ACTIVISION

Jensen Wayne knows a great video game when he sees one…

1999 ANNUAL REPORT

ABOUT ACTIVISION:

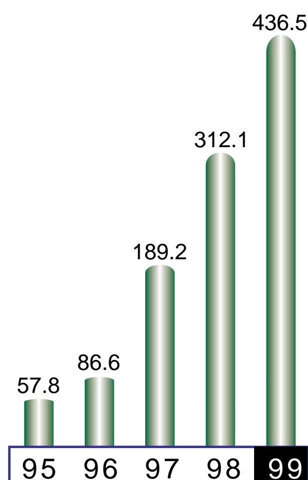
Every day, the employees of Activision work hard to provide audiences around the world with compelling interactive entertainment. The company is recognized as a leading publisher, developer and distributor of quality, innovative software and is affiliated with some of the most important brands in entertainment, including Disney/Pixar's *Toy Story 2* and *A Bug's Life*, Disney's *Tarzan*, LucasArt's *Star Wars: Episode 1 The Phantom Menace*; Marvel Comic's *X-MEN* and *Spider-Man* and Paramount's *Star Trek*. Headquartered in Santa Monica, California, Activision employs more than xx people worldwide.

FINANCIAL HIGHLIGHTS:

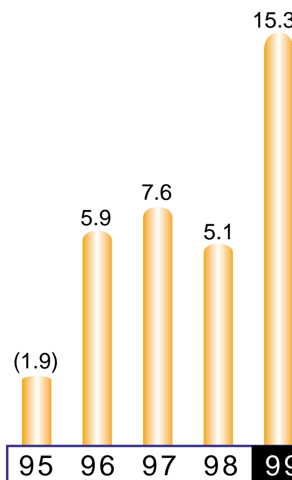
Thousands of Dollars Except Per Share Amounts	1999	1998	% Change
Net Sales	$436,485	$312,058	40%
Operating Income	$27,245	9,486	187%
Net Earnings	$15,254	5,139	197%
Per Common Share:			
Basic Net Earnings	0.69	0.24	188%
Diluted Net Earnings	0.66	0.23	187%

Value of $1,000 invested in Activision Stock in 1992

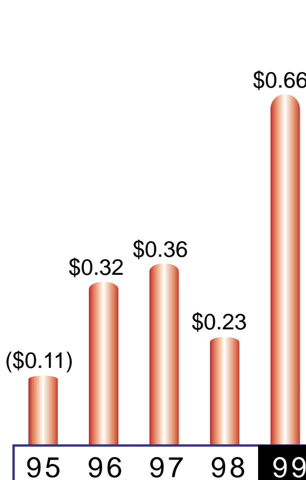
Net Revenues
(millions of dollars)

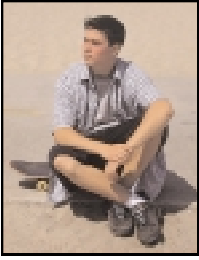


Net Earnings
(millions of dollars)



Diluted Net Earnings
(per common share)





…and Tony Hawk Pro Skater is one great game. Jensen Wayne is an eighth grader from Woodland Hills, California. He remembers his first Activision game. "My dad bought me Pitfall for the Super Nintendo. He said he played Pitfall on an Atari when he was dating my mom. He said Activision games were awesome even then. He laughed because I didn't know what an Atari was."

For twenty years, children like Jensen Wayne and parents, like Jim Wayne, Jensen's dad, have enjoyed the many games that have made Activision one of the world's most successful video game companies.

Delivering outstanding interactive entertainment to our audiences around the world has enabled us to once again deliver outstanding financial results for our stockholders.

TO OUR SHAREOWNERS, EMPLOYEES AND PARTNERS,

Activision had another good year.

— Revenues rose 40% to $436.5 million.
— Earnings increased 197% to $15.3 million.
— Earnings per share grew 187% to $0.66.
— Since 1996, revenues have grown at a compounded annual growth rate of 71%.
— Since 1996, earnings per share have grown at compounded annual growth rate of 27%.
— Since 1996, shareholders' equity increased 104% to $127.5 million.

With a 187% increase in earnings and a 31% increase in net worth, we should be doing cartwheels. However, we will continue to celebrate standing upright until we achieve our goal of increasing our operating margins and our return on capital so that they are the highest in our industry.

At the beginning of last year, we outlined several key financial and strategic objectives for fiscal 1999. We are happy to report that we accomplished many of these goals. Among the most important:

- Increase our earnings by at least 35% and our revenues by 40% - 45%;
- Enhance our publishing unit's portfolio of brands and technology assets;
- Increase the number of territories serviced by our distribution unit;
- Expand and enhance our management team; and
- Initiate a company-wide program to bolster operating margins and return on capital.

We achieved our revenue and earnings growth objectives. Revenues grew 40% while earnings grew 187%. Since 1996, our earnings per share compounded annual growth rate is in excess of 27%.

PUBLISHING

Our publishing business performed better than ever. We released 27 premium games, a 23% increase over the prior year. The publishing business delivered a 55% year-over-year increase in net revenues from $133 million to $206 million.

Sixty-one percent of our revenues were derived from sales of console-based video games, the fastest growing segment of the interactive entertainment market. We are now a leading provider of games for both the PlayStation and Nintendo 64 game consoles. We are also re-entering the Game Boy software business with titles for the new Game Boy Color system.

Our acquisition of Head Games Publishing and our recently completed acquisitions of Expert Software and Elsinore Multimedia provided us with a leadership position in the rapidly growing mass-market PC software sector. Activision was ranked the sixth largest PC entertainment software publisher in the United States from January 1999 through May 1999 according to PC Data, a leading market research firm.

Much of our publishing success can be attributed to our increasing focus on brands with proven audience interest. We recognized that brands are among the most important assets that a company can own or control, and we forged a number of strategic partnerships that have enhanced our portfolio of franchises.

