

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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
(State or other jurisdiction of
incorporation or organization)

94-2606438
(I.R.S. Employer Identification No.)

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

90405
(Zip Code)

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court: Yes No

The number of shares of the registrant's Common Stock outstanding as of August 13, 1999 was 23,578,188.

ACTIVISION, INC.

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ACTIVISION, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

(in thousands except share data)

	June 30, 1999 ----- (Unaudited)	March 31, 1999 -----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 17,768	\$ 32,847
Accounts receivable, net of allowances of \$23,765 and \$14,979, respectively	98,157	117,522
Inventories, net	40,028	30,931
Prepaid royalties and capitalized software costs	42,281	38,997
Deferred income taxes	9,461	6,044
Other current assets	12,710	9,960
Total current assets	----- 220,405	----- 236,301
Prepaid royalties and capitalized software costs	7,366	6,923
Property and equipment, net	10,556	10,841
Deferred income taxes	2,618	2,618
Intangible assets, net	54,585	21,647
Other assets	8,951	5,282
Total assets	----- \$ 304,481 -----	----- \$ 283,612 -----
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of notes payable to bank	\$ 15,006	\$ 5,992
Accounts payable	31,527	43,853
Accrued expenses	40,838	45,142
Total current liabilities	----- 87,371	----- 94,987
Notes payable to bank, less current portion	20,856	1,143
Convertible subordinated notes	60,000	60,000
Other liabilities	7	7
Total liabilities	----- 168,234 -----	----- 156,137 -----
Shareholders' equity:		
Common stock, \$.000001 par value, 50,000,000 shares authorized, 23,815,031 and 23,104,927 shares issued and 23,315,031 and 22,604,927 outstanding, respectively	--	--
Additional paid-in capital	123,438	109,251
Retained earnings	21,654	26,012
Accumulated other comprehensive income (loss)	(3,567)	(2,510)
Less: Treasury stock, cost of 500,000 shares	(5,278)	(5,278)
Total shareholders' equity	----- 136,247	----- 127,475
Total liabilities and shareholders' equity	----- \$ 304,481 -----	----- \$ 283,612 -----

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

ACTIVISION, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
For the quarters ended June 30,

(in thousands except loss per share data)

(Unaudited)

	1999 -----	1998 ----- Restated -----
Net revenues	\$ 84,142	\$ 61,531
Costs and expenses:		
Cost of sales - product costs	52,178	39,392
Cost of sales - royalties and software amortization	11,231	3,225
Product development	4,181	5,693
Sales and marketing	17,139	13,738
General and administrative	4,702	4,549
Amortization of intangible assets	469	396
Merger expenses	--	175
	-----	-----
Total operating expenses	89,900	67,168
	-----	-----
Operating loss	(5,758)	(5,637)
Interest expense, net	(1,160)	(401)
	-----	-----
Loss before income tax benefit	(6,918)	(6,038)
Income tax benefit	(2,560)	(2,294)
	-----	-----
Net loss	(4,358)	(3,744)
Other comprehensive income (loss):		
Foreign currency translation adjustment	(1,057)	(801)
	-----	-----
Comprehensive loss	\$ (5,415)	\$ (4,545)
	-----	-----
Basic and diluted net loss per share	\$ (0.19)	\$ (0.17)
	-----	-----
Number of shares used in computing basic and diluted net loss per share	22,858	21,915
	-----	-----

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

ACTIVISION, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
For the quarters ended June 30,
(in thousands)
(UNAUDITED)

	1999	1998
		Restated
	Increase	(Decrease)
	in Cash	
Cash flows from operating activities:		
Net loss	\$ (4,358)	\$ (3,744)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred income taxes	1,012	(2,585)
Depreciation and amortization	1,912	1,350
Amortization of prepaid royalties and capitalized software costs	7,905	1,682
Change in assets and liabilities:		
Accounts receivable	20,084	11,618
Inventories	(5,816)	(3,643)
Other current assets	(4,372)	(761)
Other assets	(770)	(55)
Accounts payable	(14,795)	(6,426)
Accrued liabilities	(12,169)	1,120
	-----	-----
Net cash used in operating activities	(11,367)	(1,444)
Cash flows from investing activities:		
Cash used for purchase acquisitions, net of cash acquired	(20,523)	--
Capital expenditures	(572)	(704)
Investment in prepaid royalties and capitalized software costs	(11,632)	(8,878)
	-----	-----
Net cash used in investing activities	(32,727)	(9,582)
Cash flows from financing activities:		
Proceeds from issuance of common stock pursuant to employee stock option plan	4,590	89
Note payable to bank, net	(5,674)	(352)
Proceeds from term loan	25,000	--
Cash paid to secure line of credit and term loan	(3,355)	--
Borrowing under line of credit agreement	16,472	--
Payment under line of credit agreement	(7,071)	--
	-----	-----
Net cash provided by (used in) financing activities	29,962	(263)
Effect of exchange rate changes on cash	(947)	(722)
	-----	-----
Net decrease in cash and cash equivalents	(15,079)	(12,011)
Cash and cash equivalents at beginning of period	32,847	74,241
	-----	-----
Cash and cash equivalents at end of period	\$ 17,768	\$ 62,230
	-----	-----

