principal amount; PROVIDED that any conversion of a Eurodollar Loan shall be made only on the last Business Day of the then current Interest Period applicable to such Eurodollar Loan. If a Borrower desires to convert a Loan, the Borrowing Agent shall give the Administrative Agent not less than three (3) Business Days' prior written notice to convert from an ABR Loan to a Eurodollar Loan or one (1) Business Day's prior written notice to convert from a Eurodollar Loan to an ABR Loan, specifying the date of such conversion, the Loans to be converted and if the conversion is from an ABR Loan to a Eurodollar Loan, the duration of the first Interest Period therefor. After giving effect to each such conversion, there shall not be outstanding more than five (5) Eurodollar Borrowings, in the aggregate.

SECTION 2.04. DISBURSEMENT OF LOANS. All Loans shall be disbursed from whichever office or other place the Administrative Agent may designate from time to time and, together with any and all other Obligations of the Borrowers to the Administrative Agent, the Collateral Agent or Lenders, shall be charged to the Borrowers' Account on the Administrative Agent's books. The Borrowers may use the Revolving Loans by borrowing, prepaying and reborrowing, all in accordance with the terms and conditions hereof. The proceeds of each Revolving Credit Borrowing requested by a Borrower or deemed to have been requested by or on behalf of a Borrower under Section 2.03(a) hereof shall, with respect to requested Revolving Credit Borrowings to the extent Lenders make such Revolving Credit Borrowings, be made available to such Borrower on the day so requested by way of credit to such Borrower's operating account at PNC, in immediately available federal funds or other immediately available funds or, with respect to Revolving Credit Borrowings deemed to have been requested by the Borrowers, be disbursed to the Administrative Agent to be applied to the outstanding Obligations giving rise to such deemed request.

SECTION 2.05. MANNER OF BORROWING AND PAYMENT. (a) Each Revolving Credit Borrowing shall be advanced according to the applicable Pro Rata Percentages of the Revolving Credit Lenders. The Term Loans shall be advanced pro rata by the Term Lenders.

(b) Each payment (including each prepayment) by a Borrower on account of the principal of and interest on the Revolving Loans shall be applied to the Revolving Loans of such Borrower according to the applicable Pro Rata Percentages of the Revolving Credit Lenders. Each payment (including each prepayment) by Activision on account of the principal of and interest on the Term Loans, shall be made pro rata to the Term Lenders. Except as expressly provided herein, all payments (including prepayments) to be made by the Borrowers on account of principal, interest and fees shall be made without set off or counterclaim and shall be made to the Administrative Agent on behalf of the Lenders to the Payment Office, in each case on or prior to 1:00 P.M., New York time, in Dollars and in immediately available funds.

(c) (i) Notwithstanding anything to the contrary contained in Sections 2.03 or 2.05 (a) and (b) hereof, commencing with the first Business Day following the Closing Date, each Revolving Loan shall be advanced by the Administrative Agent and each payment by the Borrowers on account of Revolving Loans shall be applied first to those Revolving Loans advanced by the Administrative Agent. On or before 1:00 P.M., New York time, on each Settlement Date commencing with the first Settlement Date following the Closing Date, the Administrative Agent and Lenders shall make certain payments as follows: (I) if the aggregate amount of new Revolving Loans made by the Administrative Agent during the preceding Week (if any) exceeds the aggregate amount of repayments applied to outstanding Revolving Loans during such preceding Week, then each Lender shall provide the Administrative Agent with immediately available funds in an amount equal to its applicable Pro Rata Percentage of the difference between (w) such Revolving Loans and (x) such repayments and (II) if the aggregate amount of repayments applied to outstanding Revolving Loans during such Week exceeds the aggregate amount of new Revolving Credit Loans made during such Week, then the Administrative Agent shall provide each Lender with immediately available funds in an amount equal to its applicable Pro Rata Percentage of the difference between (y) such repayments and (z) such Revolving Loans.

(ii) Each Lender shall be entitled to earn interest at the rate applicable to the rate on the outstanding Revolving Loans which it has funded.

(iii) Promptly following each Settlement Date, the Administrative Agent shall submit to each Lender a certificate with respect to payments received and Revolving Loans made during the Week immediately preceding such Settlement Date. Such certificate of the Administrative Agent shall be conclusive in the absence of manifest error.

(d) Unless the Administrative Agent shall have been notified by telephone, confirmed in writing, by any Lender that such Lender will not make the amount which would constitute its applicable Pro Rata Percentage of the Revolving Loans available to the Administrative Agent, the Administrative Agent may (but shall not be obligated to) assume that such Lender shall make such amount available to the

Administrative Agent on the next Settlement Date and, in reliance upon such assumption, make available to the Borrowers a corresponding amount. The Administrative Agent will promptly notify the Borrowing Agent of its receipt of any such notice from a Lender. If such amount is made available to the Administrative Agent on a date after such next Settlement Date, such Lender shall pay to the Administrative Agent on demand an amount equal to the product of (i) the daily average Federal Funds Rate (computed on the basis of a year of 360 days) during such period as quoted by the Administrative Agent, times (ii) such amount, times (iii) the number of days from and including such Settlement Date to the date on which such amount becomes immediately available to the Administrative Agent. A certificate of the Administrative Agent submitted to any Lender with respect to any amounts owing under this paragraph shall be conclusive, in the absence of manifest error. If such amount is not in fact made available to the Administrative Agent by such Lender within three (3) Business Days after such Settlement Date, the Administrative Agent shall be entitled to recover such an amount, with interest thereon at the rate per annum then applicable to such Revolving Loans hereunder, on demand from the applicable Borrower; PROVIDED, HOWEVER, that the Administrative Agent's right to such recovery shall not prejudice or otherwise adversely affect the Borrower's rights (if any) against such Lender.

SECTION 2.06. EVIDENCE OF DEBT. (a) Activision hereby unconditionally promises to pay to the Administrative Agent for the account of each Lender holding Term Loans, the principal amount of each Term Loan of such Lender as provided in Section 2.12(a) and each Borrower hereby unconditionally and jointly and severably promises to pay to the Administrative Agent on the Revolving Credit Maturity Date (or earlier termination of the Revolving Credit Commitments) for the account of each Revolving Credit Lender, the then unpaid principal amount of each Revolving Loan made by such Lender to Borrowers.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrowers to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid such Lender from time to time under this Agreement.

(c) The Administrative Agent shall maintain accounts in which it will record (i) the amount of each Loan made hereunder, the Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrowers to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder from the Borrowers or any Subsidiary Guarantor and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraphs (b) and (c) above shall be PRIMA FACIE evidence of the existence and amounts of the obligations therein recorded; PROVIDED, HOWEVER, that the failure of any Lender or

the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligations of the Borrowers to repay the Loans in accordance with their terms.

(e) Any Lender may request that Loans made by it hereunder be evidenced by a promissory note. In such event, the Borrowers shall execute and deliver to such Lender a promissory note payable to such Lender and its registered assigns and in a form and substance reasonably acceptable to the Administrative Agent and the Borrowers. Notwithstanding any other provision of this Agreement, in the event any Lender shall request and receive such a promissory note, the interests represented by such note shall at all times (including after any assignment of all or part of such interests pursuant to Section 9.04) be represented by one or more promissory notes payable to the payee named therein or its registered assigns.

SECTION 2.07. STATEMENT OF ACCOUNT. (a) The Administrative Agent shall maintain, in accordance with its customary procedures, a loan account ("Borrowers' Account") in the name of the Borrowers in which shall be recorded the date and amount of each Borrowing, each L/C Disbursement and the date and amount of each payment in respect thereof; PROVIDED, HOWEVER, the failure by the Administrative Agent to record the date and amount of any Borrowing or L/C Disbursement shall not adversely affect the Administrative Agent or any Lender. Each month, the Administrative Agent shall send to the Borrowing Agent a statement showing the accounting for the Borrowings made, payments made or credited in respect thereof, and other transactions between the Administrative Agent and the Borrowers during such month. The monthly statements shall be deemed correct and binding upon the Borrowers in the absence of manifest error and shall constitute an account stated between Lenders and Borrowers unless the Administrative Agent receives a written statement of the Borrowers' specific exceptions thereto within thirty (30) days after such statement is received by the Borrowers. The records of the Administrative Agent with respect to Borrowers' Account shall be conclusive evidence absent manifest error of the amounts of Loans and other charges thereto and of payments applicable thereto.

(b) Any sums expended by the Administrative Agent or any Lender due to a Borrower's failure to perform or comply with its obligations under this Agreement or any Loan Document may be charged to Borrowers' Account as a Revolving Loan and added to the Obligations.

SECTION 2.08. FEES. (a) The Borrowers jointly and severally agree to pay to each Lender, through the Administrative Agent, on the last day of March, June, September and December in each year and on each date on which any Commitment of such Lender shall expire or be terminated as provided herein, a commitment fee (a "COMMITMENT FEE") equal to 1/2 of 1% per annum on the daily unused amount of the Commitments of such Lender during the preceding quarter (or other period commencing with the date hereof or ending with the Revolving Credit Maturity Date or the date on

which the Commitments of such Lender shall expire or be terminated). All Commitment Fees shall be computed on the basis of the actual number of days elapsed in a year of 360 days. The Commitment Fee due to each Lender shall commence to accrue on the date hereof and shall cease to accrue on the date on which the Commitment of such Lender shall expire or be terminated as provided herein.

(b) The Borrowers jointly and severally agree to pay to the Administrative Agent and Collateral Agent, for its own account, the fees set forth in the Fee Letter at the times and in the amounts specified therein (the "AGENT FEES").

(c) The Borrowers jointly and severally agree to pay (i) to each Revolving Credit Lender, through the Administrative Agent, on the last Business Day of March, June, September and December of each year and on the date on which the Revolving Credit Commitment of such Lender shall be terminated as provided herein, a fee (an "L/C PARTICIPATION FEE") calculated on such Lender's Pro Rata Percentage of the average daily aggregate L/C Exposure (excluding the portion thereof attributable to unreimbursed L/C Disbursements) during the preceding quarter (or shorter period commencing with the date hereof or ending with the Revolving Credit Maturity Date or the date on which all Letters of Credit have been canceled or have expired and the Revolving Credit Commitments of all Lenders shall have been terminated) at a rate equal to (x) in the case of the Standby L/C Exposure, 2.75% per annum, and (y) in the case of the Trade L/C Exposure, 1.375% per annum, and (ii) to the Issuing Bank with respect to each Letter of Credit a fronting, issuance and drawing fee equal to .25% per annum on the face amount of all outstanding Letters of Credit, payable quarterly in arrears and on the Revolving Credit Maturity Date or the date on which all Letters of Credit have been canceled or have expired and the Revolving Credit Commitments of all Lenders shall have been terminated (the "ISSUING BANK FEES"). All L/C Participation Fees and Issuing Bank Fees shall be computed on the basis of the actual number of days elapsed in a year of 360 days.

(d) All Fees shall be paid on the dates due, in immediately available funds, to the Administrative Agent for distribution, if and as appropriate, among the Lenders, except that the Issuing Bank Fees shall be paid directly to the Issuing Bank. Once paid, none of the Fees shall be refundable under any circumstances.

SECTION 2.09. INTEREST ON LOANS. (a) Subject to the provisions of Section 2.10, the Loans comprising each ABR Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be, when the Alternate Base Rate is determined by reference to the Base Rate and over a year of 360 days at all other times and calculated from and including the date of such Borrowing to but excluding the date of repayment thereof) at a rate per annum equal to the Alternate Base Rate plus 1.75% for Revolving Loans and the Alternate Base Rate plus 2.0% for Term Loans.

(b) Subject to the provisions of Section 2.10, the Loans comprising each Eurodollar Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus 2.75% for Revolving Loans and the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus 3.00% for Term Loans.

(c) Interest on each Loan shall be payable on the Interest Payment Dates applicable to such Loan except as otherwise provided in this Agreement. The applicable Alternate Base Rate or Adjusted LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

(d) In no event whatsoever shall interest and other charges charged hereunder exceed the highest rate permissible under law. In the event interest and other charges as computed hereunder would otherwise exceed the highest rate permitted under law, such excess amount shall be first applied to any unpaid principal balance owed by the Borrowers, and if the then remaining excess amount is greater than the previously unpaid principal balance, Lenders shall promptly refund such excess amount to the Borrowers and the provisions hereof shall be deemed amended to provided for such permissible rate.

SECTION 2.10. DEFAULT INTEREST. Upon and after the occurrence of an Event of Default and during the continuation thereof, (i) the Obligations other than Eurodollar Loans shall bear interest at the rate otherwise applicable to ABR Loans plus two percent (2%) per annum and (ii) Eurodollar Loans shall bear interest at the rate otherwise applicable to Eurodollar Loans plus two percent (2%) per annum (as applicable, the "Default Rate").

SECTION 2.11. TERMINATION AND REDUCTION OF COMMITMENTS. (a) The Term Loan Commitments shall automatically terminate at 5:00 p.m., New York City time, on the Closing Date. The Revolving Credit Commitments, and the L/C Commitment shall automatically terminate on the Revolving Credit Maturity Date. Notwithstanding the foregoing, all the Commitments shall automatically terminate at 5:00 p.m., New York City time, on June 30, 1999, if the initial Credit Event shall not have occurred by such time.

(b) Upon at least three Business Days' prior irrevocable written or telecopy notice to the Administrative Agent, the Borrowers may at any time in whole permanently terminate, or from time to time in part permanently reduce, the Term Loan Commitments or the Revolving Credit Commitments; PROVIDED, HOWEVER, that (i) each partial reduction of the Term Loan Commitments or the Revolving Credit Commitments shall be in an integral multiple of \$1,000,000 and (ii) the Total Revolving Credit Commitment shall not be reduced to an amount that is less than the sum of the Aggregate Revolving Credit Exposure at the time.

(c) Each reduction in the Term Loan Commitments or the Revolving Credit Commitments hereunder shall be made ratably among the Lenders in accordance with their respective applicable Commitments. The Borrowers shall pay to the Administrative Agent for the account of the applicable Lenders, on the date of each termination or reduction, the Commitment Fees on the amount of the Commitments so terminated or reduced accrued to but excluding the date of such termination or reduction.

SECTION 2.12. REPAYMENT OF BORROWINGS. (a) The Term Borrowings shall be payable as to principal in 10 consecutive installments payable on the last Business Day of March, June, September and December of each year, commencing on the last Business Day in December 1999 and ending on the Term Loan Maturity Date (each such date being called a "REPAYMENT DATE") and shall be due and payable in full on the date that the Revolving Credit Commitments terminate. Each installment shall be in an amount equal to \$2,500,000, with the balance due and payable on the Term Loan Maturity Date or any earlier date that the Revolving Credit Commitments terminate.

(b) Each payment of Term Borrowings pursuant to this Section 2.12 shall be accompanied by accrued interest on the principal amount paid to but excluding the date of payment.

(c) The Revolving Loans shall be due and payable in full on the Revolving Credit Maturity Date subject to earlier prepayment as herein provided.

(d) With respect to any deposits in any lockbox or Blocked Account, the Borrowers recognize that the amounts evidenced by checks, notes, drafts or any other items of payment relating to and/or proceeds of Collateral may not be collectible by the Administrative Agent on the date received. In consideration of the Administrative Agent's agreement to conditionally credit Borrowers' Account as of the Business Day on which the Administrative Agent receives those items of payment, the Borrowers agree that, in computing the charges under this Agreement, all items of payment shall be deemed applied by the Administrative Agent on account of the Obligations on the Business Day the Administrative Agent receives such payments via wire transfer or electronic depository check. The Administrative Agent is not, however, required to credit Borrowers' Account for the amount of any item of payment which is unsatisfactory to the Administrative Agent and the Administrative Agent may charge Borrowers' Account for the amount of any item of payment which is returned to the Administrative Agent unpaid.

(e) All payments of principal, interest and other amounts payable hereunder, or under any of the other Loan Documents, shall be made to the Administrative Agent at the Payment Office not later than 1:00 P.M. (New York Time) on the due date therefor in lawful money of the United States of America in federal funds or other funds immediately available to the Administrative Agent. The Administrative Agent shall have the right to effectuate payment on any and all Obligations due and

owing hereunder by charging Borrowers' Account or by making Revolving Loans as provided in Section 2.02(a) hereof.

(f) Borrowers shall pay principal, interest, and all other amounts payable hereunder, or under any related agreement, without any deduction whatsoever, including, but not limited to, any deduction for any setoff or counterclaim.

SECTION 2.13. PREPAYMENT. (a) The Borrowers shall have the right at any time and from time to time to prepay any Borrowing, in whole or in part, upon at least three Business Days' prior written or telecopy notice (or telephone notice promptly confirmed by written or telecopy notice) in the case of Eurodollar Loans, or written or telecopy notice (or telephone notice promptly confirmed by written or telecopy notice) on or prior to the date of prepayment in the case of ABR Loans, to the Administrative Agent before 1:00 p.m., New York City time; PROVIDED, HOWEVER, that each partial prepayment shall be in an amount that is an integral multiple of \$1,000,000.

(b) Optional prepayments of Term Loans shall be applied pro rata against the remaining scheduled installments of principal due in respect of the Term Loans.

(c) Each notice of prepayment shall specify the prepayment date and the principal amount of each Borrowing (or portion thereof) to be prepaid, shall be irrevocable and shall commit the Borrowers to prepay such Borrowing by the amount stated therein on the date stated therein. All prepayments under this Section 2.13 shall be subject to Section 2.19 but otherwise without premium or penalty. All prepayments under this Section 2.13 shall be accompanied by accrued interest on the principal amount being prepaid to the date of payment.

SECTION 2.14. MANDATORY PREPAYMENTS. (a) In the event of any termination of all the Revolving Credit Commitments in accordance with this Agreement, the Borrowers shall, on the effective date of such termination, repay or prepay all outstanding Revolving Credit Borrowings and Term Loans and replace all outstanding Letters of Credit and/or deposit an amount equal to 105% of the L/C Exposure in cash in a cash collateral account established with the Collateral Agent for the benefit of the Secured Parties and/or provide an irrevocable letter of credit in form and substance reasonably acceptable to the Administrative Agent from a bank reasonably acceptable to the Administrative Agent. In the event of any partial reduction of the Revolving Credit Commitments, then (i) at or prior to the effective date of such reduction, the Administrative Agent shall notify the Borrowers and the Revolving Credit Lenders of the Aggregate Revolving Credit Exposure after giving effect thereto and (ii) if the Aggregate Revolving Credit Exposure would exceed the Total Revolving Credit Commitment after giving effect to such reduction or termination, then the Borrowers shall, on the effective date of such reduction or termination, repay or prepay Revolving Credit Borrowings and/or replace or cash collateralize outstanding Letters of Credit in an amount sufficient to eliminate such excess.

(b) If on any date the Aggregate Revolving Credit Exposure shall exceed the Formula Amount, or the Revolving Loans to a Borrower plus the L/C Exposure of such Borrower shall exceed the Individual Formula Amount, the Borrowers shall on such date repay or prepay Revolving Credit Borrowings and/or replace or cash collateralize outstanding L/C Exposure in an amount sufficient to eliminate such excess. Any such excess amount shall constitute part of the Obligations and be secured by the Collateral.

(c) Not later than the third Business Day following the completion of any Asset Sale, Activision shall apply an amount equal to 100% of the Net Cash Proceeds received with respect thereto to prepay outstanding Term Loans in accordance with Section 2.14(h).

(d) In the event and on each occasion that an Equity Issuance occurs, Activision shall, substantially simultaneously with (and in any event not later than the third Business Day next following) the occurrence of such Equity Issuance, apply 100% of the Net Cash Proceeds therefrom to prepay outstanding Term Loans in accordance with Section 2.14(h).

(e) No later than the earlier of (i) 90 days after the end of each fiscal year of the Borrowers, commencing with the fiscal year ending on March 31, 2000, and (ii) the date on which the financial statements with respect to such period are delivered pursuant to Section 5.04(a), Activision shall prepay outstanding Term Loans in accordance with Section 2.14(h) in an aggregate principal amount equal to fifty percent (50%) of Excess Cash Flow for the fiscal year then ended.

(f) In the event that any Loan Party or any subsidiary of a Loan Party shall receive Net Cash Proceeds from the issuance or other disposition of Indebtedness for money borrowed of any Loan Party or any subsidiary of a Loan Party (including any Subordinated Debt but excluding any other Indebtedness for money borrowed permitted pursuant to Section 6.01), Activision shall, substantially simultaneously with (and in any event not later than the third Business Day next following) the receipt of such Net Cash Proceeds by such Loan Party or such subsidiary, apply an amount equal to 100% of such Net Cash Proceeds to prepay outstanding Term Loans in accordance with Section 2.14(h).

(g) In the event that there shall occur any Casualty or Condemnation and, pursuant to the applicable Mortgage, the Casualty Proceeds or Condemnation Proceeds, as the case may be, are required to be used to prepay the Term Loans, then Activision shall apply an amount equal to 100% of such Casualty Proceeds or Condemnation Proceeds, as the case may be, to prepay outstanding Term Loans in accordance with Section 2.14(h).

(h) Mandatory prepayments of outstanding Term Loans under this Agreement shall be applied pro rata against the remaining scheduled installments of principal due in respect of the Term Loans.

(i) The Borrowing Agent shall deliver to the Administrative Agent, at the time of each prepayment required under this Section 2.14, (i) a certificate signed by a Financial Officer of the Borrowing Agent setting forth in reasonable detail the calculation of the amount of such prepayment and (ii) to the extent practicable, at least three days prior written notice of such prepayment. Each notice of prepayment shall specify the prepayment date, the Type of each Loan being prepaid and the principal amount of each Loan (or portion thereof) to be prepaid. All prepayments of Borrowings under this Section 2.14 shall be subject to Section 2.19, but shall otherwise be without premium or penalty.

SECTION 2.15. ILLEGALITY. Notwithstanding any other provision hereof, if any applicable law, treaty, regulation or directive, or any change therein or in the interpretation or application thereof, shall make it unlawful for any Lender (for purposes of this subsection (g), the term "Lender" shall include any Lender and the office or branch where any Lender or any corporation or bank controlling such Lender makes or maintains any Eurodollar Loans) to make or maintain its Eurodollar Loans, the obligation of Lenders to make Eurodollar Loans hereunder shall forthwith be canceled and the Borrower shall, if any affected Eurodollar Loans are then outstanding, promptly upon request from the Administrative Agent, either pay all such affected Eurodollar Loans or convert such affected Eurodollar Loans into ABR Loans. If any such payment or conversion of any Eurodollar Loan is made on a day that is not the last day of the Interest Period applicable to such Eurodollar Loan, the Borrowers shall pay the Administrative Agent upon the Administrative Agent's request, such amount or amounts as may be necessary to compensate Lenders for any loss or expense sustained or incurred by Lenders in respect of such Eurodollar Loan as a result of such payment or conversion, including (but not limited to) any interest or other amounts payable by Lenders to lenders of funds obtained by Lenders in order to make or maintain such Eurodollar Loan. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by any Lender to the Borrowing Agent shall be conclusive absent manifest error.

