BLADE™ • CABELA'S BIG GAME HUNTER™ • DISNEY/PIXAR'S BUZZ LIGHTYEAR OF STAR COMMAND™ • DISNEY'S LION KING™ • MAT HOFFMAN'S PRO BMX™ • QUAKE III ARENA™ • RETURN TO CASTLE WOLFENSTEIN™ •

SPIDER-MAN™ • STAR TREK®: VOYAGER ELITE FORCE™ • STAR TREK® INVASION™ • STAR WARS DEMOLITION™ • TENCHU 2™ • TONY HAWK'S PRO SKATER 2™ • VAMPIRE: THE MASQUERADE—REDEMPTION™ • X-MEN MUTANT ACADEMY™

"The employees of ACTIVISION® work hard to provide audiences around the world with compelling interactive entertainment."

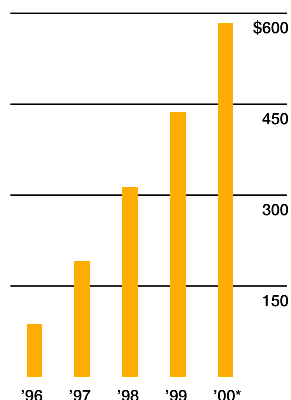
Financial 2000 Highlights

(in thousands of dollars except per share data)

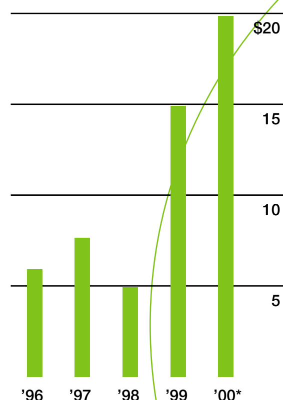
	2000	**2000***	1999	1998	1997	1996
Net Revenues	**$572,205**	**$583,930**	$436,526	$312,906	$190,446	$87,561
Operating Income (Loss)	**(30,325)**	**39,867**	26,667	9,218	11,497	3,264
Net Earnings (Loss)	**(34,088)**	**19,817**	14,891	4,970	7,583	5,908
Earnings Per Common Share:						
Basic Earnings (Loss) Per Share	**$ (1.38)**	**$ 0.80**	$ 0.65	$ 0.22	$ 0.36	$ 0.33
Diluted Earnings (Loss) Per Share	**(1.38)**	**0.74**	0.62	0.21	0.35	0.31

*Excludes charges incurred in conjunction with the implementation of the company's strategic restructuring plan in the fourth quarter of fiscal 2000.

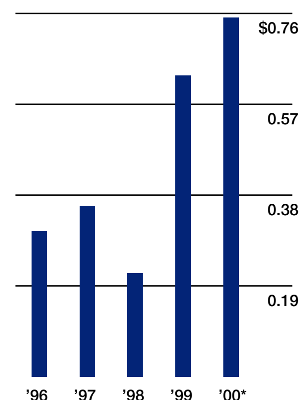
NET REVENUES
(Millions of Dollars)



NET EARNINGS
(Millions of Dollars)



DILUTED EARNINGS
(per common share)



*Excludes charges incurred in conjunction with the implementation of the company's strategic restructuring plan in the fourth quarter of fiscal 2000.

Robert A. Kotick

Brian G. Kelly

Ronald Doornink

Letter to Our Shareholders

Fiscal year 2000 continued a five-year period of expansion for our company. Since 1996, revenues have grown at a compounded annual growth rate of 60%, rising from $88 million to more than $572 million. We are proud to say that these results exceeded the industry's North American software compounded annual growth rate by 23%.

As a result of these achievements, Activision today is the second largest North American third-party interactive entertainment company measured in net revenues. Our vision for our company has remained constant: to be a worldwide leader in the development, publishing and distribution of quality interactive entertainment.

In fiscal 2000, we celebrated our 20th anniversary, reported record revenues, grew our core business and finished the year as the #5 North American interactive entertainment software publisher. For the first time ever, we achieved top-10 status on all major gaming platforms—the PC, PlayStation, Nintendo 64, Dreamcast and Game Boy Color.

Our success was driven by our strong slate of high-quality games based on well-known brand franchises. During the year, we released 34 games across multiple platforms. Seventy-two percent of our net revenues were derived from sales of console-based video games, the fastest growing segment in the interactive entertainment market.

Key console titles for the year included such best-selling games as Tony Hawk's *Pro Skater* for the PlayStation, Nintendo 64 and Game Boy Color; *Disney/Pixar's Toy Story 2* for the PlayStation, Nintendo 64 and Game Boy Color; *Vigilante 8: Second Offense* for the PlayStation, Nintendo 64 and Dreamcast; *Disney's Tarzan* for the Nintendo N64 and Game Boy Color; *Space Invaders* for the PlayStation, Nintendo 64 and Game Boy Color; and *Blue Stinger* for the Dreamcast.

Our PC slate included *QUAKE III Arena, Star Trek: Armada, Cabela's Big Game Hunter III, Space Invaders* and *Soldier of Fortune.*

As a result of our significant growth over the past three fiscal years, we have recently reevaluated our business. In the fourth quarter, we implemented several initiatives that were designed to better position the company for future opportunities provided by the next-generation of console platforms and the Internet.

Following nine corporate acquisitions over the past three fiscal years, we announced a one-time $70 million strategic restructuring charge that included write-downs of certain intangibles including goodwill, a realignment of our worldwide publishing business, the discontinuation of unprofitable product lines, headcount reductions and other measures that are designed to improve the company's overall productivity and profitability. We believe these actions will provide Activision with operating leverage and will make us more competitive in the future.

The changes that we have made in our business coincide with the transitions occurring within our industry. Next-generation console systems such as Sony's PlayStation 2, Microsoft's X-Box, Nintendo's Dolphin and Game Boy Advance are expected to be introduced into the marketplace starting later this year through 2001. These new technologies will allow consumers to watch DVD movies, listen to CDs, access the Internet and play games through one easy-to-use electronic device.

Although we expect that the next-generation console systems will expand the overall marketplace for interactive entertainment software by appealing to audiences beyond the traditional gaming consumers, the initial development cycle of games for these platforms will most likely be longer and more expensive. Past experience has taught us the importance of establishing an early presence on significant new hardware platforms. Therefore, in fiscal 2001, we intend to increase our product development expenditures and devote more resources toward developing games for these new platforms. During the next fiscal year, we expect to ship several games for the PlayStation 2, which will debut in the U.S. in the fourth quarter of calendar 2000.

We believe that we are in a great industry at the right time with the right capabilities to succeed. As microprocessors are being incorporated into everything from digital assistants to wireless phones to console devices, applications that were unthinkable five years ago are redefining how the world works and plays. Activision is committed to maintaining its industry leadership position and bringing new products to market that deliver innovative entertainment experiences. We will also continue to make major investments in our operational capabilities and infrastructure to strengthen our competitive position and capitalize on the opportunities ahead

We expect that our brand momentum will align us well for the future. The scope and breadth of our product line has been a key component of Activision's success, and we believe that the strength of our franchises and our cross-platform strategy will enable us to maintain our market leadership and provide the company with long-lasting value for years to come.

We are entering the 21st century in a strong and competitive position. We look forward with great confidence as we pursue business strategies to further distinguish ourselves within the interactive entertainment software arena and, in doing so, enhance shareholder value. We are optimistic about the outlook for Activision. Today, we are a larger and stronger company than ever before with our greatest asset being our dedicated employees, each of whom shares our commitment to quality and has greatly contributed to the success of our company.

Our success could not be accomplished without continued commitment from our shareholders, employees, customers and partners for which we are grateful.

Sincerely,

Robert A. Kotick	Brian G. Kelly	Ronald Doornink
Chairman & Chief Executive Officer	Co-Chairman	President & Chief Operating Officer

Questions & Answers

with Robert A. Kotick

Where do you see the industry growth opportunities over the next three to five years?

A: Over the past five years, the worldwide interactive entertainment industry has grown at a compounded annual growth rate of approximately 25% per year, and today is about an $18 billion a year business, according to the International Development Group. We believe that the introduction of next-generation console game systems, coupled with the numerous opportunities presented by the Internet and emerging technologies, like wireless, will continue to fuel the industry's growth to unprecedented heights.

With the launch of the next-generation console systems, we will finally see the long-awaited convergence of television and the Internet. These systems, which include Sony's PlayStation 2, Microsoft's X-Box and Nintendo's Dolphin, should be the first game consoles that will appeal to audiences beyond the traditional gaming consumer. Console owners now will be able to watch DVD movies, listen to CD music, connect to the Internet at high speeds and play games with production values that rival big-budget feature films, through one easy-to-use, low-cost device.

Additionally, there are a variety of game offerings available on the Internet that are further expanding the gaming audience. Prize play, online sweepstakes and online parlor and card games are bringing hundreds of new consumers weekly to the interactive entertainment marketplace. These are consumers who previously had not engaged in interactive entertainment as a leisure time pursuit.

The advent of broadband and wireless technologies is likely to further broaden the reach of interactive entertainment, as microprocessors continue to be incorporated into an increasing number of easy-access mass-market devices.

Lastly, many of the young people who grew up in the 1980s and 1990s playing Atari 8-bit and 16-bit games are still playing games today.

As a result of all of these changes, the audience and the demographics for interactive entertainment should continue to expand. By 2003, interactive entertainment could easily be a $25 billion a year business.

We believe Activision is poised to take advantage of these emerging market opportunities. We own or have long-term rights to brands with widespread consumer appeal. Our development organization is capable of moving across multiple technological platforms. We have one of the industry's strongest, most seasoned management teams that is focused on the right opportunities.

How do you see Activision changing over the next five years?

A: In 1999, Activision celebrated its 20th anniversary. Over the past twenty years, many companies have come and gone. Over the past five years, we have grown our revenues at rates greater than our competitors, our market share is increasing and, today, we are one of two North American independent interactive entertainment software companies with worldwide revenues in excess of $500 million.

Over the next three to five years, we believe that we will be able to further consolidate our leadership position and continue to take advantage of the positive market fundamentals. Our focus will be to enhance our profit margins and obtain a higher return on capital through operating efficiencies that will be created through continued international expansion, new platform introductions, reduced distribution expenses from online delivery systems and brand leverage. As industry consolidation continues and the barriers to entry remain high, we expect that there will be less competition and greater opportunities for established, well-managed companies like Activision.

What are some of the challenges that the industry will face over the next three to five years?

A: The key challenge that gaming companies will face over the coming years will be to manage the costs associated with product development and marketing.

Over the past several years, game development costs have steadily increased as a result of greater technical demands, growing art and animation budgets and competition for technical talent. Over the next few years, development costs should continue to increase as we have a larger number of new platforms to support. However, we believe that there also will be the opportunity to realize greater revenues by selling products across the variety of new electronic devices that will be introduced into the marketplace.

Absolute marketing costs also have increased as publishers compete for consumer attention. With the audience for games expanding, publishers will have to create even more sophisticated marketing, promotion and advertising campaigns in order to differentiate their products.

As Activision looks toward the future, we will continue to develop great products based on proven technologies and brand franchises and exploit those products through targeted marketing campaigns. We expect that our brand momentum will allow us to leverage the many emerging market opportunities. To ensure this, we will continue to allocate our marketing resources to support our top-tier titles. Through consumer research data, we believe we are better able to define our target audience, build a stronger product mix and steer our development process. Our focus is to maintain our balanced business strategies, manage our costs, grow our franchises and utilize the new market opportunities to increase our revenues, profits and market share.

How will the launch of next-generation console systems affect the industry at large and Activision's strategy?

A:

With the impending North American launch of Sony's PlayStation 2 this fall and Microsoft's X-Box and Nintendo's Dolphin systems later next year, calendar 2000 marks the beginning of a transition phase for the industry. Internet connectivity, DVD capabilities and backward compatibility promise to transform the next-generation gaming systems into mass-market home entertainment devices that should increase the installed base of users beyond any of the previous video game platforms. This, coupled with the marketing reach of Sony, Microsoft and Nintendo, should drive video gaming to a new level.

As a result of these changes, proven brands and franchises with broad appeal are more critical than ever before, since we believe that new consumers are more apt to buy games based on established brands than unbranded properties. Publishers with easily recognizable franchises should be better positioned to take advantage of the opportunities on the current hardware systems, as well as to capitalize on the new next-generation systems.

