ACTIVISION INC /NY
Form DEF 14A
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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.   )

Filed by the Registrant ý

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Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

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ACTIVISION, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

3100 Ocean Park Boulevard
Santa Monica, California 90405

August 5, 2005

Dear Stockholder:

You are cordially invited to attend the 2005 Annual Meeting of Stockholders of Activision, Inc. The meeting will be held on Thursday, September 15, 2005, beginning at 9:00 a.m., local time, at the offices of Bryan Cave LLP, 120 Broadway, Suite 300, Santa Monica, CA 90401.

Information about the meeting and the matters on which the Stockholders will act is included in the Notice of Annual Meeting of Stockholders and proxy statement that follow. Also included is a Proxy Card and postage paid return envelope.

It is important that your shares be represented at the Annual Meeting. Whether or not you plan to attend, please complete and return your Proxy Card in the enclosed envelope as promptly as possible.

Sincerely,

Robert A. Kotick
Chairman and Chief Executive Officer

Brian G. Kelly
Co-Chairman

Ronald Doornink
President, Activision, Inc. and
Chairman,
Activision Publishing, Inc.

3100 Ocean Park Boulevard
Santa Monica, California 90405

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held September 15, 2005

To the Stockholders of Activision, Inc.:

The 2005 Annual Meeting of Stockholders of Activision, Inc. (the "Company") will be held at the offices of Bryan Cave LLP, 120 Broadway, Suite 300, Santa Monica, CA 90401, on Thursday, September 15, 2005, at 9:00 a.m., local time, for the following purposes:

1. To elect eight directors of the Company to hold office for one year terms and until their respective successors are duly elected and qualified.

2. To approve the Company's 2003 Incentive Plan.

3. To approve amendments to the Company's Second Amended and Restated 2002 Employee Stock Purchase Plan and the Company's Amended and Restated 2002 Employee Stock Purchase Plan for International Employees (collectively, the "Employee Purchase Plans") to increase by 1,500,000 the total number of shares of Company common stock reserved for issuance under the Employee Purchase Plans.

4. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The foregoing items of business are described more fully in the proxy statement accompanying this Notice.

The Board of Directors of the Company has fixed the close of business on July 18, 2005, as the record date for determining the Stockholders entitled to receive notice of, and to vote at, the Annual Meeting.

STOCKHOLDERS ARE CORDIALLY INVITED TO ATTEND THE MEETING IN PERSON.

YOUR VOTE IS IMPORTANT. ACCORDINGLY, YOU ARE URGED TO COMPLETE, SIGN, DATE AND RETURN THE ACCOMPANYING PROXY CARD PROMPTLY IN THE ENVELOPE PROVIDED, WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING. NO POSTAGE IS REQUIRED IF THE PROXY CARD IS MAILED IN THE UNITED STATES. STOCKHOLDERS WHO ARE PRESENT AT THE ANNUAL MEETING MAY WITHDRAW THEIR PROXY AND VOTE IN PERSON IF THEY SO DESIRE. IT IS IMPORTANT THAT YOUR PROXY CARD BE RETURNED PROMPTLY IN ORDER TO AVOID THE ADDITIONAL EXPENSE OF FURTHER SOLICITATION.

By Order of the Board of Directors

George L. Rose
Secretary

August 5, 2005
Santa Monica, California

3100 Ocean Park Boulevard
Santa Monica, California 90405

PROXY STATEMENT
for the Annual Meeting of Stockholders to be held on September 15, 2005

GENERAL

This proxy statement is furnished in connection with the solicitation by the Board of Directors (the "Board" or "Board of Directors") of Activision, Inc., a Delaware corporation (the "Company"), of proxies from the holders (the "Stockholders") of the Company's issued and outstanding shares of common stock, $.000001 par value per share. The proxies being solicited will be used at the Annual Meeting of Stockholders to be held on Thursday, September 15, 2005, at the offices of Bryan Cave LLP, 120 Broadway, Suite 300, Santa Monica, CA 90401, at 9:00 a.m., local time, and at any adjournment or postponement of such meeting (the "Annual Meeting"), for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. This proxy statement and enclosed proxy card are first being mailed to the Stockholders on or about August 5, 2005.

RECORD DATE AND QUORUM

Stockholders of record at the close of business on July 18, 2005 are entitled to notice of, and to vote at, the Annual Meeting. On the record date there were approximately 203,262,670 shares of common stock outstanding. Each share of common stock outstanding on the record date is entitled to one vote on each matter presented for action at the Annual Meeting. A majority of the outstanding shares of common stock must be present in person or by proxy at the Annual Meeting in order for a quorum to be present. Proxies representing abstentions and broker non-votes are included for purposes of determining whether a quorum is present at the Annual Meeting. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner.

REQUIRED VOTES

In the election of directors (Proposal 1), you may vote either "for" each nominee or withhold your vote. The eight directors are elected by a plurality of the votes cast at the Annual Meeting. "Plurality" means that the individuals who receive the largest number of votes cast are elected as directors up to the maximum number of directors to be elected at the Annual Meeting. Accordingly, shares not voted (whether by abstention, broker non-vote or otherwise) will have no effect on the voting outcome with respect to the election of directors.

Approval of the Activision 2003 Incentive Plan (Proposal 2) requires the affirmative vote of a majority of the votes cast at the Annual Meeting. Abstentions will have the same effect as votes against this proposal because they are treated as present and voting for purposes of determining the pool of voting shares, but do not contribute to the affirmative votes required to approve this proposal. Proxies that reflect broker non-votes will not be considered for the purpose of determining the votes for this proposal and will therefore have no effect on this vote.

Approval of amendments to the Company's Second Amended and Restated 2002 Employee Stock Purchase Plan and the Company's Amended and Restated 2002 Employee Stock Purchase Plan for International Employees (collectively, the "Employee Purchase Plans"), to increase by 1,500,000 the total number of shares of Company common stock reserved for issuance under the Employee Purchase Plans (Proposal 3), requires the affirmative vote of a majority of the votes cast at the Annual Meeting. Abstentions will have the same effect as votes against this proposal because they are treated as present and voting for purposes of determining the pool of voting shares, but do not contribute to the affirmative votes required to approve this proposal. Proxies that reflect broker non-votes will not be considered for the purpose of determining the votes for this proposal and will therefore have no effect on this vote.

Because the election of directors is considered a "routine" proposal, if you hold your shares in "street name" and do not give your broker or nominee instructions as to how to vote your shares with respect to this proposal, your broker or nominee will have discretionary authority to vote your shares under applicable rules. Because Proposals 2 and 3 are considered "non routine" proposals, if you hold your shares in "street name" and do not give your broker or nominee instructions as to how to vote your shares with respect to these two proposals, your broker or nominee will not have discretionary authority to vote your shares under applicable rules.