SECTION 2.16. INCREASED COSTS. In the event that any applicable law, treaty or governmental regulation, or any change therein or in the interpretation or application thereof, or compliance by any Lender (for purposes of this Section 3.7, the term "Lender" shall include the Administrative Agent or any Lender and any corporation or bank controlling the Administrative Agent or any Lender) and the office or branch where the Administrative Agent or any Lender (as so defined) makes or maintains any Eurodollar Loans with any request or directive (whether or not having the force of law) from any central bank or other financial, monetary or other authority, shall:

(a) subject the Administrative Agent or any Lender to any tax of any kind whatsoever not currently applicable with respect to this Agreement or any Loan Document or change the basis of taxation of payments to the Administrative Agent or any Lender of principal, fees, interest or any other amount payable hereunder or under any Loan Documents (except for any imposition or changes in the rate of tax on the overall net income of the Administrative Agent or any Lender by the jurisdiction in which it maintains its principal office);

(b) impose, modify or hold applicable any reserve, special deposit, assessment or similar requirement against assets held by, or deposits in or for the account of, Loans or loans by, or other credit extended by, any office of the Administrative Agent or any Lender, including (without limitation) pursuant to Regulation D of the Board of Governors of the Federal Reserve System; or

(c) impose, modify or hold applicable on the Administrative Agent or any Lender or the London interbank Eurodollar market any other condition with respect to this Agreement or any Loan Document;

and the result of any of the foregoing is to increase the cost to the Administrative Agent or any Lender of making, renewing or maintaining its Loans hereunder by an amount that the Administrative Agent or such Lender reasonably deems to be material or to reduce the amount of any payment (whether of principal, interest or otherwise) in respect of any of the Loans by an amount that the Administrative Agent or such Lender reasonably deems to be material, then, in any case the Borrowers shall promptly pay the Administrative Agent or such Lender, upon its demand, such additional amount as will compensate the Administrative Agent or such Lender for such additional cost or such reduction, as the case may be, PROVIDED that the foregoing shall not apply to increased costs which are reflected in the Adjusted LIBO Rate. The Administrative Agent or such Lender shall certify the amount of such additional cost or reduced amount to the Borrowers, and such certification shall be conclusive absent manifest error.

SECTION 2.17. BASIS FOR DETERMINING INTEREST RATE INADEQUATE OR UNFAIR. In the event that the Administrative Agent or any Lender shall have determined that:

(a) reasonable means do not exist for ascertaining the LIBO Rate for any Interest Period; or

(b) Dollar deposits in the relevant amount and for the relevant maturity are not available in the London interbank Eurodollar market, with respect to an outstanding Eurodollar Loan, a proposed Eurodollar Borrowing, or a proposed conversion of an ABR Loan into a Eurodollar Loan;

then the Administrative Agent shall give the Borrowing Agent prompt written, telephonic or telegraphic notice of such determination. If such notice is given, (i) any such

requested Eurodollar Loan shall be made as an ABR Borrowing, unless the Borrowing Agent shall notify the Administrative Agent no later than 10:00 a.m. (New York City time) two (2) Business Days prior to the date of such proposed Borrowing, that its request for such Borrowing shall be canceled, (ii) any ABR Loan or Eurodollar Loan which was to have been converted to an affected type of Eurodollar Loan shall be continued as or converted into an ABR Loan, or, if the Borrowing Agent shall notify the Administrative Agent, no later than 10:00 a.m. (New York City time) two (2) Business Days prior to the proposed conversion, shall be maintained as an unaffected type of Eurodollar Loan and (iii) any outstanding affected Eurodollar Loans shall be converted into an ABR Loan, or, if Borrower shall notify the Administrative Agent, no later than 10:00 a.m. (New York City time) two (2) Business Days prior to the last Business Day of the then current Interest Period applicable to such affected Eurodollar Loan, shall be converted into an unaffected type of Eurodollar Loan on the last Business Day of the then current Interest Period for such affected Eurodollar Loans. Until such notice has been withdrawn, Lenders shall have no obligation to make an affected type of Eurodollar Loan or maintain outstanding affected Eurodollar Loans and the Borrowers shall not have the right to convert an ABR Loan or an unaffected type of Eurodollar Loan into an affected type of Eurodollar Loan.

SECTION 2.18. CAPITAL ADEQUACY. In the event that the Administrative Agent or any Lender shall have determined that any applicable law, rule, regulation or guideline regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Administrative Agent or any Lender (for purposes of this Section 2.18, the term "Lender" shall include the Administrative Agent or any Lender and any corporation or bank controlling the Administrative Agent or any Lender) and the office or branch where the Administrative Agent or any Lender (as so defined) makes or maintains any Eurodollar Loans with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on the Administrative Agent or any Lender's capital as a consequence of its obligations hereunder to a level below that which the Administrative Agent or such Lender could have achieved but for such adoption, change or compliance (taking into consideration the Administrative Agent's and each Lender's policies with respect to capital adequacy) by an amount deemed by the Administrative Agent or any Lender to be material, then, from time to time, the Borrowers shall pay upon demand to the Administrative Agent or such Lender such additional amount or amounts as will compensate the Administrative Agent or such Lender for such reduction. In determining such amount or amounts, the Administrative Agent or such Lender may use any reasonable averaging or attribution methods. The protection of this Section shall be available to the Administrative Agent and each Lender regardless of any possible contention of invalidity or inapplicability with respect to the applicable law, regulation or condition. A certificate of the Administrative Agent or a Lender setting forth such amount or amounts as shall be necessary to compensate the Administrative Agent or such

Lender with respect to this Section 2.18 when delivered to the Borrowing Agent shall be conclusive absent manifest error.

SECTION 2.19. INDEMNITY. The Borrowers shall jointly and severally indemnify the Administrative Agent, the Collateral Agent and each Lender against any loss or expense that the Administrative Agent, the Collateral Agent and such Lender may sustain or incur as a consequence of (a) any event, other than a default by such Lender in the performance of its obligations hereunder, which results in (i) such Lender receiving or being deemed to receive any amount on account of the principal of any Eurodollar Loan prior to the end of the Interest Period in effect therefor, (ii) the conversion of any Eurodollar Loan to an ABR Loan, or the conversion of the Interest Period with respect to any Eurodollar Loan, in each case other than on the last day of the Interest Period in effect therefor, or (iii) any Eurodollar Loan to be made by such Lender (including any Eurodollar Loan to be made pursuant to a conversion or continuation under Section 2.10) not being made after notice of such Loan shall have been given by the Borrowing Agent hereunder (any of the events referred to in this clause (a) being called a "BREAKAGE EVENT") or (b) any default in the making of any payment or prepayment required to be made hereunder. In the case of any Breakage Event, such loss shall include an amount equal to the excess, as reasonably determined by such Lender, of (i) its cost of obtaining funds for the Eurodollar Loan that is the subject of such Breakage Event for the period from the date of such Breakage Event to the last day of the Interest Period in effect (or that would have been in effect) for such Loan over (ii) the amount of interest likely to be realized by such Lender in redeploying the funds released or not utilized by reason of such Breakage Event for such period. A certificate of any Lender setting forth any amount or amounts which such Lender is entitled to receive pursuant to this Section 2.19 shall be delivered to the Borrowers and shall be conclusive absent manifest error.

SECTION 2.20. PRO RATA TREATMENT. Each payment or prepayment of principal of any Borrowing, each payment of interest on the Loans, each payment of the Commitment Fees and L/C Participation Fees, each reduction of the Term Loan Commitments or the Revolving Credit Commitments and each conversion of any Borrowing to or continuation of any Borrowing as a Borrowing of any Type shall be allocated pro rata among the Lenders in accordance with their respective applicable Commitments (or, if such Commitments shall have expired or been terminated, in accordance with the respective principal amounts of their outstanding Loans). Each Lender agrees that in computing such Lender's portion of any Borrowing to be made hereunder, the Administrative Agent may, in its discretion, round each Lender's percentage of such Borrowing to the next higher or lower whole dollar amount.

SECTION 2.21. SHARING OF SETOFFS. Each Lender agrees that if it shall, through the exercise of a right of banker's lien, setoff or counterclaim against any Borrower or any other Loan Party, or pursuant to a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Lender under any applicable bankruptcy, insolvency or other

similar law or otherwise, or by any other means, obtain payment (voluntary or involuntary) in respect of any Loan or Loans or L/C Disbursement as a result of which the unpaid principal portion of its Term Loans and Revolving Loans and participations in L/C Disbursements shall be proportionately less than the unpaid principal portion of the Term Loans and Revolving Loans and participations in L/C Disbursements of any other Lender, it shall be deemed simultaneously to have purchased from such other Lender at face value, and shall promptly pay to such other Lender the purchase price for, a participation in the Term Loans and Revolving Loans and L/C Exposure, as the case may be of such other Lender, so that the aggregate unpaid principal amount of the Term Loans and Revolving Loans and L/C Exposure and participations in Term Loans and Revolving Loans and L/C Exposure held by each Lender shall be in the same proportion to the aggregate unpaid principal amount of all Term Loans and Revolving Loans and L/C Exposure then outstanding as the principal amount of its Term Loans and Revolving Loans and L/C Exposure prior to such exercise of banker's lien, setoff or counterclaim or other event was to the principal amount of all Term Loans and Revolving Loans and L/C Exposure outstanding prior to such exercise of banker's lien, setoff or counterclaim or other event; PROVIDED, HOWEVER, that if any such purchase or purchases or adjustments shall be made pursuant to this Section 2.21 and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustment restored without interest. The Borrowers expressly consent to the foregoing arrangements and agree that any Lender holding a participation in a Term Loan or Revolving Loan or L/C Disbursement deemed to have been so purchased may exercise any and all rights of banker's lien, setoff or counterclaim with respect to any and all moneys owing by the Borrowers to such Lender by reason thereof as fully as if such Lender had made a Loan directly to the Borrowers in the amount of such participation.

SECTION 2.22. PAYMENTS. Except as otherwise expressly provided herein, whenever any payment (including principal of or interest on any Borrowing or any Fees or other amounts) hereunder or under any other Loan Document shall become due, or otherwise would occur, on a day that is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or Fees, if applicable.

SECTION 2.23. TAXES. (a) Any and all payments by or on account of any obligation of the Borrowers or any Loan Party hereunder or under any other Loan Document shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; PROVIDED that if a Borrower or any Loan Party shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent or such Lender (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower or such Loan Party shall make such deductions and (iii) the Borrower or such Loan Party

shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrowers shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrowers shall jointly and severally indemnify the Administrative Agent and each Lender, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the Administrative Agent or such Lender, as the case may be, on or with respect to any payment by or on account of any obligation of the Borrowers or any Loan Party hereunder or under any other Loan Document (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrowing Agent by a Lender, or by the Administrative Agent on its behalf or on behalf of a Lender, shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrowers or any other Loan Party to a Governmental Authority, the Borrowers shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which a Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrowing Agent (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrowers as will permit such payments to be made without withholding or at a reduced rate, PROVIDED that such Foreign Lender has received written notice from the Borrowing Agent advising it of the availability of such exemption or reduction and supplying all applicable documentation.

SECTION 2.24. ASSIGNMENT OF COMMITMENTS UNDER CERTAIN CIRCUMSTANCES; DUTY TO MITIGATE. (a) In the event (i) any Lender or the Issuing Bank delivers a certificate requesting compensation pursuant to Section 2.16, (ii) any Lender or the Issuing Bank delivers a notice described in Section 2.15 or (iii) the Borrowers are required to pay any additional amount to any Lender or the Issuing Bank or any Governmental Authority on account of any Lender or the Issuing Bank pursuant to Section 2.23, the Borrowers may, at their sole expense and effort (including with respect to the processing and recordation

fee referred to in Section 9.04(b)), upon notice to such Lender or the Issuing Bank and the Administrative Agent, require such Lender or the Issuing Bank to transfer and assign, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all of its interests, rights and obligations under this Agreement to an assignee that shall assume such assigned obligations (which assignee may be another Lender, if a Lender accepts such assignment); PROVIDED that (x) such assignment shall not conflict with any law, rule or regulation or order of any court or other Governmental Authority having jurisdiction, (y) the Borrowers shall have received the prior written consent of the Administrative Agent (and, if a Revolving Credit Commitment is being assigned, of the Issuing Bank), which consent shall not unreasonably be withheld, and (z) the Borrowers or such assignee shall have paid to the affected Lender or the Issuing Bank in immediately available funds an amount equal to the sum of the principal of and interest accrued to the date of such payment on the outstanding Loans or L/C Disbursements of such Lender or the Issuing Bank, respectively, plus all Fees and other amounts accrued for the account of such Lender or the Issuing Bank hereunder (including any amounts under Section 2.15 and Section 2.16); PROVIDED FURTHER that, if prior to any such transfer and assignment the circumstances or event that resulted in such Lender's or the Issuing Bank's claim for compensation under Section 2.16 or notice under Section 2.15 or the amounts paid pursuant to Section 2.23, as the case may be, cease to cause such Lender or the Issuing Bank to suffer increased costs or reductions in amounts received or receivable or reduction in return on capital, or cease to have the consequences specified in Section 2.15, or cease to result in amounts being payable under Section 2.23, as the case may be (including as a result of any action taken by such Lender or the Issuing Bank pursuant to paragraph (b) below), or if such Lender or the Issuing Bank shall waive its right to claim further compensation under Section 2.14 in respect of such circumstances or event or shall withdraw its notice under Section 2.15 or shall waive its right to further payments under Section 2.20 in respect of such circumstances or event, as the case may be, then such Lender or the Issuing Bank shall not thereafter be required to make any such transfer and assignment hereunder.

(b) If (i) any Lender or the Issuing Bank shall request compensation under Section 2.16, (ii) any Lender or the Issuing Bank delivers a notice described in Section 2.15 or (iii) the Borrowers are required to pay any additional amount to any Lender or the Issuing Bank or any Governmental Authority on account of any Lender or the Issuing Bank, pursuant to Section 2.23, then such Lender or the Issuing Bank shall use reasonable efforts (which shall not require such Lender or the Issuing Bank to incur an unreimbursed loss or unreimbursed cost or expense or otherwise take any action inconsistent with its internal policies or legal or regulatory restrictions or suffer any disadvantage or burden deemed by it to be significant) (x) to file any certificate or document reasonably requested in writing by the Borrowers or (y) to assign its rights and delegate and transfer its obligations hereunder to another of its offices, branches or affiliates, if such filing or assignment would reduce its claims for compensation under Section 2.16 or enable it to withdraw its notice pursuant to Section 2.15 or would reduce amounts payable pursuant to Section 2.23, as the case may be, in the future. The

Borrowers hereby agree to pay all reasonable costs and expenses incurred by any Lender or the Issuing Bank in connection with any such filing or assignment, delegation and transfer.

SECTION 2.25. DEFAULTING LENDER. (a) Notwithstanding anything to the contrary contained herein, in the event any Lender (x) has refused (which refusal constitutes a breach by such Lender of its obligations under this Agreement) to make available its portion of any Revolving Credit Borrowing or reimbursement for drawings under Letters of Credit or (y) notifies either the Administrative Agent or the Borrowers that it does not intend to make available its portion of any Revolving Credit Borrowing or reimbursement (if the actual refusal would constitute a breach by such Lender of its obligations under this Agreement) (each, a "LENDER DEFAULT"), all rights and obligations hereunder of such Lender (a "DEFAULTING LENDER") as to which a Lender Default is in effect and of the other parties hereto shall be modified to the extent of the express provisions of this Section 2.25 while such Lender Default remains in effect.

(b) Revolving Credit Borrowings shall be incurred pro rata from Lenders (the "NON-DEFAULTING LENDERS") which are not Defaulting Lenders based on their respective Pro Rata Percentages, and no Pro Rata Percentage of any Lender or any Pro Rata Percentage of any Revolving Credit Borrowings required to be advanced by any Lender shall be increased as a result of such Lender Default. Amounts received in respect of principal of any type of Revolving Loans shall be applied to reduce the applicable Revolving Loans of each Lender pro rata based on the aggregate of the outstanding Revolving Loans of that type of all Lenders at the time of such application; PROVIDED that such amount shall not be applied to any Revolving Loans of a Defaulting Lender at any time when, and to the extent that, the aggregate amount of Revolving Loans of any Non-Defaulting Lender exceeds such Non-Defaulting Lender's Pro Rata Percentage of all Revolving Loans then outstanding.

(c) A Defaulting Lender shall not be entitled to give instructions to the Administrative Agent or the Collateral Agent or to approve, disapprove, consent to or vote on any matters relating to this Agreement and the Loan Documents. All amendments, waivers and other modifications of this Agreement and the Loan Documents may be made without regard to a Defaulting Lender and, for purposes of the definition of "Required Lenders", a Defaulting Lender shall be deemed not to be a Lender and not to have Loans outstanding.

(d) Other than as expressly set forth in this Section 2.25, the rights and obligations of a Defaulting Lender (including the obligation to indemnify the Administrative Agent or the Collateral Agent) and the other parties hereto shall remain unchanged. Nothing in this Section 2.25 shall be deemed to release any Defaulting Lender from its obligations under this Agreement and the Loan Documents, shall alter such obligations, shall operate as a waiver of any default by such Defaulting Lender hereunder, or shall prejudice any rights which Borrowers, the Administrative Agent, the

Collateral Agent or any Lender may have against any Defaulting Lender as a result of any default by such Defaulting Lender hereunder.

(e) In the event a Defaulting Lender retroactively cures to the satisfaction of the Administrative Agent the breach which caused a Lender to become a Defaulting Lender, such Defaulting Lender shall no longer be a Defaulting Lender and shall be treated as a Lender under this Agreement.

SECTION 2.26. LETTERS OF CREDIT. (a) The Borrowing Agent on behalf of a Borrower may request the issuance of a Letter of Credit for its own account or the account of a Borrower, in a form reasonably acceptable to the Administrative Agent and the Issuing Bank, at any time and from time to time while the Revolving Credit Commitments remain in effect. This Section shall not be construed to impose an obligation upon the Issuing Bank to issue any Letter of Credit that is inconsistent with the terms and conditions of this Agreement.

(b) In order to request the issuance of a Letter of Credit (or to amend, renew or extend an existing Letter of Credit), the Borrowing Agent shall hand deliver or telecopy to the Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) the Administrative Agent's form of letter of credit application or the Issuing Bank's form of Letter of Credit Application, completed to the satisfaction of the Administrative Agent or the Issuing Bank, respectively, or a notice identifying the Letter of Credit to be amended, renewed or extended, the date of issuance, amendment, renewal or extension, the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) below), the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare such Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if, and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrowers shall be deemed to represent and warrant that, after giving effect to such issuance, amendment, renewal or extension (i) the L/C Exposure shall not exceed \$80,000,000 and (ii) the Aggregate Revolving Credit Exposure shall not exceed the lesser of (x) the Total Revolving Credit Commitment, and (y) the Formula Amount in effect at such time and (iii) the outstanding principal amount of Revolving Loans of any Borrower plus such Borrower's L/C Exposure shall not exceed the Borrower's Individual Formula Amount.

If the Issuing Bank is not the Administrative Agent, the Administrative Agent will notify the Issuing Bank via phone, confirmed by telecopy, of changes in availability to issue Letters of Credit under the facility, and the Issuing Bank will notify the Administrative Agent via phone, confirmed by telecopy, of any changes in outstanding balances of Letters of Credit it has issued. No new Letter of Credit shall be issued, and no existing Letter of Credit shall be amended, renewed or extended, by the Issuing Bank until the Administrative Agent shall have approved, via phone, confirmed by telecopy, such issuance, amendment, renewal or extension.

(c) No Letter of Credit shall be issued with a stated expiration date or latest maturity date of the accepted draft if a usance letter of credit later than the earlier of (i) the close of business on the date that is five Business Days prior to the Revolving Credit Maturity Date and (ii) the close of business on the date that is (x) 270 days after the date of issuance of such Letter of Credit in the case of a Trade Letter of Credit and (y) 12 months after the date of issuance of such Letter of Credit in the case of a Standby Letter of Credit. Each Letter of Credit shall, among other things, (i) provide for the payment of sight drafts or acceptances of usance drafts when presented for honor thereunder in accordance with the terms thereof and when accompanied by the documents described therein and (ii) have an expiry date or latest maturity date in the case of usance drafts not later than five Business Days prior to the Revolving Credit Maturity Date. Each Letter of Credit shall be subject to the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500, and any amendments or revision thereof adhered to by the Issuing Bank and, to the extent not inconsistent therewith, the laws of the State of New York.

(d) By the issuance of a Letter of Credit and without any further action on the part of the Issuing Bank or the Lenders, the Issuing Bank hereby grants to each Revolving Credit Lender, and each such Lender hereby acquires from the applicable Issuing Bank, a participation in such Letter of Credit equal to such Lender's Pro Rata Percentage of the aggregate amount available to be drawn under such Letter of Credit, effective upon the issuance of such Letter of Credit. In consideration and in furtherance of the foregoing, each Revolving Credit Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the Issuing Bank, such Lender's Pro Rata Percentage of each L/C Disbursement made by the Issuing Bank and not reimbursed by the Borrowers (or, if applicable, another party pursuant to its obligations under any other Loan Document). Each Revolving Credit Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or an Event of Default, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) All disbursements or payments with respect to Letters of Credit shall be deemed to be Revolving Credit Borrowings consisting of ABR Revolving Loans and shall bear interest at the ABR Rate.

