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ACTIVISION INC /NY
Form S-3
May 31, 2002

As filed with the Securities and Exchange Commission on May 31, 2002.
Registration No. 333-_____

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

ACTIVISION, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

95-4803544
(I.R.S. Employer
Identification No.)

3100 Ocean Park Boulevard
Santa Monica, California 90405
(310) 255-2000

(Address, including zip code, and telephone number, including area code,
of registrant's principal executive offices)

Ronald Doornink
President

Activision, Inc.
3100 Ocean Park Boulevard
Santa Monica, California 90405
(310) 255-2000

(Name, address, including zip code, and telephone number,
including area code, of agent for service)

Copies To:

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

Approximate date of commencement of proposed sale to the public:
From time to time after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered
pursuant to dividend or interest reinvestment plans, please check the following
box: []

If any of the securities being registered on this Form are to be offered on
a delayed or continuous basis pursuant to Rule 415 under the Securities Act of
1933, other than securities offered only in connection with dividend or interest
reinvestment plans, check the following box: [X]

If this Form is filed to register additional securities for an offering
pursuant to Rule 462(b) under the Securities Act, please check the following box

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and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: []

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: []

CALCULATION OF REGISTRATION FEE

Title of Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share(1)
Common Stock, \$.000001 par value(2)	492,636 shares	\$32.00

Proposed Maximum Aggregate Offering Price(2) (3)	Amount of Registration Fee
\$15,764,352	\$1,450(3)

- (1) Estimated solely for purposes of calculating the registration fee pursuant to the provisions of Rule 457(c) under the Securities Act of 1933, as amended, based on the average of the reported last high and low sales prices on the Nasdaq National Market on May 29, 2002.
- (2) Each share of common stock includes a right to purchase one one-hundredth of a share of Series A Junior Preferred Stock pursuant to rights agreement between the registrant and Continental Stock Transfer & Trust Company, as rights agent.
- (3) Pursuant to Rule 457(p) of the Securities Act of 1933, as amended, the registration fee of \$1,450 is offset against the \$57,141 registration fee (of which \$16,415 remains) that was previously paid to the Commission relating to 6,900,000 shares of Common Stock previously registered by the registrant pursuant to its Registration Statement on Form S-3 filed with the Commission on July 30, 2001 (File No. 333-66280), which Registration Statement was withdrawn on October 22, 2001, prior to the issuance of any such shares.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

SUBJECT TO COMPLETION
PRELIMINARY PROSPECTUS DATED MAY 31, 2002

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492,636 Shares

ACTIVISION, INC.

Common Stock

The stockholders of Activision, Inc. listed in this prospectus under the section entitled "Selling Stockholders" are offering and selling up to 492,636 shares of our common stock under this prospectus. The shares of common stock being offered hereby (i) were issued by us to the principal shareholders of Z-Axis, Ltd., a Nevada based console software development company, in connection with our acquisition of Z-Axis on May 20, 2002 and (ii) will be issued by us to id Software, Inc. upon exercise of a warrant to purchase 150,000 shares of our common stock granted by us to id on April 1, 2002 pursuant to a software license agreement.

We will not receive any of the proceeds from the sale of shares being offered by the selling stockholders.

Our common stock is traded on the Nasdaq National Market under the symbol "ATVI." On May 30, 2002, the closing sale price of our common stock as reported by Nasdaq was \$33.20 per share.

Our principal executive offices are located at 3100 Ocean Park Boulevard, Santa Monica, California 90405, and our telephone number is (310) 255-2000.

No underwriting is being used in connection with this offering of common stock. The shares of common stock are being offered without underwriting discounts. The expenses of this registration will be paid by us. Normal brokerage commissions, discounts and fees will be payable by the selling stockholders.

Investing in our common stock involves risks that are described in the "Risk Factors" section beginning on page 2 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

The date of this Prospectus is _____, 2002.

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. These securities are not being offered for sale in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

Information contained in our web site does not constitute part of this document.

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FORWARD-LOOKING STATEMENTS

We make statements in this prospectus and the documents incorporated by reference that are considered forward-looking statements under the federal securities laws. Such forward-looking statements are based on the beliefs of our management as well as assumptions made by and information currently available to them. The words "anticipate," "believe," "may," "estimate," "expect," and similar expressions, and variations of such terms or the negative of such terms, are intended to identify such forward-looking statements.

All forward-looking statements are subject to certain risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results, performance or achievements could differ materially from those expressed in, or implied by, any such forward-looking statements. Important factors that could cause or contribute to such difference include those discussed under "Risk Factors" in this prospectus and under "Business--Factors Affecting Future Performance" in

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our Annual Report on Form 10-K for the fiscal year ended March 31, 2001. You should not place undue reliance on such forward-looking statements, which speak only as of their dates. We do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should carefully consider the information set forth under the heading "Risk Factors."

RISK FACTORS

You should carefully consider the risks described below before investing in our common stock. The occurrence of any of the following risks could harm our business and our prospects. In that event, our business may be negatively affected, the price of our stock may decline and you may lose part or all of your investment.

We depend on a relatively small number of brands for a significant portion of our revenues and profits.

A significant portion of our revenues are derived from products based on a relatively small number of popular brands each year. In addition, many of these products have substantial production or acquisition costs and marketing budgets. In fiscal 2001, 49% of our worldwide net publishing revenues (37% of consolidated net revenues) was derived from two brands, one of which accounted for 39% and the other of which accounted for 10% of worldwide net publishing revenues (29% and 8%, respectively, of consolidated net revenues). In fiscal 2000, two brands accounted for 34% of our worldwide net publishing revenues (24% of consolidated net revenues), one of which accounted for 19%, and the other of which accounted for 15% of worldwide net publishing revenues (13% and 11%, respectively, of consolidated net revenues). We expect that a limited number of popular brands will continue to produce a disproportionately large amount of our revenues. Due to this dependence on a limited number of brands, the failure of one or more products based on these brands to achieve anticipated results may significantly harm our business and financial results.

Our future success depends on our ability to release popular products.

The life of any one game product is relatively short, in many cases less than one year. It is therefore important for us to be able to continue to develop many high quality new products that are popularly received. If we are unable to do this, our business and financial results may be significantly harmed.

We focus our development and publishing activities principally on products that are, or have the potential to become, franchise brand properties. Many of these products are based on intellectual property and other character or story rights acquired or licensed from third parties. The license and distribution agreements are limited in scope and time, and we may not be able to renew key licenses when they expire or to include new products in existing licenses. The loss of a significant number of our intellectual property licenses or of our relationships with licensors could have a material adverse effect on our ability to develop new products and therefore on our business and financial results.

The current transition in console platforms has a material impact on the market for interactive entertainment software.

When new console platforms are announced or introduced into the market, consumers typically reduce their purchases of game console entertainment software products for current console platforms in anticipation of new platforms becoming available. During these periods, sales of our game console entertainment software products can be expected to slow down or even decline

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until new platforms have been introduced and have achieved wide consumer acceptance. We are currently experiencing such a transition period. Each of the three current principal hardware producers recently launched a new platform. Sony made the first shipments of its PlayStation 2 console system in North America and Europe in the fourth quarter of calendar year 2000. During that quarter, Sony's manufacturing shortages resulted in significant shipment delays of PlayStation 2 units in North America and Europe. Microsoft made the first shipments of its Xbox console system in North America in November 2001 and

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in Europe and Japan in the first quarter of calendar year 2002. Nintendo made the first shipments of its Nintendo GameCube console system in North America in November and in Europe in May 2002. Additionally, in June 2001, Nintendo launched its Game Boy Advance hand held device. Shortages of these platforms or lack of consumer acceptance could adversely affect our sales of products for these platforms. Current sales of some of our products for the existing PlayStation and Nintendo 64 platforms have been negatively affected by the new platform transition.

We must make significant expenditures to develop products for new platforms which may not be successful or released when anticipated.

The interactive entertainment software industry is subject to rapid technological change. New technologies could render our current products or products in development obsolete or unmarketable. We must continually anticipate and assess the emergence and market acceptance of new interactive entertainment software platforms well in advance of the time the platform is introduced to consumers. New platforms have historically required the development of new software and also have the effect of undermining demand for products based on older technologies. Because product development cycles are difficult to predict, we must make substantial product development and other investments in a particular platform well in advance of introduction of the platform. If the platforms for which we develop new software products or modify existing products are not released on a timely basis or do not attain significant market penetration, or if we develop products for a delayed or unsuccessful platform, we may not be able to recover in revenues our development costs which could be significant and our business and financial results could be significantly harmed. An announcement by Sega Corporation that it has discontinued its Dreamcast platform shows that even experienced hardware manufacturers are not immune to failure.

We are exposed to seasonality in the purchases of our products.