In July 1998, we signed a multi-title publishing agreement with Disney Interactive to publish console games on multiple platforms based on Disney properties, including games based on “A Bug’s Life,” “Tarzan,” “Toy Story 2” and “The Lion King.”

In September 1998, we entered into an exclusive 10-year pact with Viacom Consumer Products to publish and develop interactive titles based on the Star Trek family of franchises. We intend to create multiplayer online-only games which will appeal to both Trekkies and novices alike.

We also concluded a licensing agreement with Marvel Comics to create and publish games based on the X-MEN and Spider-Man franchises. According to Marvel, over 15 million Spider-Man comics are sold each year and the comic strip is syndicated in more than 500 newspapers worldwide. X-MEN is the most successful comic book property of all time, according to Marvel, selling approximately 30 million comic books each year.

We continued to build on historically successful franchises with updates of such well known classics as *Asteroids* (1998) and *Space Invaders* (1999). These titles show how valuable even twenty year-old properties can be when coupled with inspired product development talent.

We established a number of new brands in fiscal 1999 including *Tenchu*, *Vigilante 8*, *Call to Power* and *Big Game Hunter*. And, we initiated new titles which we expect to release in the coming fiscal year, including *Tony Hawk Pro Skater*, *Wu-Tang Shaolin Style* and *Vampire: The Masquerade*, which we believe will provide lasting brand value for many years to come.

During the fiscal year, we also launched an affiliate label program, under which Activision sells and distributes interactive software developed by a select number of quality publishers.

In September 1998, we announced an exclusive agreement with LucasArts Entertainment covering the United Kingdom and 45 additional countries. The agreement includes all past and future LucasArts products for the PC and PlayStation platforms, including several new *Star Wars Episode 1* titles and two *Indiana Jones* titles. The high-quality product flow and broad consumer awareness of the LucasArts line further established Activision as a leading international presence.

In January 1999, the company executed an exclusive distribution agreement with Psygnosis, a wholly owned subsidiary of Sony Computer Entertainment, to sell and distribute all of Psygnosis' PlayStation game console and PC CD-ROM titles in North America. Psygnosis is one of Europe's leading software developers with many successful titles including *Lemmings*, *Formula One*, *Wipeout* and *Destruction Derby*.

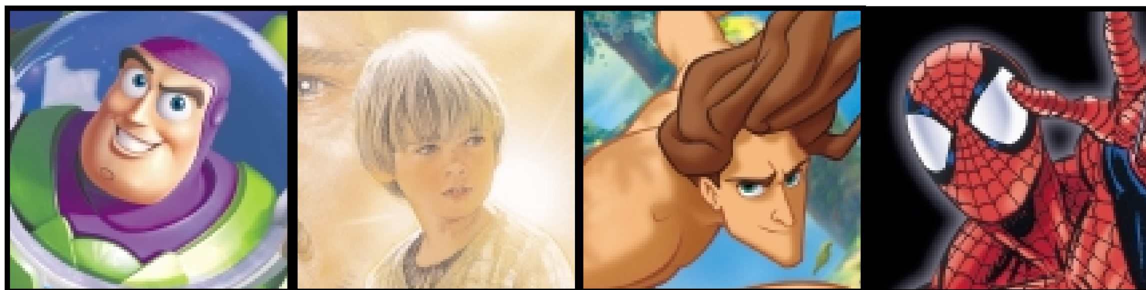
We achieved success in both domestic and international publishing this past year even without many hits based on proven franchise properties. This demonstrates that an extraordinary group of managers with clear financial objectives, a rewards system well aligned with these objectives, and a balanced portfolio of operating assets can achieve impressive and predictable financial results. In fiscal 2000, we intend to leverage all of these competitive advantages with an extraordinary slate of titles based on market-proven franchises and technologies to deliver our most impressive publishing results to date.

DISTRIBUTION

Our distribution business produced a 29% year-over-year gain in net revenues from $179 million to $231 million.

Our acquisitions in fiscal 1998 of CentreSoft Ltd. and NBG immediately established Activision as one of Europe's leading distributors of interactive entertainment products. This last fiscal year, we further expanded our powerful network with the acquisition of CD Contact Data, a leading distributor of interactive entertainment products in The Netherlands and Belgium.

Efficient operations and solid customer and supplier relationships have been the bedrock of our success. We believe that our distribution business will continue to derive future benefits from the positive fundamentals of our industry and continue to provide us with high returns on our invested capital.



We are bringing some of the most recognized brands to audiences around the world…

Ronald Doornink
President and
Chief Operating Officer

Robert A. Kotick
Chairman and
Chief Executive Officer

Brian G. Kelly
Co-Chairman

MANAGEMENT

Activision's continued success is the result of a dedicated, focused management team combined with the efforts of a world-class employee base. We have coupled our talented team with a compensation system that clarifies responsibilities and rewards success. Providing opportunities for our employees to develop and excel is a key continuing objective of our company.

With this in mind, we have recently made several important management additions.

Our most significant corporate change was the addition of our new President and Chief Operating Officer, Ron Doornink. Ron joined the company from Con-Agra, where he served as President of the Snack Food Division. He previously spent 13 years with the Procter & Gamble Company.

Michael Rowe recently joined Activision as Executive Vice President of Human Resources. Our company will benefit from Mike's experiences at Pepsico and The Walt Disney Company's Consumer Products Division.

In connection with our focus on building global brands, Kathy Vrabeck, a veteran consumer marketer from Pillsbury and Quaker Oats, has joined the company as our new Executive Vice President of Global Brand Management.

These extremely talented and accomplished individuals further bolster Activision's management team, which is among the very best in our industry. In addition to bringing a wealth of valuable experience and insight to the company, they, along with our worldwide employee base, add depth and quality to our organization that should serve us well as we continue to grow.

and changing the way people spend their leisure time.

BOLSTERING OPERATING MARGINS AND RETURN ON CAPITAL

Activision's continuing challenge is to provide our shareowners with a higher return than alternative investment opportunities. Inspired by the Six Sigma Programs employed by companies like General Electric, Allied Signal and Motorola, we have initiated a company-wide initiative known as SPEED.