(f) The Borrowers' obligations to reimburse L/C Disbursements as provided in paragraph (e) above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under any and all circumstances whatsoever, and irrespective of:

(i) any lack of validity or enforceability of any Letter of Credit or any Loan Document, or any term or provision therein;

(ii) any amendment or waiver of or any consent to departure from all or any of the provisions of any Letter of Credit or any Loan Document;

(iii) the existence of any claim, setoff, defense or other right that a Borrowers, any other party guaranteeing, or otherwise obligated with, such Borrowers, any Subsidiary or other Affiliate thereof or any other person may at any time have against the beneficiary under any Letter of Credit, the Issuing Bank, the Administrative Agent or any Lender or any other person, whether in connection with this Agreement, any other Loan Document or any other related or unrelated agreement or transaction;

(iv) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(v) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit; and

(vi) any other act or omission to act or delay of any kind of the Issuing Bank, the Lenders, the Administrative Agent or any other person or any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of the Borrowers' obligations hereunder.

Without limiting the generality of the foregoing, it is expressly understood and agreed that the absolute and unconditional obligation of the Borrowers hereunder to reimburse L/C Disbursements will not be excused by the gross negligence or willful misconduct of the Issuing Bank. However, the foregoing shall not be construed to excuse the Issuing Bank from liability to the Borrowers to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrowers to the extent permitted by applicable law) suffered by the Borrowers that are caused by the Issuing Bank's gross negligence or willful misconduct in determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof; it is understood that the Issuing Bank may accept documents that appear on

their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary and, in making any payment under any Letter of Credit (i) the Issuing Bank's exclusive reliance on the documents presented to it under such Letter of Credit as to any and all matters set forth therein, including reliance on the amount of any draft presented under such Letter of Credit, whether or not the amount due to the beneficiary thereunder equals the amount of such draft and whether or not any document presented pursuant to such Letter of Credit proves to be insufficient in any respect, if such document on its face appears to be in order, and whether or not any other statement or any other document presented pursuant to such Letter of Credit proves to be forged or invalid or any statement therein proves to be inaccurate or untrue in any respect whatsoever and (ii) any noncompliance in any immaterial respect of the documents presented under such Letter of Credit with the terms thereof shall, in each case, be deemed not to constitute willful misconduct or gross negligence of the Issuing Bank.

(g) The Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Bank shall as promptly as possible give telephonic notification, confirmed by telecopy, to the Administrative Agent and the Borrowing Agent of such demand for payment and whether the Issuing Bank has made or will make an L/C Disbursement thereunder; PROVIDED that any failure to give or delay in giving such notice shall not relieve the Borrowers of their obligation to reimburse the Issuing Bank and the Revolving Credit Lenders with respect to any such L/C Disbursement.

(h) The Issuing Bank may resign at any time by giving 90 days' prior written notice to the Administrative Agent, the Lenders and the Borrowers but such resignation shall not be effective until a successor is appointed. Subject to the next succeeding paragraph, upon the acceptance of any appointment as the Issuing Bank hereunder by a Lender that shall agree to serve as successor Issuing Bank, such successor shall succeed to and become vested with all the interests, rights and obligations of the retiring Issuing Bank and the retiring Issuing Bank shall be discharged from its obligations to issue additional Letters of Credit hereunder. At the time such removal or resignation shall become effective, the Borrowers shall pay all accrued and unpaid fees pursuant to Section 2.08(c)(ii). The acceptance of any appointment as the Issuing Bank hereunder by a successor Lender shall be evidenced by an agreement entered into by such successor, in a form satisfactory to the Borrowers and the Administrative Agent, and, from and after the effective date of such agreement, (i) such successor Lender shall have all the rights and obligations of the previous Issuing Bank under this Agreement and the other Loan Documents and (ii) references herein and in the other Loan Documents to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the resignation or removal of the Issuing Bank hereunder, the retiring Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement and the other Loan Documents with respect to Letters

of Credit issued by it prior to such resignation or removal, but shall not be required to issue additional Letters of Credit.

(i) If any Event of Default shall occur and be continuing, the Borrowers shall, on the Business Day the Borrowing Agent receives notice from the Administrative Agent or the Required Lenders (or, if the maturity of the Loans has been accelerated, Revolving Credit Lenders holding participations in outstanding Letters of Credit representing greater than 50% of the aggregate undrawn amount of all outstanding Letters of Credit) of an Event of Default and of the amount to be deposited, deposit in an account with the Collateral Agent, for the benefit of the Revolving Credit Lenders, an amount in cash equal to 105% of the L/C Exposure as of such date or provide one or more letters of credit, in form and substance reasonably satisfactory to the Administrative Agent and from a bank acceptable to the Administrative Agent for such amount in lieu of or to replace such cash deposit. Such deposit or letter of credit shall be held by the Collateral Agent as collateral for the payment and performance of the Obligations. The Collateral Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits in Permitted Investments, which investments shall be made at the option and sole discretion of the Collateral Agent, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall (i) automatically be applied by the Administrative Agent to reimburse the Issuing Bank for L/C Disbursements for which it has not been reimbursed, (ii) be held for the satisfaction of the reimbursement obligations of the Borrowers for the L/C Exposure at such time and (iii) if the maturity of the Loans has been accelerated (but subject to the consent of Revolving Credit Lenders holding participations in outstanding Letters of Credit representing greater than 50% of the aggregate undrawn amount of all outstanding Letters of Credit), be applied to satisfy the Obligations. If the Borrowers are required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrowers within three Business Days after all Events of Default have been cured or waived.

(j) The Borrowers may, at any time and from time to time with the consent of the Administrative Agent (which consent shall not be unreasonably withheld) and such Lender, designate one or more additional Lenders to act as an issuing bank under the terms of this Agreement. Any Lender designated as an issuing bank pursuant to this paragraph (k) shall be deemed (in addition to being a Lender) to be the Issuing Bank with respect to Letters of Credit issued or to be issued by such Lender, and all references herein and in the other Loan Documents to the term "Issuing Bank" shall, with respect to such Letters of Credit, be deemed to refer to such Lender in its capacity as Issuing Bank.

(k) The Existing Letters of Credit shall be deemed to be Letters of Credit issued hereunder, and on the Closing Date each Revolving Credit Lender shall be deemed to have been granted and acquired a participation therein pursuant to paragraph (d) above.

(l) In connection with the issuance of any Letter of Credit, the Borrowers shall jointly and severally indemnify, save and hold the Administrative Agent, each Lender and each Issuing Bank harmless from any loss, cost, expense or liability, including, without limitation, payments made by the Administrative Agent, any Lender or any Issuing Bank and expenses and reasonable attorneys' fees incurred by the Administrative Agent, any Lender or Issuing Bank arising out of, or in connection with, any Letter of Credit to be issued or created for any Borrower. The Borrowers shall be bound by the Administrative Agent's or any Issuing Bank's regulations and good faith interpretations of any Letter of Credit issued or created for Borrowers' Account, although this interpretation may be different from its own; and neither the Administrative Agent, nor any Lender, nor any Issuing Bank nor any of their correspondents shall be liable for any error, negligence, or mistakes, whether of omission or commission, in following the applicable Borrowers' instructions or those contained in any Letter of Credit or of any modifications, amendments or supplements thereto or in issuing or paying any Letter of Credit, except for the Administrative Agent's, any Lender's, any Issuing Bank's or such correspondents' willful misconduct or gross negligence.

(m) If the Administrative Agent is not the Issuing Bank of any Letter of Credit, Borrower shall authorize and direct the Issuing Bank to deliver to the Administrative Agent all instruments, documents, and other writings and property received by the Issuing Bank pursuant to the Letter of Credit and to accept and rely upon the Administrative Agent's instructions and agreements with respect to all matters arising in connection with the Letter of Credit and the application therefor

(n) In connection with all Letters of Credit issued or caused to be issued by the Administrative Agent under this Agreement, each Borrower hereby appoints the Administrative Agent, or its designee, as its attorney, with full power and authority (i) to sign and/or endorse such Borrower's name upon any warehouse or other receipts, letter of credit applications and acceptances; (ii) to sign such Borrower's name on bills of lading; (iii) to clear Inventory through the United States of America Customs Department ("CUSTOMS") in the name of such Borrower or the Administrative Agent or the Administrative Agent's designee, and to sign and deliver to Customs officials powers of attorney in the name of such Borrower for such purpose; and (iv) to complete in such Borrower's name or the Administrative Agent's, or in the name of the Administrative Agent's designee, any order, sale or transaction, obtain the necessary documents in connection therewith, and collect the proceeds thereof. Neither the Administrative Agent nor its attorneys will be liable for any acts or omissions nor for any error of judgment or mistakes of fact or law, except for the Administrative Agent's or its attorney's willful misconduct. This power, being coupled with an interest, is irrevocable as long as any Letters of Credit remain outstanding.

SECTION 2.27. BORROWING AGENCY PROVISIONS. (a) Each Borrower hereby irrevocably designates the Borrowing Agent to be its attorney and agent and in such capacity to borrow, sign and endorse notes, and execute and deliver all instruments,

documents, writings and further assurances now or hereafter required hereunder, on behalf of such Borrower or Borrowers, and hereby authorizes the Administrative Agent to pay over or credit all loan proceeds hereunder in accordance with the request of the Borrowing Agent.

(b) The handling of this credit facility as a co-borrowing facility with a borrowing agent in the manner set forth in this Agreement is solely as an accommodation to the Borrowers and at their request. Neither the Administrative Agent, the Collateral Agent, nor any Lender shall incur liability to any Borrower as a result thereof. To induce the Administrative Agent, the Collateral Agent and Lenders to do so and in consideration thereof, each Borrower hereby indemnifies the Administrative Agent, the Collateral Agent and each Lender and holds the Administrative Agent, the Collateral Agent and each Lender harmless from and against any and all liabilities, expenses, losses, damages and claims of damage or injury asserted against the Administrative Agent, the Collateral Agent or any Lender by any Person arising from or incurred by reason of the handling of the financing arrangements of the Borrowers as provided herein, reliance by the Administrative Agent, the Collateral Agent or any Lender on any request or instruction from the Borrowing Agent or any other action taken by the Administrative Agent, the Collateral Agent or any Lender with respect to this Section 2.27, except due to willful misconduct or gross (not mere) negligence by the indemnified party.

(c) Subject to Section 2.29, all Obligations shall be joint and several, and each Borrower shall make payment upon the maturity of the Obligations by acceleration or otherwise, and such obligation and liability on the part of each Borrower shall in no way be affected by any extensions, renewals and forbearance granted by the Administrative Agent, the Collateral Agent or any Lender to any Borrower, failure of the Administrative Agent, the Collateral Agent or any Lender to give any Borrower notice of borrowing or any other notice, any failure of the Administrative Agent, the Collateral Agent or any Lender to pursue or preserve its rights against any Borrower, the release by Agent or any Lender of any Collateral now or thereafter acquired from any Borrower, and such agreement by each Borrower to pay upon any notice issued pursuant thereto is unconditional and unaffected by prior recourse by the Administrative Agent, the Collateral Agent or any Lender to the other Borrowers or any Collateral for such Borrower's Obligations or the lack thereof.

SECTION 2.28. WAIVER OF SUBROGATION. Each Borrower expressly waives any and all rights of subrogation, reimbursement, indemnity, exoneration, contribution of any other claim which such Borrower may now or hereafter have against the other Borrowers or other person directly or contingently liable for the Obligations hereunder, or against or with respect to the other Borrowers' property (including, without limitation, any property which is Collateral for the Obligations), arising from the existence or performance of this Agreement, until termination of this Agreement and repayment in full of the Obligations.

SECTION 2.29. BORROWER GUARANTEE AGREEMENT. The Obligations of the

Borrowers as joint and several obligors shall be subject to all the terms, conditions, waivers and agreements contained in the Borrower Guarantee Agreement.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

The Borrowers represent and warrant to the Administrative Agent, the Collateral Agent, the Issuing Bank and each of the Lenders that:

SECTION 3.01. ORGANIZATION; POWERS. The Borrowers and each of the Subsidiaries (a) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has all requisite power and authority to own its property and assets and to carry on its business as now conducted and as proposed to be conducted, (c) is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required, except where the failure so to qualify could not reasonably be expected to result in a Material Adverse Effect, and (d) has the power and authority to execute, deliver and perform its obligations under each of the Loan Documents and each other agreement or instrument contemplated hereby to which it is or will be a party and, in the case of the Borrowers, to borrow hereunder.

SECTION 3.02. AUTHORIZATION. The execution, delivery and performance by (a) each of Activision and Sub of the Merger Agreement and (b) each Loan Party of each of the Loan Documents and the consummation of the transactions contemplated by the Merger Agreement and the Loan Documents (including the borrowings hereunder) (collectively, the "TRANSACTIONS") (i) have been duly authorized by all requisite corporate and, if required, stockholder action and (ii) will not (x) violate (A) any provision of law, statute, rule or regulation, or of the certificate or articles of incorporation or other constitutive documents or by-laws of any Borrower or any Subsidiary, (B) any order of any Governmental Authority or (C) any provision of any indenture, agreement or other instrument to which any Borrower or any Subsidiary is a party or by which any of them or any of their property is or may be bound, (y) be in conflict with, result in a breach of or constitute (alone or with notice or lapse of time or both) a default under, or give rise to any right to accelerate or to require the prepayment, repurchase or redemption of any obligation under any such indenture, agreement or other instrument or (z) result in the creation or imposition of any Lien upon or with respect to any property or assets now owned or hereafter acquired by any Borrowers or any Subsidiary (other than any Lien created hereunder or under the Security Documents).

SECTION 3.03. ENFORCEABILITY. This Agreement has been duly executed and delivered by each Borrower and constitutes, and each other Loan Document when executed and delivered by the each Loan Party thereto will constitute, a legal, valid and binding obligation of such Loan Party enforceable against such Loan Party in accordance with its terms.

SECTION 3.04. GOVERNMENTAL APPROVALS. No action, consent or approval of, registration or filing with or any other action by any Governmental Authority is or will be required in connection with the Transactions, except for (i) the filing of Uniform Commercial Code financing statements and filings with the United States Patent and Trademark Office and the United States Copyright Office, (ii) recordation of the Mortgages and (iii) such as have been made or obtained and are in full force and effect.

SECTION 3.05. FINANCIAL STATEMENTS. (a) The Borrowers have heretofore furnished to the Lenders Activision's consolidated balance sheets and statements of income, stockholder's equity and cash flows (i) as of and for the fiscal year ended March 31, 1998, audited by and accompanied by the opinion of KPMG Peat Marwick LLP, independent public accountants, and (ii) as of and for the fiscal quarter and the portion of the fiscal year ended December 31, 1998, certified by its chief financial officer. Such financial statements present fairly the financial condition and results of operations and cash flows of Activision and its consolidated Subsidiaries as of such dates and for such periods. Such balance sheets and the notes thereto disclose all material liabilities, direct or contingent, of Activision and its consolidated Subsidiaries as of the dates thereof required to be disclosed therein in accordance with GAAP. Such financial statements were prepared in accordance with GAAP applied on a consistent basis.

(b) Activision has heretofore delivered to the Lenders its unaudited pro forma consolidated balance sheet and statements of income, stockholder's equity and cash flows as of March 31, 1999, prepared giving effect to the Transactions as if they had occurred, with respect to such balance sheet, on such date and, with respect to such other financial statements, on the first day of the 12-month period ending on such date. Such pro forma financial statements have been prepared in good faith by the Borrowers, based on the assumptions used to prepare the pro forma financial information contained in the Confidential Information Memorandum (which assumptions are believed by the Borrowers on the date hereof and on the Closing Date to be reasonable), are based on the best information available to the Borrowers as of the date of delivery thereof, accurately reflect all adjustments required to be made to give effect to the Transactions and presents fairly on a pro forma basis the estimated consolidated financial position of Activision and its consolidated Subsidiaries as of such date and for such period, assuming that the Transactions had actually occurred at such date or at the beginning of such period, as the case may be.

SECTION 3.06. NO MATERIAL ADVERSE CHANGE. There has been no material adverse change in the business, results of operations, property, condition (financial or otherwise) or prospects of the Borrowers and the Subsidiaries, taken as a whole, since December 31, 1998.

SECTION 3.07. TITLE TO PROPERTIES; POSSESSION UNDER LEASES. (a) Each of the Borrowers and the Subsidiaries has good and marketable title to, or valid leasehold

interests in, all its material properties and tangible assets (including all Mortgaged Property), except for minor defects in title that do not interfere with its ability to conduct its business as currently conducted or to utilize such properties and assets for their intended purposes. All such material properties and assets are free and clear of Liens, other than Liens expressly permitted by Section 6.02.

(b) Each of the Borrowers and the Subsidiaries has complied in all material respects with all obligations under all material leases or warehousing agreements to which it is a party and all such leases or warehousing agreements are in full force and effect. Each of the Borrowers and the Subsidiaries enjoys peaceful and undisturbed possession under all such material leases.

(c) No Borrower has received any notice of, nor has any knowledge of, any pending or contemplated condemnation proceeding affecting the Mortgaged Properties or any sale or disposition thereof in lieu of condemnation.

(d) No Borrower nor any of the Subsidiaries is obligated under any right of first refusal, option or other contractual right to sell, assign or otherwise dispose of any Mortgaged Property or any interest therein.

SECTION 3.08. SUBSIDIARIES. Schedule 3.08 sets forth as of the Closing Date a list of all Subsidiaries and the percentage ownership interest of the Borrowers or their Subsidiaries therein. The shares of capital stock or other ownership interests so indicated on Schedule 3.08 are fully paid and non-assessable and are owned by the applicable Borrower or Subsidiary, directly or indirectly, free and clear of all Liens, other than Liens in favor of the Collateral Agreement, Liens under the Existing Credit Agreement and Liens disclosed in Schedule 6.02.

SECTION 3.09. LITIGATION; COMPLIANCE WITH LAWS. (a) Except as set forth on Schedule 3.09, there are not any actions, suits or proceedings at law or in equity or by or before any Governmental Authority now pending or, to the knowledge of the Borrowers, threatened against or affecting any Borrower or any Subsidiary or any business, property or rights of any such person (i) that involve any Loan Document or the Transactions or (ii) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect.

(b) Neither any Borrower nor any of the Subsidiaries or any of their respective material properties or assets is in violation of, nor will the continued operation of their material properties and assets as currently conducted violate, any law, rule or regulation (including any zoning, building, Environmental Law, ordinance, code or approval or any building permits) or any restrictions of record or agreements affecting the Mortgaged Property, or is in default with respect to any judgment, writ, injunction, decree

or order of any Governmental Authority, where such violation or default could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.10. AGREEMENTS. (a) Neither any Borrower nor any of the Subsidiaries is a party to any agreement or instrument or subject to any corporate restriction that has resulted or could reasonably be expected to result in a Material Adverse Effect.

(b) Neither any Borrower nor any of the Subsidiaries is in default in any manner under any provision of any indenture or other agreement or instrument evidencing Indebtedness, or any Material Contract, where such default could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.11. FEDERAL RESERVE REGULATIONS. (a) Neither the Borrowers nor any of the Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of buying or carrying Margin Stock.

(b) No part of the proceeds of any Loan or any Letter of Credit will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, for any purpose that entails a violation of, or that is inconsistent with, the provisions of the Regulations of the Board, including Regulation T, U or X.

SECTION 3.12. INVESTMENT COMPANY ACT; PUBLIC UTILITY HOLDING COMPANY ACT. Neither any Borrower nor any Subsidiary is (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

SECTION 3.13. USE OF PROCEEDS. The Borrowers will use the proceeds of the Loans and will request the issuance of Letters of Credit only for the purposes specified in the preamble to this Agreement.

SECTION 3.14. TAX RETURNS. Each of the Borrowers and the Subsidiaries has filed or caused to be filed all Federal, state, local and foreign tax returns or materials required to have been filed by it and has paid or caused to be paid all taxes due and payable by it and all assessments received by it, except taxes that are being contested in good faith by appropriate proceedings and for which the applicable Borrowers or such Subsidiary, as applicable, shall have set aside on its books adequate reserves.

SECTION 3.15. NO MATERIAL MISSTATEMENTS. None of (a) the Confidential Information Memorandum or (b) any other written information, report, financial statement, exhibit or schedule furnished by the Borrowers to the Administrative Agent or any Lender in connection with the Loan Documents or included therein or delivered pursuant thereto contained, contains or will contain any material misstatement of fact or

omitted, omits or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were, are or will be made, not misleading; PROVIDED that to the extent any such information, report, financial statement, exhibit or schedule was based upon or constitutes a forecast or projection, the Borrowers represent only that they acted in good faith and utilized reasonable assumptions and due care in the preparation of such information, report, financial statement, exhibit or schedule.

SECTION 3.16. EMPLOYEE BENEFIT PLANS. (a) Each of the Borrowers and its ERISA Affiliates is in compliance in all material respects with the applicable provisions of ERISA and the Code and the regulations and published interpretations thereunder. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events, could reasonably be expected to result in material liability of the Borrowers or any of their ERISA Affiliates. The present value of all benefit liabilities under each Plan (based on those assumptions used to fund such Plan) did not, as of the last annual valuation date applicable thereto, exceed the fair market value of the assets of such Plan, and the present value of all benefit liabilities of all underfunded Plans (based on those assumptions used to fund each such Plan) did not, as of the last annual valuation date applicable thereto, exceed the fair market value of the assets of all such underfunded Plans.

(b) Each Foreign Pension Plan is in compliance in all material respects with all requirements of law applicable thereto and the respective requirements of the governing documents for such plan except to the extent such non-compliance could not reasonably be expected to result in a Material Adverse Effect. With respect to each Foreign Pension Plan, none of the Borrowers, any Affiliates or any of their directors, officers, employees or agents has engaged in a transaction that subjects any Borrower or any of its Subsidiaries, directly or indirectly, to a material tax or civil penalty. With respect to each Foreign Pension Plan, reserves have been established in the financial statements furnished to the Lenders in respect of any unfunded liabilities in accordance with applicable law and prudent business practice or, where required, in accordance with ordinary accounting practices in the jurisdiction in which such Foreign Pension Plan is maintained. The aggregate unfunded liabilities, with respect to such Foreign Pension Plans could not reasonably be expected to result in a Material Adverse Effect. There are no actions, suits or claims (other than routine claims for benefits) pending or threatened against any Borrower or any of its Affiliates with respect to any Foreign Pension Plan that could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect.