Activision's strong brands with proven market performance and its multi-platform development strategy should continue to give the company an advantage in the new console era. Our brands provide us with the flexibility to investigate and develop new properties and game concepts without sacrificing financial stability and predictability that is crucial to our investors. During fiscal 2001, we expect to increase the number of games we publish based on branded properties and proven technologies over this fiscal year. These factors, coupled with our worldwide distribution network and capital resources, should allow us to take full advantage of the emerging market opportunities presented by the next-generation of console systems.

How will the Internet, emerging wireless technologies and electronic devices that support multiprocessors provide new opportunities for Activision?

A:

We believe that the Internet offers revolutionary enhancements to the gaming experience. For Activision, it provides us with the opportunity to expand our audience, take advantage of new channels of distribution and deliver new types of gaming experiences to consumers worldwide in ways never before imagined. For consumers, it allows them to sample games before they make their purchase decisions. The Internet also may allow for advertiser-supported gaming as well as subscription and pay-for-play gaming.

Broadband and wireless technologies also should offer a multitude of exciting new possibilities for game publishers. Microprocessors are being incorporated into an increasing number of easy-access mass-market devices, including cellular telephones and personal digital assistants, and the Internet is connecting these devices at an unprecedented rate.

As a leading participant in the interactive entertainment industry, we believe Activision is well positioned to take advantage of the opportunities presented by the Internet, broadband and wireless technologies. The company has long recognized the opportunities associated with the Internet and is known for publishing games that offer innovative multiplayer gaming experiences. We expect to continue growing our market share while offering our customers some of the most exciting games in the marketplace.

"ACTIVISION® brings some of the most recognized brands to audiences of all ages."

Tony Hawk's Pro Skater 2

Spider-Man

Star Trek Voyager Elite Force

Recognized brands provide the financial stability and predictability important to our investors. Emerging brands provide financial upside.

Quake III

Tenchu 2

Mat Hoffman's Pro BMX

Vampire

Family

All around the world, for young and old alike, the Disney brand is synonymous with entertainment. Through a unique partnership that was forged in 1998, Activision is bringing the fun and magic of Disney to life. Last year, the company published a series of video games based on some of Disney's most popular properties—*Disney's A Bug's Life, Disney/Pixar's Toy Story 2* and *Disney's Tarzan.* This year, Activision expects to release several new games including *Disney/Pixar's Buzz Lightyear of Star Command,* which is based on a new animated children's television series that will launch in fall 2000, as well as such games as *Disney's The Lion King,* and *Disney/Pixar's Toy Story Racer.*

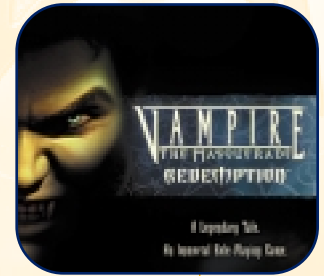
In longevity, awareness and reputation, few other entertainment brands can rival the success of Marvel Comics and Star Trek. *Spider-Man, X-MEN, Blade* and *Star Trek* continue to excite the imaginations of audiences around the world. In fiscal 2001, Activision will introduce a number of games that will propel these franchises to new levels of awareness. For the first time ever, *X-MEN,* the most successful comic book property of all time, and *Spider-Man,* one of the world's most recognized and celebrated super heroes, will go 3D. Additionally, the ultimate vampire hunter, *Blade,* and renowned science-fiction property, *Star Trek,* will make their video game debuts on the PlayStation game console.

Teens

All of Activision's brands are based on bringing innovative interactive entertainment experiences to audiences worldwide. The company's success relies on its ability to identify new market opportunities and establish brand franchises that stand for quality entertainment. Last year, Activision established itself as a leader in the extreme sports genre with the launch of *Tony Hawk's Pro Skater.* A top-10 best-selling title on the PlayStation, N64, Dreamcast and Game Boy Color, the game was named "Best Sports Game of the Year" and "Best PlayStation Game of the Year" by Sony Computer Entertainment America. The success of *Tony Hawk's Pro Skater* underscores Activision's multi-platform development strategy and has forged the way for other extreme sports titles. This year, the company will introduce *Mat Hoffman's Pro BMX,* a new BMX biking game based on ten-time world champion Mat "Condor" Hoffman. Additionally, the company is developing games for the next-generation consoles based on world-champion snowboarder Shaun Palmer and legendary, world-class surfer Kelly Slater.

Young Adults

Adults



A 20-year reputation for quality and value has established Activision as a brand of choice among consumers. Our research has shown that Activision ranks as one of the most recognized names among interactive entertainment companies. Our franchise properties include both established brands like *Disney, Marvel* and *Star Trek,* as well as what we call emerging brands.

In fiscal year 2001, Activision expects to release three innovative games based on the *Star Trek* franchise, as well as titles based on the emerging brands *Cabela's Big Game Hunter, Tenchu* and *Vampire: The Masquerade—Redemption.* The Star Trek games include *Star Trek Away Team,* the first Star Trek title to feature stealth combat; *Star Trek Conquest Online,* the first Star Trek game played exclusively online; and *Star Trek: Voyager Elite Force,* the first Star Trek title set in the Star Trek: Voyager universe.

Activision is in development with *Cabela's Big Game Hunter IV,* the latest game in the best-selling hunting series that has remained on PC Data's list of top-selling franchises since the first title was released in March 1998. Activision also has completed *Tenchu 2,* the prequel to the best-selling Ninja action/adventure game *Tenchu,* and *Vampire: The Masquerade—Redemption,* a 3D role-playing game based on White Wolf Publishing's popular tabletop Vampire series.

Financial Review

13 Selected Consolidated Financial Data

14 Management's Discussion and Analysis of Financial Condition and Results of Operations

21 Independent Auditors' Report

22 Consolidated Balance Sheets

23 Consolidated Statements of Operations

24 Consolidated Statements of Changes in Shareholders' Equity

25 Consolidated Statements of Cash Flows

26 Notes to Consolidated Financial Statements

40 Certain Market Information and Related Stockholder Matters

Selected Consolidated Financial Data

The following table summarizes certain selected consolidated financial data, which should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein. The selected consolidated financial data presented below as of and for each of the fiscal years in the five-year period ended March 31, 2000 are derived from the audited consolidated financial statements of the Company. The Consolidated Balance Sheets as of March 31, 2000 and 1999 and the Consolidated Statements of Operations and Statements of Cash Flows for each of the fiscal years in the three-year period ended March 31, 2000, and the report thereon, are included elsewhere in this Annual Report.

		Restated (1)			
Fiscal years ended March 31,	**2000**	1999	1998	1997	1996
		(In thousands, except per share data)			
STATEMENT OF OPERATIONS DATA:					
Net revenues	**$572,205**	$436,526	$312,906	$190,446	$ 87,561
Cost of sales—product costs	**319,422**	260,041	176,188	103,124	34,034
Cost of sales—royalties and software amortization	**91,238**	36,990	29,840	13,108	7,333
Income (loss) from operations	**(30,325)**	26,667	9,218	11,497	3,264
Income (loss) before income tax provision	**(38,736)**	23,636	8,106	11,578	4,872
Net income (loss)	**(34,088)**	14,891	4,970	7,583	5,908
Basic earnings (loss) per share	**(1.38)**	0.65	0.22	0.36	0.33
Diluted earnings (loss) per share	**(1.38)**	0.62	0.21	0.35	0.31
Basic weighted average common shares outstanding	**24,691**	22,861	22,038	20,961	17,931
Diluted weighted average common shares outstanding	**24,691**	23,932	22,909	21,650	18,993
SELECTED OPERATING DATA:					
EBITDA (2)	**15,541**	33,155	14,564	15,690	5,974
CASH (USED IN) PROVIDED BY:					
Operating activities	**77,389**	18,190	31,670	4,984	3,817
Investing activities	**(99,547)**	(64,331)	(43,814)	(19,617)	(11,515)
Financing activities	**42,028**	7,220	62,862	11,981	(4,378)

		Restated			
As of March 31,	**2000**	1999	1998	1997	1996
BALANCE SHEET DATA:					
Working capital	**$160,149**	$136,355	$115,782	$ 52,142	$ 40,067
Cash and cash equivalents	**49,985**	33,037	74,319	23,352	25,827
Goodwill	**12,347**	21,647	23,473	23,756	19,583
Total assets	**309,737**	283,345	229,366	132,203	84,737
Long-term debt	**73,778**	61,143	61,192	5,907	1,222
Redeemable and convertible preferred stock	**—**	—	—	1,500	—
Shareholders' equity	**132,009**	127,190	97,475	80,321	62,674

(1) Consolidated financial information for fiscal years 1999–1996 has been restated retroactively for the effects of the September 1999 acquisition of Neversoft, accounted for as a pooling of interests. Consolidated financial information for fiscal years 1998–1996 has been restated retroactively for the effects of the acquisitions of S.B.F. Services, Limited dba Head Games Publishing and CD Contact Data GmbH, in June 1998 and September 1998, respectively, accounted for as poolings of interests. Consolidated financial information for fiscal years 1997 and 1996 has been restated retroactively for the effects of the acquisitions of Raven Software Corporation, NBG EDV Handels–und Verlags GmbH and Combined Distribution (Holdings) Limited in November 1997, August 1997 and November 1997, respectively, accounted for as poolings of interests.

(2) EBITDA represents income (loss) before interest, income taxes and depreciation and amortization on property and equipment and goodwill. 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 or 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 ("PSX") and PlayStation 2, Sega Dreamcast ("Dreamcast") and Nintendo N64 ("N64") console systems and Nintendo Gameboy handheld game devices. The Company's products span a wide range of genres and target markets.

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

The Company's financial information as of and for the years ended March 31, 1999 and 1998 has been restated to reflect the effect of pooling of interests transactions as discussed in the notes to the consolidated financial statements included elsewhere in this Annual Report.

The Company recognizes revenue from the sale of its products upon shipment. Subject to certain limitations, the Company permits customers to obtain exchanges and returns within certain specified periods and provides price protection on certain unsold merchandise. Revenue from product sales is reflected after deducting the estimated allowance for returns and price protection. Management of the Company estimates the amount of future returns, and price protection based upon historical results and current known circumstances. With respect to license agreements that provide customers the right to multiple copies in exchange for guaranteed amounts, revenue is recognized upon delivery. Per copy royalties on sales that exceed the guarantee are recognized as earned.

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 or its agents, who often require significant lead time to fulfill the Company's orders.

Cost of sales-royalties and software amortization represents amounts due developers, product owners and other royalty participants as a result of product sales, as well as amortization of capitalized software development costs. The costs incurred by the Company to develop products are accounted for in accordance with accounting standards that provide for the capitalization of certain software development costs once technological feasibility is established and such costs are determined to be recoverable. Additionally, 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. Commencing upon product release, prepaid royalties are amortized to cost of sales—royalties and software amortization at the contractual royalty rate based on actual net product sales or on the ratio of current revenues to total projected revenues, whichever is greater and capitalized software costs are amortized to cost of sales-royalties and software amortization on a straight-line basis over the estimated product life or on the ratio of current revenues to total projected revenues, whichever 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 charges to expense, 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, channel and platform:

			Restated			
Fiscal years ended March 31,	**2000**		1999		1998	
			(In thousands)			
Net revenues	**$572,205**	**100.0%**	$436,526	100.0%	$312,906	100.0%
Costs and expenses:						
Cost of sales—product costs	**319,422**	**55.8%**	260,041	59.6%	176,188	56.3%
Cost of sales—royalties and software amortization	**91,238**	**15.9%**	36,990	8.5%	29,840	9.5%
Product development	**26,275**	**4.6%**	22,875	5.2%	28,285	9.0%
Sales and marketing	**93,878**	**16.4%**	66,420	15.2%	47,714	15.3%
General and administrative	**30,099**	**5.3%**	21,948	5.0%	20,099	6.4%
Amortization of intangible assets	**41,618**	**7.3%**	1,585	0.4%	1,562	0.5%
Total costs and expenses	**602,530**	**105.3%**	409,859	93.9%	303,688	97.0%
Income (loss) from operations	**(30,325)**	**(5.3%)**	26,667	6.1%	9,218	3.0%
Interest income (expense), net	**(8,411)**	**(1.5%)**	(3,031)	(0.7%)	(1,112)	(0.4%)
Income (loss) before income tax provision	**(38,736)**	**(6.8%)**	23,636	5.4%	8,106	2.6%
Income tax provision (benefit)	**(4,648)**	**(0.8%)**	8,745	2.0%	3,136	1.0%
Net income (loss)	**$ (34,088)**	**(6.0%)**	$ 14,891	3.4%	$ 4,970	1.6%