SPEED's goals are to:

- Increase our operating margins and return on capital to industry leading percentages by fiscal 2001;
- Measurably improve our operating units systems and processes; and
- Measurably enhance the quality and consistency of our customers' experiences with our products and services.

Through SPEED we expect to achieve:

STABILITY in our financial results through our diverse portfolio of high-quality operating assets;
PREDICTABILITY through the consistent delivery of high-quality interactive entertainment based on market-proven franchises and technologies;
EFFICIENCY through the constant refinement of our global business practices and systems;
EQUITY enhancement through continued investment in world-class franchises, technology and people; and
DEVELOPMENT of our personnel through our focus on a learning- and result-oriented culture.

SPEED should allow us to grow earnings and net worth per share at rates greater than our competitors for many years to come.

To ensure that we achieve these objectives, We continue to focus on merger and acquisition opportunities and large scale strategic initiatives, including Activision's long-term participation in Internet-based interactive entertainment and commerce. Perhaps most importantly, we continue to manage the rigorous evaluation of the deployment of capital throughout our operating units.

Nine years ago, we assumed control of Activision. The market for video games was in its infancy. Nintendo had recently introduced an 8-bit video game system that was rapidly be coming one of the most popular consumer electronics products of all time.

In fiscal 1991, the year we acquired our shares, Activision lost $26.8 million on $28.8 million revenues and was teetering on the brink of liquidation. Why, you might ask, did we choose to invest so much money, time and energy in a patient that seemed terminal?

At the time, we had modest confidence in our own abilities to restructure and manage a world-class video game company. We did, however, have a great deal of confidence in the fundamentals of the interactive entertainment industry. We felt certain that industry opportunities would provide a forgiving enough environment for us to achieve some fairly ambitious goals.

Our goal was, and remains, to build the leading interactive entertainment company while providing our investors with the largest possible annual increases in tangible net worth per share.

We operate in an industry that has experienced significant, sustained growth over the last ten years, and we believe it will continue to grow at rates greater than many other industries well into the future. The fundamentals of our industry and the potential for increasing rates of return continue to become more attractive. We believe that the rapid proliferation of microprocessor controlled devices, whether dedicated video game systems, personal computers, personal digital assistants or next-generation set top television converters, will continue to expand the demand for interactive entertainment.

The key drivers of growth are as follows:

- Today, there are more devices than ever before that are capable of delivering interactive entertainment experiences.
- The audience for interactive products is expanding to include additional demographic segments.
- Games have become a staple of household leisure time.
- The barriers to entry in our industry remain high.
- Manufacturing costs continue to decline.
- In a few years, the Internet will provide opportunities for us to broaden our audience and reduce marketing and distribution expenses.

We have been interested in participating in our industry's growth, and financing that growth, only to the extent that the incremental returns on our invested capital remain attractive. We strongly believe they do.

Our role is to manage carefully our capital so as to provide superior returns. These returns should be commensurate with the risks associated with our investment of that capital, which we assure you are greater than the risk of investing in US Treasury Bonds.

To enhance our deployment of capital skills, we attended the Berkshire Hathaway annual meeting in Omaha, Nebraska. This "Investor's Woodstock" is a unique opportunity to hear Warren Buffett and Charles Munger expound on the discipline of investing and provide a great deal of insight about capital deployment, the economy and the nutritional value of Dairy Queen's *The Dilly Bar*® (Berkshire owns Dairy Queen).

We are ardent disciples of the business philosophies practiced by Mr. Buffett and Mr. Munger. After the Berkshire annual meeting, we felt that our own stakeholders might benefit from hearing how we have incorporated some of these philosophies into the operation of Activision. We will point out that Berkshire Hathaway does not own shares in any technology companies.

In fact, Warren Buffett remarked in his essay entitled Intelligent Investing, "Fresh ideas, new products, innovative processes and the like cause our country's standard of living to rise. As investors, however, our reaction to a fermenting industry is much like our attitude towards space exploration: We applaud the endeavor but prefer to skip the ride."

Not only is Activision going for the ride, we are driving the bus. Our streets, however, are well paved. We don't veer off the road too often. Before even considering a detour, we spend a lot of time reviewing the roads traveled before us by experienced drivers. Bucking male instinct, we always stop to ask for directions, and operate our vehicle with maximum safety and efficiency. So far, we have fairly consistently managed to arrive at our destinations on time, safely and with few driver errors.

To ensure we keep our eyes on the road, and in keeping with Berkshire's "owner-related business principles," we have established the following Activision guiding principles:

- Our long-term financial goal remains increasing per share net worth at average annual rates greater than those achieved by most major American corporations.
- We will continue to evaluate all opportunities with the utmost concern for the return generated on invested capital and the reduction of risks associated with our investment of your capital.
- We will remain focused on proven brands and technologies whose historical market performance are practical guides for future planning.
- Our operating units will continue to be managed by handpicked professionals, whose primary compensation is derived from their individual ability to achieve operating contribution targets and high returns on capital.
- Our net worth, as well as the net worth of all of our senior executives, is concentrated in Activision stock, and we will continue to make decisions with an owner orientation.

Activision's future is paved with greater opportunities than ever before. However exhilarating our current and future prospects may be, our growth will always be defined carefully. Prudence and discipline will continue to govern our ambitions, just as they have for the last nine years, to ensure our success for the years to come.

We would like to thank our shareowners and dedicated employees who are turning our vision into reality, and of course, our customers and partners whose ongoing support provides the foundation for our success.