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

ACTIVISION, INC.
Notes to Condensed Consolidated Financial Statements
For the Quarter Ended June 30, 1999

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of Activision, Inc. (together with its subsidiaries, "Activision" or "the Company"). The information furnished is unaudited and reflects all adjustments that, in the opinion of management, are necessary to provide a fair statement of the results for the interim periods presented. The financial statements should be read in conjunction with the financial statements included in the Company's Annual Report on Form 10-K for the year ended March 31, 1999, as filed with the Securities and Exchange Commission.

The consolidated financial statements for the period ended June 30, 1998 have been retroactively restated to reflect the Company's acquisition of CD Contact Data GmbH ("CD Contact") in September 1998, which was previously accounted for as an immaterial pooling of interests. The financial results for 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 this and other prior merger 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 for the period ended June 30, 1998 reported in this Quarterly Report on Form 10-Q to include the results of CD Contact with the Company for all prior periods.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Intangible assets, net of amortization, at June 30, 1999 and 1998, of \$54.6 million and \$21.7 million, respectively, includes goodwill and costs of acquired licenses, brands and trade names which are amortized using the straight-line method over their estimated useful lives, typically from three to twenty years.

Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income, was adopted as of April 1, 1999. This Statement establishes standards for reporting and display of changes in shareholders' equity that do not result directly from transactions with shareholders. The Company has displayed comprehensive income (loss) and its components in the Condensed Consolidated Statements of Operations for the quarters and fiscal years ended June 30, 1999 and 1998.

3. ACQUISITIONS

ACQUISITION OF EXPERT SOFTWARE

On June 22, 1999, the Company acquired all of the outstanding capital stock of Expert Software, Inc. ("Expert"), a publicly held developer and publisher of value-line interactive leisure products, for approximately \$26.7 million. The aggregate purchase price of approximately \$26.7 million consisted of \$20.4 million in cash payable to the former shareholders of Expert, the valuation of employee stock options in the amount of \$3.3 million, and other acquisition costs.

The acquisition was accounted for using the purchase method of accounting. Accordingly, the results of operations of Expert and the fair market values of the acquired assets and liabilities were included in the Company's financial statements from the date of acquisition.

ACTIVISION, INC.
Notes to Condensed Consolidated Financial Statements
For the Quarter Ended June 30, 1999

(Unaudited)

Certain items affecting the purchase price allocation are preliminary. The aggregate purchase price has preliminarily been allocated to the fair values of the assets and liabilities acquired as follows (amounts in thousands):

Tangible assets	\$ 6,096
Existing products	15,636
Excess purchase price over identifiable assets acquired	10,411
Trade names	4,506
Liabilities	(9,949)

	\$ 26,700

The total amount allocated to existing products is being amortized over periods ranging from three to ten years from the date of acquisition. The amounts allocated to trade names and goodwill are being amortized over a period of fifteen years from the date of acquisition.

The unaudited proforma combined results of operations for the three months ended June 30, 1999 and 1998 below are presented as if the acquisition occurred at the beginning of each such period. The proforma results are as follows:

	Three months ended June	
	----- 1999 -----	----- 1998 -----
Total net revenues	\$ 86,705	\$ 69,385
Net loss	\$ (9,230)	\$ (4,074)
Basic and diluted loss per share	\$ (0.40)	\$ (0.18)

ACQUISITION OF ELSINORE MULTIMEDIA

On June 29, 1999, the Company acquired Elsinore Multimedia ("Elsinore"), a privately held interactive software development company, for approximately \$2.8 million. The aggregate purchase price of the \$2.8 million consisted of \$2.7 million in cash payable to the former shareholders of Elsinore, and other acquisition costs.

The acquisition was accounted for using the purchase method of accounting. Accordingly, the results of operations of Elsinore and the fair market values of the acquired assets and liabilities were included in the company's financial statements from the date of acquisition. The aggregate purchase price preliminarily has been allocated to the assets and liabilities acquired, consisting mostly of goodwill that is being amortized over a five year period. Proforma statements of operations reflecting the acquisition of Elsinore are not shown, as they would not differ materially from reported results.