PROXIES

Whether or not you are able to attend the Annual Meeting, you are urged to complete, sign and return your proxy card. The common stock represented by all properly executed proxy cards received by the Company prior to the Annual Meeting, and not revoked prior to the Annual Meeting, will be voted at the Annual Meeting as directed in the signed proxy. If no directions are specified, such proxies shall be voted FOR all of the Proposals and in the best judgment of the proxy holders as to other matters that may properly come before the Annual Meeting. The Company does not know of any other business that may come before the Annual Meeting. Any Stockholder may revoke or change its proxy at any time before the proxy is voted at the Annual Meeting by (i) sending another properly executed proxy bearing a later date or a written notice of revocation of the proxy to the Secretary of the Company at the Company's principal executive offices, or (ii) voting in person at the Annual Meeting.

COSTS OF PROXY SOLICITATION

The Company will bear the entire cost of this proxy solicitation, including the preparation, assembly, printing and mailing of this proxy statement, the proxy and any additional solicitation materials sent by the Company to Stockholders. The Company may reimburse brokerage firms and other persons representing beneficial owners of shares of common stock for their expenses in forwarding the proxy materials to such beneficial owners. In addition, proxies may be solicited by directors, officers and regular employees of the Company, without additional compensation, personally or by telephone.

PROPOSAL 1

ELECTION OF DIRECTORS

The Company currently has nine directors. One director, Mr. Henderson, is not standing for re-election but will continue to serve until the Annual Meeting, at which time the number of directors will be reduced to eight. The nominees named below were designated by the Board for election to serve until the Company's next Annual Meeting of Stockholders and until their respective successors are duly elected and qualified.

Except where otherwise instructed, proxies solicited by this proxy statement will be voted for the election of each of the eight nominees listed below, all of whom are currently members of the Board. Each nominee has consented to be named in this proxy statement and to serve as a director if elected. However, if any nominee shall become unable to stand for election as a director at the Annual Meeting, an event not now anticipated by the Board, the proxy will be voted for a substitute designated by the Board or, if no substitute is selected by the Board prior to or at the Annual Meeting, for a motion to reduce the membership of the Board to the number of nominees available. All directors serve for one year terms. There is no family relationship between any nominee and any other nominee or executive officer of the Company.

Nominees

All of the nominees have served as directors of the Company since the last annual meeting of stockholders, except for Mr. Sarnoff who was appointed to the Board effective August 1, 2005 and will stand for election as a director for the first time at the Annual Meeting. The names of the nominees and certain information about them (including their terms of service), are set forth below:

Name of Nominee	Age	Principal Occupation	Director Since
Robert A. Kotick	42	Chairman and Chief Executive Officer of the Company	1991
Brian G. Kelly	42	Co-Chairman of the Company	1995
Ronald Doornink	51	President of the Company and Chairman of Activision Publishing, Inc.	2003
Robert J. Corti (1)	55	Chief Financial Officer, Avon Products, Inc.	2003
Barbara S. Isgur (1)(2)	63	Consultant	1991
Peter J. Nolan (2)	47	Managing Partner, Leonard Green & Partners, L.P.	2003
Robert J. Morgado (1)(2)(3)	62	Chairman, Maroley Media Group	1997
Richard Sarnoff (3)	46	Executive Vice President, Random House, Inc.	2005

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Nominating and Corporate Governance Committee.

Mr. Kotick has been a director of the Company since February 1991 and has served as Chairman and Chief Executive Officer of the Company since that time. Mr. Kotick has been a member of the board of directors of Yahoo! Inc., an Internet content and service provider, since March 11, 2003.

Mr. Kelly has been a director of the Company since July 1995. He has served as Co-Chairman of the Company since October 1998. He previously served as President of the Company from July 1997 to October 1998 and Chief Operating Officer of the Company from July 1995 to October 1998. He also served as Chief Financial Officer of the Company from February 1991 until July 1997 and Secretary of the Company from May 1991 until October 1997. Mr. Kelly holds a law degree from Fordham University School of Law School and a B.A. degree in accounting from Rutgers University and is a certified public accountant.

Mr. Doornink has served as a director of the Company since April 2003. He has been Chairman of Activision Publishing, Inc., the Company's only direct operating subsidiary and the holding company for all other active subsidiaries, since June 15, 2005 and was Chief Executive Officer of Activision Publishing, Inc. from March 28, 2002 through June 14, 2005. Mr. Doornink also serves as President of the Company. Mr. Doornink joined Activision in 1998 from ConAgra Foods, Inc. where, for three years, he served as President of the Hunt-Wesson snack food division. Prior to this, Mr. Doornink worked at the Procter & Gamble Company for 13 years. Mr. Doornink holds an M.B.A. degree from Columbia University and an undergraduate degree in economics from the Hogere Economische School of Arnhem in The Netherlands.

Mr. Corti has been a director of the Company since December 2003 and serves as chairperson of the Audit Committee. With more than 25 years experience at Avon, Mr. Corti currently serves as Avon Products Inc.'s Executive Vice President and Chief Financial Officer, a position he has held since 1998. Mr. Corti joined Avon's tax department as a tax associate in 1976 and has held progressive financial leadership positions throughout his tenure at the company. He holds a B.A. degree in Accounting from Queens College and an M.B.A. degree in Taxation from St. John's University. Mr. Corti is a certified public accountant.

Ms. Isgur has been a director of the Company since February 1991. From 1993 until 1998, she was a Senior Vice President of Stratagem, an investment banking firm specializing in the software industry. Ms. Isgur also served as President of BSI Consulting from 1990 to 1993. She served as a Vice President of Needham & Co., a high technology investment banking firm, from 1989 to 1990. During 1988, Ms. Isgur served as a Vice President at Manufacturers Hanover Securities. From 1985 to 1988, she was a principal of D.H. Brown Associates. Ms. Isgur was a Vice President and microcomputer industry analyst at Paine Webber, Incorporated from 1981 to 1985.

Mr. Nolan has been a director of the Company since December 2003. Mr. Nolan is a managing partner of Leonard Green & Partners, L.P. Prior to becoming a partner at Leonard Green & Partners in 1997, Mr. Nolan was a Managing Director and Co-Head of Donaldson, Luftkin and Jenrette's Los Angeles Investment Banking Division since 1990. Prior to that, Mr. Nolan had been a First Vice President in corporate finance at Drexel Burnham Lambert since 1986. Before 1986, Mr. Nolan was a Vice President at Prudential Securities, Inc. where he had worked from 1982 to 1986, after working as an Associate at the Manufacturers Hanover Trust. He presently serves on the boards of directors of Rand McNally & Company, Inc. and FTD Group, Inc. and on the board of managers of AsianMedia Group LLC. Mr. Nolan is a graduate of Cornell University with a B.S. degree in Agricultural Economics and Finance. He received his M.B.A. degree from Cornell University.

Mr. Morgado has been a director of the Company since February 1997 and serves as chairman of the Compensation Committee. Mr. Morgado is Chairman of Maroley Media Group, a media entertainment investment company he established in 1995. From 1985 to 1995, he was Chairman and Chief Executive Office of the Warner Music Group, Inc. Mr. Morgado serves on the Board of Directors of the Maui Arts & Cultural Center and New Milford Hospital in Connecticut. He is also a member of the Board of Managers of Nest Family Entertainment and Power

Solutions Corp. Mr. Morgado holds a B.A. degree from Chaminade University of Honolulu and an M.P.A. degree from State University of New York.