Sincerely,

Robert A. Kotick
Chairman and Chief Executive Officer

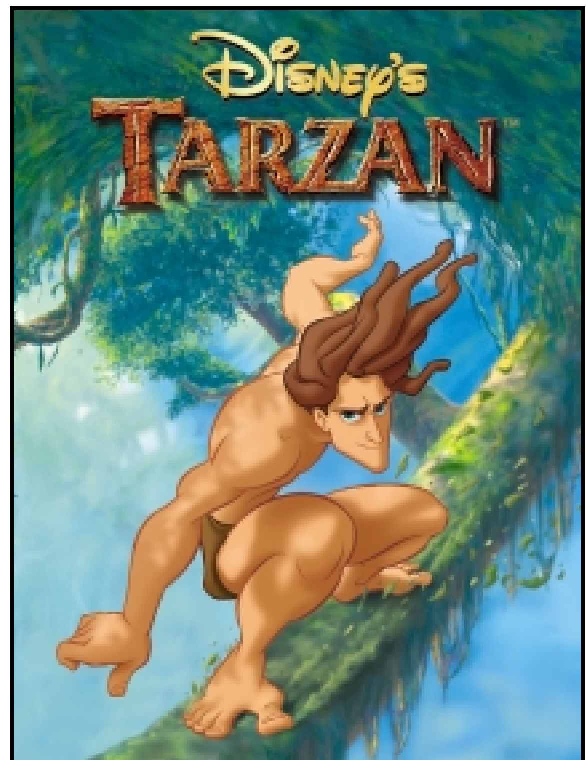
Brian G. Kelly
Co-Chairman

TOY STORY 2

Players relive the fun and excitement of the Disney/Pixar feature film as the resourceful hero Buzz Lightyear. Spinning, springing, bouncing and somersaulting through the air, players must rescue Woody from a greedy toy collector.

A BUG'S LIFE

The blockbuster movie lands on the Nintendo 64 to offer players a bug's eye view of the world as they rescue a home colony of ants from a merciless attack by the seed-grubbing grasshoppers.

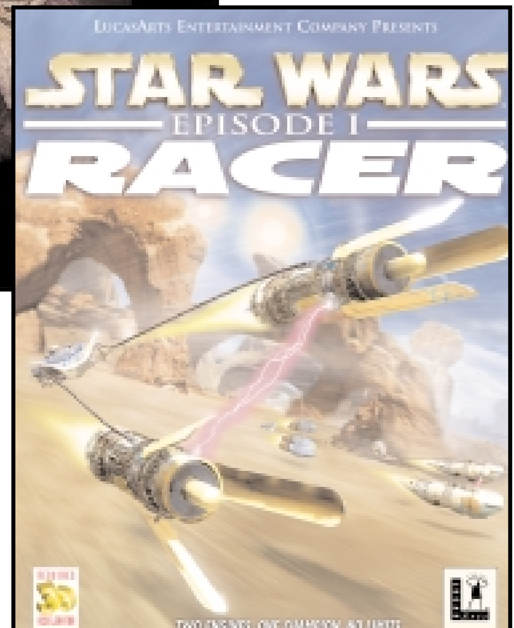


TARZAN

The jungle comes alive on the Game Boy Color as players swim with crocodiles, swing on vines and tree surf to save a family of apes from an evil hunter.

STAR WARS: EPISODE I THE PHANTOM MENACE

Players step into an epic saga and use the Force to overcome challenges at every turn as they plunge deeper into this story of a galaxy in crisis.



STAR WARS: EPISODE I RACER

Players climb on, strap in, and experience the pure adrenaline-pumping excitement of the Pod racing sequence from Star Wars: Episode I The Phantom Menace.

INDIANA JONES AND THE INFERNAL MACHINE

Indiana Jones breaks into a new dimension as players embark on a thrilling race around the globe to thwart the Russian government's deadly plans to unleash a deadly force on the West.

SPIDER-MAN
The world's most celebrated crime fighter uses his web-slinging powers to tackle sinister super villains and save the world.

The approaching end of the millennium marks the beginning of the evil Apocalypse's return. Players must fight a series of brutal battles to free their allies from his grasp so they may once again combat evil together as – the **X-MEN.**

STAR TREK
VOYAGER
ELITE FORCE

STAR TREK
ARMADA

STAR TREK
INSURRECTION

STAR TREK: INSURRECTION
The epic action-adventure sequel to the latest Star Trek motion picture, Insurrection draws players into a fast-paced action tale of stealth and exploration as they engage alien forces to save the Federation.

STAR TREK: ARMADA
The Borg have returned and players must command the fleets of the Federation in an epic battle for survival.

STAR TREK: VOYAGER—ELITE FORCE
When a marauding species captures the U.S.S. Voyager, only one member of the newly formed elite security force, The Hazard Team, can save the crew, the ship and the galaxy itself.

QUAKE III ARENA
Hardwired action is for the taking in relentless single-player and multiplayer gaming via the Internet.

VIGILANTE 8: SECOND OFFENSE
Back in 1975 the Coyote Gang was soundly defeated by the Vigilantes. Now, four decades later, their evil leader wants to take a blast to the past to rewrite some history.

SPACE INVADERS
Attention all earthlings! Relentless alien hordes have been identified in a vicinity near you. Be aware—the classic arcade update has proven to be even more dangerously addictive than ever before.

Financial Results

SELECTED CONSOLIDATED FINANCIAL DATA

	Fiscal Years ended March 31,				
		Restated (1)			
Amounts in Thousands, except per share data	1999	1998	1997	1996	1995
Statement of Operations Data:					
Net revenues	$ 436,485	$ 312,058	$ 189,239	$ 86,591	$ 57,750
Cost of sales – product costs	260,041	176,188	103,124	34,034	31,731
Cost of sales – royalties and software amortization	37,825	29,840	13,108	7,333	1,794
Operating income (loss)	27,245	9,486	11,531	3,233	(3,275)
Income (loss) before income taxes	24,215	8,374	11,612	4,841	(1,776)
Net income (loss)	15,254	5,139	7,631	5,895	(1,875)
Preferred dividends paid and/or accumulated	-	(116)	(151)	-	-
Basic net income (loss) per common share	$ 0.69	$ 0.24	$ 0.37	$ 0.34	$ (0.11)
Diluted net income (loss) per common share	$ 0.66	$ 0.23	$ 0.36	$ 0.32	$ (0.11)
Weighted average number of shares used in computing basic net income (loss) per common share (2)	22,162	21,339	20,262	17,232	17,404
Weighted average number of shares used in computing diluted net income (loss) per common share (2)	23,233	22,210	20,951	18,294	17,404
Selected Operating Data:					
EBITDA (3)	$ 56,665	$ 42,760	$ 23,878	$ 13,727	$ (1,333)
Cash (used in) provided by:					
Operating activities	$ 18,078	$ 31,180	$ 4,956	$ 3,807	$ (393)
Investing activities	$ (64,331)	(43,317)	(19,588)	(11,455)	(61)
Financing activities	7,220	62,862	11,981	(4,378)	1,055