ACTIVISION, INC.
Notes to Condensed Consolidated Financial Statements
For the Quarter Ended June 30, 1999

(Unaudited)

4. 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 that 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 June 30, 1999, prepaid royalties and unamortized capitalized software costs totaled \$41.0 million (including \$7.4 million classified as non-current) and \$8.6 million, respectively. 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. Amortization of prepaid royalties and capitalized software costs was \$7.9 million and \$1.7 million for the quarter ended June 30, 1999 and 1998, respectively. Write-offs of prepaid royalties and capitalized software costs prior to product release were approximately \$350,000 and \$315,000 for the quarters ended June 30, 1999 and 1998, respectively.

5. 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

ACTIVISION, INC.
Notes to Condensed Consolidated Financial Statements
For the Quarter Ended June 30, 1999

(Unaudited)

price protections. Revenue from product sales is reflected net of the allowance for returns and price protection.

Software Licenses: For those license agreements that 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 that exceed the guarantee are recognized as earned.

6. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash activities and supplemental cash flow information for the fiscal quarters ended June 30, 1999 and 1998 are as follows (amounts in thousands):

	June 30,	
	1999	1998
Non-cash activities:		
Tax benefit attributable to stock option exercises	\$ 513	\$ --
Warrants to acquire common stock issued in exchange for licensing rights	3,113	
Common stock issued in connection with purchase acquisition	2,700	--
Options to acquire common stock issued in connection with purchase acquisition	3,271	--
Supplemental cash flow information:		
Cash paid for income taxes	\$ 762	\$1,033
Cash paid for interest	\$4,304	\$2,176

7. OPERATIONS BY REPORTABLE SEGMENTS AND GEOGRAPHIC AREA

The Company adopted SFAS No. 131, "Disclosures 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 addition, the Company's publishing segment distributes titles that are developed and marketed by other third party developers through its "affiliate label" program. 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.

ACTIVISION, INC.
Notes to Condensed Consolidated Financial Statements
For the Quarter Ended June 30, 1999

(Unaudited)

The Company's distribution segment conducts operations in the United Kingdom, the Benelux territories and Germany. This segment distributes interactive entertainment software and hardware and provides logistical services for a variety of publishers and manufacturers in these territories. A small percentage of distribution sales are 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 in the Company's annual report on Form 10-K. Revenue derived from sales between segments is eliminated in consolidation.

Information on the reportable segments for the quarters ended June 30, 1999 and 1998 is as follows:

	Quarter Ended June 30, 1999			
	Publishing	Distribution	Corporate	Total
Revenues from external customers	\$48,120	\$36,022	\$ --	\$84,142
Revenue from sales between segments	\$ 5,246	\$ --	\$ --	\$ 5,246
Operating income (loss)	\$(4,525)	\$ (844)	\$ (389)	\$(5,758)

	Quarter Ended June 30, 1998			
	Publishing	Distribution	Corporate	Total
Revenues from external customers	\$21,463	\$40,068	\$ --	\$61,531
Revenue from sales between segments	\$ 1,689	\$ --	\$ --	\$ 1,689
Operating income (loss)	\$(5,164)	\$ (160)	\$ (313)	\$(5,637)

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 quarters ended June 30, 1999 and 1998 is based on the location of the selling entity. Revenues from external customers by geographic region were as follows:

	1999	1998
United States	\$34,813	\$15,909
Europe	47,145	42,780
Other	2,184	2,842
	-----	-----
Total	\$84,142	\$61,531
	-----	-----

ACTIVISION, INC.
Notes to Condensed Consolidated Financial Statements
For the Quarter Ended June 30, 1999

(Unaudited)

Revenues by platform were as follows:

	1999	1998
	-----	-----
Console	\$49,390	\$38,415
PC	34,752	23,116
	-----	-----
Total	\$84,142	\$61,531
	-----	-----

8. COMPUTATION OF NET LOSS PER SHARE

Statement of Financial Accounting Standards No. 128 ("SFAS 128" per share,") requires companies to compute net income per share under two different methods, basic and diluted per share data, for all periods for which an income statement is presented. Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for all periods. Diluted earnings per share reflects the potential dilution that could occur if the income were divided by the weighted average number of common and common stock equivalent shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares and common stock equivalents from outstanding stock options and warrants. Common stock equivalents are calculated using the treasury stock method and represent incremental shares issuable upon exercise of the Company's outstanding options and warrants.

At June 30, 1999, outstanding weighted average options to purchase approximately 1,865,101 shares were not included in the computation of diluted earnings per share as a result of their antidilutive effect. Similarly, at June 30, 1998, outstanding weighted average options to purchase approximately 396,658 shares of common stock were not included in the computation of diluted earnings per share as a result of their antidilutive effect. Such stock options could have a dilutive effect in future periods.