Mr. Sarnoff has been a director of the Company since August 2005. Since 1998, Mr. Sarnoff has been Executive Vice President of Random House, Inc., the world's largest consumer publisher. He has also served as President of Random House Corporate Development Group since 2000 and President of Random House Ventures, L.L.C. since 1999. Mr. Sarnoff also serves as a member of the Supervisory Board of Bertelsmann AG, the parent company of Random House, Inc. and is the elected Chairman of the Bertelsmann Management Representative Committee. Since Mr. Sarnoff joined Random House's predecessor company, Bantam Doubleday Dell in 1987, he has held various positions including Director of Marketing for the Bantam Publishing Division, Vice President of Strategic Planning, and Senior Vice President and General Manager of the Diversified Publishing Group. Mr. Sarnoff also served as Chief Financial Officer of Bantam Doubleday Dell, and then was Chief Financial Officer of Random House, Inc., after the companies were combined. Mr. Sarnoff presently serves on the board of directors of The Princeton Review, Inc., Audible, Inc. and Oak Hill Capital Fund II. He holds a B.A. degree from Princeton University and an M.B.A. degree from Harvard Business School.

Director not standing for re-election

Mr. Henderson has been a director of the Company since July 2001 and serves as chairperson of the Nominating and Corporate Governance Committee. From 1987 until July 1, 2002, Mr. Henderson was a partner in the New York City law firm of Robinson Silverman Pearce Aronsohn & Berman LLP, serving as Vice Chairman of that firm from 2000 through 2002. As a result of the merger of Robinson Silverman Pearce Aronsohn & Berman LLP with the law firm of Bryan Cave LLP effective July 1, 2002, Mr. Henderson became a partner of Bryan Cave LLP and serves on the firm's Executive Committee. Bryan Cave LLP provides legal services to the Company. Mr. Henderson graduated *cum laude* from New York University School of Law in 1979, where he was a Root-Tilden Scholar and was elected to the Order of the Coif. He received a B.A. with high honors from Auburn University in 1976. Mr. Henderson is a director of Coral World International and is a trustee of the Fifth Avenue Presbyterian Church.

The Board recommends that you vote FOR the election of each nominee for director.

BOARD OF DIRECTORS MEETINGS AND COMMITTEES

The Board met seven times during the Company's fiscal year ended March 31, 2005. All directors who served on the Board during fiscal 2005 attended all of the meetings of the Board and of each committee on which they served during 2005.

The Board currently has three committees, each of which operates under a charter approved by the Board: the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee.

The members of the Audit Committee are Mr. Corti (Chairperson), Ms. Isgur and Mr. Morgado. The Board has determined that Mr. Corti, Ms. Isgur and Mr. Morgado each meets the independence requirements and the financial literacy standards of the NASDAQ, as well as the independence requirements of the applicable rules of the Securities and Exchange Commission ("SEC"). The Board has designated Mr. Corti as the Audit Committee's "financial expert" after determining that he meets the criteria for an "audit committee financial expert" as set forth in applicable SEC rules. The primary responsibilities of the Audit Committee are (i) to appoint, set the compensation for, and oversee the Company's independent registered public accounting firm; (ii) to review the Company's general policies and procedures with respect to audits and accounting and financial controls, the scope and results of the auditing engagement and the independence of the Company's independent registered public accounting firm; and (iii) to review and pass upon the terms of any proposed related party transactions. The Audit Committee meets at least quarterly, and each regular meeting includes a discussion with representatives from its independent registered public accounting firm focusing, among other things, on key accounting principles and internal controls. The Company's Audit Committee charter can be found on the Company's web site at http://www.activision.com/corpgov. The Audit Committee met five times during the fiscal year ended March 31, 2005.

The members of the Compensation Committee are Mr. Morgado (Chairperson), Ms. Isgur and Mr. Nolan, each of whom the Board has determined meets the applicable independence requirements. The Compensation Committee reviews and makes recommendations to the Board concerning the Company's executive compensation policy. The Compensation Committee also serves as the committee to administer the Company's incentive plans and employee stock purchase plans. The Compensation Committee's charter can be found on the Company's web site at http://www.activision.com/corpgov. The Compensation Committee consults frequently with senior management and met five times during the fiscal year ended March 31, 2005.

During the fiscal year ended March 31, 2005, the members of the Nominating and Corporate Governance Committee were Messrs. Henderson (Chairperson) and Morgado, both of whom the Board has determined meet the applicable independence requirements. Effective August 1, 2005, Mr. Sarnoff was appointed to the committee. The Board has determined that Mr. Sarnoff meets the applicable independence requirements. The Board has appointed Mr. Morgado to act as Chairperson of the Committee and Mr. Sarnoff to serve as a member of the Committee following the Annual Meeting. The Nominating and Corporate Governance Committee assists the Board by recommending to the Board nominees for election to the Board, recommending to the Board director nominees for each committee and for the position of chairperson for each committee, actively seeking individuals to become board members, reviewing developments in corporate governance and recommending formal governance standards to the Board. The committee also facilitates periodic evaluations of Board and committee effectiveness. The Nominating and Corporate Governance Committee met two times during the fiscal year ended March 31, 2005. The Nominating and Corporate Governance Committee charter can be found on the Company's website at http://www.activision.com/corpgov.

CERTAIN CORPORATE GOVERNANCE PRINCIPLES AND BOARD MATTERS

The Company's Board is currently comprised of six independent directors and three management directors, and independent directors have comprised a majority of the Board for over ten years. See "Director Independence" below. Following the 2005 Annual Meeting, the Board will be comprised of five independent directors and three management directors. The Company complies with the NASDAQ's rules regarding Board composition and independent directors. The primary responsibilities of the Board are to provide oversight, strategic guidance, counseling and direction to Activision's management in the long-term interests of Activision and its Stockholders. The Board has established a regular meeting schedule calling for meetings at least every quarter. At least two of these meetings are to be held in person, and the others may be conducted by conference telephone or other similar equipment. The independent directors meet regularly in executive sessions without the management directors. Generally, written Board materials are distributed in advance of meetings and the Board schedules meetings with and presentations from senior level management on a regular basis.

Board Attendance at Annual Stockholders' Meeting

All directors are expected to attend the Company's Annual Stockholders' Meeting and all directors attended the 2004 Annual Meeting of Stockholders.

Director Independence

The Board assesses the independence of its members at least annually. The Board's assessment is based upon the listing standards of the NASDAQ, the federal securities laws and the regulations promulgated by the SEC thereunder, as well as the Company's Corporate Governance Principles and Policies.

As described elsewhere in this proxy statement, the Board has determined that all of its non-management directors are independent and that the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee are currently composed entirely of independent directors in accordance with the applicable NASDAQ listing standards, SEC rules and, in the case of the Audit Committee, Section 10A of the Securities Exchange Act of 1934. Furthermore, the Board has determined that there are no interrelationships between the Compensation Committee and the boards of directors or committees of other companies.