SECTION 3.17. ENVIRONMENTAL MATTERS. Except as set forth in Schedule 3.17:

(a) The properties owned or operated by the Borrowers and the Subsidiaries (the "PROPERTIES") do not contain any Hazardous Materials in amounts or concentrations which (i) constitute, or constituted a violation of, (ii) require Remedial Action under, or (iii) could give rise to liability under, Environmental Laws, which violations, Remedial Actions and liabilities, in the aggregate, could reasonably be expected to result in a Material Adverse Effect;

(b) The Properties and all operations of the Borrowers and the Subsidiaries are in compliance, and in the last six years have been in compliance, with all Environmental Laws and all necessary Environmental Permits have been obtained and are in effect, except to the extent that such non-compliance or failure to obtain any necessary permits, in the aggregate, could not reasonably be expected to result in a Material Adverse Effect;

(c) There have been no Releases or threatened Releases at, from, under or proximate to the Properties or otherwise in connection with the operations of the Borrowers or the Subsidiaries, which Releases or threatened Releases, in the aggregate, could reasonably be expected to result in a Material Adverse Effect;

(d) Neither any Borrowers nor any of the Subsidiaries has received any notice of an Environmental Claim in connection with the Properties or the operations of any Borrowers or the Subsidiaries or with regard to any person whose liabilities for environmental matters any Borrower or any Subsidiary has retained or assumed, in whole or in part, contractually, by operation of law or otherwise, which, in the aggregate, could reasonably be expected to result in a Material Adverse Effect, nor do the Borrowers or the Subsidiaries have reason to believe that any such notice will be received or is being threatened; and

(e) Hazardous Materials have not been transported from the Properties, nor have Hazardous Materials been generated, treated, stored or disposed of at, on or under any of the Properties in a manner that could give rise to liability under any Environmental Law, nor have the Borrowers or the Subsidiaries retained or assumed any liability, contractually, by operation of law or otherwise, with respect to the generation, treatment, storage or disposal of Hazardous Materials, which transportation, generation, treatment, storage or disposal, or retained or assumed liabilities, in the aggregate, could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.18. INSURANCE. Schedule 3.18 sets forth a true, complete and correct description of all insurance maintained by the Borrowers or by the Borrowers for their Subsidiaries as of the date hereof and the Closing Date. As of each such date, such insurance is in full force and effect and all premiums have been duly paid. The

Borrowers and their Subsidiaries have insurance in such amounts and covering such risks and liabilities as are in accordance with normal industry practice.

SECTION 3.19. SECURITY DOCUMENTS. (a) The Pledge Agreement is effective to create in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Pledge Agreement) and, when the Collateral is delivered to the Collateral Agent (or in the case of Foreign Subsidiaries in Germany, the Netherlands and the United Kingdom, when pledge agreements complying with applicable foreign laws are executed and delivered), the Pledge Agreement shall constitute a fully perfected first priority Lien on, and security interest in, all right, title and interest of the pledgors thereunder in such Collateral, in each case prior and superior in right to any other person.

(b) The Security Agreement is effective to create in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Security Agreement) and, when financing statements in appropriate form are filed in the offices specified on Schedule 6 to the Perfection Certificate, the Security Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the grantors thereunder in such Collateral (other than the Intellectual Property, as defined in the Security Agreement), in each case prior and superior in right to any other person, other than with respect to Liens expressly permitted by Section 6.02.

(c) When the Security Agreement is filed in the United States Patent and Trademark Office and the United States Copyright Office, the Security Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the grantors thereunder in the Intellectual Property (as defined in the Security Agreement), in each case prior and superior in right to any other person (it being understood that subsequent recordings in the United States Patent and Trademark Office and the United States Copyright Office may be necessary to perfect a lien on registered trademarks, trademark applications and copyrights acquired by the grantors after the date hereof).

(d) The Mortgages are effective to create in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable Lien on all of the Loan Parties' right, title and interest in and to the Mortgaged Property thereunder and the proceeds thereof, and when the Mortgages are filed in the appropriate offices in the jurisdictions in which the Mortgaged Properties are located the Mortgages shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the Loan Parties in such Mortgaged Property and the proceeds thereof, in each case prior and superior in right to any other person, other than with respect to the rights of persons pursuant to Liens expressly permitted by Section 6.02.

(e) The UK Charge Documents are effective to create in favor of Activision a legal, valid and enforceable security interest in and charge over the personal property assets of UK Sub described therein and, when _____ are filed in _____, such UK Charge Documents shall constitute a fully perfected Lien on, and security interest on all right, title and interest of UK Sub in such personal property assets prior and superior in right to any other person.

SECTION 3.20. LOCATION OF REAL PROPERTY AND LEASED PREMISES.

(a) Schedule 3.20(a) lists completely and correctly as of the Closing Date all real property owned by the Loan Parties and the addresses thereof. The Loan Parties own in fee all the real property set forth on Schedule 3.20(a).

(b) Schedule 3.20(b) lists completely and correctly as of the Closing Date all real property leased by the Loan Parties and all locations of Collateral and the addresses thereof. The Loan Parties have valid leases in or valid warehouse agreements with respect to all the real property set forth on Schedule 3.20(b) except to the extent set forth on such Schedule.

SECTION 3.21. LABOR MATTERS. As of the date hereof and the Closing Date, there are no strikes, lockouts or slowdowns against any Borrower or any Subsidiary pending or, to the knowledge of the Borrowers, threatened. The hours worked by and payments made to employees of any Borrower and the Subsidiaries have not been in violation of the Fair Labor Standards Act or any other applicable Federal, state, local or foreign law dealing with such matters. All payments due from the Borrowers or any Subsidiary, or for which any claim may be made against any Borrowers or any Subsidiary, on account of wages and employee health and welfare insurance and other benefits, have been paid or accrued as a liability on the books of such Borrower or such Subsidiary. The consummation of the Transactions will not give rise to any right of termination or right of renegotiation on the part of any union under any collective bargaining agreement to which any Borrower or any Subsidiary is bound.

SECTION 3.22. SOLVENCY. Immediately after the consummation of the Transactions to occur on the Closing Date and immediately following the making of each Loan and after giving effect to the application of the proceeds of each Loan, (a) the fair value of the assets of each Loan Party, at a fair valuation, will exceed its debts and liabilities, subordinated, contingent or otherwise; (b) the present fair saleable value of the property of each Loan Party will be greater than the amount that will be required to pay the probable liability of its debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured; (c) each Loan Party will be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and (d) each Loan Party will not have unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and is proposed to be conducted following the Closing Date.

SECTION 3.23. YEAR 2000. No further programming or reprogramming is required to permit the proper functioning, in and following the year 2000, of (a) the Borrowers' and their Subsidiaries' computer systems and (b) equipment containing embedded microchips (including systems and equipment supplied by others or with which the Borrowers' or their Subsidiaries' systems interface). The cost to the Borrowers and their Subsidiaries of the reasonably foreseeable consequences of the year 2000 to the Borrowers and their Subsidiaries (including reprogramming errors and the failure of others' systems or equipment) will not result in a Material Adverse Effect. The computer and management information systems of the Borrowers and their Subsidiaries are and, with ordinary course upgrading and maintenance, will continue for the term of this Agreement to be, sufficient to permit the Borrowers and its Subsidiaries to conduct their business without Material Adverse Effect.

SECTION 3.24. LETTERS OF CREDIT. The Existing Letters of Credit are the only letters of credit issued for the account of the Borrowers or any of its Domestic Subsidiaries that are outstanding immediately prior to the Closing Date.

ARTICLE IV

CONDITIONS OF LENDING

The obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit hereunder are subject to the satisfaction of the following conditions:

SECTION 4.01. ALL CREDIT EVENTS. On the date of each Borrowing, and on the date of each issuance, amendment, extension or renewal of a Letter of Credit (each such event being called a "CREDIT EVENT"):

(a) The Administrative Agent shall have received a notice of such Borrowing as required by Section 2.03 (or such notice shall have been deemed given in accordance with Section 2.03) or, in the case of the issuance, amendment, extension or renewal of a Letter of Credit, the Issuing Bank and the Administrative Agent shall have received a notice requesting the issuance, amendment, extension or renewal of such Letter of Credit as required by Section 2.26(b).

(b) The representations and warranties set forth in Article III hereof and in each other Loan Document shall be true and correct in all material respects on and as of the date of such Credit Event with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date, in which case they shall have been true and correct as of such earlier date.

(c) The Borrowers and each other Loan Party shall be in compliance in all material respects with all the terms and provisions set forth herein and in each other Loan Document on its part to be observed or performed, and at the time of and immediately after such Credit Event, no Event of Default or Default shall have occurred and be continuing, or would exist after giving effect to the Loan to be made or Letter of Credit to be issued on such date.

Each Credit Event shall be deemed to constitute a representation and warranty by the Borrowers on the date of such Credit Event as to the matters specified in paragraphs (b) and (c) of this Section 4.01.

SECTION 4.02. FIRST CREDIT EVENT. On the Closing Date (or, as specifically indicated below, prior to the date hereof):

(a) The Administrative Agent shall have received, on behalf of itself, the Lenders and the Issuing Bank, a favorable written opinion of (i) Robinson Silverman Pearce Aronsohn & Berman LLP, counsel for the Loan Parties, substantially to the effect set forth in Exhibit I-1, and (ii) each local counsel listed on Schedule 4.02(a), substantially to the effect set forth in Exhibit I-2, in each case (A) dated the Closing Date, (B) addressed to the Issuing Bank, the Administrative Agent, the Collateral Agent and the Lenders, and (C) covering such other matters relating to the Loan Documents and the Transactions as the Administrative Agent shall reasonably request, and the Borrowers hereby request such counsel to deliver such opinions.

(b) All legal matters incident to this Agreement, the Borrowings and extensions of credit hereunder and the other Loan Documents shall be satisfactory to the Lenders, to the Issuing Bank and to the Administrative Agent.

(c) The Administrative Agent shall have received (i) a copy of the certificate or articles of incorporation, including all amendments thereto, of each Loan Party, certified as of a recent date by the Secretary of State of the state of its organization, and a certificate as to the good standing of each Loan Party as of a recent date, from such Secretary of State; (ii) a certificate of the Secretary or Assistant Secretary of each Loan Party dated the Closing Date and certifying (A) that attached thereto is a true and complete copy of the by-laws of such Loan Party as in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors of such Loan Party authorizing the execution, delivery and performance of the Loan Documents to which such person is a party and, in the case of the Borrowers, the borrowings hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the certificate or articles of incorporation of such Loan Party have not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (i) above, and (D) as to the incumbency and specimen signature of each officer

executing any Loan Document or any other document delivered in connection herewith on behalf of such Loan Party; (iii) a certificate of another officer as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to (ii) above; and (iv) such other documents as the Lenders, the Issuing Bank or the Administrative Agent may reasonably request; and the Administrative Agent shall have received equivalent documents with respect to UK Sub, and the charter documents (or commercial register excerpts thereof) of each Foreign Subsidiary whose stock is to be pledged under the Pledge Agreement.

(d) The Administrative Agent shall have received a certificate, dated the Closing Date and signed by a Financial Officer of the Borrowers, confirming compliance with the conditions precedent set forth in paragraphs (b) and (c) of Section 4.01.

(e) The Administrative Agent shall have received all Fees and other amounts due and payable on or prior to the Closing Date (each of which may be funded out of the initial Loans), including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrowers hereunder or under any other Loan Document.

(f) The Pledge Agreement shall have been duly executed by the parties thereto and delivered to the Collateral Agent and shall be in full force and effect, and all the outstanding Equity Interests of the Subsidiaries and all instruments, including the Intercompany Note, pledged thereunder shall have been duly and validly pledged thereunder to the Collateral Agent for the ratable benefit of the Secured Parties and certificates representing such shares or such instruments accompanied by instruments of transfer and stock powers endorsed in blank, shall be in the actual possession of the Collateral Agent or such other action shall have been taken under applicable laws to perfect the pledge; PROVIDED that to the extent to do so would cause adverse tax consequences to the Borrowers, (i) neither any Borrower nor any Domestic Subsidiary shall be required to pledge more than 65% of the voting stock of any Foreign Subsidiary and (ii) no Foreign Subsidiary shall be required to pledge the capital stock of any of its Subsidiaries.

(g) The Security Agreement shall have been duly executed by the parties thereto and shall have been delivered to the Collateral Agent and shall be in full force and effect on such date. Each document (including without limitation any Uniform Commercial Code financing statement) required by this Agreement or the other Loan Documents, or under law, or reasonably requested by the Administrative Agent or the Collateral Agent to be filed, registered, or recorded in order to create, in favor of the Collateral Agent, a perfected security interest in or Lien upon the Collateral shall have been properly filed, registered or recorded in each jurisdiction in which the filing, registration or recordation thereof is so required or requested, and the Administrative Agent shall have received an acknowledgment copy, or other evidence satisfactory to it,

of each such filing registration or recordation and satisfactory evidence of the payment of any necessary fee, tax or expense relating thereto.

(h) Prior to the date hereof, the Collateral Agent shall have received the results of a search of the Uniform Commercial Code filings (or equivalent filings) made with respect to the Loan Parties and UK Sub in the states (or other jurisdictions) in which the chief executive office of each such person is located, any offices of such persons in which records have been kept relating to Receivables and the other jurisdictions in which Uniform Commercial Code filings (or equivalent filings) are to be made pursuant to the preceding paragraph, together with copies of the financing statements (or similar documents) disclosed by such search, and accompanied by evidence satisfactory to the Collateral Agent that the Liens indicated in any such financing statement (or similar document) would be permitted under Section 6.02 or have been released.

(i) The Collateral Agent shall have received a Perfection Certificate with respect to the Loan Parties dated the Closing Date and duly executed by a Responsible Officer of each Loan Party.

(j) The Administrative Agent shall have received duly executed agreements establishing the Blocked Accounts or Depository Accounts, in form and substance satisfactory to the Administrative Agent.

(k) Each of the Borrower Guarantee Agreement, the Subsidiary Guarantee Agreement and the Indemnity, Subrogation and Contribution Agreement shall have been duly executed by the parties thereto, shall have been delivered to the Collateral Agent and shall be in full force and effect.

(l) The Administrative Agent shall have received such information as is required to calculate the Formula Amount.

(m) The Administrative Agent shall have received a copy of, or a certificate as to coverage under, the insurance policies required by Section 5.02 and the applicable provisions of the Security Documents, each of which shall be endorsed or otherwise amended to include a "standard" or "New York" lender's loss payable endorsement and to name the Collateral Agent as additional insured, in form and substance satisfactory to the Administrative Agent.

(n) The Merger shall have been consummated or shall be consummated simultaneously with the initial Credit Event on the Closing Date, in compliance with applicable laws and in all material respects in accordance with the terms of the relevant documentation therefor, including the Merger Agreement and the related schedules and attachments thereto in the form in which they were initially executed (and without the

waiver or amendment of any such terms, except as shall be approved by the Required Lenders (which approval shall not be unreasonably withheld)).

(o) No litigation, investigation or proceeding before or by any arbitrator or Governmental Agency shall be continuing or threatened against the Borrowers or any of its Subsidiaries or any of their officers or directors, (A) in connection with the Loan Documents or any of the transactions contemplated thereby and which, in the reasonable opinion of Lenders, is deemed material or (B) which could, in the opinion of Lenders, reasonably be expected to have a Material Adverse Effect; and (ii) no injunction, writ, restraining order or other order of any nature preventing or restricting the conduct of the business of any Borrower or any of its Material Subsidiaries or consummation of the Transactions shall have been entered by any Governmental Agency.

(p) Prior to the date hereof, the Lenders shall have received (i) audited consolidated balance sheets and related statements of income, stockholders' equity and cash flows of the Activision for each of the fiscal years ended on March 31, 1996, 1997 and 1998, and of Expert for each of the fiscal years ended on December 31, 1996, 1997 and 1998, and (ii) unaudited consolidated and consolidating balance sheets and related statements of income, stockholders' equity and cash flows of Activision and Expert for each subsequent fiscal quarter, if any, ended 30 days prior to the Closing Date, which financial statements shall not be materially inconsistent with the financial statements or forecasts previously provided to the Lenders.

(q) All principal, premium, if any, interest, fees and other amounts due and owing under the Existing Credit Agreement shall have been paid in full with the proceeds of the initial Loans (and satisfactory arrangements shall have been made to replace or continue under this Agreement all letters of credit outstanding thereunder), the commitments thereunder terminated and all guarantees and security in support thereof released, and the Administrative Agent shall have received reasonably satisfactory evidence thereof, and after giving effect to the Transactions and the other transactions contemplated hereby, the Borrowers and the Subsidiaries shall have outstanding no Indebtedness or preferred stock other than (i) the Loans and Letters of Credit hereunder and (ii) the Indebtedness listed on Schedule 6.01.

(r) After giving pro forma effect to the Transactions, and after adding back non-cash prepayments of royalties, the Adjusted EBITDA of Activision and its consolidated Subsidiaries for the four-quarter period ending March 31, 1999, shall be at least \$55,000,000.

(s) The Administrative Agent shall have received a Financial Condition Certificate in the form of Exhibit L.

(t) Prior to the date hereof the Administrative Agent shall have completed Collateral examinations and received appraisals, the results of which shall be satisfactory

in form and substance to Lenders, of the Receivables, Inventory, general intangibles, intellectual property and equipment of the Borrowers, received satisfactory trade references and completed a satisfactory review of all books and records of the Borrowers.

(u) Prior to the date hereof, the Lenders shall have received a copy of pro forma financial statements after giving effect to the Loans and the Transactions, which shall be satisfactory in all respects to Lenders, and projections for the Loan Parties through the Revolving Credit Maturity Date demonstrating the Borrowers' ability to comply with this Agreement.

(v) The Administrative Agent shall have received written instructions from the Borrowers directing the application of the proceeds of the Borrowings to be made on the Closing Date.

(w) Since December 31, 1998, there shall not have occurred any event, condition or state of facts which could reasonably be expected to have a Material Adverse Effect and no representations made or information supplied to the Administrative Agent or the Lenders shall have proven to be inaccurate or misleading in any material respect.

(x) The Administrative Agent shall have received landlord, mortgagee, warehouseman or laboratory pledgeholder agreements with respect to all premises leased by any Loan Party or at which any Inventory is located or appropriate reserves shall have been established.

(y) After giving effect to the Loans to be made on the Closing Date and the payment of all fees, costs and expenses in connection with the Transactions, and to the Existing Letters of Credit, the Borrowers shall have Undrawn Availability of at least \$5,000,000 in the aggregate.

(z) The Lenders shall be mutually acceptable to the Administrative Agent, the Syndication Agent and Activision.

ARTICLE V

AFFIRMATIVE COVENANTS

The Borrowers covenant and agree with each Lender that so long as this Agreement shall remain in effect and until the Commitments have been terminated and the principal of and interest on each Loan, all Fees and all other expenses or amounts payable under any Loan Document shall have been paid in full and all Letters of Credit have been canceled or have expired and all amounts drawn thereunder have been reimbursed in full, unless the Required Lenders shall otherwise consent in writing, each Borrower will, and will cause each of the Subsidiaries to:

SECTION 5.01. EXISTENCE; BUSINESSES AND PROPERTIES. (a) Do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence, except as otherwise expressly permitted under Section 6.05.

(b) Do or cause to be done all things necessary to obtain, preserve, renew, extend and keep in full force and effect the rights, licenses, permits, franchises, authorizations, patents, copyrights, trademarks and trade names material to the conduct of its business; maintain and operate such business in substantially the manner in which it is presently conducted and operated or in a manner reasonably related to present operations; comply in all material respects with all applicable laws, rules, regulations (including any zoning, building, Environmental Law, ordinance, code or approval or any building permits or any restrictions of record or agreements affecting the Mortgaged Properties) and decrees and orders of any Governmental Authority, whether now in effect or hereafter enacted; and at all times maintain and preserve all property material to the conduct of such business and keep such property in good repair, working order and condition and from time to time make, or cause to be made, all needful and proper repairs, renewals, additions, improvements and replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times.

SECTION 5.02. INSURANCE. The Loan Parties shall bear the full risk of any loss of any nature whatsoever with respect to the Collateral. At the cost and expense of the Loan Parties in amounts and with carriers reasonably acceptable to the Administrative Agent, the Loan Parties shall (a) keep all insurable properties and properties in which any Loan Party has an interest insured against the hazards of fire, flood, sprinkler leakage, those hazards covered by extended coverage insurance and such other hazards, and for such amounts, as is customary in the case of companies engaged in businesses similar to the business of the Loan Parties including, without limitation, business interruption insurance and marine and air cargo insurance, (b) maintain a bond in such amounts as is customary in the case of companies engaged in businesses similar to the business of the Loan Parties insuring against larceny, embezzlement or other criminal misappropriation of insured's officers and employees who may either singly or jointly with others at any time have access to the assets or funds of such Loan Party either directly or through authority to draw upon such funds or to direct generally the disposition of such assets; (c) maintain public and product liability insurance against claims for personal injury, death or property damage suffered by others; (d) maintain all such worker's compensation or similar insurance as may be required under the laws of any state or jurisdiction in which such Loan Party is engaged in business; (e) furnish the Administrative Agent with (i) copies of all policies and evidence of the maintenance of such policies by the renewal thereof at least thirty (30) days before any expiration date, and (ii) appropriate loss payable endorsements in form and substance reasonably satisfactory to the Administrative Agent, naming the Administrative Agent as a co-insured and loss payee as its interests may appear with respect to all insurance coverage referred to in clause (a), and providing (A)

that all proceeds thereunder shall be payable to the Administrative Agent, (B) no such insurance shall be affected by any act or neglect of the insured or owner of the property described in such policy, and (C) that such policy and loss payable clauses may not be canceled, amended or terminated unless at least thirty (30) days' prior written notice is given to the Administrative Agent. In the event of any loss thereunder, the carriers named therein hereby are directed by the Administrative Agent and the applicable Loan Party to make payment for such loss to the Administrative Agent and not to such Loan Party and Administrative Agent jointly. If any insurance losses are paid by check, draft or other instrument payable to any Loan Party and the Administrative Agent jointly, the Administrative Agent may endorse such Loan Party's name thereon and do such Loan Party other things as the Administrative Agent may deem advisable to reduce the same to case. Following the occurrence of an Event of Default, the Administrative Agent is hereby authorized to adjust and compromise claims under insurance coverage referred to in clauses (a), and (b). All loss recoveries received by the Administrative Agent upon any such insurance prior to the occurrence of an Event of Default shall be applied to the Revolving Loans. Any surplus shall be paid by the Administrative Agent to Borrowers or applied as may be otherwise required by law.