The following table sets forth the computation of basic and diluted net loss per common share for the three months ended June 30, 1999 and 1998 (in thousands, except per share information):

	1999	1998
Numerator:		
Net loss	\$(4,358)	\$(3,744)
	-----	-----
Denominator:		
Denominator for basic net loss per common share - weighted-average shares outstanding	22,858	21,915
	-----	-----
Denominator for diluted net loss per common share - adjusted weighted-average shares for assumed conversions	22,858	21,915
	-----	-----
Basic and diluted net loss per share	\$(0.19)	\$(0.17)
	-----	-----

ITEM 2. 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 THE COMPANY'S ANNUAL 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.

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

The Company recognizes revenue from the sale of its products upon shipment. Subject to certain limitations, the Company permits customers to obtain exchanges and returns within certain specified periods and provides price protection on certain unsold merchandise. Revenue from product sales is reflected after deducting the estimated allowance for returns and price protection. With respect to license agreements that 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 that exceed the guarantee are recognized as earned. The AICPA's 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 is effective for all transactions entered into subsequent to March 31, 1999. 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 issued Statement of Position 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions" ("SOP 98-9"), which 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 that 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:

	QUARTER ENDED JUNE 30,			
	1999		1998	
	Amount	% of Net Revenues	Amount	% of Net Revenues
			Restated	
Statement of Operations Data:				
Net revenues	\$ 84,142	100.0%	\$ 61,531	100.0%
Costs and expenses:				
Cost of sales - product costs	52,178	62.0%	39,392	64.0%
Cost of sales - royalties and software amortization	11,231	13.3%	3,225	5.3%
Product development	4,181	5.0%	5,693	9.3%
Sales and marketing	17,139	20.4%	13,738	22.3%
General and administrative	4,702	5.6%	4,549	7.4%
Amortization of intangible assets	469	0.5%	396	0.6%
Merger expenses	--	--	175	0.3%
Total operating expenses	89,900	106.8%	67,168	109.2%
Operating loss	(5,758)	(6.8%)	(5,637)	(9.2%)
Interest expense, net	(1,160)	(1.4%)	(401)	(0.6%)
Loss before income tax benefit	(6,918)	(8.2%)	(6,038)	(9.8%)
Income tax benefit	(2,560)	(3.0%)	(2,294)	(3.7%)
Net loss	\$ (4,358)	(5.2%)	\$ (3,744)	(6.1%)

NET REVENUES BY TERRITORY:				
United States	\$34,813	41.4%	\$15,909	25.9%
Europe	47,145	56.0%	42,780	69.5%
Other	2,184	2.6%	2,842	4.6%
	-----	-----	-----	-----
Total net revenues	\$84,142	100.0%	\$61,531	100.0%
	-----	-----	-----	-----
NET REVENUES BY ACTIVITY/PLATFORM:				
Publishing:				
Console	\$31,676	59.4%	\$10,959	47.3%
PC	21,690	40.6%	12,193	52.7%
	-----	-----	-----	-----
Total publishing	\$53,366	63.4%	\$23,152	37.6%
	-----	-----	-----	-----
Distribution:				
Console	\$17,714	57.6%	\$27,456	71.5%
PC	13,062	42.4%	10,923	28.5%
	-----	-----	-----	-----
Total distribution	\$30,776	36.6%	\$38,379	62.4%
	-----	-----	-----	-----
Total net revenues	\$84,142	100.0%	\$61,531	100.0%
	-----	-----	-----	-----
NET REVENUES BY CHANNEL:				
Retailer/Reseller	\$80,303	95.4%	\$57,137	92.9%
OEM, licensing, on-line and other	3,839	4.6%	4,394	7.1%
	-----	-----	-----	-----
Total net revenues	\$84,142	100.0%	\$61,531	100.0%
	-----	-----	-----	-----
OPERATING LOSS BY SEGMENT:				
Publishing	\$ 4,525	78.6%	\$ 5,164	91.6%
Distribution	844	14.7%	160	2.8%
Other	389	6.7%	313	5.6%
	-----	-----	-----	-----
Total operating loss by segment	\$ 5,758	100.0%	\$ 5,637	100.0%
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RESULTS OF OPERATIONS

NET REVENUES

Net revenues for the quarter ended June 30, 1999 increased 36.7% from the same period last year, from \$61.5 million to \$84.1 million. This increase primarily was composed of a 118.9% increase in net revenues in the United States from \$15.9 million to \$34.8 million and an 8.1% increase in international net revenues from \$45.6 million to \$49.3 million. The increase in overall net revenues was composed of a 28.6% increase in console revenues, from \$38.4 million to \$49.4 million, and a 50.6% increase in PC net revenues, from \$23.1 million to \$34.8 million.