	As of March 31,				
		Restated (1)			
	1999	1998	1997	1996	1995
Balance Sheet Data:					
Working capital	$ 141,314	$ 115,773	$ 51,997	$ 39,871	$ 39,606
Cash and cash equivalents	32,847	74,241	23,320	25,792	38,013
Intangible assets	21,647	23,473	23,756	19,583	20,865
Total assets	283,612	229,280	131,952	84,442	71,672
Long-term debt	61,150	61,780	5,907	1,222	986
Redeemable and convertible preferred stock	-	-	1,500	-	-
Shareholders' equity	127,475	97,397	81,634	62,439	61,693

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The Company is a leading international publisher, developer and distributor of interactive entertainment and leisure products. The Company currently focuses its publishing, development and distribution efforts on products designed for personal computers ("PCs") as well as the Sony PlayStation and the Nintendo 64 console systems. The Company's products span a wide range of genres and target markets.

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

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

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

Cost of sales-product costs represents the cost to purchase, manufacture and distribute PC and console product units. Manufacturers of the Company's PC software are located worldwide and are readily available. Console CDs and cartridges are manufactured by the respective video game console manufacturers, Sony, Nintendo and Sega, who often require significant lead time to fulfill the Company's orders.

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

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

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

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

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

Net Revenues

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

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

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

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

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

Costs and Expenses

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

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

Product development expenses for the year ended March 31, 1999 decreased 21.9% from the prior year, from $27.4 million to $21.4 million. The decrease in the amount of product development expenses for the year ended March 31, 1999 was primarily due to an increase in capitalizable development costs relating to sequel products being developed on proven engine technologies which have been capitalized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or otherwise Marketed".

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

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

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

Interest Income (Expense)

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

Provision for Income Taxes

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

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

Net Revenues

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

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

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

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

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

Costs and Expenses

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

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

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

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

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

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

Interest Income (Expense)

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

Provision for Income Taxes

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

QUARTERLY OPERATING RESULTS

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

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

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

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

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

YEAR 2000

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

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

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

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

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

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

EURO CONVERSION

On January 1, 1999, eleven of the fifteen member countries of the European Union adopted the "euro" as their common currency. The sovereign currencies of the participating countries are scheduled to remain legal tender as denominations of the euro between January 1, 1999 and January 1, 2002.

Beginning January 1, 2002, the participating countries will issue new euro-denominated bills and coins for use in cash transactions. No later than July 1, 2002, the participating countries will withdraw all bills and coins denominated in the sovereign currencies, so that the sovereign currencies no longer will be legal tender for any transactions, making conversion to the euro complete. The Company has performed an internal analysis of the possible implications of the euro conversion on the Company's business and financial condition, and has determined that the impact of the conversion will be immaterial to its overall operations. The Company's wholly owned subsidiaries operating in participating countries represented 24.1% and 22.1% of the Company's consolidated net revenues for the years ended March 31, 1999 and 1998, respectively.

RECENTLY ISSUED ACCOUNTING STANDARDS

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company does not currently participate in hedging activities or own derivative instruments but plans to adopt SFAS No. 133 beginning April 1, 2001.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

In June 1999, the Company obtained the New Facility. The interest rate applied to any debt outstanding under the New Facility is based on the published prime rate or LIBOR and is, therefore, subject to a certain amount of risk arising from fluctuations in these rates.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders:

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

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

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

KPMG LLP

Los Angeles, California
May 3, 1999

ACTIVISION, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

In thousands, except per share data	March 31, 1999	March 31, 1998 Restated
Assets:		
Current assets:		
Cash and cash equivalents	$ 32,847	$ 74,241
Accounts receivable, net of allowances of $14,979 and $15,582, respectively	117,522	73,926
Inventories, net	30,931	19,425
Prepaid royalties and capitalized software costs	38,997	12,444
Deferred income taxes	6,044	3,852
Other current assets	9,960	1,988
Total current assets	236,301	185,876
Prepaid royalties and capitalized software costs	6,923	-
Property and equipment, net	10,841	11,944
Deferred income taxes	2,618	4,665
Excess purchase price over identifiable assets acquired, net	21,647	23,473
Other assets	5,282	3,322
Total assets	$ 283,612	$ 229,280
Liabilities and Shareholders' Equity:		
Current liabilities:		
Current portion of notes payable to bank	$ 5,992	$ 4,292
Accounts payable	43,853	50,473
Accrued expenses	45,142	15,338
Total current liabilities	94,987	70,103
Notes payable to bank, less current portion	1,143	1,692
Convertible subordinated notes	60,000	60,000
Other liabilities	7	88
Total liabilities	156,137	131,883
Commitments and contingencies		
Shareholders' equity:		
Common stock, $.000001 par value, 50,000,000 shares authorized, 23,104,927 and 22,408,415 shares issued and 22,604,927 and 21,908,415 outstanding, respectively	-	-
Additional paid-in capital	109,251	91,825
Retained earnings	26,012	10,758
Accumulated other comprehensive income (loss)	(2,510)	92
Less: Treasury stock, cost of 500,000 shares	(5,278)	(5,278)
Total shareholders' equity	127,475	97,397
Total liabilities and shareholders' equity	$ 283,612	$ 229,280