The interactive entertainment software industry is highly seasonal, with the highest levels of consumer demand occurring during the year-end holiday buying season. As a result, our net revenues, gross profits and operating income have historically been highest during the second half of the year. Additionally, in a platform transition period such as the one taking place now, sales of game console software products can be significantly affected by the timeliness of introduction of game console platforms by the manufacturers of those platforms, such as Sony, Microsoft and Nintendo. The timing of hardware platform introduction is also often tied to holidays and is not within our control. Further, delays in development, licensor approvals or manufacturing can also affect the timing of the release of our products, causing us to miss key selling periods such as the year-end holiday buying season.

We depend on skilled personnel.

Our success depends to a significant extent on our ability to identify, hire and retain skilled personnel. The software industry is characterized by a high level of employee mobility and aggressive recruiting among competitors for

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personnel with technical, marketing, sales, product development and management skills. We may not be able to attract and retain skilled personnel or may incur significant costs in order to do so. If we are unable to attract additional qualified employees or retain the services of key personnel, our business and financial results could be negatively impacted.

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We depend on Sony and Nintendo for the manufacture of products that we develop for their hardware platforms.

Generally, when we develop interactive entertainment software products for hardware platforms offered by Sony or Nintendo, the products are manufactured exclusively by that hardware manufacturer. Our hardware platform licenses with Sony and Nintendo provide that the manufacturer may change prices for the manufacturing of products. In addition, these agreements include other provisions such as approval rights of all products and related promotional materials that give the manufacturer substantial control over our costs and the release of new titles. Since each of the manufacturers is also a publisher of games for its own hardware platforms and manufactures products for all of its other licensees, a manufacturer may give priority to its own products or those of our competitors in the event of insufficient manufacturing capacity. Our business and financial results could be materially harmed by unanticipated delays in the manufacturing and delivery of our products by Sony or Nintendo. In addition, our business and financial results could be materially harmed if Sony or Nintendo used their rights under these agreements to delay the manufacture or delivery of our products, limit the costs recoverable by us to manufacture software for their consoles, or elect to manufacture software themselves or use developers other than us.

If our products contain defects, our business could be harmed significantly.

Software products as complex as the ones we publish may contain undetected errors when first introduced or when new versions are released. We cannot assure you that, despite extensive testing prior to release, errors will not be found in new products or releases after shipment, resulting in loss of or delay in market acceptance. This loss or delay could significantly harm our business and financial results.

Inadequate intellectual property protections could prevent us from enforcing or defending our proprietary technology.

We regard our software as proprietary and rely on a combination of copyright, trademark and trade secret laws, employee and third party nondisclosure agreements and other methods to protect our proprietary rights. We own or license various copyrights and trademarks. While we provide "shrinkwrap" license agreements or limitations on use with our software, it is uncertain to what extent these agreements and limitations are enforceable. We are aware that some unauthorized copying occurs within the computer software industry, and if a significantly greater amount of unauthorized copying of our interactive entertainment software products were to occur, it could cause material harm to our business and financial results.

Policing unauthorized use of our products is difficult, and software piracy can be a persistent problem, especially in some international markets. Further, the laws of some countries where our products are or may be distributed either do not protect our products and intellectual property rights to the same extent as the laws of the United States, or are poorly enforced. Legal protection of our rights may be ineffective in such countries, and as we leverage our software products using emerging technologies such as the Internet and online services, our ability to protect our intellectual property rights and to avoid infringing intellectual property rights of others may diminish. We cannot assure you that

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existing intellectual property laws will provide adequate protection for our products in connection with these emerging technologies.

We may be subject to intellectual property claims.

As the number of interactive entertainment software products increases and the features and content of these products continue to overlap, software developers increasingly may become subject to infringement claims. Many of our products are highly realistic and feature materials that are based on real

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world examples, which may inadvertently infringe upon the intellectual property rights of others. Although we believe that we make reasonable efforts to ensure that our products do not violate the intellectual property rights of others, it is possible that third parties still may claim infringement. From time to time, we receive communications from third parties regarding such claims. Existing or future infringement claims against us, whether valid or not, may be time consuming and expensive to defend.

Intellectual property litigation or claims could force us to do one or more of the following:

- o Cease selling, incorporating or using products or services that incorporate the challenged intellectual property;
- o Obtain a license from the holder of the infringed intellectual property, which if available at all, may not be available on commercially favorable terms; or
- o Redesign our interactive entertainment software products, which could cause us to incur additional costs, delay introduction and possibly reduce commercial appeal of our products.

Any of these actions may cause material harm to our business and financial results.

We rely on independent third parties to develop many of our software products.

We often rely on independent third party interactive entertainment software developers to develop many of our software products. Since we depend on these developers in the aggregate, we remain subject to the following risks:

- o Continuing strong demand for developers' resources, combined with recognition they receive in connection with their work, may cause developers who worked for us in the past to either work for our competitors in the future or to renegotiate our agreements with them on terms less favorable to us.
- o Limited financial resources and business expertise and inability to retain skilled personnel may force developers out of business prior to completing our products or require us to fund additional costs.

Increased competition for skilled third party software developers also has compelled us to agree to make significant advance payments on royalties to game developers. If the products subject to these arrangements do not generate sufficient revenues to recover these royalty advances, we would have to write-off unrecovered portions of these payments, which could cause material harm to our business and financial results. In a few cases, we also agree to pay developers fixed per unit product royalties after royalty advances are fully recouped. To the extent that sales prices of products on which we have agreed to pay a fixed per unit royalty are marked down, our profitability could be

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adversely affected.

We operate in a highly competitive industry.

The interactive entertainment software industry is intensely competitive and new interactive entertainment software products and platforms are regularly introduced. Our competitors vary in size from small companies to very large corporations with significantly greater financial, marketing and product development resources than we have. Due to these greater resources, certain of our competitors can undertake more extensive marketing campaigns, adopt more aggressive pricing policies, pay higher fees to licensors of desirable motion picture, television, sports and character properties and pay more to third party software developers than we can. We believe that the main competitive factors in the

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interactive entertainment software industry include: product features; brand name recognition; compatibility of products with popular platforms; access to distribution channels; quality of products; ease of use; price; marketing support; and quality of customer service.

We compete primarily with other publishers of personal computer and video game console interactive entertainment software. Significant third party software competitors currently include, among others: Acclaim Entertainment, Inc.; Capcom Co. Ltd.; Eidos PLC; Electronic Arts Inc.; Infogrames SA; Konami Company Ltd.; Namco Ltd.; Sega Enterprises, Ltd.; Take-Two Interactive Software, Inc.; THQ Inc. and Vivendi Universal Publishing. In addition, integrated video game console hardware and software companies such as Sony Computer Entertainment, Nintendo Co. Ltd., and Microsoft Corporation compete directly with us in the development of software titles for their respective platforms.

We also compete with other forms of entertainment and leisure activities. For example, we believe that the overall growth in the use of the Internet and online services by consumers may pose a competitive threat if customers and potential customers spend less of their available time using interactive entertainment software and more using the Internet and online services.

We may face difficulty obtaining access to retail shelf space necessary to market and sell our products effectively.

Retailers of our products typically have a limited amount of shelf space and promotional resources, and there is intense competition among consumer interactive entertainment software products for high quality retail shelf space and promotional support from retailers. To the extent that the number of products and platforms increases, competition for shelf space may intensify and may require us to increase the consideration we pay to vendors. Retailers with limited shelf space typically devote the most and highest quality shelf space to the best selling products. We cannot assure you that our new products will consistently achieve such "best seller" status. Due to increased competition for limited shelf space, retailers and distributors are in an increasingly better position to negotiate favorable terms of sale, including price discounts, price protection, marketing and display fees and product return policies. Our products constitute a relatively small percentage of any retailer's sale volume, and we cannot assure you that retailers will continue to purchase our products or to provide our products with adequate levels of shelf space and promotional support on acceptable terms. A prolonged failure in this regard may significantly harm our business and financial results.

Our sales may decline substantially without warning and in a brief period of time because we generally do not have long-term contracts for the sale of our products.

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We currently sell our products directly through our own sales force to mass merchants, warehouse club stores, large computer and software specialty chains and through catalogs, as well as to a limited number of distributors, in the United States and Canada. Outside North America, we sell our products directly to retailers as well as third party distributors in certain territories. Our sales are made primarily on a purchase order basis without long-term agreements or other forms of commitments. The loss of, or significant reduction in sales to, any of our principal retail customers or distributors could significantly harm our business and financial results. Our two largest customers, Wal-Mart Stores, Inc. and Toys "R" Us, Inc., accounted for approximately 13% and 12%, respectively, of our worldwide net publishing revenues for fiscal 2001 (10% and 9%, respectively, of our consolidated net revenues). Our five largest retailers, including Wal-Mart and Toys "R" Us, accounted for approximately 45% of our worldwide net publishing revenues for fiscal 2001 (34% of our consolidated net revenues). Our two largest customers, Wal-Mart and Toys "R" Us, accounted for approximately 13% and 9%, respectively, of our worldwide net publishing revenues for fiscal 2000 (9% and 6%, respectively, of our consolidated net

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revenues). Our five largest retailers, including Wal-Mart and Toys "R" Us, accounted for approximately 37% of our worldwide net publishing revenues for fiscal 2000 (26% of our consolidated net revenues).