SECTION 5.03. OBLIGATIONS AND TAXES. Pay its Indebtedness and other obligations promptly and in accordance with their terms and pay and discharge promptly when due all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property, before the same shall become delinquent or in default, as well as all lawful claims for labor, materials and supplies or otherwise that, if unpaid, might give rise to a Lien upon such properties or any part thereof; PROVIDED, HOWEVER, that such payment and discharge shall not be required with respect to any such tax, assessment, charge, levy or claim so long as the validity or amount thereof shall be contested in good faith by appropriate proceedings and the Borrowers shall have set aside on its books adequate reserves with respect thereto in accordance with GAAP and such contest operates to suspend collection of the contested obligation, tax, assessment or charge and enforcement of a Lien and, in the case of a Mortgaged Property, there is no risk of forfeiture of such property.

SECTION 5.04. FINANCIAL STATEMENTS, REPORTS, ETC. In the case of the Borrowers, furnish to the Administrative Agent and each Lender:

(a) within 90 days after the end of each fiscal year, its consolidated and consolidating balance sheet and related statements of income, stockholders' equity and cash flows showing the financial condition and Activision and its consolidated Subsidiaries as of the close of such fiscal year and the results of its operations and the operations of such Subsidiaries during such year. The consolidated financial statements shall be audited by KPMG Peat Marwick LLP or other independent public accountants of recognized national standing and accompanied by an opinion of such accountants (which shall not be qualified in any material respect) to the effect that such consolidated financial statements fairly present the financial condition and results of operations of Activision and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP. In addition, Development Costs and the amortization of Development Costs for such year shall be identified explicitly in the audited financial statements or in the notes thereto;

(b) within 45 days after the end of each fiscal quarter of each fiscal year, the consolidated and consolidating balance sheet and related statements of income, stockholders' equity and cash flows showing the financial condition of Activision and its consolidated Subsidiaries, and of the Loan Parties as of the close of such fiscal quarter and the results of its operations and the operations of such Subsidiaries during such fiscal quarter and the then elapsed portion of the fiscal year, all certified by one of its Financial Officers as fairly presenting the financial condition and results of operations of the Loan Parties and Activision and its consolidated Subsidiaries in accordance with GAAP, subject to normal year-end audit adjustments;

(c) within 20 days after the end of each month, the consolidated and consolidating balance sheet and related statements of income, stockholder's equity and cash flows showing the financial condition of the Loan Parties and of Activision and its consolidated Subsidiaries as of the close of such fiscal month and the results of its operations and the operations of such Subsidiaries and of the Loan Parties during such fiscal month and the then elapsed portion of such fiscal year, all certified by one of its Financial Officers as fairly presenting the financial condition and results of operations of the Loan Parties and of Activision and its consolidated Subsidiaries in accordance with GAAP, subject to normal year-end audit adjustments;

(d) concurrently with the delivery of financial statements under paragraph (b) above, a report in reasonable detail of amounts accrued and paid during such quarter for royalties and fees under license, distribution or development agreements, in a form reasonably satisfactory to the Administrative Agent.

(e) concurrently with any delivery of financial statements under paragraph (a) or (b) above, a certificate of the accounting firm (in the case of paragraph (a)) or Financial Officer (in the case of paragraph (b)) opining on or certifying such statements

(which certificate, when furnished by an accounting firm, may be limited to accounting matters and disclaim responsibility for legal interpretations) (i) certifying that no Event of Default or Default has occurred or, if such an Event of Default or Default has occurred, specifying the nature and extent thereof and any corrective action taken or proposed to be taken with respect thereto and (ii) setting forth computations in reasonable detail satisfactory to the Administrative Agent demonstrating compliance with the covenants contained in Sections 6.08, 6.09, 6.10, 6.11, 6.12 and 6.13 and, in the case of a certificate delivered with the financial statements required by paragraph (a) above, setting forth the Borrowers' calculation of Excess Cash Flow;

(f) [intentionally omitted]

(g) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by Activision or any Subsidiary with the Securities and Exchange Commission, or any Governmental Authority succeeding to any or all of the functions of said Commission, or with any national securities exchange, or distributed to its shareholders, as the case may be;

(h) promptly after the receipt thereof by any Borrower or any of its Subsidiaries, a copy of any "management letter" (whether in draft or final form) received by any such person from its certified public accountants and the management's responses thereto; and

(i) each year, at the time of delivery of annual financial statements with respect to the preceding fiscal year pursuant to clause (a) above, the Borrowers shall deliver to the Administrative Agent a certificate of a Financial Officer of the Borrowers (i) setting forth the information required pursuant to Sections 1-4, 6 and 9 of the Perfection Certificate or confirming that there has been no change in such information since the date of the Perfection Certificate delivered on the Closing Date or the date of the most recent certificate delivered pursuant to this Section and (ii) certifying that all Uniform Commercial Code financing statements (including fixture filings, as applicable) or other appropriate filings, recordings or registrations, including all refilings, rerecordings and reregistrations, containing a description of the Collateral have been filed of record in each governmental, municipal or other appropriate office in each jurisdiction identified pursuant to clause (i) above to the extent necessary to protect and perfect the security interests under the Security Documents for a period of not less than 18 months after the date of such certificate (except as noted therein with respect to any continuation statements to be filed within such period).

(j) on or before the fifteenth (15th) day of each month as and for the prior month (a) a Schedule of Receivables, (b) a Schedule of Payables and (c) Inventory reports. In addition, the Borrowers will deliver to the Administrative Agent at least once every two weeks (or more frequently at the option of the Borrowers) or as the Administrative Agent may require, (i) confirmatory assignment schedules, (ii) remittance

schedules and (iii) schedules of credits to Receivables, each certified as complete and correct by a Financial Officer of the Borrowers. Borrowers shall also deliver to the Administrative Agent at such intervals as the Administrative Agent may require: (i) copies of Customer invoices (ii) evidence of shipment or delivery and (iii) such further schedules, documents and/or information regarding the Collateral as the Administrative Agent may require including, without limitation, trial balances and test verifications.

The Administrative Agent shall have the right to confirm and verify all Receivables by any manner and through any medium it considers advisable and do whatever it may deem reasonably necessary to protect its interests hereunder. The items to be provided under this Section are to be in form reasonably satisfactory to the Administrative Agent and executed by the Borrowers and delivered to the Administrative Agent from time to time solely for the Administrative Agent's convenience in maintaining records of the Collateral, and any Borrower's failure to deliver any of such items to the Administrative Agent shall not affect, terminate, modify or otherwise limit the Collateral Agent's Lien with respect to the Collateral.

(k) no later than forty-five (45) days after the beginning of each fiscal year commencing with the fiscal year ending March 31, 2001, a month by month projected operating budget and cash flow of Activision and of the Loan Parties for such fiscal year (including an income statement for each month and a balance sheet as at the end of the last month in each fiscal quarter), such projections to be accompanied by a certificate signed by a Financial Officer of the Borrowers to the effect that such projections have been prepared on the basis of sound financial planning practice consistent with past budgets and financial statements and that such officer has no reason to question the reasonableness of any material assumptions on which such projections were prepared. In addition, concurrently with the delivery of the financial statements referred to in clauses (a), (b) and (c) above the Borrowers will deliver a written report summarizing all material variances from the budgets submitted by the Borrowers and a discussion and analysis by management with respect to such variances.

(l) promptly, from time to time, such other information regarding the operations, business affairs and financial condition of the Borrowers or any Subsidiary, or compliance with the terms of any Loan Document, as the Administrative Agent or any Lender may reasonably request.

SECTION 5.05. LITIGATION AND OTHER NOTICES. Furnish to the Administrative Agent, the Issuing Bank and each Lender prompt written notice of the following:

(a) any Event of Default or Default, specifying the nature and extent thereof and the corrective action (if any) taken or proposed to be taken with respect thereto;

(b) the filing or commencement of, or any threat or notice of intention of any person to file or commence, any action, suit or proceeding, whether at law or in equity or by or before any Governmental Authority, against any Borrower or any Affiliate thereof that could reasonably be expected to result in a Material Adverse Effect;

(c) any development that has resulted in, or could reasonably be expected to result in, a Material Adverse Effect;

(d) any event of default or event which, with notice or lapse of one or both would constitute an event of default under the Convertible Subordinated Note Documents or any agreement with respect to Subordinated Debt;

(e) all matters materially affecting the value, enforceability or collectibility of any portion of the Collateral, including, without limitation, any Loan Party's reclamation or repossession of, or the returns to any Loan Party of, a material amount of goods or claims or disputes asserted by any Customer or other obligor; and

(f) any breach or default under any agreement under which a Loan Party is the licensee or distributor or any notice of intent to terminate any such agreement.

SECTION 5.06. EMPLOYEE BENEFITS. (a) Comply in all material respects with the applicable provisions of ERISA and the Code and (b) furnish to the Administrative Agent (i) as soon as possible after, and in any event within 10 days after any Responsible Officer of any Borrower or any ERISA Affiliate knows or has reason to know that, any ERISA Event has occurred that, alone or together with any other ERISA Event could reasonably be expected to result in liability of the Borrowers in an aggregate amount exceeding \$1,000,000, a statement of a Financial Officer of the Borrowers setting forth details as to such ERISA Event and the action, if any, that the Borrowers propose to take with respect thereto.

SECTION 5.07. MAINTAINING RECORDS; ACCESS TO PROPERTIES AND INSPECTIONS. Keep proper books of record and account in which full, true and correct entries in conformity with GAAP and all requirements of law are made of all dealings and transactions in relation to its business and activities. Each Loan Party will, and will cause each of its Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender to visit and inspect the financial records and the properties of the Borrowers or any Subsidiary at reasonable times and as often as reasonably requested and to make extracts from and copies of such financial records, and permit any representatives designated by the Administrative Agent or any Lender to discuss the affairs, finances and condition of the Borrowers or any Subsidiary with the officers thereof and independent accountants therefor.

SECTION 5.08. USE OF PROCEEDS. Use the proceeds of the Loans and request the issuance of Letters of Credit only for the purposes set forth in the preamble to this Agreement.

SECTION 5.09. COMPLIANCE WITH ENVIRONMENTAL LAWS. Comply, and cause all lessees and other persons occupying its Properties to comply, in all material respects with all Environmental Laws and Environmental Permits applicable to its operations and Properties; obtain and renew all material Environmental Permits necessary for its operations and Properties; and conduct any Remedial Action in accordance with Environmental Laws; PROVIDED, HOWEVER, that neither any Borrowers nor any of the Subsidiaries shall be required to undertake any Remedial Action to the extent that its obligation to do so is being contested in good faith and by proper proceedings and appropriate reserves are being maintained with respect to such circumstances.

SECTION 5.10. PREPARATION OF ENVIRONMENTAL REPORTS. If a Default caused by reason of a breach of Section 3.17 or 5.09 shall have occurred and be continuing, at the request of the Required Lenders through the Administrative Agent, provide to the Lenders within 45 days after such request, at the expense of the Borrowers, an environmental site assessment report for the Properties which are the subject of such Default prepared by an environmental consulting firm acceptable to the Administrative Agent and indicating the presence or absence of Hazardous Materials and the estimated cost of any compliance or Remedial Action in connection with such Properties.

SECTION 5.11. AUDITS. From time to time upon the request of the Collateral Agent or the Required Lenders through the Administrative Agent, permit the Collateral Agent or the Lenders to conduct evaluations and appraisals of (a) the Borrowers' practices in the computation of the Borrowing Base and (b) the assets included in the Borrowing Base. In connection therewith, Borrowers shall pay the costs of the Collateral Agent's auditors in accordance with the Agent's Fee Letter.

SECTION 5.12. FURTHER ASSURANCES. Execute any and all further documents, financing statements, agreements and instruments, and take all further action (including filing Uniform Commercial Code and other financing statements, mortgages and deeds of trust) that may be required under applicable law, or that the Required Lenders, the Administrative Agent or the Collateral Agent may reasonably request, in order to effectuate the transactions contemplated by the Loan Documents and in order to grant, preserve, protect and perfect the validity and first priority of the security interests created or intended to be created by the Security Documents and the UK Charge Documents. The Borrowers will cause any subsequently acquired or organized Domestic Subsidiary which is a Material Subsidiary and any other Domestic Subsidiary which becomes a Material Subsidiary to execute a Subsidiary Guarantee Agreement, Indemnity Subrogation and Contribution Agreement and each applicable Security Document in favor of the Collateral Agent. If any new Domestic Subsidiary is to become a Borrower hereunder, it will execute and deliver a Joinder Agreement and the Borrower Guarantee

Agreement, Indemnity, Subrogation and Contribution Agreement and the Security Agreement; PROVIDED, HOWEVER, that any new Borrower's Receivables and Inventory may not be included in calculating the Formula Amount or Individual Formula Amount until the Administrative Agent has completed its audit with respect thereto with results satisfactory to it in its Permitted Discretion. In addition, from time to time, the Borrowers will, at their cost and expense, promptly secure the Obligations by pledging or creating, or causing to be pledged or created, perfected security interests with respect to such of the assets and properties of the Loan Parties as the Administrative Agent or the Required Lenders shall designate (it being understood that it is the intent of the parties that the Obligations shall be secured by substantially all the assets of the Borrowers and their Domestic Subsidiaries (including real and other properties acquired subsequent to the Closing Date)). Such security interests and Liens will be created under the Security Documents and other security agreements, mortgages, deeds of trust and other instruments and documents in form and substance satisfactory to the Collateral Agent, and the Borrowers shall deliver or cause to be delivered to the Lenders all such instruments and documents (including legal opinions, title insurance policies and lien searches) as the Collateral Agent shall reasonably request to evidence compliance with this Section. The Borrowers agree to provide such evidence as the Collateral Agent shall reasonably request as to the perfection and priority status of each such security interest and Lien.

SECTION 5.13 GOVERNMENT RECEIVABLES. Notify the Administrative Agent immediately if any Receivables arise out of contracts between any Borrower and the United States, any state or any department, agency or instrumentality of any of them and take all steps necessary to protect the Collateral Agent's interest in the Collateral under the Federal Assignment of Claims Act or other applicable state or local statutes or ordinances and deliver to the Administrative Agent appropriately endorsed any instrument or chattel paper connected with any Receivable arising out of contracts between any Loan Party and the United States, any state or any department, agency of instrumentality of any of them.

SECTION 5.14 INTELLECTUAL PROPERTY. (a) Each Loan Party shall register or cause to be registered (to the extent not already registered) with the United States Patent and Trademark Office or the United States Copyright Office, as applicable, those intellectual property rights listed on the exhibits to the Security Agreement within thirty (30) days of the date of this Agreement. Each Loan Party shall register or cause to be registered with the United States Patent and Trademark Office or the United States Copyright Office, as applicable, those additional material intellectual property rights developed or acquired by such Loan Party from time to time in connection with any product prior to the sale or licensing of such product to any third party, including without limitation revisions or additions to the intellectual property rights listed on such exhibits, when such Loan Party reasonably determines that such registration is appropriate; PROVIDED that such Loan Party shall in any case register such additional patents, and/or copyrights as are developed or

obtained in connection with any product accounting for more than five percent (5%) of such Loan Party's gross revenues in any calendar quarter. Notwithstanding the foregoing, each Loan Party shall only be required to register trademarks when such Loan Party reasonably determines that such registration is appropriate.

(b) Each Loan Party shall execute and deliver such additional instruments and documents from time to time as the Collateral Agent shall reasonably request to perfect the Collateral Agent's security interest in the Collateral consisting of Intellectual Property (as defined in the Security Agreement).

(c) Each Loan Party shall (i) protect, defend and maintain the validity and enforceability of the Intellectual Property, (ii) use commercially reasonable efforts to detect infringements of the Intellectual Property and promptly advise the Administrative Agent in writing of material infringements detected, and (iii) not allow any Intellectual Property to be abandoned, forfeited or dedicated to the public without the written consent of the Required Lenders, which shall not be unreasonably withheld.

(d) The Collateral Agent shall have the right, but not the obligation, to take, at Borrowers' sole expense, any actions that Borrowers are required to take under this Section, but fail to take, after fifteen (15) days' notice to Borrowers. Borrowers shall reimburse and indemnify the Administrative Agent for all reasonable costs and reasonable expenses incurred in the reasonable exercise of its rights under this Section.

SECTION 5.15 BLOCKED ACCOUNTS. All proceeds of Collateral shall, at the direction of the Administrative Agent, be deposited by the Loan Parties into a lock box account, dominion account or such other "blocked account" ("Blocked Accounts") with PNC or another bank reasonably acceptable to the Administrative Agent, that enters into a Lock Box Agreement with the Administrative Agent in form and substance acceptable to the Administrative Agent. Each Loan Party shall issue to the institution with which the Blocked Accounts are maintained an irrevocable letter of instruction directing said bank to transfer such funds so deposited in accordance with a notice from the Administrative Agent to the Administrative Agent, either to any account maintained by the Administrative Agent at said bank or by wire transfer to appropriate account(s) of the Administrative Agent. All funds deposited in such Blocked Accounts shall immediately become the property of the Administrative Agent and Borrowers shall obtain the agreement by such bank to waive any offset rights against the funds so deposited (except any rights of PNC as a Lender hereunder). Neither the Administrative Agent, the Collateral Agent nor any Lender assumes any responsibility for such "blocked account" arrangement, including without limitation, any claim of accord and satisfaction or release with respect to deposits accepted by any bank thereunder. Alternatively, the Administrative Agent may establish depository accounts (the "Depository Accounts") in

the name of the Administrative Agent at a bank or banks for the deposit of such funds and the Loan Parties shall deposit all proceeds of Collateral or cause same to be deposited, in kind, in such Depository Accounts in lieu of depositing same to the Blocked Accounts.

All funds in the Blocked Accounts or Depository Accounts shall be transferred daily to the Administrative Agent to be applied to outstanding Revolving Loans which are ABR Loans, and applied to the Obligations as they become due. Any funds remaining after such application may be transferred, if all ABR Loans and all other Obligations then due have been paid in full, to the Investment Account to be held as Cash Collateral hereunder and applied to the Obligations as they become due. From time to time the Administrative Agent shall, upon the request of the Borrowing Agent, transfer funds from the Investment Account to Borrower's operating account, but Borrowers may not make investments in Permitted Investments other than those held in the Investment Account unless no Revolving Loans are outstanding and, after any transfer of funds from the Investment Account, Undrawn Availability is at least \$10,000,000 or such lesser amount to which the Administrative Agent otherwise consents.

SECTION 5.16. RECEIVABLES. (a) Each of the Receivables shall be a bona fide and valid account representing a bona fide indebtedness incurred by the Customer therein named and each of the Receivables proposed to be included as an Eligible Receivable is for a fixed sum as set forth in the invoice relating thereto (provided immaterial or unintentional invoice errors shall not be deemed to be a breach hereof) with respect to an absolute sale or lease and delivery of goods upon stated terms of a Borrower, or work, labor or services theretofore rendered by a Borrower as of the date each Receivable is created. Same shall be due and owing in accordance with the applicable Borrower's standard terms of sale without dispute, setoff or counterclaim except as may be stated on the Schedules of Receivables delivered by Borrowers to the Administrative Agent.

(b) Each Customer, to the best of each Borrower's knowledge, as of the date each Receivable is created, is and will be solvent and able to pay all Receivables on which the Customer is obligated in full when due or with respect to such Customers of any Borrower who are not solvent such Borrower has set up on its books and in its financial records bad debt reserves adequate to cover such Receivables.

(c) Each Borrower's chief executive office is located at the addresses set forth on Schedule 3.20(a) or (b) hereto. Until written notice is given to the Administrative Agent by the Borrowing Agent of any other office at which any Borrower keeps its records pertaining to Receivables, all such records shall be kept at such executive office.

(d) Until any Borrower's authority to do so is terminated by the Administrative Agent (which notice the Administrative Agent may give at any time following the occurrence of an Event of Default), each Borrower will, at such Borrower's sole cost and expense, but on the Administrative Agent's behalf and for the Administrative Agent's account, collect as the Administrative Agent's property and in

trust for the Administrative Agent all amounts received on Receivables, and shall not commingle such collections with any Borrower's funds or use the same except to pay Obligations. Each Borrower shall, upon request, deliver to the Administrative Agent, or deposit in the Blocked Account, in original form and on the date of receipt thereof, all checks, drafts, notes, money orders, acceptances, cash and other evidences of Indebtedness.

(e) At any time following the occurrence of an Event of Default, the Administrative Agent shall have the right to send notice of the assignment of, and the Collateral Agent's security interest in, the Receivables to any and all Customers or any third party holding or otherwise concerned with any of the Collateral. Thereafter, the Collateral Agent shall have the sole right to collect the Receivables, take possession of the Collateral, or both. The Collateral Agent's actual collection expenses, including, but not limited to, stationery and postage, telephone and telegraph, secretarial and clerical expenses and the salaries of any collection personnel used for collection, may be charged to Borrowers' Account and added to the Obligations.

(f) The Collateral Agent shall have the right to receive, endorse, assign and/or deliver in the name of the Collateral Agent or any Borrower any and all checks, drafts and other instruments for the payment of money relating to the Receivables, and each Borrower hereby waives notice of presentment, protest and non-payment of any instrument so endorsed. Each Borrower hereby constitutes the Collateral Agent or its designee as such Borrower's attorney with power (i) to endorse such Borrower's name upon any notes, acceptances, checks, drafts, money orders or other evidences of payment or Collateral; (ii) to sign such Borrower's name on any invoice or bill of lading relating to any of the Receivables, drafts against Customers, assignments and verifications of Receivables; (iii) to send verifications of Receivables to any Customer; (iv) to sign such Borrower's name on all financing statements or any other documents or instruments deemed necessary or appropriate by the Collateral Agent to preserve, protect, or perfect the Collateral Agent's interest in the Collateral and to file same; (v) following an Event of Default, to demand payment of the Receivables; (vi) following an Event of Default, to enforce payment of the Receivables by legal proceedings or otherwise; (vii) following an Event of Default, to exercise all of Borrowers' rights and remedies with respect to the collection of the Receivables and any other Collateral; (viii) following an Event of Default, to settle, adjust, compromise, extend or renew the Receivables; (ix) following an Event of Default, to settle, adjust or compromise any legal proceedings brought to collect Receivables; (x) following an Event of Default, to prepare, file and sign such Borrower's name on a proof of claim in bankruptcy or similar document against any Customer, (xi) following an Event of Default, to prepare, file and sign such Borrower's name on any notice of Lien, assignment or satisfaction of Lien or similar document in connection with the Receivables; and (xii) to do all other acts and things necessary to carry out this Agreement. All acts of said attorney or designee are hereby ratified and approved, and said attorney or designee shall not be liable for any acts of omission or commission nor for any error of judgment or mistake of fact or of law, unless constituting willful

misconduct or gross (not mere) negligence; this power being coupled with an interest is irrevocable while any of the Obligations remain unpaid. The Collateral Agent shall have the right at any time following the occurrence of an Event of Default to change the address for delivery of mail addressed to any Borrower to such address as the Collateral Agent may designate and to receive, open and dispose of all mail addressed to any Borrower.