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

ACTIVISION, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

ACTIVISION, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

ACTIVISION, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

In thousands	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income (loss)	Shareholders' Equity
Balance, March 31, 1996	**$ 18,471**	**-**	**$ 67,990**	**2**	**(500)**	**$ (5,278)**	**$ (335)**	**$ 62,379**
Components of comprehensive income:								
Net income for the year	-	-	-	7,631	-	-	-	7,631
Foriegn currency translation adjustment	-	-	-	-	-	-	177	177
Total comprehensive income	-	-	-	-	-	-	-	7,808
Issuance of common stock	63	-	848	-	-	-	-	848
Issuance of common stock persuant to employee stock option plan	313	-	2,209	-	-	-	-	2,209
Issuance of common stock persuant to employee stock purchase plan	19	-	179	-	-	-	-	179
Tax benefit attributable to employee stock option plan	-	-	736	-	-	-	-	736
Tax benefit derived from net operating loss carryforward utilazation	-	-	6,634	-	-	-	-	6,634
Issuance of stock on formation of CentreSoft	2,468	-	268	-	-	-	-	268
Conversin of notes payable to common stock	-	-	283	-	-	-	-	283
Dividends declared	-	-	-	(1,270)	-	-	-	(1,270)
Balance, March 31, 1997	**$ 21,334**	**-**	**$ 79,147**	**6,363**	**(500)**	**$ (5,278)**	**$ (158)**	**$ 80,074**
Components of comprehensive income:								
Net income for the year	-	-	-	5,139	-	-	-	5,139
Foriegn currency translation adjustment	-	-	-	-	-	-	250	250
Total comprehensive income	-	-	-	-	-	-	-	5,389
Issuance of common stock and common stock warrants	82	-	1,214	-	-	-	-	1,214
Issuance of common stock persuant to employee stock option plan	599	-	4,756	-	-	-	-	4,756
Issuance of common stock persuant to employee stock purchase plan	64	-	582	-	-	-	-	582
Tax benefit attributable to employee stock option plan	-	-	1,247	-	-	-	-	1,247
Adjustment for change in year-end of pooled subsidiary	-	-	-	(639)	-	-	-	(639)
Conversion of Redeemable Preferred Stock	87	-	1,286	-	-	-	-	1,286
Conversion of Convertible Preferred Stock	15	-	214	-	-	-	-	214
Conversion of Subordinated Loan Stock Debentures	217	-	3,216	-	-	-	-	3,216
Issuance of stock to affect business combination	10	-	163	11	-	-	-	174
Dividends declared	-	-	-	(116)	-	-	-	(116)
Balance, March 31, 1998	**$ 22,408**	**-**	**$ 91,825**	**10,758**	**(500)**	**$ (5,278)**	**$ 92**	**$ 97,397**
Components of comprehensive income:								
Net income for the year	-	-	-	15,254	-	-	-	15,254
Foriegn currency translation adjustment	-	-	-	-	-	-	(2,602)	(2,602)
Total comprehensive income	-	-	-	-	-	-	-	12,652
Issuance of common stock and common stock warrants	-	-	3,368	-	-	-	-	3,368
Issuance of common stock persuant to employee stock option plan	605	-	5,271	-	-	-	-	5,271
Issuance of common stock persuant to employee stock purchase plan	92	-	798	-	-	-	-	798
Tax benefit attributable to employee stock option plan	-	-	1,059	-	-	-	-	1,059
Tax benefit derived from net operating loss carryforward utilazation	-	-	2,430	-	-	-	-	2,430
Conversin of notes payable to common stock	-	-	4,500	-	-	-	-	4,500
Balance, March 31, 1999	**$ 23,105**	**-**	**$ 109,251**	**26,012**	**(500)**	**$ (5,278)**	**$ (2,510)**	**$ 127,475**

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

ACTIVISION, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

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

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

Principles of Consolidation

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

Basis of Presentation

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

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

Fair Value of Financial Instruments

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

Prepaid Royalties and Capitalized Software Costs

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

The Company accounts for prepaid royalties relating to

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

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

Capitalized software development costs are amortized to cost of sales – royalties and software amortization on a straight-line basis over the estimated product life (generally one year or less) commencing upon product release, or on the ratio of current revenues to total projected revenues, whichever amortization amount is greater. Prepaid royalties are amortized to cost of sales – royalties and software amortization commencing upon the product release at the contractual royalty rate based on actual net product sales, or on the ratio of current revenues to total projected revenues, whichever amortization amount is greater. For products that have been released, management evaluates the future recoverability of capitalized amounts on a quarterly basis.

As of March 31, 1999, prepaid royalties and unamortized capitalized software costs totaled $37.1 million (including $6.9 million classified as non-current) and $8.8 million, respectively. As of March 31, 1998, prepaid royalties and unamortized capitalized software costs totaled $10.7 million and $1.7 million, respectively. At March 31, 1998, all prepaid royalties and unamortized capitalized software costs were classified as current. Amortization of prepaid royalties and capitalized software costs was $27.1 million, $29.2 million and $9.0 million for the years ended March 31, 1999, 1998 and 1997, respectively. Write-offs of prepaid royalties and capitalized software costs prior to product release were $2.4 million, $363,000 and $588,000 for the years ended March 31, 1999, 1998 and 1997, respectively.

Inventories

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

Revenue Recognition

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

Product Sales: The Company recognizes revenue from the sale of its products upon shipment. Subject to certain limitations, the Company permits customers to obtain exchanges or return products within certain specified periods, and provides price protection on certain unsold merchandise. Management of the Company has the ability to estimate the amount of future exchanges, returns, and price protections. Revenue from product sales is reflected net of the allowance for returns and price protection.

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

Advertising Expenses

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

Excess Purchase Price Over Identifiable Assets Acquired, Net and Long-Lived Assets

The excess cost over net assets acquired is being amortized on a straight-line basis over a 20 year period. As of March 31, 1999 and 1998, accumulated amortization amounted to $9,069,000 and $7,904,000, respectively. The Company adopted the provisions of SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of," on April 1, 1996. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of

the asset to undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. Adoption of this Statement did not have a material impact on the Company's financial position, results of operations, or liquidity.