Code of Ethics for Senior Executive and Senior Financial Officers

The Company has a Code of Ethics for Senior Executive and Senior Financial Officers, which applies to the Company's Chairman, Co-Chairman, Chief Executive Officer, Principal Executive Officer, Chief Financial Officer and Controller and persons performing similar functions. A copy of the Company's Code of Ethics for Senior Executive and Senior Financial Officers is available both at the company's website at http://www.activision.com/corpgov and in print to any stockholder who requests it, in writing, to the Company's Corporate Secretary, Activision, Inc., 3100 Ocean Park Blvd., Santa Monica, CA 90405.

CRITERIA USED IN THE SELECTION OF DIRECTOR NOMINEES

As noted in the Board's Corporate Governance Principles and Policies, there are no specific criteria for the selection of nominees for director except to the extent required to meet applicable legal, regulatory and exchange requirements. As a general matter, the Board believes that candidates should show evidence of leadership in their particular field of business or expertise, have broad experience and the ability to exercise sound business judgment, have knowledge about the Company's business and be able to network in a way to promote the Company's interests.

In evaluating a candidate for director, the Nominating and Corporate Governance Committee considers, in addition to the criteria set forth in the Company's Corporate Governance Principles and Policies and such other criteria it determines to be appropriate under the circumstances, whether a candidate possesses the integrity, judgment, knowledge, experience, skills, expertise, and viewpoints that are likely to enhance the Board's ability to manage and direct the affairs and business of the Company, including, when applicable, to enhance the ability of committees of the Board to fulfill their duties. When considering director nominees recommended by a stockholder, the Nominating and Corporate Governance Committee may also consider the factors described under "Stockholder Recommendation of Directors" set forth below.

The Nominating and Corporate Governance Committee has the authority to retain and terminate any search firm to help it identify director candidates and has the authority to approve such search firm's fees and other retention terms. The Nominating and Corporate Governance Committee also has the authority to obtain advice and assistance from internal or external legal, accounting or other advisors. Before engaging a search firm or other external advisors, the Nominating and Corporate Governance Committee will consult with the Company's Chairman and the Co-Chairman. The Company has in the past engaged, and will continue to engage in the future, third-party search firms to assist with the identification and evaluation of potential candidates for director.

Stockholder Recommendation of Directors

The Nominating and Corporate Governance Committee will consider director candidates recommended by stockholders. In addition to all of the factors that the Committee may consider when proposing director nominees to the Board, when considering candidates submitted by stockholders, the Nominating and Corporate Governance Committee may also take into consideration the number of shares of the Company's common stock held by the recommending stockholder, the length of time that such shares have been held and the relationship, if any, between the recommending stockholder and the proposed director nominee.

To have a candidate considered by the Nominating and Corporate Governance Committee, a stockholder must submit the recommendation in writing and must include the following information:

- The name and address of the stockholder and evidence of the person's ownership of Company stock, including the number of shares beneficially owned and the length of time of ownership;

- The name of the candidate, the candidate's resume or a listing of his or her qualifications to be a director of the Company, and the person's consent to be named as a director if selected by the Nominating and Corporate Governance Committee and nominated by the Board;

- A representation that the stockholder is entitled to vote at the annual meeting at which directors will be elected, and that the stockholder intends to appear in person or by proxy at the meeting to nominate the person(s) specified in the notice; and

- A description of any arrangements or understandings between the stockholder and such nominee and any other persons (including their names), pursuant to which the nomination is made.

The stockholder recommendation and information described above must be sent to the Company's Corporate Secretary at Activision, Inc., 3100 Ocean Park Blvd., Suite 1000, Santa Monica, CA 90405, and must be received by the Corporate Secretary not less than 120 days prior to the anniversary date of the Company's most recent annual meeting of Stockholders.

STOCKHOLDER COMMUNICATIONS WITH BOARD OF DIRECTORS; BOARD ATTENDANCE AT ANNUAL MEETINGS

Stockholder Communications With Board of Directors

To communicate directly with the Board, the non-management directors, or any of the committees of the Board, individually or as a group, stockholders of record may send written correspondence addressed to such director or directors in care of Activision, Inc., 3100 Ocean Park Blvd., Suite 1000, Santa Monica, CA 90405, Attn: Corporate Secretary.

All communications received as set forth in the preceding paragraph will be opened by the Corporate Secretary for the sole purpose of determining whether the contents represent a message to one or more of our directors. Any contents that are not in the nature of advertising, promotions of a product or service, patently offensive material or matters deemed inappropriate for the Board will be forwarded promptly to the addressee. In the case of communications to the Board or any group or committee of directors, the Corporate Secretary will make sufficient copies of the contents to send to each director who is a member of the group or committee to which the envelope is addressed. Communications to the Board, the non-management directors, or to any individual director that relate to the Company's accounting, internal accounting controls, or auditing matters will be referred to the Chairperson of the Audit Committee.

CORPORATE GOVERNANCE INITIATIVES IN FISCAL YEAR 2005

Over the past year, the Board has continued to refine and improve Activision's governance. As in past years, the Nominating and Corporate Governance Committee organized an extensive detailed self-evaluation process for the Board and each committee. The Chairman of the Nominating and Corporate Governance Committee also facilitated a discussion and examination of all aspects of how the Board functions, including meeting effectiveness, director involvement and development; retention and receipt of stockholder communications; committee governance, effectiveness and composition, including Board and committee assessment of each committee; stockholder nomination of potential director candidates; Board size, composition and independence; and calendar and attendance.

The Nominating and Corporate Governance Committee has been actively engaged in a search for an additional independent director matching the criteria determined by the Board. Mr. Kotick, the Chairman and Chief Executive Officer of the Company, presented Mr. Sarnoff to the Nominating and Corporate Governance Committee as a candidate for director of the Company. After evaluating several candidates, the Nominating and Corporate Governance Committee determined Mr. Sarnoff met the criteria determined by the Board and the Board recommended his nomination to stand for election as a director of the Company. The Nominating and Corporate Governance Committee continues to search for one or more independent directors matching the criteria determined by the Board.

In addition, in light of the Board's central role in seeking out, developing and retaining a strong management team to operate the Company, the Board has been actively engaged with management in succession planning matters to ensure continuity of management. Our Compensation Committee has reinforced the need to maintain a thorough succession plan by devoting a portion of the bonuses of certain of the Company's senior executives to the development of an acceptable succession plan and the establishment of a deep and talented pool of executives to deploy within the operations of the Company. In this regard, the Company recently hired Michael Griffith to succeed Ron Doornink as President and Chief Executive Officer of Activision Publishing, Inc.

The Board strongly believes that it is important for the Company not only to comply with all current regulatory and legislative requirements, but also to adopt and abide by high standards in its governance structure and activities. Therefore, the Board will continue to review all new proposals announced by Congress, the SEC and the NASDAQ and intends to be proactive in addressing such rules and regulations. Furthermore, the Board has created a new "Secretary to the Board" position, the purpose of which is to provide assistance and advice to the Board in its activities, and has appointed Kenneth L. Henderson to this position. The Secretary to the Board shall be compensated by the Company as if he were a non-employee director.