Fiscal years ended March 31,	**2000**		Restated 1999		Restated 1998	
			(In thousands)			
NET REVENUES BY TERRITORY:						
United States	**$279,165**	**48.8%**	$149,705	34.3%	$ 90,784	29.0%
Europe	**277,524**	**48.5%**	278,032	63.7%	208,817	66.7%
Other	**15,516**	**2.7%**	8,789	2.0%	13,305	4.3%
Total net revenues	**$572,205**	**100.0%**	$436,526	100.0%	$312,906	100.0%
NET REVENUES BY CHANNEL:						
Retailer/Reseller	**$545,482**	**95.3%**	$417,490	95.6%	$287,801	92.0%
OEM, Licensing, on-line and other	**26,723**	**4.7%**	19,036	4.4%	25,105	8.0%
Total net revenues	**$572,205**	**100.0%**	$436,526	100.0%	$312,906	100.0%
ACTIVITY/PLATFORM MIX:						
Publishing:						
Console	**$281,204**	**49.1%**	$111,662	25.6%	$ 27,150	8.7%
PC	**115,487**	**20.2%**	93,880	21.5%	106,524	34.0%
Total publishing net revenues	**$396,691**	**69.3%**	$205,542	47.1%	$133,674	42.7%
Distribution:						
Console	**$129,688**	**22.7%**	$156,584	35.9%	$105,588	33.8%
PC	**45,826**	**8.0%**	74,400	17.0%	73,644	23.5%
Total distribution net revenues	**$175,514**	**30.7%**	$230,984	52.9%	$179,232	57.3%
Total net revenues	**$572,205**	**100.0%**	$436,526	100.0%	$312,906	100.0%

RESULTS OF OPERATIONS—FISCAL YEARS ENDED MARCH 31, 2000 AND 1999

Net loss for fiscal year 2000 was $34.1 million or $1.38 per diluted share, as compared to net income of $14.9 million or $0.62 per diluted share in fiscal year 1999. The 2000 results were negatively impacted by a strategic restructuring charge totaling $70.2 million, approximately $61.8 million net of tax, or $2.50 per diluted share.

Strategic Restructuring Plan

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

Net revenues	$11.7
Cost of sales—royalties and software amortization	11.9
Product development	4.2
General and administrative	5.2
Amortization of intangible assets	37.2
	$70.2

The component of the charge included in amortization of intangible assets represents a write-down of intangibles including goodwill, relating to Expert Software, Inc. ("Expert"), one of the Company's value publishing subsidiaries, totaling $26.3 million. The Company is consolidating Expert into Head Games, forming one integrated business unit. As part of this consolidation, the Company is discontinuing substantially all of Expert's product lines, terminating substantially all of Expert's employees and phasing out the use of the Expert name. In addition, a $10.9 million write-down of goodwill relating to TDC, an OEM business unit, was recorded. In the past year, the OEM market has gone through radical changes due to price declines of PCs and hardware accessories. The sum of the undiscounted future cash flow of these assets was not sufficient to cover the carrying value of these assets and as such was written down to fair market value.

The component of the charge included in net revenues and general and administrative expense represents costs associated with the planned termination of a substantial number of third-party distributor relationships in connection with the Company's realignment of its worldwide publishing business to leverage its existing sales and marketing organizations and improve the control and management of its products. These actions have resulted in an increase in the allowance for sales returns of $11.7 million and the allowance for doubtful accounts of $3.4 million. The plan also includes a severance charge of $1.2 million for employee redundancies. The plan is expected to be completed by the fourth quarter of fiscal 2001.

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

Net Revenues

Net revenues for the year ended March 31, 2000 increased 31.1% from the same period last year, from $436.5 million to $572.2 million. The increase was due to a 53.2% increase in console net revenues from $268.2 million to $410.9 million, slightly offset by a 4.1% decrease in PC net revenues from $168.3 million to $161.3 million. Domestic net revenues grew 86.5% from $149.7 million to $279.2 million. International net revenues remained fairly constant, increasing 2.2% from $286.8 million to $293.0 million.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Publishing net revenues for the year ended March 31, 2000 increased 93.0% from $205.5 million to $396.7 million. This increase primarily was due to publishing console net revenues increasing 151.8% from $111.7 million to $281.2 million. The increase in publishing console net revenues was attributable to the release in fiscal 2000 of a larger number of titles that sold well in the marketplace, including Blue Stinger (Dreamcast), Space Invaders (PlayStation, N64 and Gameboy Color) and Toy Story II (PlayStation and N64), Tarzan (N64 and Gameboy), A Bug's Life (N64), Vigilante 8: Second Offense (PlayStation, N64 and Gameboy), WuTang: Shaolin Style (PlayStation) and Tony Hawk's Pro Skater (PlayStation, N64 and Gameboy). Publishing PC net revenues for the year ended March 31, 2000 increased 23.0% from $93.9 million to $115.5 million. This increase primarily was due to the release of Quake 3 Arena, Cabela's Big Game Hunter III, Star Trek: Hidden Evil, Armada and Soldier of Fortune.

For the year ended March 31, 2000, distribution net revenues decreased 24.0% from prior fiscal year from $231.0 million to $175.5 million. The decrease was mainly attributable to the pricing reductions initiated by leading retail chains in the United Kingdom (the "UK"), which in turn reduced market share for the independent retail channel in the UK to which the Company's CentreSoft subsidiary is the sole authorized Sony PlayStation distributor, as well as the unfavorable impact of foreign currency translation rates.

Net OEM licensing, on-line and other revenues for the fiscal year ended March 31, 2000 increased 40.4% from $19.0 million to $26.7 million. The increase was primarily due to an increase in licensing revenues, partially offset by a decrease in OEM revenues. Licensing revenues increased due to an increase in the number of licensing arrangements entered into by the Company during fiscal 2000. OEM revenues decreased due to the radical changes being experienced in the OEM market resulting from declining prices of personal computers and hardware accessories and the reluctance of hardware manufacturers to produce large inventories.

Costs and Expenses

Cost of sales—product costs represented 55.8% and 59.6% of net revenues for the year ended March 31, 2000 and 1999, respectively. The decrease in cost of sales—product costs as a percentage of net revenues for the year ended March 31, 2000 was due to the decrease in distribution net revenue, partially offset by a higher publishing console net revenue mix. Distribution products have a higher per unit product cost than publishing products, and console products have a higher per unit product cost than PC products.

Cost of sales—royalty and software amortization expense represented 15.9% and 8.5% of net revenues for the year ended March 31, 2000 and 1999, respectively. The increase in cost of sales—royalty and software amortization expense as a percentage of net revenues was primarily due to changes in the Company's product mix, with an increase in the number of branded products with higher royalty obligations as compared to the prior fiscal year and increases in amortization expenses relating to the release of a greater number of products with capitalizable development costs. The increase also partially resulted from $11.9 million of write-offs recorded in the fourth quarter of fiscal 2000 relating to the Company's restructuring plan as previously described.

Product development expenses for the year ended March 31, 2000 increased 14.9% from the same period last year from $22.9 million to $26.3 million. The increase was primarily due to a $4.2 million charge to product development costs relating to the Company's restructuring plan as previously described.

As a percentage of net revenues, total product creation costs (i.e., royalties and software amortization expense plus product development expenses) increased from 13.7% to 20.5% for the year ended March 31, 2000. Such increases were attributable to the increases in product development costs, as described above.

Sales and marketing expenses for the year ended March 31, 2000 increased 41.3% from the same period last year, from $66.4 million to $93.9 million, but remained relatively constant as a percentage of net revenues at 16.4% and 15.2% at March 31, 2000 and 1999, respectively. The increase in the amount of sales and marketing expenses primarily was due to an increase in the number of titles released and an increase in television advertising during the final quarter of fiscal 2000 to support the Company's premium titles.

General and administrative expenses for the year ended March 31, 2000 increased 37.1% from the prior fiscal year, from $21.9 million to $30.1 million. As a percentage of net revenues, general and administrative expenses remained relatively constant at approximately 5%. The increase in the amount of general and administrative expenses was due to an increase in worldwide administrative support needs and headcount related expenses and charges incurred in conjunction with the Company's restructuring plan previously described.

Amortization of intangibles increased substantially from $1.6 million in fiscal 1999 to $41.6 million in fiscal 2000. This was due to the write-off of goodwill acquired in purchase acquisitions.

Operating Income (Loss)

Operating income (loss) for the year ended March 31, 2000, was $(30.3) million, compared to $26.7 million in fiscal 1999.

Publishing operating income (loss) for the year ended March 31, 2000 decreased 382.3% to $(35.0) million, compared to $12.4 million in the prior fiscal year. The decrease reflects the charges incurred in conjunction with the Company's restructuring plan as previously described, which predominantly impacted the Company's publishing segment. Distribution operating income for the year ended March 31, 2000 decreased 66.9% to $4.7 million, compared to $14.3 million in the prior fiscal year. The period over period change primarily was due to a decrease in distribution sales and the UK price reductions, as noted earlier.

Other Income (Expense)

Interest expense, net of interest income, increased to $8.4 million for the year ended March 31, 2000, from $3.0 million for the year ended March 31, 1999. This increase primarily was the result of interest costs associated with the Company's $125 million term loan and revolving credit facility obtained in June 1999.

Provision for Income Taxes

The income tax benefit of $4.6 million for the year ended March 31, 2000 reflects the Company's effective income tax rate of approximately 12%. The significant items generating the variance between the Company's effective rate and its statutory rate of 34% are nondeductible goodwill amortization and an increase in the Company's deferred tax asset valuation allowance, partially offset by research and development tax credits. 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 net deferred tax assets recognized.

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

Net Revenues

Net revenues for the fiscal year ended March 31, 1999 increased 39.5%, from $312.9 million to $436.5 million, over the prior year. The United States and international net revenues increased 64.9%, from $90.8 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 102.1% increase in console net revenues, from $132.7 million to $268.2 million, partially offset by 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 53.8%, from $133.7 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 311.3%, from $27.2 million to $111.7 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 11.9%, 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 1.0%, 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 24.2% to $19.0 million from $25.1 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 56.3% 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 8.5% and 9.5% 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 19.1% from the prior year, from $28.3 million to $22.9 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 No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed" ("SFAS 86").

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 13.7% from 18.5% in the prior year. This decrease was attributable to decrease in the effective royalty rate, as discussed above, and an increase in development costs capitalized under SFAS 86, also as discussed above.

Sales and marketing expenses for the year ended March 31, 1999 increased 39.2% from the same period last year, from $47.7 million to $66.4 million. As a percentage of net revenues, sales and marketing expenses remained constant. 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.

General and administrative expense for the year ended March 31, 1999 increased 9.2% from the same period last year, from $20.1 million to $21.9 million. As a percentage of net revenues, general and administrative expenses decreased from 6.4% to 5.0%. 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.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Other Income (Expense)

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

Provision for Income Taxes

The income tax provision of $8.7 million for the year ended March 31, 1999, reflects the Company's effective income tax rate of approximately 37.0%. The significant items generating the variance between the Company's effective rate and its statutory rate of 34% are nondeductible goodwill amortization and an increase in the Company's deferred tax asset valuation allowance, partially offset by research and development tax credits. 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. 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):

				Restated				
Quarter ended	**March 31, 2000 (1)**	Dec. 31, 1999	Sept. 30, 1999	June 30, 1999	March 31, 1999	Dec. 31, 1998	Sept. 30, 1998	June 30, 1998
Net revenues	**$103,838**	$268,862	$115,363	$84,142	$115,266	$193,537	$66,182	$61,541
Operating income (loss)	**(65,990)**	38,241	3,525	(6,101)	9,053	25,873	(2,735)	(5,524)
Net income (loss)	**(52,877)**	22,301	1,063	(4,575)	5,032	15,736	(2,206)	(3,671)
Basic earnings (loss) per share	**(2.07)**	0.89	0.04	(0.19)	0.22	0.69	(0.10)	(0.16)
Diluted earnings (loss) per share	**(2.07)**	0.75	0.04	(0.19)	0.21	0.61	(0.10)	(0.16)

(1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Restructuring."