(g) Neither the Administrative Agent, the Collateral Agent nor any Lender shall, under any circumstances or in any event whatsoever, have any liability for any error or omission or delay of any kind occurring in the settlement, collection or payment of any of the Receivables or any instrument received in payment thereof, or for any damage resulting therefrom. Following the occurrence of an Event of Default the Administrative Agent may, without notice or consent from any Borrower, sue upon or otherwise collect, extend the time of payment of, compromise or settle for cash, credit or upon any terms any of the Receivables or any other securities, instruments or insurance applicable thereto and/or release any obligor thereof. The Collateral Agent is authorized and empowered to accept following the occurrence of an Event of Default the return of the goods represented by any of the Receivables, without notice to or consent by any Borrower, all without discharging or in any way affecting any Borrower's liability hereunder.

(h) No Borrower will, without the Administrative Agent's consent, compromise or adjust any material amount of the Receivables or extend the time for payment thereof or accept any material returns of merchandise or grant any additional discounts, allowances or credits thereon except for those compromises, adjustments, returns, discounts, credits and allowances as have been heretofore customary in the business of such Borrower.

ARTICLE VI

NEGATIVE COVENANTS

The Borrowers covenant and agree with each Lender that, so long as this Agreement shall remain in effect and until the Commitments have been terminated and the principal of and interest on each Loan, all Fees and all other expenses or amounts payable under any Loan Document have been paid in full and all Letters of Credit have been canceled or have expired and all amounts drawn thereunder have been reimbursed in full, unless the Required Lenders shall otherwise consent in writing, no Borrower will nor will it cause or permit any of the Subsidiaries to:

SECTION 6.01. INDEBTEDNESS. Incur, create, assume or permit to exist any Indebtedness, except:

(a) Indebtedness for borrowed money existing on the date hereof and set forth in Schedule 6.01, but not any extensions, renewals or replacements of such Indebtedness (unless otherwise permitted under this Section 6.01);

(b) Indebtedness created hereunder and under the other Loan Documents;

(c) Indebtedness evidenced by Capital Lease Obligations, or secured pursuant to Section 6.02(h), in each case so long as the aggregate principal amount of all Indebtedness permitted to be outstanding under this paragraph (c) shall not exceed \$5,000,000;

(d) Indebtedness in favor of a Lender (or an Affiliate thereof) under one or more Hedging Agreements approved by the Administrative Agent (such approval not to be unreasonably withheld);

(e) intercompany Indebtedness of Activision and its Subsidiaries to the extent permitted by Sections 6.04(e), (g) and (o);

(f) Indebtedness with respect to any surety bonds required in the ordinary course of business of the Borrowers and the Subsidiaries, PROVIDED that such Indebtedness shall not at any time exceed \$250,000 in the aggregate;

(g) Indebtedness of the European Distribution Subsidiaries in an aggregate principal amount not to exceed \$50,000,000 (or the equivalent thereof) at any time outstanding, PROVIDED that such Indebtedness shall not be Guaranteed by any Loan Party other than through one or more Letters of Credit issued hereunder to support such Indebtedness in a face amount not in excess of \$9,000,000;

(h) Indebtedness of Foreign Subsidiaries (other than the European Distribution Subsidiaries) in an aggregate principal amount not to exceed \$15,000,000 (or the equivalent thereof) at any time outstanding, PROVIDED such Indebtedness shall not be Guaranteed by any Loan Party;

(i) other unsecured Indebtedness of the Borrowers and the Subsidiaries in an aggregate principal amount not to exceed \$5,000,000 at any time outstanding;

(j) Subordinated Debt in an aggregate principal amount which does not exceed at the time of incurrence the outstanding principal amount of the Term Loans plus \$15,000,000 in outstanding principal amount; provided that, so long as the Term Loans are outstanding, the Net Cash Proceeds of any such Subordinated Debt shall be applied to mandatory prepayment of the Term Loans in accordance with Section 2.14(f); and

(k) Acquired Debt in connection with a Permitted Acquisition.

SECTION 6.02. LIENS. Create, incur, assume or permit to exist any Lien on any property or assets (including stock or other securities of any person, including any Subsidiary) now owned or hereafter acquired by it or on any income or revenues or rights in respect of any thereof, except:

- (a) Liens on property or assets of the Borrowers and its Subsidiaries existing on the date hereof and set forth in Schedule 6.02; PROVIDED that such Liens shall secure only those obligations which they secure on the date hereof and may not encumber Receivables;
- (b) any Lien created under the Loan Documents;
- (c) Liens for taxes not yet due or which are being contested in compliance with Section 5.03; PROVIDED that the Lien shall have no effect on the priority of the Liens under the Loan Documents or the value of the Collateral and a stay of enforcement of any such Lien shall be in effect;
- (d) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business and securing obligations that are not due and payable or which are being contested in compliance with Section 5.03;
- (e) Liens (other than any Lien imposed by ERISA), pledges and deposits made in the ordinary course of business in compliance with workmen's compensation, unemployment insurance and other social security laws or regulations;
- (f) deposits to secure the performance of bids, trade contracts (other than for Indebtedness), leases (other than Capital Lease Obligations), statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;
- (g) zoning restrictions, easements, rights-of-way, restrictions on use of real property and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and do not materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the business of the Borrowers or any of its Subsidiaries;
- (h) purchase money security interests in real property, improvements thereto or equipment hereafter acquired (or, in the case of improvements, constructed) by the Borrowers or any Subsidiary; PROVIDED that (i) such security interests secure Indebtedness permitted by Section 6.01, (ii) such security interests are incurred, and the Indebtedness secured thereby is created, within 90 days after such acquisition (or construction), (iii) the Indebtedness secured thereby does not exceed 85% of the lesser of the cost or the fair market value of such real property, improvements or equipment at the

time of such acquisition (or construction) and (iv) such security interests do not apply to any other property or assets of the Borrowers or any Subsidiary;

(i) Liens on assets of Foreign Subsidiaries; PROVIDED that (i) such Liens do not extend to, or encumber, assets of the Borrowers or any of its Domestic Subsidiaries and (ii) such Liens secure only Indebtedness incurred by such Foreign Subsidiaries pursuant to Section 6.01 (g), (h) or (k); and

(j) Liens granted to licensors by a Loan Party which encumber only the licensed intellectual property and inventory produced thereunder (but not any Receivables from the sale, distribution or licensing thereof), are subordinated to the Liens of the Collateral Agent on terms and conditions satisfactory to the Collateral Agent and expressly permit the Liens granted by the Loan Documents and the exercise of remedies thereunder.

SECTION 6.03. SALE AND LEASE-BACK TRANSACTIONS. Enter into any arrangement, directly or indirectly, with any person whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property which it intends to use for substantially the same purpose or purposes as the property being sold or transferred unless (a) the sale of such property is permitted by Section 6.05 and (b) the Capital Lease Obligations arising therefrom are permitted by Section 6.01(c).

SECTION 6.04. INVESTMENTS, LOANS AND ADVANCES. Purchase, hold or acquire any Equity Interests, evidences of indebtedness or other securities of, make or permit to exist any loans or advances to, or make or permit to exist any investment or any other interest in, any other person, except:

(a) investments by the Borrowers existing on the date hereof in the Equity Interests of the Subsidiaries;

(b) Permitted Investments held in the Investment Account and, if Undrawn Availability is at least \$10,000,000 and there are no outstanding Revolving Loans (or such lesser amount to which the Administrative Agent consents), other Permitted Investments;

(c) Receivables owing to any Borrower or any of its Subsidiaries arising from sales of Inventory under usual and customary terms in the ordinary course of business;

(d) advances not to exceed \$500,000 outstanding at any time to employees of the Borrowers and the Subsidiaries to meet expenses incurred by such employees in the ordinary course of business;

(e) any wholly owned Subsidiary may make intercompany loans to a Borrower or any other wholly owned Subsidiary and any Borrower may make intercompany loans and advances to any wholly owned Subsidiary; PROVIDED that any promissory notes evidencing such intercompany loans shall be pledged (and delivered) by the applicable Borrower or the respective wholly owned Domestic Subsidiary that is the lender of such intercompany loan as Collateral pursuant to the Pledge Agreement; PROVIDED FURTHER that (i) any Borrower or any Domestic Subsidiaries may make loans to and repay loans from any Foreign Subsidiaries pursuant to this paragraph (e) only if, after giving effect thereto, the outstanding principal amount of all loans made by Foreign Subsidiaries to Activision during any Fiscal Year shall exceed the principal of loans made by any Borrower and its Domestic Subsidiaries during such period and as of the end of each Fiscal Year the outstanding principal amount of loans made by Foreign Subsidiaries shall exceed the outstanding principal amount of loans made by the Borrowers and their Domestic Subsidiaries by at least \$4,000,000 and (ii) any loans made by any Foreign Subsidiaries to any Borrower or any of its Domestic Subsidiaries pursuant to this paragraph (e) shall be unsecured and subordinated to the obligations of the Loan Parties pursuant to subordination provisions in substantially the form of Exhibit J; and any loans made by any Loan Party to any Foreign Subsidiary shall be evidenced by one or more revolving Master Notes pledged to the Collateral Agent pursuant to the Pledge Agreement.

(f) the Borrowers may establish Subsidiaries to the extent permitted by Section 6.15;

(g) the Borrowers and the Domestic wholly owned Subsidiaries may make additional loans and advances to, or other investments in, Foreign Subsidiaries of the Borrowers with the prior written consent of the Required Lenders;

(h) a Borrower or any wholly owned Subsidiary may acquire substantially all the assets of, or more than 50% of the Equity Interests of, a person (such assets or such person referred to herein as the "ACQUIRED ENTITY" and any acquisition completed under this subsection 6.04(h) is a "PERMITTED ACQUISITION"); PROVIDED that each of the following conditions is satisfied:

(i) the Acquired Entity shall be a going concern and shall be in a line of business reasonably related to that of the Borrowers and their Subsidiaries as conducted during the current and most recent calendar year;

(ii) the Acquired Entity shall have approved such transaction;

(iii) the Borrowers shall have delivered to the Administrative Agent at least 5 Business Days prior to consummation of the acquisition a certificate of a Financial Officer demonstrating, in reasonable detail, that, at the time of such transaction (A) both before and after giving effect thereto, no Event of Default or Default shall have occurred

and be continuing or shall exist, (B) the Borrowers are in compliance with the covenants set forth in Sections 6.09, 6.10, 6.11, 6.12 and 6.13 as of the last day of the most recent fiscal quarter preceding such acquisition, and would be in compliance on a PRO FORMA basis with such covenants as of the last day of the month preceding such acquisition, and (C) all calculations necessary to determine compliance with the conditions in clauses (vi) or (vii) below. All PRO FORMA calculations required to be made pursuant to this subsection 6.04(h) shall (i) include only those adjustments that would be permitted or required by Regulation S-X, (ii) be based on reasonably detailed written assumptions which accompany the certificate and shall be acceptable to the Administrative Agent, and (iii) be certified by a Financial Officer as having been prepared in good faith based upon reasonable assumptions;

(iv) the Borrowers shall comply with Sections 5.12, 6.15 and the relevant provisions of the other Loan Documents with respect to the Acquired Entity and its assets or any new Subsidiary formed to effect the acquisition;

(v) the Borrowers shall have delivered to the Lenders consolidating financial statements for each Borrower, each Subsidiary and the Acquired Entity for the most recent fiscal year and fiscal quarter prior to the date of acquisition in question, and the financial statements of the Acquired Entity for the most recent fiscal year prior to the date of acquisition in question audited by an independent certified public accountant; PROVIDED THAT if the total amount expended (including the value of any Equity Issuance) is LESS than \$30,000,000 and the Cash Components for such acquisition are LESS than \$15,000,000, the Borrowers shall not be required to deliver financial statements for the Acquired Entity audited by an independent certified public accountant to the extent such statements have not been delivered to the Borrowers or their subsidiaries;

(vi) for any acquisition in which the Cash Components are no more than \$4,000,000 for any individual acquisition or \$13,000,000 in the aggregate during the term of this Agreement, (a) the Fixed Charge Coverage Ratio for the four quarters ending on the last day of the most recent fiscal quarter preceding such acquisition was, and the Fixed Charge Coverage Ratio for the 12 months ending on the last day of the month preceding such acquisition (such last day of the preceding month or such last day of the preceding fiscal quarter, a "Measurement Date"), would be, on a PRO FORMA basis, at least 0.75 to 1.0 if the Measurement Date is on or prior to September 30, 1999 and at least 1.0 to 1.0 if the Measurement Date occurs thereafter and (b) after giving effect to the acquisition, the actual Undrawn Availability at closing (calculated for these purposes without including the Inventory or Receivables of the Acquired Entity and without reserving for the Term Loans under Section 2.01(a)(iv)) is at least the lesser of (x) \$5,000,000 and (y) 10% of the sum of the amounts calculated under clauses (i), (ii) and (v) of the definition of Formula Amount or if the Administrative Agent has completed its audit of the Acquired Entity with results satisfactory to the Administrative Agent in its Permitted Discretion, the actual Undrawn Availability at closing calculated for the Borrowers and the Acquired Entity (calculated for these purposes without reserving for

the Term Loans under Section 2.01(a)(iv)) is at least \$10,000,000;

(vii) for any acquisition other than an acquisition described in clause (vi), (a) the Cash Components may be no more than \$15,000,000 for any acquisition, no more than \$40,000,000 in any twelve month period, and no more than \$60,000,000 during the term of this Agreement; (b) the Fixed Charge Coverage Ratio for the four quarters ending the last day of the most recent fiscal quarter preceding such acquisition was, and the Fixed Charge Coverage Ratio for the 12 months ending on the last day of the month preceding such acquisition would be, on a PRO FORMA basis, at least the higher of (x) 1.1 to 1.0 or (y) the ratio required by Section 6.10; and (c) after giving effect to the acquisition, the PRO FORMA average daily Undrawn Availability at closing (calculated for these purposes without including the Inventory or Receivables of the Acquired Entity and without reserving for the Term Loans under Section 2.01(a)(iv)) for the most recent January to June period (or until June, 2000, the Undrawn Availability at closing) would be greater than \$15,000,000 or, if the Administrative Agent has completed its audit of the Acquired Entity with results satisfactory to the Administrative Agent in its Permitted Discretion, the actual Undrawn Availability at closing calculated for the Borrowers and the Acquired Entity (calculated for these purposes without reserving for the Term Loans under Section 2.01(a)(iv)) is at least \$20,000,000;

(viii) any Indebtedness incurred in connection with the acquisition, including any Acquired Debt and any Subordinated Debt, must be permitted under Section 6.01; and

(ix) in no event may any Equity Issuance in connection with any acquisition exceed a number of shares of Activision common stock (or equivalents) equal to 40% of the issued and outstanding common stock of Activision on such date and all Equity Issuances shall be of common equity or equivalents;

(i) the Borrowers may enter into Hedging Agreements to the extent permitted in Section 6.01(d);

(k) Activision and the Subsidiaries may consummate the Transactions;

(l) the Borrowers may make investments in persons not constituting subsidiaries PROVIDED that such person is in a line of business reasonably related to the business of the Borrowers and their Subsidiaries as the Borrowers, any single investment or series of related investments shall not exceed \$2,000,000; all such investments under this Section 6.04(l) shall not exceed \$5,000,000 in any twelve month period; and all capital stock or other equity interests acquired by a Borrower or any subsidiary shall be pledged to the Collateral Agent;.

(m) the Borrowers and their Subsidiaries may make advance payments of royalties under license or distribution agreements in the ordinary course of business;

(n) Activision may make loans to directors and employees in connection with the granting of stock options or as incentive or bonus compensation; and

(o) loans from Activision to UK Sub evidenced by the Intercompany Note may remain outstanding.

SECTION 6.05. MERGERS, CONSOLIDATIONS, SALES OF ASSETS AND ACQUISITIONS.

(a) Merge into or consolidate with any other person, or permit any other person to merge into or consolidate with it, or sell, transfer, lease or otherwise dispose of (in one transaction or in a series of transactions) all or any substantial part of the assets of any Borrower (whether now owned or hereafter acquired) or any Equity Interest of any Subsidiary, or purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or any substantial part of the assets of any other person, except that (i) the Borrowers and any Subsidiary may purchase and sell Inventory in the ordinary course of business, (ii) the Borrowers or any wholly owned Subsidiary may make acquisitions permitted under Section 6.04 above, (iii) if at the time thereof and immediately after giving effect thereto no Event of Default or Default shall have occurred and be continuing (x) any wholly owned Subsidiary may merge into a Borrower in a transaction in which the Borrower is the surviving corporation and (y) any wholly owned Subsidiary may merge into or consolidate with any other wholly owned Subsidiary in a transaction in which the surviving entity is a wholly owned Subsidiary and no person other than a Borrower or a wholly owned Subsidiary receives any consideration, PROVIDED that if any such merger described in this clause (y) shall involve a Domestic Subsidiary, the surviving entity of such merger shall be a Domestic Subsidiary; and (iv) any Subsidiary which is not a Material Subsidiary may be wound up and dissolved.

(b) Engage in any Asset Sale unless (i) such Asset Sale is for consideration at least 85% of which is cash, (ii) such consideration is at least equal to the fair market value of the assets being sold, transferred, leased or disposed of, (iii) the fair market value of all assets sold, transferred, leased or disposed of pursuant to this paragraph (b) shall not exceed (i) \$5,000,000 in any fiscal year or (ii) \$10,000,000 in the aggregate, and (iv) the Net Cash Proceeds are applied as required by subsection 2.14(c).

SECTION 6.06. DIVIDENDS AND DISTRIBUTIONS; RESTRICTIONS ON ABILITY OF SUBSIDIARIES TO PAY DIVIDENDS. (a) Declare or pay, directly or indirectly, any dividend or make any other distribution (by reduction of capital or otherwise), whether in cash, property, securities or a combination thereof, with respect to any of its Equity Interests or directly or indirectly redeem, purchase, retire or otherwise acquire for value (or permit any Subsidiary to purchase or acquire) any of its Equity Interests or set aside any amount for any such purpose; PROVIDED, HOWEVER, that any wholly owned Subsidiary may declare and pay dividends or make other distributions to the holders of its Equity Interests, but other Subsidiaries which are not wholly owned may not make dividends or distributions.

(b) Permit its Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any such Subsidiary to (i) pay any dividends or make any other distributions on its Equity Interests or (ii) make or repay any loans or advances to a Borrower or the parent of such Subsidiary except (w) for such encumbrances or restrictions existing under or by reason of (A) applicable law, (B) this Agreement and the other Loan Documents, (C) the Convertible Subordinated Note Documents, (x) customary provisions restricting subletting or assignment of any lease governing a leasehold interest of a Borrower or a Subsidiary of a Borrower, (y) customary provisions restricting assignment of any agreement entered into by a Borrower or a Subsidiary in the ordinary course of business, and (z) any holder of a Lien permitted by Section 6.02 may restrict the transfer of the asset or assets subject thereto.

SECTION 6.07. TRANSACTIONS WITH AFFILIATES. Except for transactions by or among Loan Parties, sell or transfer any property or assets to, or purchase or acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except that:

(a) a Borrower or any Subsidiary may engage in any of the foregoing transactions in the ordinary course of business at prices and on terms and conditions not less favorable to such Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties;

(b) dividends may be paid to the extent provided in Section 6.06;

(c) loans may be made and other transactions may be entered into between and among the Borrowers, the Subsidiaries and their respective Affiliates to the extent permitted by Sections 6.01 and 6.04; and

(d) a Borrower or any Subsidiary may pay reasonable compensation to officers and directors in the ordinary course of business.

SECTION 6.08. [intentionally omitted].

SECTION 6.09. INTEREST COVERAGE RATIO. Permit the Interest Coverage Ratio for (a) the six-month period ending September 30, 1999, (b) the nine-month period ending December 31, 1999 or (c) any period of four consecutive fiscal quarters thereafter, in each case taken as one accounting period, ended on the last day of the applicable fiscal quarter to be less than (a) 5.00 to 1.00 for the Borrowers and their Subsidiaries on a consolidated basis or (b) 5.00 to 1.00 for the Loan Parties on a consolidated basis.