We may permit our customers to return our products and to receive pricing concessions which could reduce our net revenues and results of operations.

We are exposed to the risk of product returns and price protection with respect to our distributors and retailers. We may permit product returns from or grant price protection to our customers under certain conditions. Return policies allow distributors and retailers to return defective, shelf-worn and damaged products in accordance with terms granted. Price protection policies, when granted and applicable, allow customers a credit against amounts they owe us with respect to merchandise unsold by them. We provide price protection to a number of our customers to manage our customers' inventory levels in the distribution channel. We also offer a 90-day limited warranty to our end users that our products will be free from manufacturing defects. Although we maintain a reserve for returns and price protection, and although we may place limits on product returns and price protection, we could be forced to accept substantial product returns and provide price protection to maintain our relationships with retailers and our access to distribution channels. Product returns and price protection that exceed our reserves could significantly harm our business and financial results.

We may be burdened with payment defaults and uncollectible accounts if our distributors or retailers cannot honor their credit arrangements with us.

Distributors and retailers in the interactive entertainment software industry have from time to time experienced significant fluctuations in their businesses, and a number of them have failed. The insolvency or business failure of any significant retailer or distributor of our products could materially harm our business and financial results. We typically make sales to most of our retailers and some distributors on unsecured credit, with terms that vary depending upon the customer and the nature of the product. Although we have insolvency risk insurance to protect against our customers' bankruptcy, insolvency or liquidation, this insurance contains a significant deductible and a co-payment obligation, and the policy does not cover all instances of non-payment. In addition, while we maintain a reserve for uncollectible receivables, the reserve may not be sufficient in every circumstance. As a result, a payment default by a significant customer could significantly harm our business and financial results.

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We may not be able to maintain our distribution relationships with key vendors.

Our CD Contact, NBG and CentreSoft subsidiaries distribute interactive entertainment software products and provide related services in the Benelux territories, Germany and the United Kingdom, respectively, and, via export, in other European territories for a variety of entertainment software publishers, many of which are our competitors. These services are generally performed under limited term contracts. While we expect to use reasonable efforts to retain these vendors, we may not be successful in this regard. The cancellation or non-renewal of one or more of these contracts could significantly harm our business and financial results. Sony and Eidos products accounted for approximately 26% and 13%, respectively, of our worldwide net distribution revenues for fiscal 2001.

Our international revenues may be subject to regulatory requirements as well as currency fluctuations.

Our international revenues have accounted for a significant portion of our total revenues. International sales and licensing accounted for 66%, 51% and 43% of our total net revenues in fiscal 1999, 2000 and 2001, respectively. We expect that international revenues will continue to account for a significant portion of our total revenues in the future. International sales may be subject to unexpected

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regulatory requirements, tariffs and other barriers. Additionally, foreign sales which are made in local currencies may fluctuate. Presently, we engage in limited currency hedging activities. Although exposure to currency fluctuations to date has been insignificant, fluctuations in currency exchange rates may in the future have a material negative impact on revenues from international sales and licensing and thus our business and financial results.

Our software may be subject to governmental restrictions or rating systems.

Legislation is periodically introduced at the local, state and federal levels in the United States and in foreign countries to establish a system for providing consumers with information about graphic violence and sexually explicit material contained in interactive entertainment software products. In addition, many foreign countries have laws that permit governmental entities to censor the content and advertising of interactive entertainment software. We believe that mandatory government-run rating systems eventually may be adopted in many countries that are significant markets or potential markets for our products. We may be required to modify our products or alter our marketing strategies to comply with new regulations, which could delay the release of our products in those countries.

Due to the uncertainties regarding such rating systems, confusion in the marketplace may occur, and we are unable to predict what effect, if any, such rating systems would have on our business. In addition to such regulations, certain retailers have in the past declined to stock some of our products because they believed that the content of the packaging artwork or the products would be offensive to the retailer's customer base. While to date these actions have not caused material harm to our business, we cannot assure you that similar actions by our distributors or retailers in the future would not cause material harm to our business.

Our software may be subject to legal claims.

Within the past two years, two lawsuits, Linda Sanders, et al. v. Meow Media, Inc., et al., United States District Court for the District of Colorado,

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and Joe James, et al. v. Meow Media, Inc., et al., United States District Court for the Western District of Kentucky, Paducah Division, have been filed against numerous video game companies, including us, by the families of victims who were shot and killed by teenage gunmen. These lawsuits allege that the video game companies manufactured and/or supplied these teenagers with violent video games, teaching them how to use a gun and causing them to act out in a violent manner. While our general liability insurance carrier has agreed to defend us in these lawsuits, it is uncertain whether or not the insurance carrier would cover all or any amounts which we might be liable for if the lawsuits are not decided in our favor. If either of the lawsuits are decided against us and our insurance carrier does not cover the amounts we are liable for, it could have a material adverse effect on our business and financial results. It is possible that similar additional lawsuits may be filed in the future. Payment of significant claims by insurance carriers may make such insurance coverage materially more expensive or unavailable in the future, thereby exposing our business to additional risk.

We may face limitations on our ability to integrate additional acquired businesses or to find suitable acquisition opportunities.

We intend to pursue additional acquisitions of companies, properties and other assets that can be purchased or licensed on acceptable terms and which we believe can be operated or exploited profitably. Some of these transactions could be material in size and scope. While we will continually be searching for additional acquisition opportunities, we may not be successful in identifying suitable acquisitions. As the interactive entertainment software industry continues to consolidate, we face significant competition in seeking and consummating acquisition opportunities. We may not be able to consummate potential acquisitions or an acquisition may not enhance our business or may decrease rather than increase our

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earnings. In the future, we may issue additional shares of our common stock in connection with one or more acquisitions, which may dilute our existing stockholders. Future acquisitions could also divert substantial management time and result in short term reductions in earnings or special transaction or other charges. In addition, we cannot guarantee that we will be able to successfully integrate the businesses that we may acquire into our existing business. Our stockholders may not have the opportunity to review, vote on or evaluate future acquisitions.

Our shareholder rights plan, charter documents and other agreements may make it more difficult to acquire us without the approval of our Board of Directors.

We have adopted a shareholder rights plan under which one right entitling the holder to purchase one one-hundredth of a share of our Series A Junior Preferred Stock at a price of \$40 per share (subject to adjustment) under certain circumstances is attached to each outstanding share of common stock. Such shareholder rights plan makes an acquisition of control in a transaction not approved by our Board of Directors more difficult. Our Amended and Restated By-laws have advance notice provisions for nominations for election of nominees to the Board of Directors which may make it more difficult to acquire control of us. Our long-term incentive plans provide for acceleration of stock options following a change in control, which has the effect of making an acquisition of control more expensive. A change in control constitutes a default under our revolving credit facility. In addition, some of our officers have severance compensation agreements that provide for substantial cash payments and acceleration of other benefits in the event of a change in control. These agreements and arrangements may also inhibit a change in control and may have a negative effect on the market price of our common stock.

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Our stock price is highly volatile.

The trading price of our common stock has been and could continue to be subject to wide fluctuations in response to certain factors, including:

- o Quarter to quarter variations in results of operations
- o Our announcements of new products
- o Our competitors' announcements of new products
- o Our product development or release schedule
- o General conditions in the computer, software, entertainment, media or electronics industries
- o Timing of the introduction of new platforms and delays in the actual release of new platforms
- o Changes in earnings estimates or buy/sell recommendations by analysts
- o Investor perceptions and expectations regarding our products, plans and strategic position and those of our competitors and customers
- o Other events or factors.

In addition, the public stock markets experience extreme price and trading volume volatility, particularly in high technology sectors of the market. This volatility has significantly affected the market prices of securities of many technology companies for reasons often unrelated to the operating

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performance of the specific companies. These broad market fluctuations may adversely affect the market price of our common stock.

We do not pay cash dividends on our common stock.

We have not paid any cash dividends on our common stock and do not anticipate paying dividends in the near future. In addition, our revolving credit facility currently prohibits us from paying dividends on our common stock.

ACTIVISION, INC.

We are a leading international publisher of interactive entertainment software products. We have built a company with a diverse portfolio of products that spans a wide range of categories and target markets and that is used on a variety of game hardware platforms and operating systems. We have created, licensed and acquired a group of highly recognizable brands which we market to a growing variety of consumer demographics.