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents increased $17.0 million, from $33.0 million at March 31, 1999 to $50.0 million at March 31, 2000. This was in comparison to a $41.3 million decrease in cash flows in fiscal year 1999 from $74.3 million at March 31, 1998 to $33.0 million at March 31, 1999. This increase in cash in fiscal year 2000 resulted from $77.4 million and $42.0 million provided by operating activities and financing activities, respectively, offset by $99.5 million utilized in investing activities. The increase in cash flows provided by operating activities from fiscal 1999 to fiscal 2000 primarily is due to decreases in accounts receivable trade from March 31, 1999 to March 31, 2000. The increase in cash flows provided by financing activities from fiscal 1999 to fiscal 2000 primarily is due to $22.5 million in proceeds from the issuance of common stock pursuant to employee stock option plans and employee stock purchase plans in fiscal year 2000 and $25.0 million in proceeds from the issuance of the term loan portion of the $125 million U.S. bank credit facility obtained in June 1999. The increase in cash flows used in investing activities from fiscal 1999 to fiscal 2000 primarily is due to $20.5 million of cash expended in connection with the acquisition of Expert in June 1999. Additionally, in fiscal 2000, investments in prepaid royalties and capitalized software costs increased $14.0 million from $60.5 million in fiscal 1999 to $74.5 million in fiscal 2000 in connection with the execution of new license agreements granting the Company long-term rights to intellectual property of third parties, as well as the acquisition of publishing or distribution rights to products being developed by third parties. Comparatively, in fiscal year 1999, only $18.2 million and $7.2 million was provided by cash flows from operating activities and financing activities, respectively, partially offsetting cash used in investing activities of $64.3 million.

In connection with the Company's purchases of Nintendo 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. Furthermore, Nintendo maintains a policy of not accepting returns of Nintendo N64 hardware and software cartridges. Because of these and other factors, the carrying of an inventory of Nintendo N64 hardware and software cartridges entails significant capital and risk. As of March 31, 2000, the Company had $5.5 million of N64 hardware and software cartridge inventory on hand, which represented approximately 14% of all inventory.

In December 1997, the Company completed the private placement of $60.0 million principal amount of 6¾% 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. If redemption occurs prior to December 31, 2003, the Company must pay a premium on such redeemed Notes.

The Company has a $125.0 million revolving credit facility and term loan with a group of banks (the "U.S. Facility"). The U.S. Facility provides the Company with the ability to borrow up to $100.0 million and issue letters of credit up to $80 million on a revolving basis against eligible accounts receivable and inventory. The $25.0 million term loan portion of the U.S. Facility was used to fund the acquisition of Expert Software, Inc. in June 1999 and to pay costs related to such acquisition and the securing of the U.S. 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 based on the banks' base rate (which is generally equivalent to the published prime rate) plus 2% or LIBOR plus 3%. The revolving portion of the U.S Facility has a borrowing rate based on the banks' base rate plus 1.75% or LIBOR plus 2.75% (weighted average interest rate of approximately 9.50% for the year ending March 31, 2000) and matures June 2002. The Company pays a commitment fee of ½% on the unused portion of the revolving line. The U.S. Facility is collateralized by substantially all of the assets of the Company and its U.S. subsidiaries. The U.S. Facility contains various covenants which limit the ability of the Company to incur additional indebtedness, pay dividends or make other distributions, create certain liens, sell assets, or enter into certain mergers or acquisitions. The Company was in compliance with these covenants as of March 31, 2000. The Company is also required to maintain specified financial ratios related to net worth and fixed charges. As of March 31, 2000, $20.0 million was outstanding under the term loan portion of the U.S. Facility and $2.5 million was outstanding under the revolving portion of the U.S. Facility. No letters of credit were outstanding against the revolving portion of the U.S. Facility at March 31, 2000.

On June 8, 2000, the Company amended certain of the covenants of its U.S. Facility. The amended term loan and credit facility allows for the purchase by the Company of up to $15.0 million in shares of its common stock as well as its convertible subordinated notes in accordance with the Company's stock repurchase program (described in Note 15 to the consolidated financial statements), the distribution of "Rights" under the Company's shareholders' rights plan (described in Note 15 to the consolidated financial statements), as well as the reorganization of the Company's organizational structure into a holding company form.

The Company has a revolving credit facility through its CD Contact subsidiary in the Netherlands (the "Netherlands Facility"). The Netherlands Facility permits revolving credit loans and letters of credit up to Netherlands Guilder ("NLG") 45 million ($19.4 million) at March 31, 2000, based upon eligible accounts receivable and inventory balances. The Netherlands Facility is due on demand, bears interest at a Eurocurrency rate plus 1.25% (weighted average interest rate of 5.5% of March 31, 2000) and matures March 2001. Letters of credit outstanding against the Netherlands Facility at March 31, 2000 were NLG 3.8 million ($1.6 million). The Company had $3.5 million of borrowings outstanding under the Netherlands Facility at March 31, 2000.

The Company also has revolving credit facilities with its CentreSoft subsidiary located in the United Kingdom, (the "UK Facility") and its NBG subsidiary located in Germany, (the "German Facility"). The UK Facility can be used for working capital requirements and provides for British Pounds ("GBP") 7 million ($11.2 million) of revolving loans and GBP 6 million ($9.6 million) of letters of credit, bears interest at LIBOR plus 2%, is collateralized by substantially all of the assets of the subsidiary and matures in July 2000. The UK Facility also contains various covenants that require the subsidiary to maintain specified financial ratios related to, among others, fixed charges. The Company was in compliance with these covenants as of March 31, 2000. No borrowings were outstanding against the UK Facility at March 31, 2000. Letters of credit of GBP 6.0 million ($9.6 million) were outstanding against the UK Facility at March 31, 2000. The German Facility can be used for working capital requirements and provides for revolving loans up to Deutsche Mark ("DM") 4 million ($1.9 million), bears interest at 6.25%, is collateralized by a cash deposit of approximately GBP 650,000 ($1.0 million) made by the Company's CentreSoft subsidiary and has no expiration date. No borrowings were outstanding against the German Facility as of March 31, 2000.

In the normal course of business, the Company enters into contractual arrangements with third parties for the development of products. Under these agreements, the Company commits to provide specified payments to a developer, contingent upon the developer's achievement of contractually specified milestones. Assuming all contractually specified milestones are achieved, for contracts in place as of March 31, 2000, the total future minimum contract commitment is approximately $42.9 million, of which $35.0 million, $6.6 million and $1.3 million is scheduled to be paid in fiscal 2001, 2002 and 2003, respectively. Additionally, under the terms of a production financing arrangement, the Company has a commitment to purchase two future PlayStation 2 titles from independent third-party developers upon their completion for an estimated $8.4 million. Failure by the developers to complete the project within the contractual time frame or specifications alleviates the Company's commitment.

The Company historically has financed its acquisitions through the issuance of shares of its common stock. The Company will continue to evaluate potential acquisition candidates as to the benefit they bring to the Company and as to the ability of the Company to make such acquisitions and maintain compliance with its bank facilities.

In May 2000, the Board of Directors authorized the Company to purchase up to $15.0 million in shares of its common stock as well as its convertible subordinated notes. The shares and notes could be purchased in the open market or in privately negotiated transactions at such times and in such amounts as management deemed appropriate, depending on market conditions and other factors. As of June 19, 2000, the Company has repurchased 2.3 million shares of its common stock for approximately $15.0 million.

The Company believes that it has sufficient working capital ($160.1 million at March 31, 2000), as well as proceeds available from the U.S. Facility, the UK Facility, the Netherlands Facility and the German Facility, to finance the Company's operational requirements for at least the next twelve months, including acquisitions of inventory and equipment, the funding of the development, production, marketing and sale of new products, the acquisition of intellectual property rights for future products from third parties and the repurchase of common stock and notes under the Company's repurchase plan.

INFLATION

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

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

YEAR 2000

The Company encountered no significant problems in its critical systems or products sold to customers in the transition to the year 2000. All of the Company's internal systems are functioning normally, and no year 2000 problems have been reported by any of its trading partners. The Company will continue to monitor its systems for any latent issues, but expects no significant year 2000 issues to arise. The Company continues to maintain contingency plans that management believes are adequate and customary to address any unexpected year 2000 problems.

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 12% and 19% of the Company's consolidated net revenues for the years ended March 31, 2000 and 1999, respectively.

RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS No. 133") 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

Market risk is the potential loss arising from fluctuations in market rates and prices. The Company's market risk exposures primarily include fluctuations in interest rates and foreign currency exchange rates. The Company's market risk sensitive instruments are classified as "other than trading." The Company's exposure to market risk as discussed below includes "forward-looking statements" and represents an estimate of possible changes in fair value or future earnings that would occur assuming hypothetical future movements in interest rates or foreign currency exchange rates. The Company's views on market risk are not necessarily indicative of actual results that may occur and do not represent the maximum possible gains and losses that may occur, since actual gains and losses will differ from those estimated, based upon actual fluctuations in foreign currency exchange rates, interest rates and the timing of transactions.

Interest Rate Risk

The Company has a number of variable rate and fixed rate debt obligations, denominated both in U.S. dollars and various foreign currencies as detailed in Note 10 to the Consolidated Financial Statements appearing elsewhere in this Annual Report. The Company manages interest rate risk by monitoring its ratio of fixed and variable rate debt obligations in view of changing market conditions. Additionally, in the future, the Company may consider the use of interest rate swap agreements to further manage potential interest rate risk.

As of March 31, 2000, the carrying value of the Company's variable rate debt was $26.0 million, which includes the U.S. Facility ($22.5 million) and the Netherlands Facility ($3.5 million). As of March 31, 1999, the carrying value of the Company's variable rate debt was $5.5 million, which was composed entirely of the Netherlands Facility. A hypothetical 1% increase in the applicable interest rates of the Company's variable rate debt would increase annual interest expense by approximately $260,000 and $55,000, as March 31, 2000 and 1999, respectively.

The Company additionally has 6¾% convertible subordinated notes (the "Notes") that have a carrying value of $60.0 million and a fair value of $51.6 million as of March 31, 2000. The fair value of the Notes was determined based on quoted market prices. A hypothetical 1% increase in market rate of the Notes would decrease their fair value by approximately $516,000.

Foreign Currency Exchange Rate 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 GBP. The volatility of GBP (and all other applicable currencies) will be monitored frequently throughout the coming year. While the Company has not traditionally engaged in foreign currency hedging, the Company may in the future use hedging programs, currency forward contracts, currency options and/or other derivative financial instruments commonly utilized to reduce financial market risks if it is determined that such hedging activities are appropriate to reduce risk.

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, 2000 and 1999 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, 2000. 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, 2000. 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, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2000, 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, 2000, 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.

Los Angeles, California
May 5, 2000,
except as to Note 14,
which is as of June 9, 2000

Consolidated Balance Sheets

March 31,	**2000**	Restated 1999
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 49,985**	$ 33,037
Accounts receivable, net of allowances of $31,521 and $14,979 at March 31, 2000 and 1999, respectively	**108,108**	117,541
Inventories	**40,453**	30,931
Prepaid royalties and capitalized software costs	**31,655**	33,503
Deferred income taxes	**14,159**	6,383
Other current assets	**19,737**	9,965
Total current assets	**264,097**	231,360
Prepaid royalties and capitalized software costs	**9,153**	11,513
Property and equipment, net	**10,815**	10,924
Deferred income taxes	**6,055**	2,618
Goodwill, net	**12,347**	21,647
Other assets	**7,270**	5,283
Total assets	**$309,737**	$283,345
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	**$ 16,260**	$ 5,992
Accounts payable	**38,284**	43,853
Accrued expenses	**49,404**	45,160
Total current liabilities	**103,948**	95,005
Long-term debt, less current portion	**13,778**	1,143
Convertible subordinated notes	**60,000**	60,000
Other liabilities	**2**	7
Total liabilities	**177,728**	156,155
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $.000001 par value, 5,000,000 shares authorized, no shares issued at March 31, 2000 and 1999	**—**	—
Common stock, $.000001 par value, 50,000,000 shares authorized, 26,488,260 and 23,803,762 shares issued and 25,988,260 and 23,303,762 outstanding at March 31, 2000 and 1999, respectively	**—**	—
Additional paid-in capital	**151,714**	109,251
Retained earnings (deficit)	**(8,361)**	25,727
Accumulated other comprehensive loss	**(6,066)**	(2,510)
Less: Treasury stock, cost of 500,000 shares	**(5,278)**	(5,278)
Total shareholders' equity	**132,009**	127,190
Total liabilities and shareholders' equity	**$309,737**	$283,345