SECTION 6.10. FIXED CHARGE COVERAGE RATIO. (a) Permit the Fixed Charge Coverage Ratio of the Loan Parties on a consolidated basis for any period of four consecutive fiscal quarters in each case taken as one accounting period, ending on the last

day of any fiscal quarter ending during any period set forth below to be less than the ratio set forth opposite such period below:

PERIOD -----	RATIO -----
September 30, 1999	.75 to 1.00
December 31, 1999	.85 to 1.00
March 31, 2000	1.00 to 1.00
June 30, 2000 through and including March 31, 2001	1.10 to 1.00
June 30, 2001 and thereafter	1.20 to 1.00

(b) Permit the Fixed Charge Coverage Ratio of Activision and its Subsidiaries on a consolidated basis for any period of four consecutive fiscal quarters in each case taken as one accounting period, ending on the last day of any fiscal quarter ending during any period set forth below to be less than the ratio set forth opposite such period below:

PERIOD -----	RATIO -----
September 30, 1999	.75 to 1.00
December 31, 1999	.85 to 1.00
March 31, 2000	1.00 to 1.00
June 30, 2000 through and including March 31, 2001	1.10 to 1.00
June 30, 2001 and thereafter	1.20 to 1.00

SECTION 6.11. MAXIMUM LEVERAGE RATIO. (a) Permit the Leverage Ratio of the Loan Parties on a consolidated basis at any time during a period set forth below to be greater than the ratio set forth opposite such period below:

PERIOD -----	RATIO -----
Closing Date through and including	2.50 to 1.00

September 30, 1999	
October 1, 1999 through and including December 31, 1999	2.25 to 1.00
January 1, 2000 and thereafter	2.00 to 1.00

(b) Permit the Leverage Ratio of Activision and its Subsidiaries on a consolidated basis at any time during a period set forth below to be greater than the ratio set forth opposite such period below:

PERIOD -----	RATIO -----
Closing Date through and including September 30, 1999	2.75 to 1.00
October 1, 1999 through and including December 31, 1999	2.50 to 1.00
January 1, 2000 and thereafter	2.00 to 1.00

SECTION 6.12. MINIMUM ADJUSTED EBITDA. (a) Permit Adjusted EBITDA of the Borrowers and their Subsidiaries on a consolidated basis for any period of four consecutive fiscal quarters, in each case taken as one accounting period, ended on the last day of any fiscal quarter set forth below to be less than the amount set forth opposite such fiscal quarter below:

FISCAL QUARTER -----	AMOUNT -----
September 30, 1999	\$62,000,000
December 31, 1999	\$70,000,000
March 31, 2000 through and including December 31, 2000	\$90,000,000
March 31, 2001 through and including December 31, 2001	\$100,000,000
March 31, 2002 and thereafter	\$120,000,000

(b) Permit Adjusted EBITDA of the Loan Parties on a consolidated basis for any period of four consecutive fiscal quarters, in each case taken as one accounting

period, ended on the last day of any fiscal quarter set forth below to be less than the amount set forth opposite such fiscal quarter below:

FISCAL QUARTER -----	AMOUNT -----
Fiscal Quarter	Amount
September 30, 1999	\$55,000,000
December 31, 1999	\$60,000,000
March 31, 2000 through and including December 31, 2000	\$75,000,000
March 31, 2001 through and including December 31, 2001	\$85,000,000
March 31, 2002 and thereafter	\$105,000,000

SECTION 6.13. MINIMUM TANGIBLE NET WORTH. (a) Permit Tangible Net Worth of the Borrowers and their Subsidiaries on a consolidated basis at any date set forth below to be less than the amount set forth opposite such date below:

FISCAL QUARTER -----	AMOUNT -----
September 30, 1999	\$60,000,000
December 31, 1999	\$70,000,000
March 31, 2000	\$70,000,000
June 30, 2000	\$70,000,000
September 30, 2000	\$75,000,000
December 31, 2000	\$85,000,000
March 31, 2001	\$90,000,000
June 30, 2001	\$90,000,000
September 30, 2001	\$95,000,000
December 31, 2001	\$110,000,000
March 31, 2002	\$115,000,000

(b) Permit Tangible Net Worth of the Loan Parties on a consolidated basis at any date set forth below to be less than the amount set forth opposite such date:

FISCAL QUARTER -----	AMOUNT -----
September 30, 1999	\$26,000,000
December 31, 1999	\$29,000,000
March 31, 2000	\$34,000,000

June 30, 2000	\$36,000,000
September 30, 2000	\$40,000,000
December 31, 2000	\$47,000,000
March 31, 2001	\$52,000,000
June 30, 2001	\$55,000,000
September 30, 2001	\$60,000,000
December 31, 2001	\$70,000,000
March 31, 2002	\$78,000,000

SECTION 6.14. LIMITATION ON MODIFICATIONS OF INDEBTEDNESS; MODIFICATIONS OF CERTIFICATE OF INCORPORATION, BY-LAWS AND CERTAIN OTHER AGREEMENTS, ETC.

(a) Amend or modify, or permit the amendment or modification of, any provision of existing Indebtedness or of any agreement (including any purchase agreement, indenture, loan agreement or security agreement) relating thereto other than any amendments or modifications to Indebtedness which do not in any way materially adversely affect the interests of the Lenders, (b) make (or give any notice in respect thereof) any voluntary or optional payment or prepayment on or redemption or acquisition for value of, or any prepayment or redemption as a result of any asset sale, change of control or similar event of, any Convertible Subordinated Notes, any Subordinated Debt, the Intercompany Note or any other Indebtedness that is expressly subordinated to the Obligations, (c) amend or modify, or permit the amendment or modification of, the Merger Agreement or any of the operating agreements entered into in connection therewith or any tax sharing agreement, in each case except for amendments or modifications which are not in any way adverse in any material respect to the interests of the Lenders or (d) amend, modify or change its Certificate of Incorporation (including by the filing or modification of any certificate of designation) or By-laws, or any agreement entered into by it, with respect to its Equity Interests (including any shareholders' agreement), or enter into any new agreement with respect to its Equity Interests, other than any amendments, modifications or changes pursuant to this clause (d) or any such new agreements pursuant to this clause (d) which do not in any way materially adversely affect the interests of the Lenders.

SECTION 6.15. LIMITATION ON CREATION OF SUBSIDIARIES. Establish or create any additional Subsidiaries; PROVIDED that the Borrowers may establish or create one or more Subsidiaries of the Borrowers so long as (a) 100% of the Equity Interests of any new Domestic Subsidiary owned by a Loan Party (or all the Equity Interests of any new Foreign Subsidiary that is owned by any Loan Party, except that not more than 65% of the voting Equity Interests of any such Foreign Subsidiary shall be required to be so pledged) is upon the creation or establishment of any such new Subsidiary pledged and delivered to the Collateral Agent for the benefit of the Secured Parties under the Pledge Agreement and (b) upon the creation or establishment of any such new Domestic Subsidiary such Domestic Subsidiary becomes a party to the applicable Security Documents in accordance with Section 5.12 and the other Loan Documents.

SECTION 6.16. BUSINESS. With respect to the Borrowers and their Subsidiaries, engage (directly or indirectly) in any business other than the business in which the Borrowers and their Subsidiaries are engaged on the Closing Date and other businesses reasonably related thereto.

SECTION 6.17. FISCAL YEAR; ACCOUNTING CHANGES. Change its fiscal year end to a date other than March 31 or make any change in accounting treatment and reporting practices except as required by GAAP.

ARTICLE VII

EVENTS OF DEFAULT

In case of the happening of any of the following events ("EVENTS OF DEFAULT"):

(a) any representation or warranty made or deemed made in or in connection with any Loan Document or the borrowings or issuances of Letters of Credit hereunder, or any representation, warranty, statement or information contained in any report, certificate, financial statement or other instrument furnished in connection with or pursuant to any Loan Document, shall prove to have been false or misleading in any material respect when so made, deemed made or furnished;

(b) default shall be made in the payment of any principal of any Loan or the reimbursement with respect to any L/C Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or by acceleration thereof or otherwise;

(c) default shall be made in the payment of any interest on any Loan or any Fee or L/C Disbursement or any other amount (other than an amount referred to in (b) above) due under any Loan Document, when and as the same shall become due and payable, and such default shall continue unremedied for a period of three Business Days;

(d) default shall be made in the due observance or performance by any Borrowers or any Subsidiary of any covenant, condition or agreement contained in Section 5.01(a), 5.05 or 5.08 or in Article VI;

(e) default shall be made in the due observance or performance by any Borrower or any Subsidiary or by UK Sub in any UK Charge Document of any covenant, condition or agreement contained in any Loan Document (other than those specified in (b), (c) or (d) above) and such default shall continue unremedied for a period of 30 days;

(f) any Loan Party or UK Sub shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Indebtedness in a principal amount in excess

of \$2,000,000, when and as the same shall become due and payable, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Indebtedness if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Indebtedness or a trustee on its or their behalf (with or without the giving of notice, the lapse of time or both) to cause, such Indebtedness to become due prior to its stated maturity;

(g) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of any Borrower or any Subsidiary, or of a substantial part of the property or assets of any Borrower or a Subsidiary, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal, state or foreign bankruptcy, insolvency, receivership or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for any Borrower or any Subsidiary or for a substantial part of the property or assets of any Borrower or a Subsidiary or (iii) the winding-up or liquidation of any Borrower or any Subsidiary; and such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(h) any Borrower or any Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal, state or foreign bankruptcy, insolvency, receivership or similar law, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in (g) above, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for any Borrower or any Subsidiary or for a substantial part of the property or assets of any Borrower or any Subsidiary, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (vii) take any action for the purpose of effecting any of the foregoing;

(i) one or more judgments for the payment of money in an aggregate amount in excess of \$250,000 be rendered against any Borrower, any Loan Party or any combination thereof, unless the same shall be contested in good faith, the Borrowers have established reserves reasonably satisfactory to the Administrative Agent and enforcement shall be effectively stayed, satisfied, or discharged within forty (40) days or any action shall be legally taken by a judgment creditor to levy upon assets or properties of the Borrowers or any Loan Party to enforce any such judgment;

(j) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other such ERISA Events, could

reasonably be expected to result in liability of the Borrowers and their ERISA Affiliates in an aggregate amount exceeding \$2,000,000;

(k) any security interest purported to be created by any Security Document or UK Charge Document shall cease to be, or shall be asserted by any Borrowers or any other Loan Party not to be, a valid, perfected, first priority (except as otherwise expressly provided in this Agreement or such Security Document security interest in the securities, assets or properties covered thereby, except to the extent that any such loss of perfection or priority results from the failure of the Collateral Agent to maintain possession of certificates representing securities pledged under the Pledge Agreement and except to the extent that such loss is covered by a lender's title insurance policy and the related insurer promptly after such loss shall have acknowledged in writing that such loss is covered by such title insurance policy;

(l) any of the Obligations shall cease to constitute "Senior Indebtedness" under and as defined in the Convertible Subordinated Note Indenture, any Subordinated Debt, the Intercompany Note or any Master Note;

(m) there shall have occurred a Change in Control;

(n) issuance of a notice of Lien, levy, assessment, injunction or attachment against a material portion of the property of any Loan Party or UK Sub, or any portion of the Collateral shall be seized or taken by any Governmental Agency or the title or right of any Loan Party which is the owner of any material portion, or the Collateral shall have become the subject matter of any litigation which, in the opinion of the Required Lenders, could reasonably be expected upon final determination, to result in the impairment or loss of the security provided by the Security Documents;

(o) termination (other than as a result of any Asset Sale, merger or liquidation of a Subsidiary permitted hereunder) or breach of any Subsidiary Guarantee Agreement, or any Subsidiary Guarantor attempts to terminate, challenge the validity of, or its liability under, any such Subsidiary Guarantee Agreement or UK Sub attempts to challenge the validity of, or its liability under the Intercompany Note or any UK Charge Document;

then, and in every such event (other than an event with respect to any Borrower described in paragraph (g) or (h) above), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrowing Agent, take either or both of the following actions, at the same or different times: (i) terminate forthwith the Commitments and (ii) declare the Loans then outstanding to be forthwith due and payable in whole or in part, whereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrowers accrued hereunder and under any other Loan Document, shall become forthwith due and payable, without

presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrowers, anything contained herein or in any other Loan Document to the contrary notwithstanding; and in any event with respect to any Borrower described in paragraph (g) or (h) above, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrowers accrued hereunder and under any other Loan Document, shall automatically become due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrowers, anything contained herein or in any other Loan Document to the contrary notwithstanding.

The Administrative Agent shall have the right in its sole discretion to determine which rights, Liens, security interests or remedies the Administrative Agent may at any time pursue, relinquish, subordinate, or modify or to take any other action with respect thereto and such determination will not in any way modify or affect any of the Administrative Agent's or Collateral Agent's or Lenders' rights hereunder.

ARTICLE VIII

THE ADMINISTRATIVE AGENT AND THE COLLATERAL AGENT

In order to expedite the transactions contemplated by this Agreement, PNC Bank, National Association, is hereby appointed to act as Administrative Agent and Collateral Agent on behalf of the Lenders and the Issuing Bank (for purposes of this Article VIII, the Administrative Agent and the Collateral Agent are referred to collectively as the "AGENTS"). Each of the Lenders and each assignee of any such Lender, hereby irrevocably authorizes the Agents to take such actions on behalf of such Lender or assignee or the Issuing Bank and to exercise such powers as are specifically delegated to the Agents by the terms and provisions hereof and of the other Loan Documents, together with such actions and powers as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement (including without limitation, collection of the Obligations) the Agents shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders (or as otherwise required by Section 9.08(b)), and such instructions shall be binding; PROVIDED, HOWEVER, that the Agents shall not be required to take any action which exposes either of them to liability or which is contrary to this Agreement or the other Loan Documents or applicable law unless the Agents are furnished with an indemnification reasonably satisfactory to each of them with respect thereto. The Administrative Agent is hereby expressly authorized by the Lenders and the Issuing Bank, without hereby limiting any implied authority, (a) to receive on behalf of the Lenders and the Issuing Bank all payments of principal of and interest on the Loans, all payments in respect of L/C Disbursements and all other amounts due to the Lenders hereunder, and promptly to

distribute to each Lender or the Issuing Bank its proper share of each payment so received; (b) to give notice on behalf of each of the Lenders to the Borrowers of any Event of Default specified in this Agreement of which the Administrative Agent has actual knowledge acquired in connection with its agency hereunder; and (c) to distribute to each Lender copies of all notices, financial statements and other materials delivered by the Borrowers or any other Loan Party pursuant to this Agreement or the other Loan Documents as received by the Administrative Agent. Without limiting the generality of the foregoing, the Agents are hereby expressly authorized to execute any and all documents (including releases) with respect to the Collateral and the rights of the Secured Parties with respect thereto, as contemplated by and in accordance with the provisions of this Agreement and the Security Documents.

Agents shall have no duties or responsibilities except those expressly set forth in the Loan Documents. Neither the Agents nor any of their respective directors, officers, employees or agents shall be liable as such for any action taken or omitted by any of them except for its or his own gross negligence or willful misconduct, or be responsible for any statement, warranty or representation herein or in any Loan Document or the contents of any document delivered in connection herewith, or be required to ascertain or to make any inquiry concerning the performance or observance by the Borrowers or any other Loan Party of any of the terms, conditions, covenants or agreements contained in any Loan Document. The Agents shall not be responsible to the Lenders for the due execution, genuineness, validity, enforceability or effectiveness of this Agreement or any other Loan Documents, instruments or agreements. The Agents shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any of the other Loan Documents, or to inspect the properties, books or records of the Borrowers or any other Loan Party. The duties of the Agents as respects the Loans to the Borrowers shall be mechanical and administrative in nature; the Agents shall not have by reason of this Agreement or any other Loan Document a fiduciary relationship in respect of any Lender; and nothing in this Agreement, expressed or implied, is intended to or shall be so construed as to impose upon the Agents any obligations in respect of this Agreement except as expressly set forth herein.

The Agents shall in all cases be fully protected in acting, or refraining from acting, in accordance with written instructions signed by the Required Lenders (or as otherwise required by Section 9.08(b)) and, except as otherwise specifically provided herein, such instructions and any action or inaction pursuant thereto shall be binding on all the Lenders. Each Agent shall, in the absence of actual knowledge to the contrary, be entitled to rely on any instrument or document believed by it in good faith to be genuine and correct and to have been signed or sent by the proper person or persons. Neither the Agents nor any of their respective directors, officers, employees or agents shall have any responsibility to the Borrowers or any other Loan Party on account of the failure of or

delay in performance or breach by any Lender or the Issuing Bank of any of its obligations hereunder or to any Lender or the Issuing Bank on account of the failure of or delay in performance or breach by any other Lender or the Issuing Bank or the Borrowers or any other Loan Party of any of their respective obligations hereunder or under any other Loan Document or in connection herewith or therewith. Each of the Agents may execute any and all duties hereunder by or through agents or employees and shall be entitled to rely upon the advice of legal counsel selected by it with respect to all matters arising hereunder and shall not be liable for any action taken or suffered in good faith by it in accordance with the advice of such counsel and the term "Lender" or any similar term shall, unless the context clearly otherwise indicates, include the Administrative Agent and the Collateral Agent in its individual capacity as a Lender.

The Agents shall have no duty or responsibility, either initially or on a continuing basis, to provide any Lender with any credit or other information with respect thereto, whether coming into its possession before making of the Loans or at any time or times thereafter except as shall be provided by the Borrowers pursuant to the terms of this Agreement. The Agents shall not be responsible to any Lender for any recitals, statements, information, representations or warranties herein or in any agreement, document, certificate or a statement delivered in connection herewith or for the execution, effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any other Loan Document, or of the financial condition of Borrowers, or be required to make any inquiry concerning either the performance or observance of any of the terms, provisions or conditions of this Agreement, the other Loan Documents or the financial condition of the Borrowers or any of its subsidiaries, or the existence of any Event of Default or any Default.

Either Agent may resign on sixty (60) days' written notice to each of the Lenders and the Borrowers and upon such resignation, the Required Lenders will promptly designate a successor Administrative Agent or Collateral Agent, as the case may be, reasonably satisfactory to the Borrowers.

Any such successor Administrative Agent or Collateral shall succeed to the rights, powers and duties of the Administrative Agent or Collateral Agent, and the term "the Administrative Agent" or "the Collateral Agent" shall mean such successor Agent effective upon its appointment, and the former Agent's rights, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such former Agent. After any Agent's resignation, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was an Agent under this Agreement.

If either Agent shall request instructions from Lenders with respect to any act or action (including failure to act) in connection with this Agreement or any other Loan Document, such Agent shall be entitled to refrain from such act or taking such action unless and until it shall have received instructions from the Required Lenders; and neither Agent shall incur liability to any person by reason of so refraining. Without limiting the foregoing, Lenders shall not have any right of action whatsoever against either Agent as a

result of its acting or refraining from acting hereunder in accordance with the instructions of the Required Lenders.

The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, statement, certificate, telex, teletype or telecopier message, cablegram, order or other document or telephone message believed by it to be genuine and correct and to have been signed, sent or made by the proper person or entity, and, with respect to all legal matters pertaining to this Agreement and the Loan Documents and its duties hereunder, upon advice of counsel selected by it. The Agents may employ agents and attorneys-in-fact and shall not be liable for the default or misconduct of any such agents or attorneys-in-fact selected by the applicable Agent with reasonable care.

No Agent shall be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder or under the other Loan Documents, unless it has received notice from a Lender or the Borrowers referring to this Agreement or the other Loan Documents, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that an Agent receives such a notice, it shall give notice thereof to the Lenders. The Agents shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders; PROVIDED, THAT, unless and until the Agents shall have received such directions, the Agents may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of Lenders.

The Lenders hereby acknowledge that neither Agent shall be under any duty to take any discretionary action permitted to be taken by it pursuant to the provisions of this Agreement unless it shall be requested in writing to do so by the Required Lenders.

With respect to the Loans made by it hereunder, each Agent in its individual capacity and not as Agent shall have the same rights and powers as any other Lender and may exercise the same as though it were not an Agent, and the Agents and their Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrowers or any Subsidiary or other Affiliate thereof as if it were not an Agent.

Each Lender agrees (a) to reimburse the Agents, on demand, in the amount of its pro rata share (based on the aggregate amount of its outstanding Term Loans and Revolving Credit Commitments hereunder) of any expenses incurred for the benefit of the Lenders by the Agents, including counsel fees and compensation of agents and employees paid for services rendered on behalf of the Lenders, that shall not have been reimbursed by the Borrowers and (b) to indemnify and hold harmless each Agent and any of its directors, officers, employees or agents, on demand, in the amount of such pro rata share, from and against any and all liabilities, taxes, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or

nature whatsoever that may be imposed on, incurred by or asserted against it in its capacity as Agent or any of them in any way relating to or arising out of this Agreement or any other Loan Document or any action taken or omitted by it or any of them under this Agreement or any other Loan Document, to the extent the same shall not have been reimbursed by the Borrowers or any other Loan Party, PROVIDED that no Lender shall be liable to an Agent or any such other indemnified person for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements that are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Agent or any of its directors, officers, employees or agents. Each Revolving Credit Lender agrees to reimburse the Issuing Bank and its directors, employees and agents, in each case, to the same extent and subject to the same limitations as provided above for the Agents.

Each Lender acknowledges that it has, independently and without reliance upon the Agents or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agents or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement or any other Loan Document, any related agreement or any document furnished hereunder or thereunder. Each of the parties hereto acknowledges and agrees that the Syndication Agent shall not have any duties, responsibilities, obligations or liabilities, as such, hereunder or under the other Loan Documents.

ARTICLE IX

MISCELLANEOUS

SECTION 9.01. NOTICES. Notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to the Borrowers or the Borrowing Agent, to Activision, Inc. at 3100 Ocean Park Blvd., Santa Monica, California 90405, Attention of Chief Financial Officer (Telecopy No. 310-255-2191);

(b) if to the Administrative Agent, to PNC Bank, National Association, Two Tower Center Boulevard, East Brunswick, New Jersey 08816, Attention of Ryan Peak, (Telecopy No. 732-220-4315); and

(c) if to a Lender, to it at its address (or telecopy number) set forth on Schedule 2.01 or in the Assignment and Acceptance pursuant to which such Lender shall have become a party hereto.

Any party may change the directions for delivery of notices hereunder by notice delivered in accordance with this Section 9.01. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt if delivered by hand or overnight courier service or sent by telecopy or on the date five Business Days after dispatch by certified or registered mail if mailed, in each case delivered, sent or mailed (properly addressed) to such party as provided in this Section 9.01 or in accordance with the latest unrevoked direction from such party given in accordance with this Section 9.01.

SECTION 9.02. SURVIVAL OF AGREEMENT. All covenants, agreements, representations and warranties made by the Borrowers herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the Lenders and the Issuing Bank and shall survive the making by the Lenders of the Loans and the issuance of Letters of Credit by the Issuing Bank, regardless of any investigation made by the Lenders or the Issuing Bank or on their behalf, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any Fee or any other amount payable under this Agreement or any other Loan Document is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not been terminated. The provisions of Sections 2.16, 2.18, 2.19, 2.23 and 9.05 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the expiration of the Commitments, the expiration of any Letter of Credit, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the Administrative Agent, the Collateral Agent, any Lender or the Issuing Bank.

SECTION 9.03. BINDING EFFECT. This Agreement shall become effective when it shall have been executed by the Borrowers and the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors and assigns.

SECTION 9.04. SUCCESSORS AND ASSIGNS. (a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the permitted successors and assigns of such party; and all covenants, promises and agreements by or on behalf of the Borrowers, the Administrative Agent, the Issuing Bank or the Lenders that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns.

(b) Each Lender may assign to one or more assignees all or a portion of its interests, rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it); PROVIDED, HOWEVER, that (i) except in the case of an assignment to a Lender or an Affiliate or Related Fund of such Lender, (x) the Borrowers and the Administrative Agent (and, in the case of any assignment of a Revolving Credit Commitment, the Issuing Bank) must give their prior written consent to such assignment (which consent shall not be unreasonably withheld or delayed); PROVIDED, HOWEVER, that the consent of the Borrowers shall not be required to any such assignment during the continuance of any Event of Default described in subsection (g) or (h) of Article VII, and (y) the amount of the Commitment of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$5,000,000 (or, if less, the entire remaining amount of such Lender's Commitment) or such lesser amount as the Borrowers and the Administrative Agent may from time to time agree (such agreement to be conclusively evidenced by the execution of the related Assignment and Acceptance by all the parties thereto), (ii) the parties to each such assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together (except in the case of any assignment to an Affiliate or a Related Fund) with a processing and recordation fee of \$[3,500] (which such fee shall not be required to be paid by the Syndication Agent upon any assignment by it) and (iii) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire. Upon acceptance and recording pursuant to paragraph (e) of this Section 9.04, from and after the effective date specified in each Assignment and Acceptance, (A) the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement and (B) the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.14, 2.16, 2.20 and 9.05, as well as to any Fees accrued for its account and not yet paid).