Publishing net revenues for the quarter ended June 30, 1999 increased 130%, from \$23.2 million to \$53.4 million, over the same period last year. This increase was attributable to increases in publishing console and publishing PC net revenues. Publishing console net revenues for the quarter ended June 30, 1999 increased 188.2% from the same period last year, from \$11.0 million to \$31.7 million. The increase primarily was attributable to the initial release of A Bug's Life (N64), Quake 2 (N64), Tarzan (Gameboy) and Tai Fu (Playstation) in international territories. Publishing PC net revenues for the quarter ended June 30, 1999 increased 77.9% from the same period last year from \$12.2 million to \$21.7 million. The increase primarily was due to the initial release of Quake 2 (Macintosh), Kingpin (Windows 95) and Heavy Gear 2 (Windows 95).

Distribution net revenues for the quarter ended June 30, 1999 decreased 19.8%, from \$38.4 million to \$30.8 million, over the same period last year. This decrease was attributable to a decrease in distribution console revenues, partially offset by an increase in distribution PC revenues. Distribution console net revenues for the quarter ended June 30, 1999 decreased 35.6% from the same period last year, from \$27.5 million to \$17.7 million. The decrease primarily was due to a lack of significant new major releases by third party publishers during the quarter. Distribution PC net revenues for the quarter ended June 30, 1999 increased 20.2% from the same period last year, from \$10.9 million to \$13.1 million. This increase primarily was due to an increase in PC titles released by third party publishers during the quarter.

Net OEM, licensing, on-line and other revenues for the ended June 30, 1999 decreased 13.6% from the same period last year, from \$4.4 million to \$3.8 million. This decrease primarily was due to the release of fewer titles during the quarter that were compatible with OEM customers' products.

COSTS AND EXPENSES

Cost of sales - product costs represented 62.0% and 64.0% of net revenues for the quarters ended June 30, 1999 and June 30, 1998, respectively. The decrease in cost of sales - product costs as a percentage of net revenues primarily was due to the decrease in distribution net revenues mix, partially offset by a higher console net revenue mix. Distribution products have a higher per unit product cost than publishing products and console products have a higher per unit product cost than PC products.

Cost of sales - royalties and software amortization expense represented 13.3% and 5.3% of net revenues for the quarters ended June 30, 1999 and June 30, 1998, respectively. The increase in cost of sales - royalties and software amortization primarily was due to changes in the Company's product mix, with an increase in the number of branded products with higher royalty obligations as compared to last year.

Product development expenses for the quarter ended June 30, 1999 decreased 26.3% from the same period last year, from \$5.7 million to \$4.2 million. The decrease in product development expense

for the quarter ended June 30, 1999 primarily was 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 Accounting Standards ("SFAS") No. 86, "Accounting for the Cost 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 quarter ended June 30, 1999 increased to 18.3% from 14.6% in the same period last year. The increase primarily was due to an increase in the effective royalty rate and development cost, capitalized under SFAS No. 86, both as discussed above.

Sales and marketing expenses for the quarter ended June 30, 1999 increased 24.8% from the same period last year, from \$13.7 million to \$17.1 million. As a percentage of net revenues however, sales and marketing expenses decreased from 22.3% to 20.4%. The increase in amount in sales and marketing primarily was due to an increase in the number of titles released during the current quarter. The decrease in sales and marketing expenses as a percentage of net revenues primarily is due to lower marketing expenses required on branded properties such as Quake 2, A Bug's Life and Tarzan.

General and administrative expenses for the quarter ended June 30, 1999 increased 4.5% from the same period last year, from \$4.5 million to \$4.7 million. As a percentage of net revenues, general and administrative expenses decreased from 7.4% in the same period last year to 5.6%. The decrease in general and administrative expenses as a percentage of net revenues primarily was due to the efficiencies gained in controlling fixed costs and the increase in net revenues.

OPERATING LOSS

Operating loss for the quarter ended June 30, 1999 increased 3.6% from the same period last year, from \$5.6 million to \$5.8 million. Publishing operating loss for the quarter ended June 30, 1999 decreased 13.5% from the same period last year, from \$5.2 million to \$4.5 million. The period over period decrease in publishing operating loss primarily was due to decreases in product development expenses, sales and marketing expenses and general and administrative expenses as a percentage of net revenues, offset by an increase in cost of sales royalties and software amortization as a percentage of net revenues. Distribution operating loss for the quarter ended June 30, 1999 increased \$0.6 million from the same period last year, from \$0.2 million to \$0.8 million. The period over period increase in distribution operating loss primarily was due to a decrease in net distribution revenues and an increase in distribution operating expenses as a percentage of net revenues.