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

Consolidated Statements of Operations

For the years ended March 31,	**2000**	Restated 1999	Restated 1998
	(In thousands, except per share data)		
Net revenues	**$572,205**	$436,526	$312,906
Costs and expenses:			
Cost of sales—product costs	**319,422**	260,041	176,188
Cost of sales—royalties and software amortization	**91,238**	36,990	29,840
Product development	**26,275**	22,875	28,285
Sales and marketing	**93,878**	66,420	47,714
General and administrative	**30,099**	21,948	20,099
Amortization of intangible assets	**41,618**	1,585	1,562
Total costs and expenses	**602,530**	409,859	303,688
Income (loss) from operations	**(30,325)**	26,667	9,218
Interest income (expense), net	**(8,411)**	(3,031)	(1,112)
Income (loss) before income tax provision	**(38,736)**	23,636	8,106
Income tax provision (benefit)	**(4,648)**	8,745	3,136
Net income (loss)	**$ (34,088)**	$ 14,891	$ 4,970
Basic earnings (loss) per share:			
Net income (loss)	**$ (1.38)**	$ 0.65	$ 0.22
Weighted average common shares outstanding	**24,691**	22,861	22,038
Diluted earnings (loss) per share:			
Net income (loss)	**$ (1.38)**	$ 0.62	$ 0.21
Weighted average common shares outstanding	**24,691**	23,932	22,909

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

Consolidated Statements of Changes in Shareholders' Equity

For the years ended March 31, 2000, 1999 and 1998	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity
				(In thousands)				
BALANCE, MARCH 31, 1997	22,033	$—	$ 79,147	$ 6,610	(500)	$ (5,278)	$ (158)	$ 80,321
Components of comprehensive income:								
Net income for the year	—	—	—	4,970	—	—	—	4,970
Foreign currency translation adjustment	—	—	—	—	—	—	250	250
Total comprehensive income	—	—	—	—	—	—	—	5,220
Issuance of common stock and common stock warrants	82	—	1,214	—	—	—	—	1,214
Issuance of common stock pursuant to employee stock option plans	599	—	4,756	—	—	—	—	4,756
Issuance of common stock pursuant to employee stock purchase plan	64	—	582	—	—	—	—	582
Tax benefit attributable to employee stock option plans	—	—	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	23,107	—	91,825	10,836	(500)	(5,278)	92	97,475
Components of comprehensive income								
Net income for the year	—	—	—	14,891	—	—	—	14,891
Foreign currency translation adjustment	—	—	—	—	—	—	(2,602)	(2,602)
Total comprehensive income	—	—	—	—	—	—	—	12,289
Issuance of common stock and common stock warrants	—	—	3,368	—	—	—	—	3,368
Issuance of common stock pursuant to employee stock option plans	605	—	5,271	—	—	—	—	5,271
Issuance of common stock pursuant to employee stock purchase plan	92	—	798	—	—	—	—	798
Tax benefit attributable to employee stock option plans	—	—	1,059	—	—	—	—	1,059
Tax benefit derived from net operating loss carryforward utilization	—	—	2,430	—	—	—	—	2,430
Conversion of notes payable to common stock	—	—	4,500	—	—	—	—	4,500
BALANCE, MARCH 31, 1999	23,804	—	109,251	25,727	(500)	(5,278)	(2,510)	127,190
Components of comprehensive income:								
Net loss for the year	—	—	—	(34,088)	—	—	—	(34,088)
Foreign currency translation adjustment	—	—	—	—	—	—	(3,556)	(3,556)
Total comprehensive loss								(37,644)
Issuance of common stock and common stock warrants	—	—	8,529	—	—	—	—	8,529
Issuance of common stock pursuant to employee stock option plans	2,331	—	21,718	—	—	—	—	21,718
Issuance of common stock pursuant to employee stock purchase plan	72	—	762	—	—	—	—	762
Tax benefit attributable to employee stock option plans	—	—	3,017	—	—	—	—	3,017
Tax benefit derived from net operating loss carryforward utilization	—	—	1,266	—	—	—	—	1,266
Acquisitions and investments made with common stock and common stock options	281	—	7,171	—	—	—	—	7,171
BALANCE, MARCH 31, 2000	**26,488**	**$—**	**$151,714**	**$(8,361)**	**(500)**	**$(5,278)**	**$(6,066)**	**$132,009**

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

Consolidated Statements of Cash Flows

For the years ended March 31,	**2000**	Restated 1999	Restated 1998
		(In thousands)	
Cash flows from operating activities:			
Net income (loss)	**$ (34,088)**	$ 14,891	$ 4,970
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Deferred income taxes	**(4,311)**	3,806	(1,327)
Adjustment for change in fiscal year-end for pooled subsidiaries	**—**	—	(639)
Depreciation and amortization	**45,866**	6,488	5,346
Amortization of prepaid royalties and capitalized software costs	**78,714**	27,055	29,167
Expense related to common stock warrants	**5,769**	388	200
Change in assets and liabilities (net of effects of purchases and acquisitions):			
Accounts receivable	**9,900**	(43,686)	(24,896)
Inventories	**(7,342)**	(11,506)	(6,798)
Other current assets	**(7,124)**	(8,360)	458
Other assets	**817**	1,498	168
Accounts payable	**(8,038)**	(6,620)	25,410
Accrued expenses	**(2,770)**	34,304	(308)
Other liabilities	**(4)**	(68)	(81)
Net cash provided by operating activities	**77,389**	18,190	31,670
Cash flows from investing activities:			
Cash paid by Combined Distribution (Holdings) Ltd. to acquire CentreSoft (net of cash acquired)	**—**	—	(812)
Cash used in purchase acquisitions (net of cash acquired)	**(20,523)**	—	(246)
Investment in prepaid royalties and capitalized software costs	**(74,506)**	(60,531)	(33,656)
Capital expenditures	**(4,518)**	(3,800)	(8,872)
Other	**—**	—	(228)
Net cash used in investing activities	**(99,547)**	(64,331)	(43,814)
Cash flows from financing activities:			
Proceeds from issuance of common stock pursuant to employee stock option plans	**21,718**	5,271	4,756
Proceeds from issuance of common stock pursuant to employee stock purchase plan	**762**	798	582
Dividends paid (Combined Distribution (Holdings) Ltd.)	**—**	—	(1,256)
Borrowing under line-of-credit agreement	**361,161**	5,300	8,800
Payment under line-of-credit agreement	**(355,156)**	(5,300)	(8,800)
Proceeds from term loan	**25,000**	—	—
Proceeds from issuance of subordinated convertible notes	**—**	—	57,900
Notes payable, net	**(8,102)**	1,151	886
Cash paid to secure line of credit and term loan	**(3,355)**	—	—
Other	**—**	—	(6)
Net cash provided by financing activities	**42,028**	7,220	62,862
Effect of exchange rate changes on cash	**(2,922)**	(2,361)	250
Net increase (decrease) in cash and cash equivalents	**16,948**	(41,282)	50,968
Cash and cash equivalents at beginning of period	**33,037**	74,319	23,351
Cash and cash equivalents at end of period	**$ 49,985**	$ 33,037	$ 74,319

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

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Activision, Inc. ("Activision" or the "Company") is a leading international publisher, developer and distributor of interactive entertainment and leisure products. The Company's products span a wide range of genres (including action, adventure, extreme sports, strategy and simulation) and target markets (including game enthusiasts, mass market consumers, 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 and operating systems, including personal computers ("PCs"), the Sony Playstation, Sega Dreamcast and the Nintendo N64 console systems and the Nintendo Gameboy Color handheld device.

The Company maintains operations in the U.S., Canada, the United Kingdom, France, Germany, Japan, Australia, Belgium and the Netherlands. For fiscal year 2000, international operations contributed approximately 51% of net revenues.

Principles of Consolidation

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

Basis of Presentation

The consolidated financial statements have been retroactively restated to reflect the poolings of interests of the Company with JCM Productions, Inc. dba Neversoft Entertainment ("Neversoft") in September 1999, S.B.F. Services, Limited dba Head Games Publishing ("Head Games") in June 1998, CD Contact Data GmbH ("CD Contact") in September 1998, Raven Software Corporation ("Raven") in November 1997, NBG EDV Handels– und Verlags GmbH ("NBG") in August 1997 and Combined Distribution (Holdings) Limited ("CentreSoft") in November 1997.

Cash and Cash Equivalents

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

The Company's cash and cash equivalents were comprised of the following at March 31, 2000 and 1999 (amounts in thousands):

March 31,	**2000**	1999
Cash	**$32,637**	$28,833
Money market funds	**17,348**	315
Short-term debt instruments	**—**	3,889
	$49,985	$33,037

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, 2000 and 1999, the Company had deposits in excess of the Federal Deposit Insurance Corporation ("FDIC") limit at these financial institutions. The Company's customer base includes retail outlets and distributors including consumer electronics and computer specialty stores, discount chains, video rental stores and toy stores in the United States and countries worldwide. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. The Company generally does not require collateral or other security from its customers.

Fair Value of Financial Instruments

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

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

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

Prepaid Royalties and Capitalized Software Costs

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

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

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

Commencing upon product release 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), 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, 2000, prepaid royalties and unamortized capitalized software costs totaled $29.2 million (including $9.2 million classified as non-current) and $11.6 million, respectively. As of March 31, 1999, prepaid royalties and unamortized capitalized software costs totaled $36.2 million (including $11.5 million classified as non-current) and $8.8 million, respectively. Amortization of prepaid royalties and capitalized software costs was $78.7 million, $27.1 million and $29.2 million for the years ended March 31, 2000, 1999 and 1998, respectively. Write-offs of prepaid royalties and capitalized software costs prior to product release were $6.3 million, $2.4 million and $363,000 for the years ended March 31, 2000, 1999 and 1998, respectively.

Inventories

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

Revenue Recognition

The American Institute of Certified Public Accountants (AICPA) Statement of Position 97-2 "Software Revenue Recognition" ("SOP 97-2"), provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions. SOP 97-2 is effective for all transactions entered into subsequent to March 31, 1999. The Company has adopted SOP 97-2 and such adoption did not have a material impact on the Company's financial position, results of operations or liquidity. Effective December 15, 1998, the AICPA issued Statement of Position 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions" ("SOP 98-9"), which is effective for transactions entered into after March 15, 1999. SOP 98-9 deals with the determination of vendor specific objective evidence of fair value in multiple element arrangements, such as maintenance agreements sold in conjunction with software packages. The adoption of SOP 98-9 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 estimates the amount of future returns, and price protections based upon historical results and current known circumstances. Revenue from product sales is reflected net of the allowance for returns and price protection.

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

Advertising Expenses

The Company expenses advertising and the related costs as incurred. Advertising expenses for the years ended March 31, 2000, 1999 and 1998 were approximately $18.6 million, $15.6 million and $6.3 million, respectively, and are included in sales and marketing expense in the consolidated statements of operations.

Goodwill and Long-Lived Assets

Cost in excess of the fair value of net assets of companies acquired, goodwill, is being amortized on a straight-line basis over periods ranging from 5 to 20 years. As of March 31, 2000 and 1999, accumulated amortization amounted to $50.8 million and $9.1 million, respectively. The Company accounts for impairment of long-lived assets, including goodwill, in accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of." This Statement

requires that long-lived assets and certain identifiable intangibles, including goodwill, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. In conjunction with its strategic restructuring plan as detailed in Note 3, in the fourth quarter of fiscal 2000, the Company recorded a charge for impairment of goodwill of $37.2 million. See Note 3 for further discussion.

Interest Income (Expense)

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

March 31,	**2000**	1999	1998
Interest expense	**$(9,375)**	$(4,974)	$(2,223)
Interest income	**964**	1,943	1,111
Net interest income (expense)	**$(8,411)**	$(3,031)	$(1,112)

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

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

Estimates

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

Earnings Per Common Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for all periods. Diluted earnings per share reflects the potential dilution that could occur if net income were divided by the weighted average number of common and common stock equivalent shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares and common stock equivalents from outstanding stock options and warrants and convertible debt. Common stock equivalents are calculated using the treasury stock method and represent incremental shares issuable upon exercise of the Company's outstanding options and warrants. However, potential common shares are not included in the denominator of the diluted earnings per share calculation when inclusion of such shares would be anti-dilutive, such as in a period in which the Company records a net loss.

Stock Based Compensation

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

2. ACQUISITIONS

Fiscal 2000 Transactions

Acquisition of Neversoft

On September 30, 1999, the Company acquired Neversoft, a privately held console software developer, in exchange for 698,835 shares of the Company's common stock. The acquisition was accounted for as a pooling of interests. Accordingly, the Company has restated the financial statements for all periods prior to the closing of the transaction.

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

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

Acquisition of Elsinore Multimedia

On June 29, 1999, the Company acquired Elsinore Multimedia, Inc. ("Elsinore"), a privately held interactive software development company, in exchange for 204,448 shares of the Company's common stock.