EXECUTIVE OFFICERS

None of the executive officers of the Company is related to any other executive officer or to any director, and each holds office at the discretion of the Board and subject to the terms of each executive officer's employment agreement. As of July 20, 2005, the executive officers of the Company were as set forth below.

Executive Officers

Robert A. Kotick, 42, has been a director of the Company since 1991 and Chairman and Chief Executive Officer of the Company since February 1991. Biographical information regarding Mr. Kotick is set forth under "Proposal 1 Election of Directors Directors/Nominees."

Brian G. Kelly, 42, has been a director of the Company since 1995 and Co-Chairman of the Company since October 1998. Biographical information regarding Mr. Kelly is set forth under "Proposal 1 Election of Directors Directors/Nominees."

Ronald Doornink, *51*, has been a director of the Company since April 2003 and Chairman of Activision Publishing, Inc. since June 15, 2005. He served as President and Chief Executive Officer of Activision Publishing, Inc. from March 28, 2002 through June 14, 2005. Mr. Doornink has also served as President of the Company since 1998. Biographical information regarding Mr. Doornink is set forth under "Proposal 1 Election of Directors Directors/Nominees."

William J. Chardavoyne, 53, Executive Vice President and Chief Financial Officer since January 2000. Mr. Chardavoyne has held various financial positions with such companies as Movietown.com, MTV Networks and Sony Pictures Entertainment/Columbia TriStar. Prior to this, Mr. Chardavoyne was a principal at Ernst & Young. He holds a B.B.A. degree in accounting from Hofstra University and is a certified public accountant.

Michael J. Griffith, 48, President and Chief Executive Officer of Activision Publishing, Inc. since June 15, 2005. From 1981 to 2005 he was employed by Procter & Gamble and served in a number of executive level positions. Most recently, from 2002, he served as President of Procter & Gamble's Global Beverage Division. From 1999 through 2002, Mr. Griffith served as Vice President, Coffee Products, and from 1997 to 1999, he served as Vice President and General Manager of Fabric & Home Care NEA and Fabric & Home Care Strategic Planning Asia for Procter & Gamble Asia. He also served in Procter & Gamble's Japan division. Mr. Griffith received a B.A. degree from Albion College and an M.B.A. degree from the University of Michigan.

George L. Rose, 44, Senior Vice President, General Counsel and Secretary since April 2000. Mr. Rose joined Activision in July 1995 and has held various positions of responsibility within the Business and Legal Affairs Department. Prior to joining Activision, Mr. Rose was in private practice in Los Angeles since 1986 with Manatt, Phelps & Phillips; Christensen, Miller et al.; Korbatov, Rose & Rubenstein; and Katten, Muchin & Zavis. Mr. Rose received his law degree from Harvard Law School and completed his undergraduate education at the University of Michigan.

Michael J. Rowe, 44, Executive Vice President, Human Resources since August 1999. Mr. Rowe joined Activision from Disney Consumer Products where he served as Vice President, Human Resources North America from January 1998 to July 1999, where he led more than 50 human resource professionals. From 1987 to 1997, Mr. Rowe worked at Pepsico, Inc., where he served in various human resources leadership roles including as Vice President of the Taco Bell and Pepsi Cola divisions. Prior to this, Mr. Rowe was employed at General Motors' corporate headquarters. He holds a B.A. in economics from the University of Michigan and a Masters in industrial and labor relations from Cornell University.

Richard A. Steele, 49, President, Activision Distribution since March 1, 2002 and Executive Vice President, International Distribution since June 1999. Currently, in agreement with the Company, Mr. Steele has begun to limit his direct involvement in the day-to-day operations of the Company and those responsibilities will be

assumed by other executives at the Company. Previously, Mr. Steele served as Managing Director of the Company's European Distribution Operations from November 1997 until June 1999. From 1985 until November 1997, Mr. Steele was employed by CentreSoft (acquired by the Company in November 1997), most recently as Managing Director. Mr. Steele holds a B.A. degree in English and related literature from the University of York.

Kathy Vrabeck, 42, President, Activision Publishing division since November 2003. Ms. Vrabeck served as Executive Vice President, Global Publishing and Brand Management from September 2000 to November 2003 and Executive Vice President, Global Brand Management from August 1999 to August 2000. Prior to joining Activision, Ms. Vrabeck was Senior Vice President/General Manager with ConAgra Foods, Inc. where she led a cross-functional business team responsible for $800 million in revenue. Before this, she served in various marketing and sales roles for the Pillsbury Company and also held positions at Quaker Oats Company and Eli Lilly & Company. Ms. Vrabeck received a B.A. degree from DePauw University and an M.B.A. degree from Indiana University.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information, as of June 20, 2005, with respect to the beneficial ownership of the Company's common stock by: (i) each Stockholder known by the Company to be the beneficial owner of more than 5% of the Company's common stock; (ii) each director and each nominee for election as director; (iii) each executive officer named in the Summary Compensation Table below; and (iv) all executive officers and directors as a group. Unless otherwise noted, the persons named in the table have sole voting and investment power with respect to all shares shown as beneficially owned by him or her.

	Shares Beneficially Owned		
Beneficial Owner	**Number Owned**	**Right to Acquire (1)**	**Percent of Outstanding Shares (2)**
Robert A. Kotick (3)	3,897,246	5,827,075	4.66%
Brian G. Kelly (4)	1,221,741	5,561,202	3.25%
Ronald Doornink	131,135	1,986,598	1.03%
Michael Griffith (5)	116,822		*
William J. Chardavoyne	49,872	6,667	*
Michael J. Rowe	9,000	183,501	*
Richard A. Steele	286,814	341,389	*
Kathy Vrabeck (6)	20,386	15,000	*
Robert J. Corti, director		49,167	*
Kenneth L. Henderson, director	4,916	255,417	*
Barbara S. Isgur, director	3,000	133,750	*
Robert J. Morgado, director	45,500	309,588	*
Peter J. Nolan, director	35,000	49,167	*
Richard Sarnoff, director			*
Goldman Sachs Asset Management L.P. (7)	11,982,766		5.90%
Mellon Financial Corporation (8)	10,982,869		5.41%
Ziff Asset Management L.P. (9)	14,720,000		7.25%
All directors and executive officers as a group (14 persons)	5,821,432	14,718,521	9.44%

*Percent of class less than 1%.

(1)
Shares of common stock that can be acquired within 60 days through the exercise of options or warrants.

(2)
The outstanding shares was computed based on 202,958,389 shares of the Company's common stock outstanding as of June 20, 2005 and, (i) in each individual's case, the number of shares of the Company's common stock issuable upon the exercise of the warrants or options exercisable within 60 days held by such individual, but does not include the number of shares of common stock issuable upon the exercise of any other outstanding director or employee warrants or options and, (ii) in the case of all directors and executive officers as a Group, the number of shares of the Company's common stock issuable upon the exercise of warrants or options exercisable within 60 days held by all such individuals.