PROVISION FOR INCOME TAXES

The income tax benefit of approximately \$2,560,000 for the quarter ended June 30, 1999 reflects the Company's estimated benefit from the Company's net loss using the estimated effective income tax rate of 35% for the fiscal year ended March 31, 2000. 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 the deferred tax assets recognized.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents decreased \$15.0 million, from \$32.8 million at March 31, 1999 to \$17.8 million at June 30, 1999. Approximately \$11.4 million in cash and cash equivalents were

used in operating activities during the quarter ended June 30, 1999. This decrease primarily was attributable to the Company's operating loss during the most recent quarter coupled with increases in inventories and other assets, and decreases in accounts payable and accrued liabilities offset partially by a decrease in accounts receivable.

In addition, approximately \$32.7 million in cash and cash equivalents were used in investing activities during the quarter ended June 30, 1999, as compared with approximately \$9.6 million during the same period in the prior year. The increase in cash used for investing activities was primarily due to the acquisition of Expert on June 22, 1999, for approximately \$20.6 million in cash, and other acquisition costs related to the transaction. Cash used in investing activities also increased due to an increase in prepaid royalties and capitalized software costs incurred by the Company as a result of its execution of new license and development agreements granting the Company long term rights to intellectual property of third parties, as well as the acquisition of publishing and distribution rights to products being developed by third parties. Capital expenditures totaled approximately \$572,000 during the quarter ended June 30, 1999.

Cash and cash equivalents provided by financing activities totaled \$30.0 million for the quarter ended June 30, 1999 versus \$0.3 million used by financing activities for the same period in the prior year. This increase included \$25 million in proceeds from a term loan and approximately \$4.6 million in proceeds from the exercise of employee stock options and approximately \$9.4 million of net borrowings under a line of credit agreement.

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.

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.

Until June 1999, the Company had a \$40.0 million revolving credit and letter of credit facility (the "Prior Facility") from a group of banks. The Prior Facility provided 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. In June 1999, the \$557,000 of borrowings outstanding under the Prior Facility were repaid in full with proceeds from the Company's New Facility, as described below.

In June 1999, the Company replaced the Prior Facility with a \$125 million revolving credit facility and term loan (the "New Facility") from a new group of banks. The New Facility provides the Company with the ability to borrow up to \$100 million and issue letters of credit up to \$80 million on a revolving basis 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 LIBOR plus 3.0%. The revolving portion of the New Facility has a borrowing rate of the banks' base rate plus 1.75% or LIBOR plus 2.75%. The Company pays a commitment fee of 1/2% based on the unused portion of the line. The Company had a balance outstanding of \$5.3 million under the line of credit portion of the New Facility at June 30, 1999.

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 June 30, 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 \$4.1 as of June 30, 1999. Letters of credit outstanding under the Netherlands Facility totaled \$6.9 million as of March 31, 1999.

In addition, the Company had a line of credit agreement (the "Asset Line") with a bank that expired in September 1998. Approximately \$617,000 and \$848,000 were outstanding on this line as of June 30, 1999 and 1998, respectively. Payments on the balance remaining are made on a quarterly basis concluding September 30, 2000.

The Company will use its working capital (\$133.0 million at June 30, 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, 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 completed 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 have tested year 2000 compliance for all 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 expected 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 systems critical 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 and all changes required to be made as a result of such testing have been completed. The costs incurred by the Company to date related to this testing and modification process are less than \$100,000, and no substantial additional costs are currently foreseen. 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.

FACTORS AFFECTING FUTURE PERFORMANCE

In connection with the Private Securities Litigation Reform Act of 1995 (the "Litigation Reform Act"), the Company has disclosed certain cautionary information to be used in connection with written materials (including this Quarterly Report on Form 10-Q) and oral statements made by or on behalf of its employees and representatives that may contain "forward-looking statements" within the meaning of the Litigation Reform Act. Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology. The listener or reader is cautioned that all forward-looking statements are necessarily speculative and there are numerous risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements. For discussion that highlights some of the more important risks identified by management, but which should not be assumed to be the only factors that could affect future performance, see the Company's Annual Report on Form 10-K which is incorporated herein by reference. The reader or listener is cautioned that the Company does not have a policy of updating or revising forward-looking statements and thus he or she should not assume that silence by management over time means that actual events are bearing out as estimated in such forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in the Registrant's Annual Report on Form 10-K for the year ended March 31, 1999. There has been no significant change in the nature or amount of market risk since year end.