Interest Income (Expense)

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

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

Income Taxes

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

Foreign Currency Translation

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

Estimates

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

Stock Based Compensation

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

Reclassifications

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

2. ACQUISITIONS

1999 Transactions

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

Acquisition of Head Games

On June 30, 1998, the Company acquired Head Games in exchange for 1,000,000 shares of the Company's common stock. The acquisition of Head Games was initially accounted for as an immaterial pooling of interests; accordingly, periods prior to April 1, 1998 were not retroactively restated for this transaction. However with the Company's Annual

Report on Form 10-K, all prior periods have been retroactively restated to reflect the effect of the Head Games acquisition in all periods presented.

Acquisition of CD Contact

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

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

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

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

1998 Transactions

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

Acquisition of NBG

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

Acquisition of Raven Software Corporation

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

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

	Fiscal Year 1997					
	Activision as Previously Reported Year Ended March 31, 1997	Raven Year Ended March 31, 1997	NBG 6 Months Ended March 31, 1997	Head Games Year Ended March 31, 1997	CD Contact Year Ended March 31, 1997	Total Restated Year Ended March 31, 1997
Revenues	$154,644	$ 428	$19,628	$ 1,083	$13,456	$189,239
Net income (loss)	$ 9,226	$(419)	$ 179	$(1,510)	$ 155	$ 7,631

Acquisition of CentreSoft

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

3.INVENTORIES

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

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

4.PROPERTY AND EQUIPMENT

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

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

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

5.ACCRUED EXPENSES

Accrued expenses were as follows (amounts in thousands):

	March 31, 1999	March 31, 1998
		Restated
Accrued royalties payable	$ 11,249	$ 5,996
Affiliated label payable	11,999	-
Accrued selling and marketing costs	3,082	2,937
Income tax payable	5,068	1,360
Accrued interest expense	1,013	1,125
Accrued bonus and vacation pay	4,473	1,210
Other	8,258	2,710
	$ 45,142	$ 15,338

6.OPERATIONS BY REPORTABLE SEGMENTS AND GEOGRAPHIC AREA

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

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

The Company's publishing segment develops and publishes titles both internally through the studios owned by the Company and externally, through third party developers. In the United States, the Company's products are sold primarily on a direct basis to major computer and software retailing organizations, mass market retailers, consumer electronic stores, discount warehouses and mail order companies. The Company conducts its international publishing activities through offices in the United Kingdom, Germany, France, Australia and Japan. The Company's products are sold internationally on a direct to retail basis, through third party distribution and licensing arrangements, and through the Company's owned distribution subsidiaries located in the United Kingdom, the Benelux territories and Germany.

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

The President and Chief Operating Officer allocates resources to each of these segments using information on their respective revenues and operating profits before interest and taxes. The President and Chief Operating Officer has been identified as the Chief Operating Decision Maker as defined by SFAS No. 131.

The President and Chief Operating Officer does not evaluate individual segments based on assets or depreciation.

The accounting policies of these segments are the same as those described in the Summary of Significant Accounting Policies. Revenue derived from sales between segments is eliminated in consolidation.

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

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

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

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

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

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

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

Revenues by platform were as follows:

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

7. COMPUTATION OF NET INCOME PER SHARE

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

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

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

Convertible subordinated notes and convertible preferred stock were not included in the calculations of diluted net income per share because their effect would be antidilutive.

8. INCOME TAXES

Domestic and foreign income (loss) before income taxes and details of the income tax provision (benefit) are as follows (amounts in thousands):

	Fiscal Year Ended March 31,		
	1999	1998	1997
Income (loss) before income taxes:			
Domestic	$ 6,524	$ (2,215)	$ 2,838
Foreign	17,691	10,589	8,774
	$ 24,215	$ 8,374	$ 11,612
Income tax expense (benefit):			
Current:			
Federal	$ 37	$ 1,133	$ (745)
State	124	14	31
Foreign	5,456	3,653	1,530
Total current	5,617	4,800	816
Deferred:			
Federal	(202)	(2,580)	(2,961)
State	57	(232)	(1,244)
Total deferred	(145)	(2,812)	(4,205)
Add back benefit credited to additional paid-in capital:			
Tax benefit related to stock option exercises	1,059	1,247	736
Tax benefit related to utilization of pre-bankruptcy net operating loss carryforwards	2,430	-	6,634
	3,489	1,247	7,370
	$ 8,961	$ 3,235	$ 3,981

The items accounting for the difference between income taxes computed at the U.S. federal statutory income tax rate and the income tax provision for each of the years are as follows:

	Year ended March 31,		
		Restated	
	1999	1998	1997
Federal income tax provision at statutory rate	34.0%	34.0%	35.0%
State taxes, net of federal benefit	1.3%	(1.2%)	2.6%
Nondeductible amortization	1.7%	4.4%	3.0%
Nondeductible merger fees	0.8%	3.6%	-
Research and development credits	(5.4%)	(5.3%)	(6.4%)
Incremental effect of foreign tax rates	(0.9%)	0.7%	(3.1%)
Increase (reduction) of valuation allowance	5.1%	-	3.1%
Other	0.4%	2.4%	0.1%
	37.0%	38.6%	34.3%

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

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

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

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

eral and state purposes, respectively, which expire from 2006 to 2013.

9.COMMITMENTS, CONTINGENCIES AND DEBT

Bank Line of Credit

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

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

Private Placement of Convertible Subordinated Notes

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

Lease Obligations

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

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

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

Legal Proceedings

The Company is party to routine claims and suits brought against it in the ordinary course of business, including disputes arising over the ownership of intellectual property rights and collection matters. In the opinion of management, the outcome of such routine claims will not have a material adverse effect on the Company's business, financial condition, results of operations or liquidity.