(3)
Includes 84,332 shares owned directly by Delmonte Investments, L.L.C., of which Mr. Kotick is a controlling person. Does not include options to purchase 285,741 shares of common stock transferred by Mr. Kotick to an irrevocable trust for the benefit of his minor children with respect to which Mr. Kotick disclaims beneficial ownership.

(4)

Includes 84,332 shares owned directly by Delmonte Investments, L.L.C., of which Mr. Kelly is a controlling person.

(5) Shares owned represents a restricted stock grant that vests ratably over three years commencing on June 30, 2008.

(6) Includes 9,000 shares owned by Ms. Vrabeck's spouse with respect to which Ms. Vrabeck disclaims beneficial ownership.

(7) Goldman Sachs Asset Management L.P. has sole voting power over 8,225,664 shares of common stock and sole dispositive power over 8,987,075 shares of common stock. This information is based upon a Schedule 13G publicly filed by Goldman Sachs on February 9, 2005. The address for Goldman Sachs Asset Management is 32 Old Slip, New York, New York 10005.

(8) Mellon Financial Corporation has sole voting power over 4,253,430 shares of common stock, shared voting power over 90,700 shares of common stock, sole dispositive power over 8,121,112 shares of common stock, and shared dispositive power over 90,700 shares of common stock. This information is based upon a Schedule 13G/A publicly filed by Mellon Financial Corporation on February 11, 2005. The address for Mellon Financial Corporation is One Mellon Center, Pittsburgh, Pennsylvania 15258.

(9) Ziff Asset Management L.P. has shared voting power and shared dispositive power over 11,040,000 shares of common stock. This information is based upon a Schedule 13G/A publicly filed by Ziff Asset Management on February 3, 2005. The address for Ziff Asset Management is 283 Greenwich Avenue, Greenwich, Connecticut 06830.

COMMON SHARE PRICE PERFORMANCE GRAPH

The graph below compares the Company's cumulative total stockholder return on its common stock for the period from March 31, 2000 through March 31, 2005, with the total cumulative return of the NASDAQ Market Index and RDG Technology Composite Index over the same period.

The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of the Company's common stock.

The graph below shall not be deemed to be incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

* $100 invested on 3/31/00 in stock or index including reinvestment of dividends. Fiscal year ending March 31.

COMPENSATION

Compensation Committee Interlocks and Insider Participation

The Compensation Committee currently consists of Mr. Morgado (Chairman), Ms. Isgur and Mr. Nolan, none of whom is, or has been, an officer or employee of the Company. None of the members of the Compensation Committee during fiscal 2005 (i) had any relationships requiring disclosure by the Company under the SEC's rules requiring disclosure of related party transactions, and (ii) was an executive officer of a company of which an executive officer of the Company is a director. The Board has determined that each of Mr. Morgado, Ms. Isgur and Mr. Nolan meets the applicable definition of "independent" in the current rules of the NASDAQ Stock Market.

Director Compensation

General. Non-employee directors of Activision, Inc. receive a mix of compensation, which includes an annual cash retainer, stock options and specific fees for services rendered. These specific fees are identified and listed in the table below. Messrs. Kotick, Kelly and Doornink are officers and employees of the Company and do not receive any additional compensation for their Board activities.

As noted in the tabular summary below, the Board has modified the compensation to be paid to non-employee directors, effective at the 2005 Annual Meeting. Non-employee directors elected at the meeting will receive the compensation listed in the table below under the heading "Comparative Summary of Director Compensation 2004-2005". In addition to the compensation listed in the table, non-employee directors are reimbursed for expenses incurred in attending Board, committee and stockholder meetings.

The Company believes that directors should be familiar with the Company's intellectual properties and those of its competitors. From time to time, the Company provides directors with representative samples of the Company's software, third-party console platforms and competitive products. The Board and the Compensation Committee believe that receiving these products serve a business purpose by familiarizing directors with the Company's products, its intellectual properties, and the current competitive marketplace for videogame software.

The Company maintains a directors' and officers' insurance policy which insures the directors of the Company from any claim arising out of an alleged wrongful act by such persons in their capacity as directors of the Company. In addition, the Company has entered into indemnification agreements with its directors containing provisions which are in some respects broader than the specific indemnification provisions contained in the Delaware General Corporation Law. The indemnification agreements require the Company, among other things, to indemnify such directors against certain liabilities that may arise by reason of their status or service as directors, provided that the indemnitee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company (and with respect to any criminal action, suit or proceeding, provided further that he or she had no reasonable cause to believe that his or her conduct was unlawful). The indemnification agreements also require the Company to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified. The Company believes that these agreements are necessary to attract and retain qualified persons as directors.

The 2005 Compensation Plan. As part of its annual review of directors' compensation, the Board unanimously approved the recommendations jointly made by its Nominating and Corporate Governance Committee and its Compensation Committee to adjust the compensation paid to the Company's non-employee directors. These modifications take effect at the conclusion of the 2005 Annual Stockholders Meeting. The Board believes that the compensation changes are consistent with the increasing responsibilities placed on directors by the Company and because of the operations of current law, administrative regulations and NASDAQ rules. The compensation changes also reflect the unique responsibilities of certain non-employee directors in conjunction with their work on the Audit, Nominating and Corporate Governance and Compensation Committees.

Alignment with Stockholders' Interests. Activision's compensation plan for non-employee directors is closely linked with its stockholders' interests through the grant of stock options and the promulgation of stock ownership and retention guidelines. Upon the earlier of a non-employee director's initial appointment or election to the Board, such director receives a grant of options to purchase 30,000 shares of Company common stock; at each subsequent re-election, a non-employee director receives options to purchase 12,500 shares of Company common stock for service to the Company. These options vest ratably every six months over a two-year period. These are only guidelines, and the Board retains discretion to make grants outside of such guidelines as it deems appropriate and to otherwise change the guidelines from time to time.

In addition to the option programs, each non-employee director is required, within four years of such non-employee director's first election to the Board, to own shares of Company common stock having a value of at least three years' annual retainer for service on the Board. Non-employee directors are subject to these guidelines for as long as they continue to serve on the Board. In the event that any director is not re-elected to the Board or voluntarily retires from the Board, such director would continue to be governed by the guidelines for a period of six months after he or she leaves the Board. The Board's policies in this area are intended to foster the identity of interests between service as a director of Activision and the enhancement of stockholder value.

Comparative Summary of Director Compensation 2004-2005. Set forth below is a table summarizing cash and equity compensation that the Company pays to its non-employee directors.

	Current	Effective September, 2005
Cash Compensation for Directors		
Annual Retainer	$ 30,000	$ 45,000
For Each Board Meeting	$ 1,200	$ 1,500
For Each Telephone Board Meeting	$ 950	$ 1,000
For Each Committee Meeting	$ 1,000	$ 1,000
For Each Telephone Committee Meeting	$ 750	$ 750
For Serving as Chairman of the Audit Committee	$ 10,000	$ 20,000
For Serving as Chairman of the Compensation Committee	$ 5,000	$ 20,000
For Serving as Chairman of the Nominating and Corporate Governance Committee	$ 5,000	$ 10,000
Per Day for Special Assignments	$ 1,000	$ 1,000
For Serving as an Audit Committee Member	$ 5,000	$ 5,000
Equity Compensation for Directors		
Annual Stock Option Grant upon Re-election to the Board	12,500	12,500
Initial Stock Option Grant upon Appointment or Election to the Board	30,000	30,000

New Plan Benefits As discussed above, our non-employee directors are entitled to receive an annual grant of 12,500 options. The following table sets forth the number of shares of our common stock underlying options that will be automatically awarded to our non-employee directors assuming that all nominees are re-elected at the Annual Meeting.