PART II. - OTHER INFORMATION

ITEM 5. SHAREHOLDER PROPOSALS

Proposals of stockholders intended to be presented at the Annual Meeting of Stockholders to be held in 2000 must be received by the Company at its principal executive offices no later than April 1, 2000 for inclusion in the Company's proxy statement and form of proxy relating to that meeting. Any stockholder proposal submitted outside the processes of Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), for presentation at the Annual Meeting of Stockholders to be held in 2000 will be considered untimely for purposes of Rules 14a-4 and 14a-5 under the Exchange Act if notice of such shareholder proposal is received by the Company after June 30, 2000.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

- 6.1. Employment agreement dated July 12, 1999 between the Company and Mr. Michael Rowe.
- 6.2. Employment agreement dated July 12, 1999 between the Company and Ms. Kathy Vrabek.

(b) REPORTS ON FORM 8-K

On April 29, 1999, the Company filed a Current Report on Form 8-K reporting that the Agreement and Plan of Merger with Expert Software, Inc. was amended on April 19, 1999 to extend the outside date by which Activision may elect to pay cash consideration to the holders of shares of Expert common stock from March 25, 1999 to April 20, 1999.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 16, 1999

ACTIVISION, INC.

/s/ Barry J. Plaga

(Barry J. Plaga)

Chief Financial Officer and
Chief Accounting Officer

August 16, 1999

July 12, 1999

Mr. Michael Rowe
2717 Westbourne Place
Rowland Heights, California 91748

Dear Mr. Rowe:

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 a date which shall be no later than August 16, 1999 and shall expire on August 31, 2001, unless earlier terminated as provided below (the "initial period"). You agree to provide Employer with not less than two (2) weeks prior notice of the actual commencement date of your employment under this agreement.

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

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

2. SALARY

(a) In full consideration for all rights and services provided by you under this agreement, you shall receive a base salary at the annual rate of \$220,000 during the portion of the initial period which begins on the commencement date of your employment and ends on August 31, 2000, and a base salary at the annual rate of \$236,500 during the remainder of the initial period. If Employer exercises its option pursuant to Paragraph 1(b), your annual base salary will be \$255,000 during such option period

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

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

(d) In addition to your base salary, you shall be eligible to receive a performance based bonus targeted at 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 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 specific corporate profitability levels, operating margins and return on capital.

(e) You also will be granted, on or before August 31, 1999, options to purchase 50,000 shares of Employer's common stock. Such options 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 Executive Vice President, Human Resources. You will report directly to the President and/or Chief Operating Officer of Employer.

4. DUTIES

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

5. EXPENSES

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

current policies regarding reimbursement of such business expenses.

6. OTHER BENEFITS

You shall be entitled to those benefits which are standard for persons in similar positions with Employer, including coverage under Employer's health, life insurance and disability plans, and eligibility to participate in Employer's 401(k) plan. Nothing paid to you under any such plans and arrangements (nor any bonus or stock options which Employer's Board of Directors (or the Compensation Committee of such Board of Directors), in its sole and absolute discretion, shall provide to you) shall be deemed in lieu, or paid on account, of your base salary. You expressly agree and acknowledge that after expiration or early termination of the term of your employment under this agreement, you are entitled to no additional benefits not expressly set forth in this agreement, except as specifically provided under the benefit plans referred to above and those benefit plans in which you subsequently may become a participant, and subject in each case to the terms and conditions of each such plan. Notwithstanding anything to the contrary set forth above, you shall be entitled to receive those benefits provided by COBRA upon the expiration or early termination of the term of your employment under this agreement.

7. VACATION AND PAID HOLIDAYS

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

8. REIMBURSEMENT OF MOVING EXPENSES

Employer shall reimburse you for the reasonable expenses actually incurred by you in connection with the moving of your personal and household goods to an area which is closer to Employer's offices than your current area of residence, provided that such expenses are pre-approved in writing by Employer and you provide Employer with documentation which adequately evidences such expenses.

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 and you agree that all terms and conditions contained in such agreement, and all of your obligations and commitments provided for in such agreement, shall be deemed, and hereby are, incorporated into this agreement as if set forth in full herein. The provisions of the immediately preceding four sentences of this paragraph shall survive the expiration or earlier termination of this agreement.

10. SERVICES UNIQUE

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

11. TERMINATION

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

(b) You may terminate your employment under this agreement (i) upon Employer's material breach under this agreement, (ii) 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, (iii) 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 (iv) in the event Employer commences the production or distribution of an entertainment software or other product which is pornographic.

(c) In the event of the termination of your employment under this agreement pursuant to Paragraph 11(a) or 11(b), all obligations of 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 during the term of your employment, whether or not such person would commit any breach of his or her contract of employment

by reason of his or her leaving the service of Employer or any affiliated entity.