Our products cover the action, adventure, extreme sports, racing, role playing, simulation and strategy game categories. We offer our products in versions which operate on the Sony PlayStation, Sony PlayStation 2, Nintendo 64, Nintendo GameCube and Microsoft Xbox console systems, the Nintendo Game Boy hand held devices, as well as on personal computers. Over the next few years, we plan to produce many titles for the recently released Sony PlayStation 2, Microsoft Xbox and Nintendo GameCube console systems and Game Boy Advance hand held device. Driven partly by the enhanced capabilities of the next generation of platforms, we believe that in the next few years there will be significant growth in the market for interactive entertainment software and we

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plan to leverage our skills and resources to extend our leading position in the industry.

Our publishing business involves the development, marketing and sale of products, either directly, by license or through our affiliate label program with third party publishers. In addition to publishing, we maintain distribution operations in Europe that provide logistical and sales services to third party publishers of interactive entertainment software, our own publishing operations and manufacturers of interactive entertainment hardware.

Our objective is to be a worldwide leader in the development, publishing and distribution of quality interactive entertainment software products that deliver a highly satisfying consumer entertainment experience. Our strategy includes the following elements:

Create and Maintain Diversity in Product Mix, Platforms and Markets. We believe that maintaining a diversified mix of products can reduce our operating risks and enhance profitability. Therefore, we develop and publish products spanning a wide range of product categories, including action, adventure, extreme sports, racing, role playing, simulation and strategy, and products designed for target audiences ranging from game enthusiasts and children to mass market consumers and "value priced" buyers. We develop, publish and distribute products that operate on Sony PlayStation and PlayStation 2, Nintendo 64, Nintendo GameCube and Microsoft Xbox systems, Nintendo Game Boy hand held devices and the personal computer. We typically release our console products for use on multiple platforms in order to reduce the risks associated with any single platform, leverage our costs over a larger installed base and increase unit sales.

Create, Acquire and Maintain Strong Brands. We focus development and publishing activities principally on products that are, or have the potential to become, franchise properties with sustainable consumer appeal and brand recognition. These products can thereby serve as the basis for sequels, prequels and related new products that can be released over an extended period of time. We believe that

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the publishing and distribution of products based in large part on franchise properties enhances predictability of revenues and the probability of high unit volume sales and operating profits. We have entered into a series of strategic relationships with the owners of intellectual property pursuant to which we have acquired the rights to publish products based on franchises such as Star Trek, various Disney films such as Toy Story 2 and Marvel Comics' properties such as Spider-Man, X-Men, Blade, Iron Man and Fantastic Four. We have also capitalized on the success of our Tony Hawk's Pro Skater products to sign long-term agreements, many of which are exclusive, with numerous other extreme sports athletes including superstars Mat Hoffman in BMX pro biking, Kelly Slater in pro surfing, Shaun Palmer in snowboarding, Shaun Murray in wakeboarding and Travis Pastrana in pro motorcross biking.

Enforce Disciplined Product Selection and Development Processes. The success of our publishing business depends, in significant part, on our ability to develop games that will generate high unit volume sales and that can be completed up to our high quality standards. Our publishing units have implemented a formal control process for the selection, development, production and quality assurance of our products. We apply this process, which we refer to as the "Greenlight Process," to products under development with external, as well as internal resources. The Greenlight Process includes in-depth reviews of each project at five intervals during the development process by a team that includes several of our highest ranking operating managers and coordination between our sales and marketing personnel and development staff at each step in

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the process.

We develop our products using a strategic combination of our internal development resources and external development resources acting under contract with us, some of whom are independent and some of whom we have a capital investment. We typically select our external developers based on their track record and expertise in producing products in the same category. One developer will often produce the same game for multiple platforms and will produce sequels to the original game. We believe that this selection process allows us to strengthen and leverage the particular expertise of our internal and external development resources.

Continue to Improve Profitability. We are continually striving to reduce our risk and increase our operating leverage and efficiency with the goal of increased profitability. We believe the key factor affecting our profitability will be the success rate of our product releases. Therefore, our product selection and development process includes, as a significant component, periodic evaluations of the expected commercial success of products under development. Through this process, titles that we determine to be less promising are either discontinued before we incur additional development costs, or if necessary, corrections can be made in the development process. In addition, our focus on cross platform releases and branded products will, we believe, contribute to this strategic goal.

In order to further our emphasis on improved profitability, we have implemented a number of operational initiatives. We have significantly increased our product development capabilities by allocating a portion of our product development investments to experienced independent development companies working under contract with us, thereby taking advantage of specialized third party developers without incurring the fixed overhead obligations associated with increased internally employed staff. Our sales and marketing operations work with our studio resources to increase the visibility of new product launches and to coordinate timing and promotion of product releases. Our finance and administration and sales and marketing personnel work together to improve inventory management and receivables collections. We have broadly instituted objective-based reward programs that provide incentives to management and staff throughout the organization to produce results that meet our financial objectives.

Grow Through Continued Strategic Acquisitions and Alliances. The interactive entertainment industry is consolidating, and we believe that success in this industry will be driven in part by the ability to take advantage of scale. Specifically, smaller companies are more capital constrained, enjoy less

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predictability of revenues and cash flow, lack product diversity and must spread fixed costs over a smaller revenue base. Several industry leaders are emerging that combine the entrepreneurial and creative spirit of the industry with professional management, the ability to access the capital markets and the ability to maintain favorable relationships with strategic developers, property owners and retailers. Through thirteen completed acquisitions since 1997, we believe that we have successfully diversified our operations, our channels of distribution, our development talent pool and our library of titles, and have emerged as one of the industry's leaders. We intend to continue to expand our resources through acquisitions, strategic relationships and key license transactions. We expect to focus our acquisition strategy on increasing our development capacity through the acquisition of or investment in selected experienced development firms, and expanding our intellectual property library through licenses and strategic relationships with intellectual property owners.

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RECENT DEVELOPMENTS

On May 7, 2002, we reported our financial results for the fourth quarter and fiscal year ended March 31, 2002. Net revenues for our fiscal year ended March 31, 2002 were \$786.4 million or 27% higher as compared to \$620.2 million for our fiscal year ended March 31, 2001. Net income for our fiscal year ended March 31, 2002 was \$52.2 million or \$0.88 per diluted share as compared with net income of \$20.5 million or \$0.50 per diluted share reported for our 2001 fiscal year. All of fiscal 2001 share and per share amounts have been restated to reflect our three-for-two stock split for shareholders of record as of November 6, 2001, paid November 20, 2001.

Net revenues for our fourth quarter ended March 31, 2002 were \$164.9 million, 30% greater than net revenues of \$126.8 million that we reported for the fourth quarter of our prior fiscal year. For our fourth quarter ended March 31, 2002, we reported net income of \$10.9 million or \$0.17 per diluted share an increase of \$10.0 million compared to net income of \$875,000 or \$0.02 per diluted share for our prior fiscal year's fourth quarter. Our fourth quarter 2002 per diluted share results were \$0.06 ahead of the consensus of analyst expectations as reported by First Call.

Set forth below is our condensed consolidated statements of operations for the fourth quarters and fiscal years ended March 31, 2002 and 2001 and condensed consolidated balance sheets for the fiscal years ended March 31, 2002 and 2001.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except earnings per share data)

	Quarter ended March 31,		Year ended March 31,	
	2002	2001	2002	2001
		Restated		Restated
Net revenues	\$ 164,912	\$ 126,789	\$ 786,434	\$ 620,183
Costs and expenses:				
Cost of sales	105,647	89,367	534,731	414,609
Product development	11,900	11,086	40,960	41,396
Sales and marketing	19,096	16,872	86,161	85,378
General and administrative	11,407	7,449	44,008	38,993
Total operating expenses	148,050	124,774	705,860	580,376
Operating income	16,862	2,015	80,574	39,807
Interest income (expense), net	622	(632)	2,546	(7,263)
Income before provision for income taxes	17,484	1,383	83,120	32,544
Provision for income taxes	6,600	508	30,882	12,037
Net income	\$ 10,884	\$ 875	\$ 52,238	\$ 20,507
Basic earnings per share	\$ 0.20	\$ 0.02	\$ 1.03	\$ 0.55
Weighted average common shares outstanding	54,921	38,988	50,651	37,298

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Diluted earnings per share	\$ 0.17	\$ 0.02	\$ 0.88	\$ 0.50
Weighted average common shares outstanding assuming dilution	62,599	46,379	59,455	41,100

Share data and earnings per share data for the quarter ended March 31, 2001 and the year ended March 31, 2001 have been restated to reflect our three-for-two stock split for shareholders of record as of November 6, 2001, paid November 20, 2001.