New Plan Benefits Table
2003 Equity Incentive Plan

Name and Position (1)	Dollar Value ($)	Shares
All Current Directors Who Are Not Executive Officers, as a Group (5 Persons) (2)	(3)	62,500

(1) Because awards that might be made under the Plan to our executive officers and non-executive employees will depend on the discretionary actions of the Compensation Committee and the fair market value of our common stock at various future dates, it is not currently possible to determine the benefits that might be received by these persons.

(2) Assumes all five of our non-employee directors who are nominated for re-election are re-elected at the Annual Meeting.

(3) The dollar value of awards is based on the fair market value of our common stock on the date of grant, and is not determinable as of the mailing date of this proxy statement.

Compensation Committee Report on Executive Compensation

The Compensation Committee is responsible for administering the Company's stock option and incentive plans and the Company's employee stock purchase plans. In September 2002, the Board adopted a formal charter that describes these responsibilities and provides that all members of the Compensation Committee must be independent, as defined in applicable regulations and listing standards.

In addition to its administration of the Company's equity incentive plans, the Compensation Committee reviews and approves the compensation policies that are specifically applicable to senior executives of the Company and establishes the compensation guidelines which govern all other Company employees. Towards this end, the Compensation Committee is responsible for:

- reviewing and approving the compensation of the following senior officers of the Company: the Chairman, the Co-Chairman, the President of Activision Publishing, Inc, and all Company executives that report directly to the President of Activision Publishing, Inc.;
- exercising oversight of compensation practices that affect all employees; and
- setting the annual guidelines for salary administration, merit awards and option grants.

The Compensation Committee reports regularly to the Board on its actions and recommendations.

Activision's Compensation Philosophy and Objectives

The Compensation Committee is guided by the following key principles in determining the compensation programs for the Company's executives and other employees:

Competitive Requirements. Compensation should reflect the competitive marketplace so that the Company can attract, retain and motivate talented individuals. Because the Company has grown rapidly in size and reputation and now has sizeable staffing needs, the Compensation Committee is acutely sensitive to marketplace conditions as it shapes compensation policies to support the Company's business expansion strategy.

Alignment with Stockholders' Interests. Compensation should be substantially aligned with the interests of the Company's stockholders. A significant component of executive compensation should be tied to the Company's success in delivering stockholder value. In accord with this objective, the Committee uses (a) stock options and (b) annual bonus metrics that heavily value delivery of and improvement in operating earnings in determining the bonus opportunity for senior executives. The Committee may in the future use other forms of long-term equity compensation in lieu of or in addition to stock options.

Accountability for Achieving Clearly Defined Business Goals. Executives should be held accountable for achieving clearly defined business performance goals. The Company's compensation plans annually measure the performance of executives in reaching or exceeding these goals. These goals may be expressed in financial terms and/or other objectively framed metrics that are communicated throughout the organization as a guide to performance expectations.

Accountability for Achieving Individual Goals. In addition to business performance goals, executive compensation should also encourage and reward individual leadership in areas that are more qualitative in nature. Individualized goals are intended to foster professionalism, build loyalty and respect for the Company and its products, and encourage creative leadership. These goals may be defined, for example, as improvements to the Company's business reputation, implementation of constructive management succession plans throughout the Company, enhancement of professional development, improvements to the Company's internal and external communications, demonstration of industry leadership in terms of the quality, creativity and acclaim of its products.

Exercise of Independence. The Compensation Committee is composed of independent directors, who rely on both internally generated information as well as externally developed data sources and expertise. The Compensation Committee believes that effective oversight in this area is best achieved by engaging, on a collaborative basis, the Company's senior management in formulating compensation plans. The Compensation Committee ultimately exercises its independent judgment on how to apply the guiding philosophical principles and objectives in developing, establishing and, most importantly, balancing the elements of the Company's executive compensation program.

Elements of Activision's Compensation Program

The Company's executive compensation program incorporates the following components:

An annual base salary. The annual base salary of senior officers of the Corporation is principally dictated by contractual arrangements that the Compensation Committee approved. The Compensation Committee examines peer companies and uses annual salary surveys to assure that the Company's base salaries are set at appropriate levels to reward, retain and attract talented individuals.

A performance-based annual bonus. Annual bonuses are based on the achievement of financial, business and individual goals that are established at the start of each fiscal year.

Long-term incentive and equity grants. Generally, these awards consist of stock options that are intended (a) to retain talented employees and (b) to tie a significant component of compensation to a longer-term reward system that is also aligned with our stockholders' interests. For senior executives, grants are normally awarded as part of a contractual agreement that are intended to secure long-term commitments to the Company's multi-year business growth strategy. For other talented individuals, the Committee fixes annual grants by setting parameters that are based on an individual's position within the organization.

Each year, the Compensation Committee reviews the mix of these elements as part of its oversight of the Company's compensation program for executives. Over the last several years the Company has grown dramatically in size, profitability and cash flow. As a result, the mix has changed to better reflect the Company's current organizational maturity, its position in the video game sector and the competitive requirements of the marketplace. Although stock option grants are and will continue to be a powerful compensation tool, the Company has gradually shifted the balance of its compensation from equity awards towards performance-based cash compensation rewards. Because the latter prominently weighs earnings per share results and other financial metrics, the alignment between our executives' interests and our stockholders' interests is effectively maintained.

Review of Fiscal Year 2005

As in prior years, for fiscal year 2005, the Compensation Committee reviewed the compensation for the Company's senior executives against the compensation provided to executives in comparable positions at peer companies. The Committee believes that this analysis assists the Compensation Committee and the Board in validating current compensation policies that promote the Company's executive retention goals, ensure the proper motivation of the senior leadership of the Company, and aid recruitment of talented individuals. As the Company pursues an aggressive business strategy, its reputation as a leader in the industry, combined with favorable notice of a healthy work environment and a highly motivated work force, are critical foundations for attracting the talent essential to achieving the Company's ambitious growth plans.

In evaluating the Company's performance and each individual executive's fiscal 2005 performance, the Compensation Committee determined that the Company and its executives generally met or exceeded the goals that were established for the year. For fiscal year 2005, Activision reported consolidated net revenues of $1,406 million, an increase of $458 million over the results reported for year ended March 31, 2004, or an amount that is 48% higher than the previous year. The consolidated operating income for fiscal year 2005 was $184.6 million, an increase of $74.8 million over fiscal year 2004, or a 68% year over year increase. At the same time, the Company generated significant positive cash flow from operations and financing activities. Its balance sheet indicates a healthy liquidity and cash and short-term investments balance of $841 million, which represents a $253 million increase from the year ended March 31, 2004.