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

Acquisition of Expert Software

On June 22, 1999, the Company acquired all of the outstanding capital stock of Expert Software, Inc. ("Expert"), a publicly held developer and publisher of value-line interactive leisure products, for approximately $24.7 million. The aggregate purchase price of approximately $24.7 million consisted of $20.3 million in cash payable to the former shareholders of Expert, the valuation of employee stock options in the amount of $3.3 million, and other acquisition costs.

The acquisition was accounted for using the purchase method of accounting. Accordingly, the results of operations of Expert have been included in the Company's consolidated financial statements from the date of acquisition.

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

Tangible assets	$ 4,743
Existing products	1,123
Goodwill	28,335
Liabilities	(9,532)
	$24,669

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

Fiscal 1999 Transactions

The acquisitions of Head Games and CD Contact were originally treated as immaterial poolings of interests. However, after reviewing the results of operations of the entities, including the materiality and impact on the Company's trends, 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 was accounted for as a pooling of interests.

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 and the assumption of $9.1 million in outstanding debt payable to CD Contact's former shareholders. The debt is evidenced by notes payable which are due on demand and bear interest at approximately 8% per annum. The acquisition was accounted for as a pooling of interests.

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

	Fiscal Year 1999				
	Activision Year Ended March 31, 1999	Head Games Three Months Ended June 30, 1998	CD Contact Six Months Ended Sept. 30, 1998	Neversoft Year Ended March 31, 1998	Total Year Ended March 31, 1999
Revenues	$412,225	$2,195	$22,065	$ 41	$436,526
Net income (loss)	$ 14,194	$ 394	$ 666	$(363)	$ 14,891

Fiscal 1998 Transactions

The acquisitions of NBG and Raven were originally accounted for as immaterial poolings of interests. However, after reviewing the results of operations of the entities, including the materiality and impact on the Company's trends, the Company has restated the financial statements for all 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 was accounted for as a pooling of interests.

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

	Fiscal Year 1998					
	Activision as Previously Reported Year Ended March 31, 1998	NBG Six Months Ended Sept. 30, 1997	Head Games Year Ended March 31, 1998	CD Contact Year Ended March 31, 1998	Neversoft Year Ended March 31, 1998	Total Year Ended March 31, 1998
Revenues	$259,926	$7,081	$3,715	$41,336	$ 848	$312,906
Net income (loss)	$ 5,827	$ (106)	$ (70)	$ (512)	$(169)	$ 4,970

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 was accounted for as a pooling of interests.

Acquisition of CentreSoft

On November 26, 1997, the Company acquired CentreSoft Limited ("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 restated to reflect the effect of the CentreSoft acquisition for all periods presented.

3. STRATEGIC RESTRUCTURING PLAN

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

Net revenues	$11.7
Cost of sales-royalties and software amortization	11.9
Product development	4.2
General and administrative	5.2
Amortization of intangible assets	37.2
	$70.2

The component of the charge included in amortization of intangible assets represents a write-down of intangibles including goodwill, relating to Expert Software, Inc. ("Expert"), one of the Company's value publishing subsidiaries, totaling $26.3 million. The Company is consolidating Expert into Head Games, forming one integrated business unit. As part of this consolidation, the Company is discontinuing substantially all of Expert's product lines, terminating substantially all of Expert's employees and phasing out the use of the Expert name. In addition, a $10.9 million write-down of goodwill relating to TDC, an OEM business unit, was recorded. In the past year, the OEM market has gone through radical changes due to price declines of PCs and hardware accessories. The sum of the undiscounted future cash flow of these assets was not sufficient to cover the carrying value of these assets and as such was written down to fair market value.

The component of the charge included in net revenues and general and administrative expense represents costs associated with the planned termination of a substantial number of its third-party distributor relationships in connection with the Company's realignment of its worldwide publishing business to leverage its existing sales and marketing organizations and improve the control and management of its products. These actions have resulted in an increase in the allowance for sales returns of $11.7 million and the allowance for doubtful accounts of $3.4 million. The plan also includes a severance charge of $1.2 million for employee redundancies. The plan is expected to be completed by the fourth quarter of fiscal 2001.

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

4. INVENTORIES

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

March 31,	**2000**	1999
Purchased parts and components	**$ 2,857**	$ 2,326
Finished goods	**37,596**	28,605
	$40,453	$30,931

5. PROPERTY AND EQUIPMENT

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

March 31,	**2000**	1999
Land	**$ 526**	$ 582
Buildings	**2,468**	759
Computer equipment	**18,670**	18,123
Office furniture and other equipment	**5,800**	3,523
Leasehold improvements	**3,229**	3,189
Total cost of property and equipment	**30,693**	26,176
Less accumulated depreciation	**(19,878)**	(15,252)
Property and equipment, net	**$ 10,815**	$ 10,924

Depreciation expense for the years ended March 31, 2000, 1999 and 1998 was $4.2 million, $4.9 million and $3.8 million, respectively.

6. ACCRUED EXPENSES

Accrued expenses were comprised of the following (amounts in thousands):

March 31,	**2000**	1999
Accrued royalties payable	**$ 13,300**	$ 11,249
Affiliated label payable	**4,033**	11,999
Accrued selling and marketing costs	**10,493**	3,082
Income tax payable	**4,934**	5,068
Accrued interest expense	**1,013**	1,013
Accrued bonus and vacation pay	**5,514**	4,473
Other	**10,117**	8,276
Total	**$ 49,404**	$ 45,160

7. OPERATIONS BY REPORTABLE SEGMENTS AND GEOGRAPHIC AREA

The Company adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," ("SFAS No. 131") 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, the Nintendo 64 console system and the Sega Dreamcast 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 and through third-party distribution and licensing arrangements and through the Company's wholly-owned distribution subsidiaries located in the United Kingdom, the Netherlands and Germany.

The Company's distribution segment, located in the United Kingdom, the Netherlands 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, 2000 is as follows (amounts in thousands):

Year ended March 31, 2000	Publishing	Distribution	Total
Total segment revenues	$396,691	$175,514	$572,205
Revenue from sales between segments	(40,255)	40,255	—
Revenues from external customers	$356,436	$215,769	$572,205
Operating income (loss)	$ (35,049)	$ 4,724	$ (30,325)

Year ended March 31, 1999	Publishing	Distribution	Total
Total segment revenues	$205,542	$230,984	$436,526
Revenue from sales between segments	(19,202)	19,202	—
Revenues from external customers	$186,340	$250,186	$436,526
Operating income	$ 12,398	$ 14,269	$ 26,667

Year ended March 31, 1998	Publishing	Distribution	Total
Total segment revenues	$133,674	$179,232	$312,906
Revenue from sales between segments	(7,759)	7,759	—
Revenues from external customers	$125,915	$186,991	$312,906
Operating income	$ 4,376	$ 4,842	$ 9,218

Geographic information for the three years ended March 31, 2000 is based on the location of the selling entity. Revenues from external customers by geographic region were as follows (amounts in thousands):

Year ended March 31,	**2000**	1999	1998
United States	**$279,165**	$149,705	$ 90,784
Europe	**277,524**	278,032	208,817
Other	**15,516**	8,789	13,305
Total	**$572,205**	$436,526	$312,906

Revenues by platform were as follows:

Year ended March 31,	**2000**	1999	1998
Console	**$410,892**	$268,246	$132,738
PC	**161,313**	168,280	180,168
Total	**$572,205**	$436,526	$312,906

8. COMPUTATION OF EARNINGS PER SHARE

The following table sets forth the computations of basic and diluted earnings (loss) per share (amounts in thousands, except per share data):

Year ended March 31,	**2000**	1999	1998
NUMERATOR			
Net income (loss)	**$ (34,088)**	$ 14,891	$ 4,970
Preferred stock dividends	**—**	—	(116)
Numerator for basic and diluted earnings per share-income available to common shareholders	**$ (34,088)**	$ 14,891	$ 4,854
DENOMINATOR			
Denominator for basic earnings per share-weighted average common shares outstanding	**24,691**	22,861	22,038
Effect of dilutive securities:			
Employee stock options	**—**	942	801
Warrants to purchase common stock	**—**	129	70
Potential dilutive common shares	**—**	1,071	871
Denominator for diluted earnings per share-weighted average common shares outstanding plus assumed conversions	**24,691**	23,932	22,909
Basic earnings (loss) per share	**$ (1.38)**	$ 0.65	$ 0.22
Diluted earnings (loss) per share	**$ (1.38)**	$ 0.62	$ 0.21

Options to purchase 10,332,000, 2,188,000 and 1,978,000 shares of common stock were outstanding for the years ended March 31, 2000, 1999 and 1998, respectively, but were not included in the calculations of diluted earnings (loss) per share because their effect would be anti-dilutive.

Convertible subordinated notes and convertible preferred stock were not included in the calculations of diluted earnings per share because their effect would be anti-dilutive.

9. INCOME TAXES

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

Year ended March 31,	**2000**	1999	1998
Income (loss) before income taxes:			
Domestic	**$(37,115)**	$ 5,945	$ (2,483)
Foreign	**(1,621)**	17,691	10,589
	$(38,736)	$23,636	$ 8,106
Income tax expense (benefit):			
Current:			
Federal	**$ (383)**	$ 37	$ 1,133
State	**337**	124	14
Foreign	**2,610**	5,456	3,653
Total current	**2,564**	5,617	4,800
Deferred:			
Federal	**(10,047)**	(418)	(2,679)
State	**(1,448)**	57	(232)
Total deferred	**(11,495)**	(361)	(2,911)
Add back benefit credited to additional paid-in capital:			
Tax benefit related to stock option exercises	**3,017**	1,059	1,247
Tax benefit related to utilization of pre-bankruptcy net operating loss carryforwards	**1,266**	2,430	—
	4,283	3,489	1,247
	$ (4,648)	$ 8,745	$ 3,136

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,	**2000**	1999	1998
Federal income tax provision (benefit) at statutory rate	**(34.0%)**	34.0%	34.0%
State taxes, net of federal benefit	**(4.5%)**	1.3%	(1.2%)
Nondeductible amortization	**18.6%**	1.7%	4.4%
Nondeductible merger fees	**0.4%**	0.8%	3.6%
Research and development credits	**(8.6%)**	(5.4%)	(5.3%)
Incremental effect of foreign tax rates	**2.8%**	(0.9%)	0.7%
Increase (reduction) of valuation allowance	**13.8%**	5.1%	—
Other	**(0.5%)**	0.4%	2.5%
	(12.0%)	37.0%	38.7%

Deferred income taxes reflect the net tax effects of temporary differences between the amounts of assets and liabilities for accounting purposes and the amounts used for income tax purposes. The components of the net deferred tax asset and liability are as follows (amounts in thousands):

March 31,	**2000**	1999
Deferred asset:		
Allowance for bad debts	**$ 1,019**	$ 942
Allowance for sales returns	**5,151**	144
Inventory reserve	**799**	172
Vacation and bonus reserve	**763**	404
Royalty reserve	**774**	1,649
Other	**1,585**	1,298
Tax credit carryforwards	**12,062**	6,726
Net operating loss carryforwards	**12,828**	10,534
Amortization and depreciation	**7,055**	56
Deferred asset	**42,036**	21,925
Valuation allowance	**(13,041)**	(6,916)
Net deferred asset	**28,995**	15,009
Deferred liability:		
Capitalized research expenses	**7,864**	5,512
State taxes	**917**	386
Deferred compensation	**—**	110
Deferred liability	**8,781**	6,008
Net deferred asset	**$ 20,214**	$ 9,001

In accordance with Statement of Position 90-7 ("SOP 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, 2000, $1.3 million was recorded as additional paid-in capital.

As of March 31, 2000, the Company's available net operating loss carryforward of $31.8 million and $8.0 million for federal and state purposes, respectively, is subject to certain limitations as defined under Section 382 of the Internal Revenue Code. The net operating loss carryforwards expire from 2002 to 2019. The Company has tax credit carryforwards of $8.1 million and $4.0 million for federal and state purposes, respectively, which expire from 2004 to 2019.

At March 31, 2000, the Company's deferred income tax asset for tax credit carryforwards and net operating loss carryforwards was reduced by a valuation allowance of $13.0 million. Of such valuation allowance, $3.2 million relates to SOP 90-7 which, if realized, will be recorded as additional paid-in capital. 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 net carrying value of the deferred tax asset 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.

Cumulative undistributed earnings of foreign subsidiaries for which no deferred taxes have been provided approximated $15.7 million at March 31, 2000. Deferred income taxes on these earnings have not been provided as these amounts are considered to be permanent in duration.