16. ENTIRE AGREEMENT; AMENDMENTS; WAIVER, ETC.

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

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

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

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

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

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

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

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

17. NOTICES

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

To Employer: 3100 Ocean Park Boulevard
Santa Monica, California 90405
Attention: Executive Vice President
and General Counsel

To Employee: 2717 Westbourne Place
Rowland Heights, California 91748

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
Executive Vice President
and General Counsel

By: _____
Michael Rowe

Date: _____

Date: _____

July 12, 1999

Ms. Kathy Vrabeck
4 St. Laurent
Newport Coast, California 92657

Dear Ms. Vrabeck:

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

1. TERM

(a) The initial term of your employment under this agreement shall commence on August 9, 1999 and expire on August 31, 2001, unless earlier terminated as provided below (the "initial period").

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

(c) The option granted to Employer under this agreement may be exercised by Employer by written notice given to you at least one hundred twenty (120) days prior to the expiration of the initial period.

2. SALARY

(a) In full consideration for all rights and services provided by you under this agreement, you shall receive a base salary at the annual rate of \$220,000 during the portion of the initial period commencing on August 9, 1999 and ending on August 31, 2000, and a base salary at the annual rate of \$236,500 during the remainder of the initial period. If Employer exercises its option pursuant to Paragraph 1(b), your annual base salary will be \$255,000 during such option period

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

(c) Notwithstanding anything to the contrary set forth above but subject to the right of termination granted to you pursuant to Paragraph 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 paid a signing bonus of \$25,000 by no later than August 31, 1999. You also shall be eligible to receive a performance based bonus targeted at 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 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 specific corporate and divisional sales and profitability levels.

(e) You also will be granted, on or before August 31, 1999, options to purchase 75,000 shares of Employer's common stock. Such options 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 Executive Vice President, Global Brand Management.

4. DUTIES

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

5. EXPENSES

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

current policies regarding reimbursement of such business expenses.

6. OTHER BENEFITS

You shall be entitled to those benefits which are standard for persons in similar positions with Employer, including coverage under Employer's health, life insurance and disability plans, and eligibility to participate in Employer's 401(k) plan. Nothing paid to you under any such plans and arrangements (nor any bonus or stock options which Employer's Board of Directors (or the Compensation Committee of such Board of Directors), in its sole and absolute discretion, shall provide to you) shall be deemed in lieu, or paid on account, of your base salary. You expressly agree and acknowledge that after expiration or early termination of the term of your employment under this agreement, you are entitled to no additional benefits not expressly set forth in this agreement, except as specifically provided under the benefit plans referred to above and those benefit plans in which you subsequently may become a participant, and subject in each case to the terms and conditions of each such plan. Notwithstanding anything to the contrary set forth above, you shall be entitled to receive those benefits provided by COBRA upon the expiration or early termination of the term of your employment under this agreement.

7. VACATION AND PAID HOLIDAYS

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

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

8. PROTECTION OF EMPLOYER'S INTERESTS

(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 and you agree that all terms and conditions contained in such agreement, and all of your obligations and commitments provided for in such agreement, shall be deemed, and hereby are, incorporated into this agreement as if set forth in full herein. The provisions of the immediately preceding four sentences of this paragraph shall survive the expiration or earlier termination of this agreement.

9. SERVICES UNIQUE

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

10. TERMINATION

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

(b) You may terminate your employment under this agreement (i) upon Employer's material breach under this agreement, (ii) 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, (iii) 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 (iv) in the event Employer commences the production or distribution of an entertainment software or other product which is pornographic.

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

(d) In the event of your death during the term of this agreement, this agreement shall terminate and Employer only shall be obligated to pay your estate or legal representative the salary provided for above to the extent earned by you prior to such event. Except as otherwise prohibited by applicable law (including, without limitation, pursuant to the Family

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

11. USE OF EMPLOYEE'S NAME

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

12. ASSIGNMENT

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

13. NO CONFLICT WITH PRIOR AGREEMENTS

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

14. POST-TERMINATION OBLIGATIONS

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

15. ENTIRE AGREEMENT; AMENDMENTS; WAIVER, ETC.

(a) This agreement supersedes all prior or contemporaneous agreements and statements, whether written or oral, concerning the terms of your employment with Employer, and no

amendment or modification of this agreement shall be binding against Employer unless set forth in a writing signed by Employer and delivered to you.

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

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

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

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

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

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

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

16. NOTICES

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17. HEADINGS

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

ACCEPTED AND AGREED TO:

EMPLOYER

EMPLOYEE

By:

Lawrence Goldberg
Executive Vice President
and General Counsel

By:

Kathy Vrabeck

Date:

Date:

3-MOS

MAR-31-2000	
APR-01-1999	
JUN-30-1999	
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