(c) By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Lender warrants that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim and that its Term Loan Commitment and Revolving Credit Commitment, and the outstanding balances of its Term Loans and Revolving Loans, in each case without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance, (ii) except as set forth in (i) above, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations

made in or in connection with this Agreement, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto, or the financial condition of the Borrowers or any Subsidiary or the performance or observance by the Borrowers or any Subsidiary of any of its obligations under this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements referred to in Section 3.05(a) or delivered pursuant to Section 5.04 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (v) such assignee will independently and without reliance upon the Administrative Agent, the Collateral Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (vi) such assignee appoints and authorizes the Administrative Agent and the Collateral Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent and the Collateral Agent, respectively, by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(d) The Administrative Agent, acting for this purpose as an agent of the Borrowers, shall maintain at one of its offices a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "REGISTER"). The entries in the Register shall be conclusive and the Borrowers, the Administrative Agent, the Issuing Bank, the Collateral Agent and the Lenders may treat each person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrowers, the Issuing Bank, the Collateral Agent and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, an Administrative Questionnaire completed in respect of the assignee (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) above and, if required, the written consent of the Borrowers, the Issuing Bank and the Administrative Agent to such assignment, the Administrative Agent shall (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Lenders and the Issuing Bank. No assignment shall be effective unless it has been recorded in the Register as provided in this paragraph (e).

(f) Each Lender may without the consent of the Borrowers, the Issuing Bank or the Administrative Agent sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); PROVIDED, HOWEVER, that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participating banks or other entities shall be entitled to the benefit of the cost protection provisions contained in Sections 2.16 and 2.18 to the same extent as if they were Lenders and (iv) the Borrowers, the Administrative Agent, the Issuing Bank and the Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, and such Lender shall retain the sole right to enforce the obligations of the Borrowers relating to the Loans or L/C Disbursements and to approve any amendment, modification or waiver of any provision of this Agreement (other than amendments, modifications or waivers decreasing any fees payable hereunder or the amount of principal of or the rate at which interest is payable on the Loans, extending any scheduled principal payment date or date fixed for the payment of interest on the Loans, increasing or extending the Commitments or releasing any Subsidiary Guarantor or all or any substantial part of the Collateral).

(g) Any Lender or participant may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 9.04, disclose to the assignee or participant or proposed assignee or participant any information relating to the Borrowers furnished to such Lender by or on behalf of the Borrowers; PROVIDED that, prior to any such disclosure of information designated by the Borrowers as confidential, each such assignee or participant or proposed assignee or participant shall execute an agreement whereby such assignee or participant shall agree (subject to customary exceptions) to preserve the confidentiality of such confidential information on terms no less restrictive than those applicable to the Lenders pursuant to Section 9.16.

(h) Any Lender may at any time assign all or any portion of its rights under this Agreement to secure extensions of credit to such Lender or in support of obligations owed by such Lender; PROVIDED that no such assignment shall release a Lender from any of its obligations hereunder or substitute any such assignee for such Lender as a party hereto.

(i) Notwithstanding anything to the contrary contained herein, any Lender (a "GRANTING LENDER") may grant to a special purpose funding vehicle (an "SPC"), identified as such in writing from time to time by the Granting Lender to the Administrative Agent and the Borrowers, the option to provide to the Borrowers all or any part of any Loan that such Granting Lender would otherwise be obligated to make to the Borrowers pursuant to this Agreement; PROVIDED that (i) nothing herein shall constitute a commitment by any SPC to make any Loan and (ii) if an SPC elects not to exercise such option or otherwise fails to provide all or any part of such Loan, the

Granting Lender shall be obligated to make such Loan pursuant to the terms hereof. The making of a Loan by an SPC hereunder shall utilize the Commitment of the Granting Lender to the same extent, and as if, such Loan were made by such Granting Lender. Each party hereto hereby agrees that no SPC shall be liable for any indemnity or similar payment obligation under this Agreement (all liability for which shall remain with the Granting Lender). In furtherance of the foregoing, each party hereto hereby agrees (which agreement shall survive the termination of this Agreement) that, prior to the date that is one year and one day after the payment in full of all outstanding commercial paper or other senior indebtedness of any SPC, it will not institute against, or join any other person in instituting against, such SPC any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings under the laws of the United States or any State thereof. In addition, notwithstanding anything to the contrary contained in this Section 9.04, any SPC may (i) with notice to, but without the prior written consent of, the Borrowers and the Administrative Agent and without paying any processing fee therefore, assign all or a portion of its interests in any Loans to the Granting Lender or to any financial institutions (consented to by the Borrowers and Administrative Agent) providing liquidity and/or credit support to or for the account of such SPC to support the funding or maintenance of Loans and (ii) disclose on a confidential basis any non-public information relating to its Loans to any rating agency, commercial paper dealer or provider of any surety, guarantee or credit or liquidity enhancement to such SPC.

(j) No Borrower shall assign or delegate any of its rights or duties hereunder without the prior written consent of the Administrative Agent, the Issuing Bank and each Lender, and any attempted assignment without such consent shall be null and void.

(k) In the event that Standard & Poor's Ratings Group, Moody's Investors Service, Inc., and Thompson's BankWatch (or InsuranceWatch Ratings Service, in the case of Lenders that are insurance companies (or Best's Insurance Reports, if such insurance company is not rated by Insurance Watch Ratings Service)) shall, after the date that any Lender becomes a Revolving Credit Lender, downgrade the long-term certificate deposit ratings of such Lender, and the resulting ratings shall be below BBB-, Baa3 and C (or BB, in the case of a Lender that is an insurance company (or B, in the case of an insurance company not rated by InsuranceWatch Ratings Service)), then the Issuing Bank shall have the right, but not the obligation, at its own expense, upon notice to such Lender and the Administrative Agent, to replace (or to request the Borrowers to use their reasonable efforts to assist in the replacement of) such Lender with an assignee (in accordance with and subject to the restrictions contained in paragraph (b) above), and such Lender hereby agrees to transfer and assign without recourse (in accordance with and subject to the restrictions contained in paragraph (b) above) all its interests, rights and obligations in respect of its Revolving Credit Commitment to such assignee; PROVIDED, HOWEVER, that (i) no such assignment shall conflict with any law, rule and regulation or order of any Governmental Authority and (ii) the Issuing Bank or such assignee, as the case may be, shall pay to such Lender in immediately available funds on the date of such

assignment the principal of and interest accrued to the date of payment on the Loans made by such Lender hereunder and all other amounts accrued for such Lender's account or owed to it hereunder.

SECTION 9.05. EXPENSES; INDEMNITY. (a) The Borrowers jointly and severally agree to pay all out-of-pocket expenses incurred by the Administrative Agent, the Collateral Agent, and the Issuing Bank in connection with the syndication of the credit facilities provided for herein and the preparation and administration of this Agreement and the other Loan Documents or in connection with any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions hereby or thereby contemplated shall be consummated) or incurred by the Administrative Agent, the Collateral Agent or any Lender in connection with the enforcement or protection of its rights in connection with this Agreement and the other Loan Documents or in connection with the Loans made or Letters of Credit issued hereunder, including the fees, charges and disbursements of counsel for the Administrative Agent and the Collateral Agent, and, in connection with any such enforcement or protection, the fees, charges and disbursements of any other counsel for the Administrative Agent, the Collateral Agent or any Lender.

(b) The Borrowers jointly and severally agree to indemnify the Administrative Agent, the Collateral Agent, each Lender and the Issuing Bank, each Affiliate of any of the foregoing persons and each of their respective directors, officers, trustees, employees and agents (each such person being called an "INDEMNITEE") against, and to hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees, charges and disbursements, incurred by or asserted against any Indemnitee arising out of, in any way connected with, or as a result of (i) the execution or delivery of this Agreement or any other Loan Document or any agreement or instrument contemplated thereby, the performance by the parties thereto of their respective obligations thereunder or the consummation of the Transactions and the other transactions contemplated thereby, (ii) the use of the proceeds of the Loans or issuance of Letters of Credit, (iii) any claim, litigation, investigation or proceeding relating to any of the foregoing, whether or not any Indemnitee is a party thereto, or (iv) any actual or alleged presence or Release of Hazardous Materials on any property owned or operated by any Borrowers or any of the Subsidiaries, or any Environmental Claim related in any way to any Borrowers or the Subsidiaries; PROVIDED that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

(c) The provisions of this Section 9.05 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the expiration of the Commitments, the expiration of any Letter of Credit, the

invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the Administrative Agent, the Collateral Agent, any Lender or the Issuing Bank. All amounts due under this Section 9.05 shall be payable on written demand therefor.

SECTION 9.06. RIGHT OF SETOFF. If an Event of Default shall have occurred and be continuing, each Lender or any affiliate of a Lender is hereby authorized at any time and from time to time, except to the extent prohibited by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender or any affiliate of a Lender to or for the credit or the account of any Borrowers against any of and all the obligations of the Borrowers now or hereafter existing under this Agreement and other Loan Documents held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement or such other Loan Document and although such obligations may be unmatured. The rights of each Lender and its affiliate under this Section 9.06 are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 9.07. APPLICABLE LAW. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS (OTHER THAN LETTERS OF CREDIT AND AS EXPRESSLY SET FORTH IN OTHER LOAN DOCUMENTS) SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK. EACH LETTER OF CREDIT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED IN ACCORDANCE WITH, THE LAWS OR RULES DESIGNATED IN SUCH LETTER OF CREDIT, OR IF NO SUCH LAWS OR RULES ARE DESIGNATED, THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1993 REVISION), INTERNATIONAL CHAMBER OF COMMERCE, PUBLICATION NO. 500 (THE "UNIFORM CUSTOMS") AND, AS TO MATTERS NOT GOVERNED BY THE UNIFORM CUSTOMS, THE LAWS OF THE STATE OF NEW YORK.

SECTION 9.08. WAIVERS; AMENDMENT. (a) No failure or delay of the Administrative Agent, the Collateral Agent, any Lender or the Issuing Bank in exercising any power or right hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Collateral Agent, the Issuing Bank and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or any other Loan Document or consent to any departure by the Borrowers or any other Loan Party therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or

demand on the Borrowers in any case shall entitle the Borrowers to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrowers and the Required Lenders; PROVIDED, HOWEVER, that no such agreement shall (i) decrease the principal amount of, or extend the maturity of or any scheduled principal payment date or date for the payment of any interest on any Loan or any date for reimbursement of an L/C Disbursement, or waive or excuse any such payment or any part thereof, or decrease the rate of interest on any Loan or L/C Disbursement or any Fees, without the prior written consent of each Lender affected thereby, (ii) change or extend the Commitment or decrease or extend the date for payment of the Commitment Fees of any Lender without the prior written consent of such Lender, (iii) amend or modify the pro rata requirements of Section 2.20, the provisions of Section 9.04(i), the provisions of this Section, the definition of the term "Required Lenders" or release any Subsidiary Guarantor or all or any substantial part of the Collateral, without the prior written consent of each Lender (iv) amend or modify the protections afforded to an SPC pursuant to the provisions of Section 9.04(i) without the written consent of such SPC, (v) permit any Revolving Credit Borrowing to be made if after giving effect thereto the Aggregate Revolving Credit Exposure would exceed the Formula Amount for more than sixty (60) calendar days or exceed one hundred and ten percent (110%) of the Formula Amount, or (vi) increase the Advance Rates above the Advance Rates in effect on the Closing Date, without the prior written consent of each Lender; PROVIDED FURTHER that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent, the Collateral Agent or the Issuing Bank hereunder or under any other Loan Document without the prior written consent of the Administrative Agent, the Collateral Agent or the Issuing Bank, respectively.

(c) In the event that the Administrative Agent requests the consent of a Lender pursuant to this Section 9.08 and such Lender shall not respond or reply to the Administrative Agent in writing within 5 days of delivery of such request, such Lender shall be deemed to have consented to the matter that was the subject of the request. In the event that the Administrative Agent requests the consent of a Lender and such consent is denied, then PNC may, at its option, require such Lender to assign its interest in the Obligations to PNC or to another Lender or to any other Person designated by the Administrative Agent (the "Designated Lender") for a price equal to the then outstanding principal amount thereof plus accrued and unpaid interest and fees due such Lender, which interest and fees shall be paid when collected from Borrowers. In the event that PNC elects to require any Lender to assign its interest to PNC, or a Designated Lender, PNC will so notify such Lender in writing within 45 days following such Lender's denial, and such Lender will assign its interest to PNC or the Designated Lender no later than 5 days following receipt of such notice pursuant to an Assignment and Acceptance Agreement executed by such Lender, PNC or the Designated Lender, as appropriate, and the Administrative Agent.

SECTION 9.09. [Intentionally Deleted]

SECTION 9.10. ENTIRE AGREEMENT. This Agreement, the Fee Letter and the other Loan Documents constitute the entire contract between the parties relative to the subject matter hereof. Any other previous agreement among the parties with respect to the subject matter hereof is superseded by this Agreement and the other Loan Documents. Nothing in this Agreement or in the other Loan Documents, expressed or implied, is intended to confer upon any party other than the parties hereto and thereto any rights, remedies, obligations or liabilities under or by reason of this Agreement or the other Loan Documents.

SECTION 9.11. WAIVER OF JURY TRIAL; CONSEQUENTIAL DAMAGES. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9.11. Neither the Administrative Agent, the Collateral Agent nor any Lender, nor any agent or attorney for any of them, shall be liable to any Borrowers or any other Loan Party for consequential damages arising from any breach of contract, tort or other wrong relating to the establishment, administration or collection of the Obligations.

SECTION 9.12. SEVERABILITY. In the event any one or more of the provisions contained in this Agreement or in any other Loan Document should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 9.13. COUNTERPARTS. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute

an original but all of which when taken together shall constitute a single contract, and shall become effective as provided in Section 9.03. Delivery of an executed signature page to this Agreement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Agreement.

SECTION 9.14. HEADINGS. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

SECTION 9.15. JURISDICTION; CONSENT TO SERVICE OF PROCESS. (a) Each Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent, the Collateral Agent, the Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or the other Loan Documents against any Borrowers or its properties in the courts of any jurisdiction.

(b) Each Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the other Loan Documents in any New York State or Federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.16. CONFIDENTIALITY. The Administrative Agent, the Collateral Agent, the Issuing Bank, the Syndication Agent, and each of the Lenders agrees to keep confidential (and to use its best efforts to cause its respective agents and representatives to keep confidential) the Information (as defined below) and all copies thereof, extracts therefrom and analyses or other materials based thereon, except that the Administrative

Agent, the Collateral Agent, the Issuing Bank or any Lender shall be permitted to disclose Information (a) to such of its respective officers, directors, employees, agents, affiliates and representatives as need to know such Information, (b) to a potential assignee or participant of such Lender or any direct or indirect contractual counterparty in any swap agreement relating to the Loans or such potential assignee's or participant's or counterparty's advisors who need to know such Information (provided that any such potential assignee or participant or counterparty shall, and shall use its best efforts to cause its advisors to, keep confidential all such information on the terms set forth in this Section 9.16, (c) to the extent requested by any regulatory authority, (d) to the extent otherwise required by applicable laws and regulations or by any subpoena or similar legal process, (e) in connection with any suit, action or proceeding relating to the enforcement of its rights hereunder or under the other Loan Documents or (f) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section 9.16 or (ii) becomes available to the Administrative Agent, the Issuing Bank, the Syndication Agent, any Lender or the Collateral Agent on a nonconfidential basis from a source other than a Borrower. For the purposes of this Section, "INFORMATION" shall mean all financial statements, certificates, reports, agreements and information (including all analyses, compilations and studies prepared by the Administrative Agent, the Collateral Agent, the Issuing Bank or any Lender based on any of the foregoing) that are received from any Borrower and related to such Borrower, any Subsidiary, any shareholder of the Borrowers or any employee, customer or supplier of the Borrowers, other than any of the foregoing that were available to the Administrative Agent, the Collateral Agent, the Issuing Bank or any Lender on a nonconfidential basis prior to its disclosure thereto by the Borrowers, and which are in the case of Information provided after the date hereof, clearly identified at the time of delivery as confidential. The provisions of this Section 9.16 shall remain operative and in full force and effect regardless of the expiration and term of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Credit Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

ACTIVISION, INC.,

By

Name: Lawrence Goldberg
Title: Executive Vice President and
General Counsel

HEAD GAMES PUBLISHING, INC.,

By

Name: Lawrence Goldberg
Title: Vice President and Secretary

IN WITNESS WHEREOF, the parties hereto have caused this Credit Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

PNC BANK, NATIONAL ASSOCIATION,
individually and as Administrative Agent,
Collateral Agent and Issuing Bank,

By _____
Name: Ilan Yehros
Title: Vice President

IN WITNESS WHEREOF, the parties hereto have caused this Credit Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

CREDIT SUISSE FIRST BOSTON,
individually and as Syndication Agent,

By _____
Name:
Title:

By: _____
Name:
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Credit Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

COMERICA BANK

By: _____
Name:
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Credit Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

GUARANTEE BUSINESS CREDIT CORPORATION
d/b/a Fidelity Funding

By: -----
Name:
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Credit Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

GREEN TREE FINANCIAL
SERVICING CORPORATION

By: _____
Name:
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Credit Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

LASALLE BANK NATIONAL
ASSOCIATION

By: _____
Name:
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Credit Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

MELLON BANK, N.A.

By: _____

Name: William R. Murray
Title: Vice President

IN WITNESS WHEREOF, the parties hereto have caused this Credit Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

NATIONAL BANK OF CANADA,
New York Branch

By: -----
Name: James Drum
Title: Vice President

By: -----
Name: Gaetan Frosina
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Credit Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

SANWA BANK CALIFORNIA

By: -----
Name:
Title:

CREDIT AGREEMENT

dated as of June 21, 1999,

among

ACTIVISION, INC.,
and certain of its Domestic Subsidiaries

THE LENDERS NAMED HEREIN,

PNC BANK, NATIONAL ASSOCIATION,
as Administrative Agent, Collateral Agent and Issuing Bank

and

CREDIT SUISSE FIRST BOSTON,
as Lead Arranger and Syndication Agent

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PRINCIPAL SUBSIDIARIES OF THE REGISTRANT

Name of subsidiary	State or Other Jurisdiction of Incorporation or Organization
Activision Australia Pty Ltd.	Australia
Activision B.V.	Netherlands
Activision Deutschland GmbH	Germany
Activision GmbH	Germany
Activision Illinois, Inc.	Illinois
Activision New York, Inc.	New York
Activision Productions, Inc.	Delaware
Activision Texas, Inc.	Texas
Activision U.K. Ltd.	United Kingdom
CD Contact Data GmbH	Germany
CD Contact Data BV	Netherlands
CentreSoft Limited	United Kingdom
CentreSoft France SARL	France
Combined Distribution (Holdings) Ltd.	United Kingdom
Contact Data Belgium N.V.	Belgium
The Disc Company International, Inc.	U.S. Virgin Islands
ES International, Inc.	U.S. Virgin Islands
Expert Software, Inc.	Delaware
Head Games Publishing, Inc.	Minnesota
Jotaphoenicis Beteiligungs GmbH	Germany
Kappaphoenicis Beteiligungs GmbH	Germany
NBG EDV Handels und Verlags GmbH & Co. KG	Germany
PDQ Ltd.	United Kingdom
Raven Software Corporation	Wisconsin
Swfte International, Ltd.	Delaware
Target Software Vertriebs GmbH	Germany
TDC Group, Inc.	Delaware
Ton-Und Studiotechnick GmbH	Germany

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the registration statements (Nos. 333-30303, 333-36949, 333-43961, 333-46425, 333-56879, 333-61571, 333-67707, 333-06130, 333-12621, 333-06054, 333-40727, 333-61573 and 333-81239) on Form S-3 and Form S-8 of Activision, Inc. of our report dated May 3, 1999, relating to the consolidated balance sheets of ACTIVISION, INC. and subsidiaries as of March 31, 1999 and 1998 and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended March 31, 1999, and the related financial statement schedule for each of the years in the three-year period ended March 31, 1999, which report appears in the March 31, 1999 annual report on Form 10-K of ACTIVISION, INC.

KPMG LLP

Los Angeles, California
June 28, 1999

YEAR

MAR-31-1996		
APR-01-1995		
MAR-31-1996	25,792	
	0	
	31,743	
	8,614	
	5,294	
60,651		6,564
	2,682	
84,442		
20,780		0
0		0
	0	0
	62,439	
84,442		86,591
	86,591	
	41,367	
	41,367	
	41,992	
	12,667	
	136	
	4,841	
	(1,054)	
5,895		0
	0	
		0
	5,895	
	0.34	
	0.32	

YEAR

MAR-31-1997		
APR-01-1996		
MAR-31-1997	23,320	
	0	
	62,952	
	14,105	
	12,627	
	96,408	14,423
	8,042	
	131,952	
44,411		0
	0	0
		0
	81,634	
131,952		
	189,239	
	189,239	
	103,124	
	116,232	
	61,476	
	19,609	
	843	
	11,612	
	3,981	
7,631		
	0	
	0	
		0
	7,631	
	0.37	
	0.36	

YEAR

MAR-31-1998	
APR-01-1997	
MAR-31-1998	74,241
	0
	89,508
	15,582
	19,425
185,876	23,412
(11,468)	
229,280	
70,103	60,000
0	0
	0
	0
97,397	312,058
	312,058
312,058	176,188
	206,028
	96,544
	39,112
2,223	
	8,374
	3,235
5,139	0
	0
	0
	5,139
	0.24
	0.23

YEAR

MAR-31-1999	
APR-01-1998	
MAR-31-1999	32,847
	0
	132,501
	14,979
	30,931
236,301	
	26,118
(15,277)	
283,612	
94,987	
	60,000
0	
	0
	0
	127,475
283,612	
	436,485
436,485	
	260,041
	297,866
111,374	
53,773	
4,973	
	24,213
	8,961
15,254	
	0
	0
	0
	15,254
	0.69
	0.66