10. LONG-TERM DEBT

Bank Lines of Credit and Other Debt

The Company's long-term debt consists of the following (amounts in thousands):

March 31,	**2000**	1999
U.S. Facility	**$ 22,496**	$ —
The Netherlands Facility	**3,509**	5,513
Mortgage notes payable and other	**4,033**	1,622
	30,038	7,135
Less current portion	**(16,260)**	(5,992)
Long-term debt, less current portion	**$ 13,778**	$ 1,143

In June 1999, the Company obtained a $125.0 million revolving credit facility and term loan (the "U.S. Facility") with a group of banks. The U.S. Facility provides the Company with the ability to borrow up to $100.0 million and issue letters of credit up to $80 million on a revolving basis against eligible accounts receivable and inventory. The $25.0 million term loan portion of the U.S. Facility was used to acquire Expert Software, Inc. in June 1999 and to pay costs related to such acquisition and the securing of the U.S. 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 based on the banks' base rate (which is generally equivalent to the published prime rate) plus 2% or LIBOR plus 3%. The revolving portion of the U.S Facility has a borrowing rate based on the banks' base rate plus 1.75% or LIBOR plus 2.75% (weighted average interest rate of approximately 9.50% for the year ended March 31, 2000) and matures June 2002. The Company pays a commitment fee of ½% on the unused portion of the revolving line. The U.S. Facility is collateralized by substantially all of the assets of the Company and its U.S. subsidiaries. The U.S. Facility contains various covenants that limit the ability of the Company to incur additional indebtedness, pay dividends or make other distributions, create certain liens, sell assets, or enter into certain mergers or acquisitions. The Company is also required to maintain specified financial ratios related to net worth and fixed charges. As of March 31, 2000, the Company was in compliance with these covenants. As of March 31, 2000, $20.0 million was outstanding under the term loan portion of the U.S. Facility and $2.5 million was outstanding under the revolving portion of the U.S. Facility. No letters of credit were outstanding against the revolving portion of the U.S. Facility at March 31, 2000.

On June 8, 2000, the Company amended certain of the covenants of its U.S. Facility. The amended U.S. Facility permits the Company to purchase up to $15.0 million in shares of its common stock as well as its convertible subordinated notes in accordance with the Company's stock repurchase program (described in Note 15), the distribution of "Rights" under the Company's shareholders' rights plan (described in Note 15), as well as the reorganization of the Company's organizational structure into a holding company form.

The Company has a revolving credit facility through its CD Contact subsidiary in the Netherlands (the "Netherlands Facility"). The Netherlands Facility permits revolving credit loans and letters of credit up to Netherlands Guilders ("NLG") 45 million ($19.4 million) and NLG 30 million ($13.0 million) at March 31, 2000 and 1999, respectively, based upon eligible accounts receivable and inventory balances. The Netherlands Facility is due on demand, bears interest at a Eurocurrency rate plus 1.25% (weighted average interest rate of 5.5% as of March 31, 2000) and matures March 2001. Letters of credit outstanding under the Netherlands Facility were NLG 3.8 million ($1.6 million) and NLG 17.9 million ($6.9 million) and borrowings outstanding under the Netherlands Facility were $3.5 million and $5.5 million at March 31, 2000 and 1999, respectively.

The Company also has revolving credit facilities with its CentreSoft subsidiary located in the United Kingdom (the "UK Facility") and its NBG subsidiary located in Germany (the "German Facility"). The UK Facility provides for British Pounds ("GBP") 7.0 million ($11.2 million) of revolving loans and GBP 6.0 million ($9.6 million) of letters of credit, bears interest at LIBOR plus 2%, is collateralized by substantially all of the assets of the subsidiary and matures in July 2000. The UK Facility also contains various covenants that require the subsidiary to maintain specified financial ratios related to, among others, fixed charges. As of March 31, 2000, the Company was in compliance with these covenants. No borrowings were outstanding against the UK Facility at March 31, 2000 or 1999. Letters of credit of GBP 6.0 million ($9.6 million) were outstanding against the UK Facility at March 31, 2000 and 1999. As of March 31, 2000, the German Facility provides for revolving loans up to Deutsche Marks ("DM") 4 million ($1.9 million), bears interest at 6.25%, is collateralized by a cash deposit of approximately GBP 650,000 ($1.0 million) made by the Company's CentreSoft subsidiary and has no expiration date. No borrowings were outstanding against the German Facility as of March 31, 2000 and 1999.

Mortgage notes payable relate to the land, office and warehouse facilities of the Company's German and Netherlands subsidiaries. The notes bear interest at 5.45% and 5.35%, respectively, and are collateralized by the related assets. The Netherlands mortgage note payable is due in quarterly installments of NLG 25,000 ($11,725) and matures January 2019. The German mortgage note payable is due in bi-annual installments of DM 145,000 ($70,615) beginning June 2002 and matures December 2019.

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 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. The Prior Facility was terminated in June 1999 in conjunction with the acquisition of the U.S. Facility.

Annual maturities of long-term debt are as follows (amounts in thousands):

2001	$16,260
2002	10,190
2003	190
2004	190
2005	190
Thereafter	3,018
Total	$30,038

Private Placement of Convertible Subordinated Notes

In December 1997, the Company completed the private placement of $60.0 million principal amount of 6¾% 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.

11. COMMITMENTS AND CONTINGENCIES

Developer Contracts

In the normal course of business, the Company enters into contractual arrangements with third parties for the development of products. Under these agreements, the Company commits to provide specified payments to a developer, contingent upon the developer's achievement of contractually specified milestones. Assuming all contractually specified milestones are achieved, for contracts in place as of March 31, 2000, the total future minimum contract commitment is approximately $42.9 million, of which $35.0 million, $6.6 million and $1.3 million is scheduled to be paid in fiscal 2001, 2002 and 2003, respectively.

Additionally, under the terms of a production financing arrangement, the Company has a commitment to purchase two future PlayStation 2 titles from independent third-party developers upon their completion for an estimated $8.4 million. Failure by the developers to complete the project within the contractual time frame or specifications alleviates the Company's commitment.

Lease Obligations

The Company leases certain of its facilities under non-cancelable operating lease agreements. Total future minimum lease commitments as of March 31, 2000 are as follows (amounts in thousands):

Year ending March 31,	
2001	$ 3,950
2002	3,670
2003	3,608
2004	3,594
2005	3,378
Thereafter	8,789
Total	$26,989

Rent expense under these leases for the years ended March 31, 2000, 1999 and 1998 was approximately $4.4 million, $4.4 million and $3.3 million, 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.

12. STOCKHOLDERS' EQUITY AND COMPENSATION PLANS

Option Plans

The Company sponsors three 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 "Awards" in the form 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 7,566,667. The 1991 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. There were approximately 449,000 shares remaining available for grant under the 1991 Plan as of March 31, 2000.

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 "Awards" in the form 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 approximately 250,000 shares remaining available for grant under the 1998 Plan as of March 31, 2000.

On, April 26, 1999, the Board of Directors approved the Activision 1999 Incentive Plan (the "1999 Plan"). The 1999 Plan permits the granting of "Awards" in the form of non-qualified stock options, ISOs, SARs, restricted stock awards, deferred share awards and other common stock-based awards. The total number of shares of common stock available for distribution under the 1999 Plan is 5,000,000. The 1999 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. As of March 31, 2000, there were approximately 3,386,000 shares remaining available for grant under the 1999 Plan.

The exercise price for Awards issued under the 1991 Plan, 1998 Plan and 1999 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 the fair market value at the date of grant. Options typically become exercisable in installments over a period not to exceed five years and must be exercised within 10 years of the date of grant. However, certain options granted to executives vest immediately. Historically, stock options have been granted with exercise prices equal to or greater than the fair market value at the date of grant.

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 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, 2000, there were no shares of common stock available for distribution under the Director Warrant Plan.

The range of exercise prices for Director Warrants outstanding as of March 31, 2000 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, 2000, 33,300 of the outstanding and vested Director Warrants have a weighted average remaining contractual life of 1.78 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 4.82 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 4.82 years and a weighted average exercise price of $8.50.

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 39,002 and 42,093 shares at a price of $10.68 and $9.24 per share during the Purchase Plan's offering period ended September 30, 1999 and 1998, respectively, and 33,440 and 45,868 shares at a price of $10.25 and $8.92 per share during the Purchase Plan's offering period ended March 31, 2000 and 1999, respectively.

Other Employee Options

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. At March 31, 2000, 2,000,000 and 800,000 shares were outstanding and exercisable, respectively.

The Company also issues stock options in conjunction with acquisition transactions. For the year ended March 31, 2000, approximately 174,000 and 148,000 options were outstanding and exercisable, respectively, relating to options issued in conjunction with the acquisitions of Head Games and Expert.

During the fiscal year ended March 31, 1997, the Company issued warrants to purchase 40,000 shares of the Company's common stock, at exercise prices ranging from $6.59 to $6.91 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, 2000, 40,000 and 29,000 shares with weighted average exercise prices of $12.85 and $12.88 were outstanding and exercisable, respectively.

Activity of all employee and director options and warrants during the last three fiscal years was as follows (amounts in thousands, except weighted average exercise price amounts):

	2000		1999		1998	
	Shares	**Weighted Average Exercise Price**	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**9,949**	**$10.54**	6,218	$11.47	5,228	$11.69
Granted	**3,767**	**11.52**	5,538	10.27	2,776	12.14
Exercised	**(2,331)**	**9.15**	(605)	8.68	(599)	8.35
Forfeited	**(1,053)**	**11.91**	(1,202)	15.33	(1,187)	14.45
Outstanding at end of year	**10,332**	**$11.07**	9,949	$10.54	6,218	$11.47
Exercisable at end of year	**4,715**	**$10.25**	4,154	$10.00	2,532	$ 9.78

For the year ended March 31, 2000, 2,501,000 options with a weighted average exercise price of $12.88 were granted at an exercise price equal to the fair market value on the date of grant and 705,000 options with a weighted average exercise price of $10.71 were granted at an exercise price greater than fair market value on the date of grant. Additionally, in conjunction with the acquisition of Expert, 561,000 options with a weighted average exercise price of $6.48 were granted at an exercise price less than market value on the date of grant. Options granted to Expert were outside any of the Plans.

The following tables summarize information about all employee and director stock options and warrants outstanding as of March 31, 2000 (share amounts in thousands):

	Outstanding Options			Exercisable Options	
	Shares	Remaining Weighted Average Contractual Life (In Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Range of exercise prices:					
$0.75 to $5.00	195	3.49	$ 3.31	195	$ 3.31
$5.01 to $10.00	2,552	7.25	9.08	1,930	8.92
$10.01 to $15.00	6,733	8.51	11.38	2,285	11.12
$15.01 to $20.00	849	8.04	16.27	302	16.45
$20.01 to $23.04	3	9.23	23.04	3	23.04

Non-Employee Warrants

During the fiscal year ended March 31, 1999, the Company issued the following warrants to purchase an aggregate of 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 will be equal to the average closing price of the Company's common stock on the Nasdaq National Market® for the 30 trading days preceding September 16, 2003.

In May 1999, the Company granted warrants to purchase 100,000 shares of the Company's common stock at an exercise price of $11.63 per share to Cabela's, Inc. ("Cabela's") in connection with, and as partial consideration for, a license agreement that allows the Company to utilize the Cabela's name in conjunction with certain Activision products. The warrants have a seven year term and vest in annual increments of approximately 14.25%.

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 above. 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 fiscal year 2000 and 1999, $5.8 million and $0.4 million, respectively, was amortized and included in royalty expense relating to warrants. No amortization was recognized in 1998.

Pro Forma Information

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

Pro forma information regarding net income (loss) and earnings 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 and other employee option grants, collectively called "options") granted during fiscal 2000, 1999 and 1998 under the fair value method of that statement. The fair value of options granted in the years ended March 31, 2000, 1999 and 1998 reported below has been estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions:

	Option Plans and Other Employee Options			Purchase Plan			Director Warrant Plan		
	2000	1999	1998	**2000**	1999	1998	**2000**	1999	1998
Expected life (in years)	**1**	1.5	3.0	**0.5**	0.5	0.5	**1**	0.5	—
Risk-free interest rate	**6.15%**	4.77%	5.62%	**6.15%**	4.77%	5.62%	**6.15%**	4.77%	—
Volatility	**67%**	66%	63%	**67%**	66%	71%	**67%**	66%	—
Dividend yield	**—**	—	—	**—**	—	—	**—**	—	—

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options. For options granted during fiscal 2000, the per share weighted average fair value of options with exercise prices equal to market value on date of grant, exercise prices greater than market value and exercise prices less than market value were $5.91, $2.64 and $8.00, respectively. The weighted average estimated fair value of options and warrants granted to employees and directors during the years ended March 31, 1999 and 1998 was $11.12 and $13.47 per share, respectively. The per share weighted average estimated fair value of Employee Stock Purchase Plan shares granted during the years ended March 31, 2000, 1999 and 1998 were $3.35, $2.85 and $2.65, respectively.