These results were the key indices in the Compensation Committee's consideration of fiscal 2005 executive bonuses. In addition, in establishing bonus payments for the executive officers, these substantial financial results were also reviewed against the backdrop of the Company's other significant achievement during fiscal 2005. For example:

- The Company moved forward on a comprehensive succession plan for executive leadership, including documented objectives, procedures and processes.

- The Company strengthened and broadened its franchises and intellectual property base, both of which are the enablers for future streams of revenues.

- The Company has added to its studio strength and diversity through deliberate acquisitions and through the renewal of its relationships with key developers.

The Company has expanded its operating margins, which is a key to future results.

The Company has made significant improvements to its internal and external communications, which are intended to enhance collaborative understanding of its business strategies and to build stockholder value.

The Company has continued to add asset value as evidenced by increased earnings per share (EPS), a strong balance sheet, improved capital reserves, expanded shareholder equity and improved business reputation.

The Annual Bonus for the Chairman and Co-Chairman

The Compensation Committee believes that the Chairman and Co-Chairman's annual bonus should be clearly linked to the Company's financial performance. In determining and approving Messrs. Kotick and Kelly's fiscal year 2005 bonus, the Committee used a formula that defined the target bonus by specific objectives. The formula is heavily weighted towards the creation of stockholder value, with over 70% of the bonus opportunity dependent upon a significant improvement in the earnings per share (EPS) and the optimization of the Company's capital and cash position. The remainder of Messrs. Kotick and Kelly's bonus opportunity was determined by performances related to individual goals, including succession planning; improving Board processes; expanding franchise development; defining, communicating and executing a business growth strategy; and improving the reputation of the Company among investors and other interested parties. These measurements, when added to the EPS component, generated a bonus that equated to 90% of the bonus opportunity that was identified at the beginning of the year.

As has been the case in previous years, the Compensation Committee determined that Mr. Kotick and Mr. Kelly will receive their bonuses in stock option equivalents in place of a current cash payment. For 2005, Messrs. Kotick and Kelly have each been awarded 254,765 options, based on a Black Scholes value of the Company's options as calculated by the Compensation Committee's outside experts. This value is then reduced by 20%, representing the discounted value based on the fact that the granted options are restricted from being exercised for 24 months even though Messrs. Kotick's and Kelly's annual bonuses were currently earned.

Annual Bonus for Other Senior Executives

The Compensation Committee established the fiscal year 2005 bonuses for other senior executives in a similar manner as for the Chairman and Co-Chairman. The Compensation Committee reviewed the financial performance of the Company and weighed the individual performance of each executive against pre-established goals for the year. In light of their and the Company's achievements, the Company's senior executives were awarded fiscal year 2005 annual cash bonuses, as set forth in the Summary Compensation Table included in this proxy statement. As a group, the bonuses reflect the overall impressive financial performance of the Company for fiscal year 2005 and the significant individual accomplishments of each executive during fiscal year 2005.

2005 Stock Based Grants

Stock option grants continue to be an important aspect of compensation because they align the interests of the recipient with stockholder interest. The Compensation Committee also believes that, properly structured, options place a premium on loyalty to the Company, foster the retention of key executives and emphasize a long-term perspective. However, in recent years, the amounts awarded have been gradually reduced to modify their dilutive characteristics and to seek to comport with Institutional Shareholder Service's guidelines and to adjust for potential future stock option expensing requirements. For fiscal year 2005, the Compensation Committee limited aggregate grants to no more than three percent of the total shares outstanding. This guideline has been in place for the last two fiscal years. As a result, the Company has significantly reduced the annual dilutive impact of its stock-based compensation program and, combined with its enhanced operating position, is now better positioned to implement stock option expensing requirements, as and when required.

Stock Ownership and Retention Guidelines

Recently, the Compensation Committee recommended and the Board adopted new guidelines with respect to stock ownership by newly hired senior executives. Every newly hired senior executive must acquire and maintain shares of Activision stock or stock options, that have total value of at least 1.5 times the annual base salary of such executive. For newly appointed officers of the Company, the guidelines provide a two-year period to reach the minimum stock ownership requirement.

Section 162(m) Considerations

In structuring compensation programs and in awarding bonuses, the Compensation Committee considers the potential impact of Section 162(m) of the Code, adopted under the Revenue Reconciliation Act of 1993. This section disallows a tax deduction for any publicly held corporation for individual compensation exceeding $1,000,000 in any taxable year paid to its chief executive officer or any of its four other highest paid officers unless (i) the compensation is payable solely on account of the attainment of performance goals, (ii) the performance goals are determined by a committee of two or more outside directors, (iii) the material terms under which compensation is to be paid are disclosed to and approved by stockholders, and (iv) the committee certifies that the performance goals were met.

As discussed above, the Company's executive compensation program incorporates three components: an annual base salary, a performance-based annual bonus, and long-term incentive and equity grants. None of the Company's executives' salaries exceed $1.0 million, and the Company may therefore deduct the full amount of each executive's salary in any taxable year. With respect to the performance-based annual bonuses, the Compensation Committee has structured annual cash bonuses to executives so that they are based on the achievement of annual performance goals in order to qualify for tax deductibility without regard to the Section 162(m) limitations. With respect to long-term incentive and equity grants, the Compensation Committee has determined, in light of the competitive environment in which the Company operates, that stock options or other equity-based compensation are necessary to attract and retain the best executives, whether or not the option exercises result in expenses that are fully deductible under Section 162(m). **Nevertheless, in recognition of the costs to the Company arising from its inability to deduct fully the value of long-term incentive and equity grants, the Compensation Committee has recommended to the Board that the Company seek stockholder approval of the Company's 2003 Incentive Plan so that future grants under the 2003 Incentive Plan will not be subject to the deductibility limits under Section 162(m).**

COMPENSATION COMMITTEE
Robert J. Morgado, Chairperson
Barbara S. Isgur
Peter J. Nolan

COMPENSATION OF EXECUTIVES

The following table sets forth certain information with respect to the annual and long-term compensation for services in all capacities to the Company for the fiscal years ended March 31, 2005, 2004 and 2003, of those persons who were at March 31, 2005 (i) the Chief Executive Officers of the Company and of Activision Publishing, Inc., the Company's operating subsidiary and (ii) the Company's four other most highly compensated executive officers whose salary and bonus exceeded $100,000. The table also includes information with regard to compensation of the Co-Chairman due to his length of service with the Company and senior level position. All such persons are collectively referred to as the "Named Executives."

Summary Compensation Table

		Annual Compensation			Long-Term Compensation
Name and Principal Position	**Fiscal Year**	**Salary ($)**	**Bonus ($)**	**Other Compensation ($)**	**Securities Underlying Options (#) (17)**
Robert A. Kotick	2005	494,134(1)	(4)	7,778(9)	254,765
Chairman, Chief Executive	2004	474,169(2)	(5)	9,076	956,426
Officer and Director	2003	408,375(3)	(6)	4,380	1,356,000
Brian G. Kelly					
Co-Chairman and Director					