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CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	March 31, 2002	March 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 279,007	\$ 125,550
Accounts receivable, net	76,733	73,802
Inventories	20,736	43,888
Software development	36,263	21,265
Intellectual property licenses	6,326	6,237
Deferred income taxes	22,608	14,292
Other current assets	15,200	13,196
Total current assets	456,873	298,230
Software development	3,254	2,154
Intellectual property licenses	10,899	12,549
Property and equipment, net	17,832	15,240
Deferred income taxes	28,795	13,759
Other assets	3,242	7,709
Goodwill	35,992	10,316
Total assets	\$ 556,887	\$ 359,957
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 168	\$ 10,231
Accounts payable	64,410	60,980
Accrued expenses	59,096	44,039
Total current liabilities	123,674	115,250
Long-term debt, less current portion	3,122	3,401
Convertible subordinated notes	-	60,000
Total liabilities	126,796	178,651
Stockholders' equity:		
Preferred stock	-	-
Common stock	-	-
Additional paid-in capital	397,528	200,786
Retained earnings	64,384	12,146
Accumulated other comprehensive loss	(11,498)	(11,377)
Treasury stock	(20,323)	(20,249)
Total stockholders' equity	430,091	181,306
Total liabilities and stockholders' equity	\$ 556,887	\$ 359,957

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Consistent with our acquisition strategy, we acquired a privately owned software developer in March 2002 and Z-Axis in May 2002, for a combined purchase price of approximately \$28 million with consideration in the form of common stock and a combination of common stock and cash. Additional shares of our common stock may also be issued to these developers in future periods, depending upon the satisfaction of certain performance requirements relating to certain product titles produced by the developers.

USE OF PROCEEDS

All net proceeds from the sale of our shares of common stock will go to the stockholders who offer and sell their shares. Accordingly, we will not receive any of the proceeds from the sale of the common stock being offered hereby for the account of the selling stockholders.

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SELLING STOCKHOLDERS

The following table sets forth certain information regarding the beneficial ownership of shares of our common stock by the selling stockholders as of May 30, 2002, the number of shares of common stock being offered by this prospectus and the number of shares of common stock beneficially owned by the selling stockholders after the offering.

Name of Selling Stockholder	Number of Shares of Common Stock Owned Prior to the Offering	Number of Shares of Common Stock Being Offered	Number of Shares of Common Stock Owned After the Offering
Luntz Family Revocable Trust	171,892	171,892 (1)	0
Irving Luntz	28,609	28,609 (1)	0
Robert E. Meldman	17,540	17,540 (1)	0
id Software, Inc.	150,000	150,000	0
All Selling Stockholders as a Group	368,041	368,041	0

(1) This amount does not include the following, which are more fully described below: (i) 31,149 shares of common stock subject to certain escrow requirements; and (ii) 93,446 shares of common stock to be issued to the selling stockholders upon completion of certain software program delivery and revenue requirements.

We have entered into (i) a license agreement with id Software pursuant to which id has granted us the right to distribute certain of id's entertainment software products and (ii) an agreement and plan of merger (the "Merger Agreement") with Activision Publishing, Inc., Record Time Acquisition, Inc., Z-Axis, and the selling stockholders pursuant to which Record Time Acquisition was merged with and into Z-Axis. The selling stockholders were all of the principal shareholders of Z-Axis. The transactions contemplated by the Merger Agreement were consummated on May 20, 2002.

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Pursuant to an escrow agreement among us, the selling stockholders and Comerica Bank, as escrow agent, an aggregate of 31,149 shares of common stock, or approximately 9.1% of the total number of shares of common stock issued in connection with the merger, have been deposited in an escrow account in connection with the transaction (the "Escrow Shares"). The Escrow Shares have been deposited in order to ensure that the representations, warranties and covenants made by the selling stockholders under the Merger Agreement are not breached and in order to provide a source of indemnification to Activision pursuant to the Merger Agreement. The Escrow Shares will be released from escrow and issued to the selling stockholders on February 20, 2003, to the extent not used to indemnify us prior to such date. In addition, an aggregate amount of 93,446 shares of common stock, or approximately 27.27% of the total number of shares of our common stock issued in connection with the merger, have been deposited in an escrow account (the "Product Escrow Shares"). The Product Escrow Shares are subject to release from escrow and issuance to the selling stockholders upon fulfillment of certain software program delivery and ranking requirements and certain revenue requirements, as described in the Merger.

We will file a prospectus supplement to this prospectus to reflect any increase in the number of shares of common stock being offered by the selling stockholders hereunder in the event the conditions described above are fulfilled.

Prior to the acquisition of Z-Axis by us, Z-Axis was a party to various development agreements with us. Other than such contracts, the id license agreement and the fact that the selling stockholders (other than id) were shareholders of Z-Axis, which became a wholly owned subsidiary of ours on May 20, 2002 pursuant to the Merger Agreement, none of the selling stockholders has had a material relationship with us within the past three years.

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DESCRIPTION OF CAPITAL STOCK

We have 130,000,000 shares of authorized capital stock, \$.000001 par value, consisting of 125,000,000 shares of common stock and 3,750,000 shares of serial preferred stock and 1,250,000 shares of Series A Junior Preferred Stock. As of May 28, 2002, 58,779,634 shares of our common stock were outstanding. Our common stock is listed on the Nasdaq National Market under the symbol "ATVI."

Each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors. There is no cumulative voting in the election of directors, which means that the holders of a majority of the outstanding shares of common stock can elect all of the directors then standing for election. Subject to preferences which may be applicable to any outstanding shares of preferred stock, holders of common stock are entitled to such distributions as may be declared from time to time by our Board of Directors out of funds legally available. We have not paid, and have no current plans to pay, cash dividends on our common stock. We intend to retain all earnings for use in our business.

Holders of common stock have no conversion, redemption or preemptive rights to subscribe to any of our securities. All outstanding shares of common stock are fully paid and nonassessable. In the event of any liquidation, dissolution or winding-up of the affairs of holders of our common stock will be entitled to share ratably in our assets remaining after provision for payment of liabilities to creditors and preferences applicable to outstanding shares of preferred stock.

The rights, preferences and privileges of holders of common stock are subject to the rights of the holders of any outstanding shares of preferred stock. At present, no shares of preferred stock are outstanding. As of May 21,

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2002, we had approximately 3,200 stockholders of record, excluding banks, brokers and depository companies that are stockholders of record for the account of beneficial owners.

The transfer agent for our common stock is Continental Stock Transfer & Trust Company, 17 Battery Place, New York, New York 10004.

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PLAN OF DISTRIBUTION

The common stock may be sold from time to time by the selling stockholders, or by pledgees, donees, transferees or other successors in interest. Such sales may be made on one or more exchanges or in the over-the-counter market, or otherwise, at prices and at terms then prevailing or at prices related to the then current market price, or in negotiated transactions. The shares may be sold from time to time in one or more of the following transactions, without limitation: (a) a block trade in which the broker or dealer so engaged will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction, (b) purchases by a broker or dealer as principal and resale by such broker or dealer or for its account pursuant to this prospectus, as supplemented, (c) an exchange distribution in accordance with the rules of such exchange, and (d) ordinary brokerage transactions and transactions in which the broker solicits purchasers. In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 may be sold under Rule 144 rather than pursuant to this prospectus, as supplemented. From time to time the selling stockholders may engage in short sales, short sales against the box, puts and calls and other transactions in our securities or derivatives thereof, and may sell and deliver the shares in connection therewith.

From time to time selling stockholders may pledge their shares pursuant to the margin provisions of their respective customer agreements with their respective brokers. Upon a default by a selling stockholder, the broker may offer and sell the pledged shares of common stock from time to time as described above.

All expenses of registration of the common stock (other than commissions and discounts of underwriters, dealers or agents), estimated to be approximately \$21,450 shall be borne by us. As and when we are required to update this prospectus, we may incur additional expenses in excess of this estimated amount.

LEGAL MATTERS

Certain legal matters in connection with the shares of common stock offered hereby have been passed upon for us by Robinson Silverman Pearce Aronsohn & Berman LLP, 1290 Avenue of the Americas, New York, New York 10104. Kenneth L. Henderson, one of our directors, is a managing partner of Robinson Silverman. In addition, Robinson Silverman owns approximately 14,250 shares of our common stock.

EXPERTS

Our consolidated financial statements and schedule as of March 31, 2000, and for each of the years in the two-year period ended March 31, 2000, have been incorporated by reference and included herein and in the registration statement in reliance upon the report of KPMG LLP, independent accountants, and upon the authority of said firm as experts in accounting and auditing.

The consolidated financial statements as of and for the year ended March 31, 2001, included herein and incorporated by reference in this prospectus have been so included and incorporated by reference in reliance upon the report of

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PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We are a reporting company and file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission, or the SEC. You may read and copy such material at the Public Reference Room maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for more information on the operation of the Public Reference Room. You can also find our SEC filings at the SEC's web site at <http://www.sec.gov>.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to "incorporate by reference" information that we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we will make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934:

- o Our Annual Report on Form 10-K for the fiscal year ended March 31, 2001;
- o Our Quarterly Reports on Form 10-Q for the quarterly periods ended June 30, 2001, September 30, 2001, and December 31, 2001;
- o Our Current Reports on Form 8-K filed on July 11, 2001, July 31, 2001, October 4, 2001, January 18, 2002 and May 22, 2002; and
- o The description of our common stock and the rights associated with our common stock contained in our Registration Statement on Form S-3, Registration No. 333-46425, and our Registration Statement on Form 8-A, File No. 001-15839, filed on April 19, 2000.