10.STOCKHOLDERS' EQUITY AND COMPENSATION PLANS

Option Plans

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

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

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

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

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

	1999		1998		1997	
	Shares (000)	Wtd Avg Ex Price	Shares (000)	Wtd Avg Ex Price	Shares (000)	Wtd Avg Ex Price
Outstanding at beginning of year	6,218	$ 11.47	5,228	$ 11.69	3,725	$ 11.37
Granted	3,538	$ 10.27	2,776	$ 12.14	1,997	$ 11.28
Exercised	.					
Outstanding at end of year	7,949	$ 10.54	6,218	$ 11.47	5,228	$ 11.69
Exercisable at end of year	3,754	$ 10.00	2,532	$ 9.78	3,292	$ 12.62

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

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

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

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

Employee Stock Purchase Plan

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

Employee Retirement Plan

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

Director Warrant Plan

The Director Warrant Plan, which expired on December 19, 1996, provided for the automatic granting of warrants ("Director Warrants") to purchase 16,667 shares of the Common Stock to each director of the Company who was not an officer or employee of the Company or any of its subsidiaries. Director Warrants granted under the Director Warrant Plan vest 25% on the first anniversary of the date of grant, and 12.5% each six months thereafter. The expiration of the Plan had no effect on the outstanding Warrants. As of March 31, 1999, there were no shares of Common Stock available for distribution under the Director Warrant Plan.

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

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

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

Other Options and Warrants

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

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

On June 4, 1998, the Company granted options to purchase 60,000 shares of the Company's common stock to four of its outside directors. The options have an exercise price of $9,50, vest in two equal annual installments beginning a year from the date of issuance, and expire on June 4, 2008.

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

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

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

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

The fair value of the warrants was determined using the Black-Scholes pricing model, assuming a risk-free rate of 4.77%, a volatility factor of .66 and expected terms as noted in the above table. In accordance with the Financial Accounting Standards Board's Emerging Issues Task Force Issue No. 96-18 "Accounting for Equity Instruments that are Issued To Other Than Employees for Acquiring or in Connection With Selling Goods or Services" (EITF 96-18), the Company measures the fair value of the securities on the measurement date. The measurement date is the earlier of the date on which the other party's performance is completed or the date of a performance commitment, as defined. The fair value of each warrant is capitalized and amortized to royalty expense when the related product is released and the related revenue is recognized. During 1999, $387,620 was amor-

tized and included in royalty expense relating to warrants. No amortization was recognized in 1998.

Pro Forma Information

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

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

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have

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

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

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

The effects on pro forma disclosures of applying SFAS No.

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

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

11.SUPPLEMENTAL CASH FLOW INFORMATION

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

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

12.QUARTERLY FINANCIAL AND MARKET INFORMATION (UNAUDITED)

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

13. SUBSEQUENT EVENTS -- UNAUDITED

Bank Line of Credit

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

Acquisition of Expert Software

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

MARKET FOR COMPANY'S COMMON STOCK

The Company's Common Stock is quoted on the NASDAQ National Market under the symbol "ATVI." The following table sets forth for the periods indicated the high and low reported closing sale prices for the Company's Common Stock.

	High	Low
Fiscal 1998		
First Quarter ended June 30, 1997	$14.75	$ 9.87
Second Quarter ended September 30, 1997	$15.50	$11.00
Third Quarter ended December 31, 1997	$18.62	$13.00
Fourth Quarter ended March 31, 1998	$17.87	$ 9.50
Fiscal 1999		
First Quarter ended June 30, 1998	$11.62	$ 9.37
Second Quarter ended September 30, 1998	$13.75	$ 9.37
Third Quarter ended December 31, 1998	$14.87	$ 8.75
Fourth Quarter ended March 31, 1999	$13.81	$ 9.75
Fiscal 2000		
First Quarter through June 30, 1999	$14.25	$10.12

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

Officers

CORPORATE

Robert A. Kotick	Chairman and Chief Executive Officer
Brian G. Kelly	Co-Chairman
Ronald Doornink	President and Chief Operating Officer
Robert J. Dewar	Executive Vice President, International Publishing
Lawrence Goldberg	Executive Vice President and General Counsel
Mitchell H. Lasky	Executive Vice President, Worldwide Studios
Barry J. Plaga	Executive Vice President and Chief Financial Officer
Michael J. Rowe	Executive Vice President, Human Resources
Ronald L. Scott	Executive Vice President, North American Publishing
Richard A. Steele	Executive Vice President, Distribution
Kathy P. Vrabeck	Executive Vice President, Global Brand Management

BOARD OF DIRECTORS

Robert A. Kotick	Chairman and Chief Executive Officer, Activision, Inc.
Brian G. Kelly	Co-Chairman
Barbara S. Isgur	Former Senior Vice President, Stratagem
Steven T. Mayer	Former Chairman, Digital F/X, Inc.
Robert J. Morgado	Chairman, Maroley Media Group
Harold Brown	Partner, Gang, Tyre, Ramer & Brown, Inc.

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Eden Prairie, Minnesota
Hollywood, Florida
Madison, Wisconsin
New York, New York

INTERNATIONAL OFFICES

Argenteuil, France
Berchem, Belgium
Birmingham, United Kingdom
Burglengenfeld, Germany
Eemnes, The Netherlands
Epping, Australia
Ismaning, Germany
Middlesex, United Kingdom
Tokyo, Japan
Venlo, The Netherlands

FORWARD LOOKING STATEMENTS

The statements contained in this report that are not historical facts are "forward-looking statements." The company cautions readers of this report that a number of important factors could cause Activision's actual future results to differ materially from those expressed in any such forward-looking statements. These important factors, and other factors that could affect Activision, are described in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1999, which was filed with the United States Securities and Exchange Commission. Readers of this report are referred to such filings.

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ANNUAL REPORT ON FORM 10-K

The company's annual report and Form 10-K for the year ended March 31, 1999 are available to shareholders without charge upon request from our corporate offices.

SHAREHOLDER MEETING

September 23, 1999

The Peninsula Hotel
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(310) 551-2888