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 per share information):

Year ended March 31,	**2000**	1999	1998
Pro forma net income (loss)	**$(45,355)**	$748	$(2,422)
Pro forma basic earnings per share	**(1.84)**	0.01	(0.13)
Pro forma diluted earnings per share	**(1.84)**	0.01	(0.13)

The effects on pro forma disclosures of applying SFAS No. 123 are not likely to be representative of the effects on pro forma disclosures of future years.

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 $46,000, $40,000 and $25,000 during the years ended March 31, 2000, 1999 and 1998, respectively.

13. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash investing and financing activities and supplemental cash flow information is as follows (amounts in thousands):

Years ended March 31,	**2000**	1999	1998
Non-cash investing and financing activities:			
Stock and warrants to acquire common stock issued in exchange for licensing rights	**$ 8,529**	$3,368	$1,214
Tax benefit derived from net operating loss carryforward utilization	**1,266**	2,430	—
Tax benefit attributable to stock option exercises	**3,017**	1,059	1,247
Subordinated loan stock debentures converted to common stock in pooling transaction	**—**	—	3,216
Redeemable preferred stock converted to common stock in pooling transaction	**—**	—	1,286
Convertible preferred stock converted to common stock in pooling transaction	**—**	—	214
Stock issued to effect business combination	**7,171**	—	174
Assumption of debt to effect business combination	**—**	9,100	—
Conversion of notes payable to common stock	**—**	4,500	—
Supplemental cash flow information:			
Cash paid for income taxes	**$ 6,333**	$2,814	$2,174
Cash paid for interest	**$10,519**	$5,513	$ 675

14. QUARTERLY FINANCIAL AND MARKET INFORMATION (UNAUDITED)

Quarter ended	June 30	Sept. 30	Dec. 31	Mar. 31 (1)	Year Ended
	(Amounts in thousands, except per share data)				
Fiscal 2000 (quarter ended June 30 restated):					
Net revenues	$84,142	$115,363	$268,862	$103,838	$572,205
Operating income (loss)	(6,101)	3,525	38,241	(65,990)	(30,325)
Net income (loss)	(4,575)	1,063	22,301	(52,877)	(34,088)
Basic earnings (loss) per share	(0.19)	0.04	0.89	(2.07)	(1.38)
Diluted earnings (loss) per share	(0.19)	0.04	0.75	(2.07)	(1.38)
Common stock price per share					
High	14.56	17.75	17.50	17.69	17.75
Low	10.31	12.63	13.94	12.06	10.31
Fiscal 1999 (restated):					
Net revenues	$61,541	$ 66,182	$193,537	$115,266	$436,526
Operating income (loss)	(5,524)	(2,735)	25,873	9,053	26,667
Net income (loss)	(3,671)	(2,206)	15,736	5,032	14,891
Basic earnings (loss) per share	(0.16)	(0.10)	0.69	0.22	0.65
Diluted earnings (loss) per share	(0.16)	(0.10)	0.61	0.21	0.62
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

(1) In the fourth quarter of fiscal 2000, the Company initiated a strategic restructuring which resulted in additional costs of $70.2 million reflected in the consolidated statement of operations in the fourth quarter. See Note 3, "Strategic Restructuring Plan."

15. ORGANIZATIONAL STRUCTURE

Effective June 9, 2000, Activision reorganized into a holding company form of organizational structure, whereby Activision Holdings, Inc., a Delaware corporation ("Activision Holdings"), became the holding company for Activision and its subsidiaries. The new holding company organizational structure will allow Activision to manage its entire organization more effectively and broadens the alternatives for future financings.

The holding company organizational structure was effected by a merger conducted pursuant to Section 251(g) of the General Corporation Law of the State of Delaware, which provides for the formation of a holding company structure without a vote of the stockholders of the constituent corporations. In the merger, ATVI Merger Sub, Inc., a Delaware corporation, organized for the purpose of implementing the holding company organizational structure, (the "Merger Sub"), merged with and into Activision with Activision as the surviving corporation (the "Surviving Corporation"). Prior to the merger, Activision Holdings was a direct, wholly-owned subsidiary of Activision and Merger Sub was a direct, wholly-owned subsidiary of Activision Holdings. Pursuant to the merger, (i) each issued and outstanding share of common stock of Activision (including treasury shares) was converted into one share of common stock of Activision Holdings, (ii) each issued and outstanding share of Merger Sub was converted into one share of the Surviving Corporation's common stock, and Merger Sub's corporate existence ceased, and (iii) all of the issued and outstanding shares of Activision Holdings owned by Activision were automatically canceled and retired. As a result of the merger, Activision became a direct, wholly-owned subsidiary of Activision Holdings.

Immediately following the merger, Activision changed its name to "Activision Publishing, Inc." and Activision Holdings changed its name to "Activision, Inc." The holding company's common stock will continue to trade on the Nasdaq National Market under the symbol ATVI.

The conversion of shares of Activision's common stock in the merger occurred without an exchange of certificates. Accordingly, certificates formerly representing shares of outstanding common stock of Activision are deemed to represent the same number of shares of common stock of Activision Holdings. The change to the holding company structure was tax free for federal income tax purposes for stockholders.

These transactions had no impact on the Company's consolidated financial statements.

16. SUBSEQUENT EVENTS—UNAUDITED

Repurchase Plan

As of May 9, 2000, the Board of Directors authorized the Company to purchase up to $15.0 million in shares of its common stock as well as its convertible subordinated notes. The shares and notes could be purchased from time to time through the open market or in privately negotiated transactions. The amount of shares and notes purchased and the timing of purchases was based on a number of factors, including the market price of the shares and notes, market conditions, and such other factors as the Company's management deemed appropriate. The Company has financed the purchase of shares with available cash. As of June 19, 2000, the Company has repurchased 2.3 million shares of its common stock for approximately $15.0 million.

Shareholders' Rights Plan

On April 18, 2000, the Company's Board of Directors approved a shareholders' rights plan (the "Rights Plan"). Under the Rights Plan, each common stockholder at the close of business on April 19, 2000, will receive a dividend of one right for each share of common stock held. Each right represents the right to purchase one one-hundredth (1/100) of a share of the Company's Series A Junior Preferred Stock at an exercise price of $40.00. Initially, the rights are represented by the Company's common stock certificates and are neither exercisable nor traded separately from the Company's common stock. The rights will only become exercisable if a person or group acquires 15% or more of the common stock of the Company, or announces or commences a tender or exchange offer which would result in the bidder's beneficial ownership of 15% or more of the Company's common stock.

In the event that any person or group acquires 15% or more of the Company's outstanding common stock each holder of a right (other than such person or members of such group) will thereafter have the right to receive upon exercise of such right, in lieu of shares of Series A Junior Preferred Stock, the number of shares of common stock of the Company having a value equal to two times the then current exercise price of the right. If the Company is acquired in a merger or other business combination transaction after a person has acquired 15% or more the Company's common stock, each holder of a right will thereafter have the right to receive upon exercise of such right a number of the acquiring company's common shares having a market value equal to two times the then current exercise price of the right. For persons who, as of the close of business on April 18, 2000, beneficially own 15% or more of the common stock of the Company, the Rights Plan "grandfathers" their current level of ownership, so long as they do not purchase additional shares in excess of certain limitations.

The Company may redeem the rights for $.01 per right at any time until the first public announcement of the acquisition of beneficial ownership of 15% of the Company's common stock. At any time after a person has acquired 15% or more (but before any person has acquired more than 50%) of the Company's common stock, the Company may exchange all or part of the rights for shares of common stock at an exchange ratio of one share of common stock per right. The rights expire on April 18, 2010.

As discussed in Note 10, the Company obtained an amendment to its U.S. Facility relating to the Rights Plan and the Company's stock repurchase plan.

Certain Market Information and Related Stockholder Matters

The Company's common stock is quoted on the Nasdaq National Market under the symbol "ATVI."

The following table sets forth for the periods indicated the high and low reported closing sale prices for the Company's common stock. As of June 19, 2000, there were approximately 5,000 holders of record of the Company's common stock.

	High	Low
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 ended June 30, 1999	$14.56	$10.31
Second Quarter ended September 30, 1999	17.75	12.63
Third Quarter ended December 31, 1999	17.50	13.94
Fourth Quarter ended March 31, 2000	17.69	12.06
Fiscal 2001		
First Quarter ended June 30, 2000	$11.13	$ 5.66

On June 30, 2000, the reported last sales price for the Company's common stock was $6.50.

DIVIDENDS

The Company paid no cash dividends in 2000 or 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. In addition, the Company's bank credit facility currently prohibits the Company from paying dividends on its common stock. 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.

Corporate Information

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

Offices
Bentonville, Arkansas
Dallas, Texas
Eden Prairie, Minnesota
Madison, Wisconsin
Miami, Florida
New York, New York
Woodland Hills, California

Antwerp, Belgium
Argenteuil, France
Birmingham, United Kingdom
Burglengenfeld, Germany
Eemnes, The Netherlands
Ismaning, Germany
London, United Kingdom
Sydney, Australia
Tokyo, Japan

Corporate Counsel
Robinson Silverman Pearce Aronsohn & Berman, LLP
New York, New York

Auditor
KPMG, LLP
Los Angeles, California

Bank
PNC Bank
2 North Lake Avenue
Pasadena, California 91101

Transfer Agent
Continental Stock Transfer & Trust Company
2 Broadway
New York, New York 10004
(212) 509-4000

Forward-Looking Statement
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, 2000, which was filed with the United States Securities and Exchange Commission. Readers of this Annual Report are referred to such filings.

World Wide Web Site
http://www.activision.com

E-Mail
IR@activision.com

Annual Meeting
September 28, 2000
The Peninsula Hotel
9882 South Santa Monica Boulevard
Beverly Hills, California 90212

Annual Report on Form 10-K
The company's Annual Report on Form 10-K for the year ended March 31, 2000 is available to shareholders without charge upon request from our corporate offices.

Officers

Robert A. Kotick	*Chairman and Chief Executive Officer*
Brian G. Kelly	*Co-Chairman*
Ronald Doornink	*President and Chief Operating Officer*
William Chardavoyne	*Executive Vice President and Chief Financial Officer*
Lawrence Goldberg	*Executive Vice President and Chief Corporate Officer*
Daniel Hammett	*Executive Vice President, Activision and President, Activision Value Publishing*
Michael Pole	*Executive Vice President, Worldwide Studios*
Michael J. Rowe	*Executive Vice President, Human Resources*
Ronald L. Scott	*Executive Vice President, Worldwide Publishing*
Richard Steele	*Executive Vice President, Distribution*
Kathy P. Vrabeck	*Executive Vice President, Global Brand Management*
Stephen Crane	*Sr. Vice President & Chief Technology Officer*
Scott Dodkins	*Sr. Vice President, European Publishing*
George Rose	*Sr. Vice President & General Counsel*
Bill Swartz	*Sr. Vice President, Activision Studios Japan*
William Anker	*Vice President, Acquisitions*
Tricia Bertero	*Vice President, Global Brand Management*
Brian Bezdek	*Vice President, Business Planning and Development*
Greg Goldstein	*Vice President, Brand Development and Licensing*
Joel Jewett	*Vice President, Neversoft Entertainment*
Chad Koehler	*Vice President, Operations, Activision Value Publishing*
Jenniffer Koh	*Vice President, Corporate Controller*
Maryanne Lataif	*Vice President, Corporate Communications*
Julian Lynn-Evans	*Vice President, European Studios*
Tom McMahon	*Vice President, North American Publishing*
David Oxford	*Vice President, Sales, Activision Value Publishing*
Brian Raffel	*Vice President, Raven Studios*
James Summers	*Vice President, Quality Assurance & Customer Support*
Denise Walsh	*Vice President, Creative Services*
John Watts	*Vice President & Managing Director, Asia/Pacific Publishing*
Paul Wylie	*Vice President, Global Operations*

Board of Directors

Robert A. Kotick	*Chairman and Chief Executive Officer*
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.*

Designed by Curran & Connors, Inc. / www.curran-connors.com

3100 Ocean Park Boulevard
Santa Monica, CA 90405
phone: (310) 255-2000
fax: (310) 255-2100

http://www.activision.com