You may request a copy of these filings at no cost, by writing or telephoning us at the following address:

Activision, Inc.
3100 Ocean Park Boulevard
Santa Monica, California 90405
(310) 255-2000
Attn: Investor Relations

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2000 and 1999

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Notes to Consolidated Financial Statements

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders:

In our opinion, the accompanying consolidated balance sheet as of March 31, 2001 and the related consolidated statements of operations, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of Activision, Inc. and its subsidiaries (the "Company") at March 31, 2001, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Los Angeles, CA

May 9, 2001,

except for the stock split in Note 1,
as to which the date is November 6, 2001

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REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and Shareholders:

We have audited the accompanying consolidated balance sheet of ACTIVISION, INC. and subsidiaries as of March 31, 2000 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years in the two-year period ended March 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present

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fairly, in all material respects, the financial position of ACTIVISION, INC. and subsidiaries as of March 31, 2000, and the results of their operations and their cash flows for each of the years in the two-year period ended March 31, 2000, in conformity with generally accepted accounting principles.

KPMG LLP

Los Angeles, California
 May 5, 2000,
 except as to Note 17,
 which is as of June 9, 2000,
 and Note 6, which is as of April 1, 2001
 and Note 1, which is as of November 6, 2001

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Part I. Financial Information.
 Item I. Financial Statements.

ACTIVISION, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	March 31, 2001	March 31, 2000
Assets		
Current assets:		
Cash and cash equivalents	\$ 125,550	\$ 49,985
Accounts receivable, net of allowances of \$28,461 and \$31,521 at March 31, 2001 and 2000, respectively	73,802	108,108
Inventories	43,888	40,453
Prepaid royalties and capitalized software costs	27,502	31,655
Deferred income taxes	14,292	14,159
Other current assets	13,196	17,815
Total current assets	298,230	262,175
Prepaid royalties and capitalized software costs	14,703	9,153
Property and equipment, net	15,240	10,815
Deferred income taxes	13,759	6,055
Goodwill, net	10,316	12,347
Other assets	7,709	9,192
Total assets	\$ 359,957	\$ 309,737
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 10,231	\$ 16,260
Accounts payable	60,980	38,286
Accrued expenses	44,039	49,404
Total current liabilities	115,250	103,950
Long-term debt, less current portion	3,401	13,778
Convertible subordinated notes	60,000	60,000
Total liabilities	178,651	177,728

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Commitments and contingencies

Shareholders' equity:

Preferred stock, \$.000001 par value, 5,000,000 shares authorized, no shares issued at March 31, 2001 and 2000	-	-
Common stock, \$.000001 par value, 50,000,000 shares authorized, 45,249,683 and 39,732,390 shares issued and 40,923,714 and 38,982,390 shares outstanding at March 31, 2001 and 2000, respectively	-	-
Additional paid-in capital	200,786	151,714
Retained earnings (deficit)	12,146	(8,361)
Accumulated other comprehensive loss	(11,377)	(6,066)
Less: Treasury stock, cost, 4,325,969 and 750,000 shares as of March 31, 2001 and 2000, respectively	(20,249)	(5,278)
Total shareholders' equity	181,306	132,009
Total liabilities and shareholders' equity	\$ 359,957	\$ 309,737

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

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ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	For the years ended March 31,		
	2001	2000	1999
Net revenues	\$ 620,183	\$ 572,205	\$ 436,526
Costs and expenses:			
Cost of sales - product costs	324,907	319,422	260,041
Cost of sales - royalties and software amortization	89,702	91,238	36,990
Product development	41,396	26,275	22,875
Sales and marketing	85,378	87,303	66,420
General and administrative	37,491	36,674	21,948
Amortization of intangible assets	1,502	41,618	1,585
Total costs and expenses	580,376	602,530	409,859
Income (loss) from operations	39,807	(30,325)	26,667
Interest expense, net	(7,263)	(8,411)	(3,031)
Income (loss) before income tax provision	32,544	(38,736)	23,636
Income tax provision (benefit)	12,037	(4,648)	8,745

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Net income (loss)	\$ 20,507	\$ (34,088)	\$ 14,891
	=====	=====	=====
Basic earnings (loss) per share	\$ 0.55	\$ (0.92)	\$ 0.43
	=====	=====	=====
Weighted average common shares outstanding	37,298	37,037	34,292
	=====	=====	=====
Diluted earnings (loss) per share	\$ 0.50	\$ (0.92)	\$ 0.41
	=====	=====	=====
Weighted average common shares outstanding - assuming dilution	41,100	37,037	35,898
	=====	=====	=====

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

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ACTIVISION, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended March 31, 2001, 2000 and 1999

(In thousands)	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock	
	Shares	Amount			Shares	Amount
Balance, March 31, 1998	34,661	\$ -	\$ 91,825	\$ 10,836	(750)	\$ (5,278)
Components of comprehensive income						
Net income for the year	-	-	-	14,891	-	-
Foreign currency translation adjustment	-	-	-	-	-	-
Total comprehensive income						
Issuance of common stock and common stock warrants	-	-	3,368	-	-	-
Issuance of common stock pursuant to employee stock option plans	907	-	5,271	-	-	-
Issuance of common stock pursuant to employee stock purchase plan	138	-	798	-	-	-
Tax benefit attributable to employee stock option plans	-	-	1,059	-	-	-
Tax benefit derived from net operating loss carryforward utilization	-	-	2,430	-	-	-
Conversion of notes payable to common stock	-	-	4,500	-	-	-

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Balance, March 31, 1999	35,706	-	109,251	25,727	(750)	(5,278)
Components of comprehensive income:						
Net loss for the year	-	-	-	(34,088)	-	-
Foreign currency translation adjustment	-	-	-	-	-	-
Total comprehensive loss						
Issuance of common stock and common stock warrants	-	-	8,529	-	-	-
Issuance of common stock pursuant to employee stock option plans	3,497	-	21,718	-	-	-
Issuance of common stock pursuant to employee stock purchase plan	108	-	762	-	-	-
Tax benefit attributable to employee stock option plans	-	-	3,017	-	-	-
Tax benefit derived from net operating loss carryforward utilization	-	-	1,266	-	-	-
Acquisitions and investments made with common stock and common stock options	421	-	7,171	-	-	-
Balance, March 31, 2000	39,732	-	151,714	(8,361)	(750)	(5,278)
Components of comprehensive income:						
Net income for the year	-	-	-	20,507	-	-
Foreign currency translation adjustment	-	-	-	-	-	-
Total comprehensive income						
Issuance of common stock and common stock warrants	150	-	1,050	-	-	-
Issuance of common stock pursuant to employee stock option plans	5,249	-	31,693	-	-	-
Issuance of common stock pursuant to employee stock purchase plan	119	-	845	-	-	-
Tax benefit attributable to employee stock option plans	-	-	11,832	-	-	-
Tax benefit derived from net operating loss carryforward utilization	-	-	3,652	-	-	-
Purchase of treasury shares	-	-	-	-	(3,576)	(14,971)
Balance March 31, 2001	45,250	\$ -	\$200,786	\$ 12,146	(4,326)	\$ (20,249)

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

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ACTIVISION, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the years ended March 31,		
	2001	2000	1999
<hr/>			
Cash flows from operating activities:			
Net income (loss)	\$ 20,507	\$ (34,088)	\$ 14,891
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Deferred income taxes	(6,597)	(4,311)	3,806
Depreciation and amortization	6,268	45,866	6,488
Amortization of prepaid royalties and capitalized software costs	68,925	78,714	27,055
Expense related to common stock warrants	1,406	5,769	388
Tax benefit of stock options exercised	11,832	3,017	1,059
Change in assets and liabilities (net of effects of purchases and acquisitions):			
Accounts receivable	30,027	9,900	(43,686)
Inventories	(5,283)	(7,342)	(11,506)
Prepaid royalties and capitalized software costs	(65,964)	(74,506)	(60,531)
Other assets	6,062	(6,307)	(6,862)
Accounts payable	21,361	(8,038)	(6,620)
Accrued expenses and other liabilities	(6,979)	(5,791)	33,177
	<hr/>	<hr/>	<hr/>
Net cash provided by (used in) operating activities	81,565	2,883	(42,341)
	<hr/>	<hr/>	<hr/>
Cash flows from investing activities:			
Cash used in purchase acquisitions (net of cash acquired)	-	(20,523)	-
Capital expenditures	(9,780)	(4,518)	(3,800)
Proceeds from disposal of property and equipment	1,149	-	-
	<hr/>	<hr/>	<hr/>
Net cash used in investing activities	(8,631)	(25,041)	(3,800)
	<hr/>	<hr/>	<hr/>
Cash flows from financing activities:			
Proceeds from issuance of common stock pursuant to employee stock option plans	31,693	21,718	5,271
Proceeds from issuance of common stock pursuant to employee stock purchase plan	845	762	798
Proceeds from issuance of common stock pursuant to warrants	1,050	-	-
Borrowing under line-of-credit agreement	577,590	361,161	5,300
Payment under line-of-credit agreement	(581,618)	(355,156)	(5,300)

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Payment on term loan	(11,450)	(1,645)	-
Proceeds from term loan	-	25,000	-
Notes payable, net	(592)	(6,457)	1,151
Cash paid to secure line of credit and term loan	-	(3,355)	-
Purchase of treasury stock	(14,971)	-	-
	-----	-----	-----
 Net cash provided by financing activities	 2,547	 42,028	 7,220
	-----	-----	-----
 Effect of exchange rate changes on cash	 84	 (2,922)	 (2,361)
	-----	-----	-----
 Net increase (decrease) in cash and cash equivalents	 75,565	 16,948	 (41,282)
 Cash and cash equivalents at beginning of period	 49,985	 33,037	 74,319
	-----	-----	-----
 Cash and cash equivalents at end of period	 \$125,550	 \$ 49,985	 \$ 33,037
	=====	=====	=====

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

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ACTIVISION, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Business

Activision, Inc. ("Activision" or the "Company") is a leading international publisher, developer and distributor of interactive entertainment and leisure products. The Company currently focuses its publishing, development and distribution efforts on products designed for personal computers ("PCs") as well as the Sony PlayStation ("PSX") and PlayStation 2 ("PS2") and Nintendo N64 ("N64") console systems and Nintendo Game Boy handheld game devices. The Company is also currently focusing on the development of products for Microsoft Xbox ("Xbox") and Nintendo GameCube console systems and Nintendo Game Boy Advance hand held device. During January 2001, Sega Corp., the maker of the Sega Dreamcast ("Dreamcast") announced that it would stop making the Dreamcast in March 2001. Net revenues from the Dreamcast have historically represented only a small percentage of the Company's total net revenues. Accordingly, the Company believes that the departure of the Dreamcast console system from the market will not have a material impact upon its financial position or results of operations.

The Company maintains operations in the U.S., Canada, the United Kingdom, France, Germany, Japan, Australia, Belgium and the Netherlands. For fiscal year 2001, international operations contributed approximately 43% of net revenues.

Principles of Consolidation

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

Basis of Presentation and Stock Split

In October 2001, the Board of Directors approved a three-for-two stock split effected in the form of a 50% stock dividend. The stock split was paid at the close of business on November 20, 2001, to shareholders of record as of November 6, 2001. The financial statements, including all share and per share data, have been restated as if the stock split had occurred as of the earliest period presented.

The consolidated financial statements have been retroactively restated to reflect the poolings of interests of the Company with JCM Productions, Inc. dba Neversoft Entertainment ("Neversoft") in September 1999.

Cash and Cash Equivalents

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

The Company's cash and cash equivalents were comprised of the following at March 31, 2001 and 2000 (amounts in thousands):

	March 31,	
	2001	2000
Cash	\$ 63,018	\$ 32,637
Money market funds	62,532	17,348
	<u>\$ 125,550</u>	<u>\$ 49,985</u>

F-7 Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of temporary cash investments and accounts receivable. The Company places its temporary cash investments with financial institutions. At various times during the fiscal years ended March 31, 2001 and 2000, the Company had deposits in excess of the Federal Deposit Insurance Corporation ("FDIC") limit at these financial institutions. The Company's customer base includes retail outlets and distributors including consumer electronics and computer specialty stores, discount chains, video rental stores and toy stores in the United States and countries worldwide. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. The Company generally does not require collateral or other security from its customers.

As of and for the year ending March 31, 2001, the Company's publishing business had one customer that accounted for 10% of its consolidated net revenues and 15% of its consolidated accounts receivable, net. For the years ending March 31, 2000 and 1999, no single customer accounted for 10% or more of consolidated net revenues.

Fair Value of Financial Instruments

The estimated fair values of financial instruments have been determined by the Company using available market information and valuation methodologies

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described below. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein may not be indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities: The carrying amounts of these instruments approximate fair value due to their short-term nature.

Long-term debt and convertible subordinated notes: The carrying amounts of the Company's variable rate debt approximate fair value because the interest rates are based on floating rates identified by reference to market rates. The fair value of the Company's fixed rate debt is based on quoted market prices, where available, or discounted future cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements as of the balance sheet date. The carrying amount and fair value of the Company's long-term debt and convertible subordinated notes, was \$73.6 million and \$60.0 million, respectively, as of March 31, 2001 and \$90.0 million and \$81.6 million, respectively, as of March 31, 2000.

Prepaid Royalties and Capitalized Software Costs

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

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

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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.

Commencing upon product release prepaid royalties and capitalized software development costs are amortized to cost of sales - royalties and software amortization on the ratio of current revenues to total projected revenues, generally resulting in an amortization period of one year or less. For products that have been released, management evaluates the future recoverability of capitalized amounts on a quarterly basis.

As of March 31, 2001, prepaid royalties and unamortized capitalized

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software costs totaled \$38.3 million (including \$14.7 million classified as non-current) and \$3.9 million, respectively. As of March 31, 2000, prepaid royalties and unamortized capitalized software costs totaled \$29.2 million (including \$9.2 million classified as non-current) and \$11.6 million, respectively. Amortization of prepaid royalties and capitalized software costs was \$68.9 million, \$78.7 million and \$27.1 million for the years ended March 31, 2001, 2000 and 1999, respectively.

Inventories

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

Revenue Recognition

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

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

Advertising Expenses

The Company expenses advertising and the related costs as incurred. Advertising expenses for the years ended March 31, 2001, 2000 and 1999 were approximately \$16.5 million, \$18.6 million and \$15.6 million, respectively, and are included in sales and marketing expense in the consolidated statements of operations.

Goodwill and Long-Lived Assets

Cost in excess of the fair value of net assets of companies acquired, goodwill, is being amortized on a straight-line basis over periods ranging from 5 to 20 years. As of March 31, 2001 and 2000, accumulated amortization amounted to \$51.9 million and \$50.8 million, respectively. The Company accounts for impairment of long-lived assets, including goodwill, in accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of." This Statement requires that long-lived assets and certain identifiable intangibles, including goodwill, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. In conjunction with its strategic restructuring plan as detailed in Note 3, in the fourth quarter of fiscal 2000, the Company recorded a charge for impairment of goodwill of \$37.2 million. See Note 3 for further discussion.

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Interest Expense, net

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

	March 31,		
	2001	2000	1999
Interest expense	\$ (9,399)	\$ (9,375)	\$ (4,974)
Interest income	2,136	964	1,943
Net interest income (expense)	\$ (7,263)	\$ (8,411)	\$ (3,031)

Income Taxes

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

Foreign Currency Translation

The functional currencies of the Company's foreign subsidiaries are their local currencies. All assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at the exchange rate in effect at the end of the period, and revenue and expenses are translated at weighted average exchange rates during the period. The resulting translation adjustments are reflected as a component of shareholders' equity.

Estimates

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

Earnings Per Common Share

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 is computed by dividing net income by the weighted average number of common shares and common stock equivalents from outstanding stock options and warrants and convertible debt. 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 and conversion of the Company's convertible debt. However, potential common shares are not included in the denominator of the diluted earnings per share calculation when inclusion of such shares would be anti-dilutive, such as in a period in which the Company records a net loss.

Stock Based Compensation

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Prior to April 1, 1996, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), and related interpretations. As such, compensation expense would be recorded on the date of the grant only if the current market price of the underlying stock exceeded the option exercise price. On April 1, 1996 the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which permits entities to recognize as expense over the vesting period, the fair value of all stock-based awards on the date of the grant.

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Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

Warrants granted to non-employees are accounted for in accordance with the Financial Accounting Standards Board's Emerging Issues Task Force Issue No. 96-18 "Accounting for Equity Instruments that are Issued To Other Than Employees for Acquiring or in Connection With Selling Goods or Services" (EITF 96-18).

Related Parties

As of March 31, 2001 and 2000, the Company had \$4.3 million and \$2.7 million, respectively, of loans outstanding due from employees. The loans bear interest at 6.75% and are primarily due from Company executives.

Implementation of SAB 101

The Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") 101, Revenue Recognition in Financial Statements, in December 1999. The SAB summarizes certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. During the year ended March 31, 2001, the Company performed a review of its revenue recognition policies and determined that it is in compliance with SAB 101.

Recently Issued Accounting Standards

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS No. 133") as subsequently amended by SFAS No. 137 and SFAS No. 138, is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company does not currently participate in hedging activities or own derivative instruments but plans to adopt SFAS No. 133 beginning April 1, 2001. Management does not believe the adoption of SFAS No. 133 will have a material impact on the financial position or results of operations of the Company.

Reclassifications

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

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reclassifications had no effect on net income (loss), shareholders' equity or net increase (decrease) in cash and cash equivalents.

2. Acquisitions

Fiscal 2000 Transactions

Acquisition of Neversoft

On September 30, 1999, the Company acquired Neversoft, a privately held console software developer, in exchange for 1,048,253 shares of the Company's common stock. The acquisition was accounted for as a pooling of interests. Accordingly, in fiscal 2000 the Company restated the financial statements for all periods prior to the closing of the transaction.

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The following table represents the results of operations of the previously separate companies for the period before the combination was consummated which are included in fiscal year 2000 combined net income (loss) (amounts in thousands).

	Fiscal Year 2000		
	Activision	Neversoft	Total
	Six Months Ended	Six Months Ended	Six Months Ended
	Sept. 30, 1999	Sept. 30, 1999	Sept. 30, 1999
Revenues	\$ 199,505	\$ -	\$ 199,505
Net income (loss)	\$ (3,028)	\$ (484)	\$ (3,512)

Acquisition of Elsinore Multimedia

On June 29, 1999, the Company acquired Elsinore Multimedia, Inc. ("Elsinore"), a privately held interactive software development company, in exchange for 306,672 shares of the Company's common stock.

The acquisition was accounted for using the purchase method of accounting. Accordingly, the results of operations of Elsinore have been included in the Company's consolidated financial statements from the date of acquisition. The aggregate purchase price has been allocated to the assets and liabilities acquired, consisting mostly of goodwill of \$3.0 million, that is being amortized over a five year period. Pro forma statements of operations reflecting the acquisition of Elsinore are not shown, as they would not differ materially from reported results.

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 \$24.7 million. The aggregate purchase price of approximately \$24.7 million consisted of \$20.3 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 have been included in the Company's consolidated financial statements from the date of acquisition.

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The aggregate purchase price was allocated to the fair values of the assets and liabilities acquired as follows (amounts in thousands):

Tangible assets	\$	4,743
Existing products		1,123
Goodwill		28,335
Liabilities		(9,532)

	\$	24,669
		=====

However, as more fully described in Note 3, in the fourth quarter of fiscal 2000, the Company implemented a strategic restructuring plan to accelerate the development of games for the next-generation consoles and the Internet. In conjunction with that plan, the Company consolidated Expert and its Head Games subsidiary, forming one integrated business unit in the value software category. As part of this consolidation, the Company discontinued several of Expert's product lines and terminated substantially all of Expert's employees. In addition, the Company phased out the use of the Expert name. As a result of these initiatives, in fiscal 2000, the Company incurred a nonrecurring charge of \$26.3 million resulting from the write-down of intangibles acquired, including goodwill.

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Fiscal 1999 Transactions

The acquisitions of Head Games and CD Contact were originally treated as immaterial poolings of interests. However, after reviewing the results of operations of the entities, including the materiality and impact on the Company's trends, in fiscal 1999 the Company restated the financial statements for all periods prior to the closing of each respective transaction.

Acquisition of Head Games

On June 30, 1998, the Company acquired Head Games in exchange for 1,500,000 shares of the Company's common stock. The acquisition was accounted for as a pooling of interests.

Acquisition of CD Contact

On September 29, 1998, the Company acquired CD Contact in exchange for 2,850,000 shares of the Company's common stock and the assumption of \$9.1 million in outstanding debt payable to CD Contact's former shareholders. The acquisition was accounted for as a pooling of interests.

The following table represents the results of operations of the previously separate companies for the periods before the combinations were consummated that are included in the fiscal 1999 combined net income of the Company (amounts in thousands):

Fiscal Year 1999				
	Head Games	CD Contact	Neversoft	Total
Activision	Three Months	Six Months	Year Ended	Year
Year Ended	Ended	Ended	Year Ended	Ended
March 31,	June 30,	Sept. 30,	March 31,	March 31,

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	1999	1998	1998	1999	1999
	-----	-----	-----	-----	-----
Revenues	\$ 412,225	\$ 2,195	\$ 22,065	\$ 41	\$ 436,526
Net income					
(loss)	\$ 14,194	\$ 394	\$ 666	\$ (363)	\$ 14,891

3. Strategic Restructuring Plan

In the fourth quarter of fiscal 2000, the Company finalized a strategic restructuring plan to accelerate the development and sale of interactive entertainment and leisure products for the next-generation consoles and the Internet. Costs associated with this plan amounted to \$70.2 million, approximately \$61.8 million net of taxes, and were recorded in the consolidated statement of operations in the fourth quarter of fiscal year 2000 and classified as follows (amount in millions):

Net revenues	\$11.7
Cost of sales - royalties and software	
amortization	11.9
Product development	4.2
General and administrative	5.2
Amortization of intangible assets	37.2

	\$70.2
	=====

The component of the charge included in amortization of intangible assets represented a write down of intangibles including goodwill, relating to Expert Software, Inc. ("Expert"), one of the Company's value publishing subsidiaries, totaling \$26.3 million. The Company consolidated Expert into Head Games, forming one integrated business unit. As part of this consolidation, the Company discontinued substantially all of Expert's product lines, terminated substantially all of Expert's employees and phased out the use of the Expert name. In addition, a \$10.9 million write down of goodwill relating to TDC, an OEM business unit, was recorded. In fiscal 2000, the OEM market went through radical changes due to price declines of PCs and

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hardware accessories. The sum of the undiscounted future cash flow of these assets was not sufficient to cover the carrying value of these assets and as such was written down to fair market value.

The component of the charge included in net revenues and general and administrative expense represents costs associated with the planned termination of a substantial number of its third party distributor relationships in connection with the Company's realignment of its worldwide publishing business to leverage its existing sales and marketing organizations and improve the control and management of its products. These actions resulted in an increase in the allowance for sales returns of \$11.7 million and the allowance for doubtful accounts of \$3.4 million. The plan also included a severance charge of \$1.2 million for employee redundancies.

The components of the charge included in cost of sales - royalties and software amortization and product development represent costs to write down certain assets associated with exiting certain product lines and re-evaluating other product lines which resulted in reduced expectations.

During fiscal 2001, the Company completed the restructuring initiatives associated with the fiscal 2000 restructuring plan without any significant adjustments.

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4. Inventories

The Company's inventories consist of the following (amounts in thousands):

	March 31,	
	2001	2000
Purchased parts and components	\$ 1,885	\$ 2,857
Finished goods	42,003	37,596
	\$ 43,888	\$ 40,453

5. Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are provided using the straight-line method over the shorter of the estimated useful lives or the lease term: buildings, 30 years; computer equipment, office furniture and other equipment, 3 years; leasehold improvements, through the life of the lease. When assets are retired or disposed of, the cost and accumulated depreciation thereon are removed and any resultant gains or losses are recognized in current operations. Property and equipment was as follows (amounts in thousands):

	March 31,	
	2001	2000
Land	\$ 214	\$ 526
Buildings	4,004	2,468
Computer equipment	21,512	18,670
Office furniture and other equipment	5,585	5,800
Leasehold improvements	3,713	3,229
Total cost of property and equipment	35,028	30,693
Less accumulated depreciation	(19,788)	(19,878)
Property and equipment, net	\$ 15,240	\$ 10,815

Depreciation expense for the years ended March 31, 2001, 2000 and 1999 was \$4.8 million, \$4.2 million and \$4.9 million, respectively.

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6. Goodwill and Other Intangible Assets - Adoption of SFAS No. 142

We adopted SFAS No. 142 effective April 1, 2001. The following table reconciles net income (loss) and earnings per share as reported for the years ended March 31, 2001, 2000 and 1999 to net income (loss) and earnings per share as adjusted to exclude goodwill amortization (amounts in thousands, except per share data).

Year Ended March 31,

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	2001	2000	1999
	-----	-----	-----
Reported net income (loss)	\$ 20,507	\$ (34,088)	\$ 14,891
Add back: Goodwill amortization	1,502	4,465	1,585
	-----	-----	-----
Adjusted net income (loss)	\$ 22,009	\$ (29,623)	\$ 16,476
	=====	=====	=====
Basic earnings per share:			
Reported net income (loss)	\$ 0.55	\$ (0.92)	\$ 0.43
Goodwill amortization	0.04	0.12	0.05
	-----	-----	-----
Adjusted net income (loss)	\$ 0.59	\$ (0.80)	\$ 0.48
	=====	=====	=====
Diluted earnings per share:			
Reported net income (loss)	\$ 0.50	\$ (0.92)	\$ 0.41
Goodwill amortization	0.04	0.12	0.05
Adjusted net income (loss)	\$ 0.54	\$ (0.80)	\$ 0.46