

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1995

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TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-12699

ACTIVISION, INC.
(Exact name of registrant as specified in its charter)

DELAWARE 94-2606438
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

11601 WILSHIRE BLVD., LOS ANGELES, CA 90025
(Address of principal executive offices) (Zip Code)

(310) 473-9200
(Registrant's telephone number, including area code)

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

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

The number of shares of the registrant's Common Stock outstanding as of
October 24, 1995 was 14,219,078.

ACTIVISION, INC.

INDEX

Page No.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets as of September 30, 1995 (unaudited) and March 31, 1995	3
Condensed Consolidated Statements of Operations for the quarters and six months ended September 30, 1995 and 1994 (unaudited)	4
Condensed Consolidated Statements of Cash Flows for the quarters and six months ended September 30, 1995 and 1994 (unaudited)	5
Notes to Condensed Consolidated Financial Statements for the quarter and six months ended September 30, 1995 (unaudited)	6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	8
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PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders	12
Item 6. Exhibits and Reports on Form 8-K	12
SIGNATURES	13

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ACTIVISION, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

(in thousands except share data)

	September 30, 1995	March 31, 1995
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 30,824	\$ 37,355
Accounts receivable, net	11,427	5,566
Inventories, net	3,097	1,972
Prepaid software and license royalties	3,034	1,082
Other assets	528	342
	-----	-----
Total current assets	48,910	46,317
Property and equipment, net	2,456	1,643
Other assets	110	60
Excess purchase price over identifiable assets acquired, net	20,221	20,863
	-----	-----
Total assets	\$ 71,697	\$ 68,883
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,291	\$ 2,516
Accrued expenses	5,491	3,153
Deferred revenue	2,401	-
	-----	-----
Total current liabilities	11,183	5,669
Other liabilities	500	510
	-----	-----
Total liabilities	11,683	6,179
	-----	-----
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$.000001 par value, 100,000,000 shares authorized, 14,211,062 and 14,183,594 shares issued and outstanding as of September 30, 1995 and March 31, 1995, respectively	-	-
Additional paid-in capital	67,793	67,667
Accumulated deficit	(7,585)	(4,822)
Cumulative foreign currency translation	(194)	(141)
	-----	-----
Total shareholders' equity	60,014	62,704
	-----	-----
Total liabilities and shareholders' equity	\$ 71,697	\$ 68,883
	=====	=====

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

ACTIVISION, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations

(in thousands except per share data)

(Unaudited)

Quarter ended Six months ended
September 30, September 30,

	1995	1994	1995	1994
Net revenues	\$ 18,848	\$ 4,635	\$ 22,167	\$ 7,884
Cost of goods sold	6,743	1,515	8,297	3,324
Gross profit	12,105	3,120	13,870	4,560
Operating expenses:				
Product development	4,065	1,753	8,644	3,068
Sales and marketing	4,197	1,353	6,090	2,621
General and administrative	1,156	670	2,142	1,417
Amortization of intangible assets	321	321	642	642
Total operating expenses	9,739	4,097	17,518	7,748
Operating income (loss)	2,366	(977)	(3,648)	(3,188)
Other income (expense):				
Interest, net	409	388	934	737
Income (loss) before provision for income taxes	2,775	(589)	(2,714)	(2,451)
Provision for income taxes	10	43	49	54
Net income (loss)	\$ 2,765	\$ (632)	\$ (2,763)	\$ (2,505)
Net income (loss) per share	\$ 0.18	\$ (0.05)	\$ (0.19)	\$ (0.18)
Number of shares used in computing net income (loss) per common share	15,064	13,864	14,193	13,860

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

ACTIVISION, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
For the six months ended September 30,

(in thousands)

Increase (Decrease) in Cash

	1995	1994
Net cash used in operating activities	\$ (5,230)	\$ (2,915)
Cash flows from investing activities:		
Capital expenditures	(1,374)	(436)
Restricted cash	-	1,500
Net cash used in investing activities	(1,374)	1,064
Cash flows from financing activities:		
Payments under line of credit agreements	-	(3,135)
Borrowings under line of credit agreements	-	3,135
Proceeds from exercise of common stock options	126	24
Net cash provided by financing activities	126	24
Effect of exchange rate changes on cash	(53)	22
Net decrease in cash and cash equivalents	(6,531)	(1,805)
Cash and cash equivalents at beginning of period	37,355	38,093
Cash and cash equivalents at end of period	\$ 30,824	\$ 36,288

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

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of Activision, Inc. and its subsidiaries. The information furnished is unaudited and reflects all adjustments which, in the opinion of management, are necessary to provide a fair statement of the results for the interim periods presented. The financial statements should be read in conjunction with the financial statements included in the Company's Annual Report on Form 10-K for the year ended March 31, 1995.

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

2. ACCOUNTS RECEIVABLE

Accounts receivable comprise (amounts in thousands):

	September 30, 1995	March 31, 1995
Accounts receivable	\$ 20,530	\$ 10,035
Less:		
Allowance for doubtful accounts	(617)	(528)
Allowance for sales returns and price protection	(8,486)	(3,941)
	-----	-----
	\$ 11,427	\$ 5,566
	=====	=====

The provision for bad debt expense for the quarter and six months ended September 30, 1995 was approximately \$142,000 and \$196,000, respectively, compared to approximately \$82,000 and \$154,000 for the quarter and six months ended September 30, 1994. The provision for sales returns and price protection for the quarter and six months ended September 30, 1995 was approximately \$5,339,000 and \$5,997,000, respectively, compared to approximately \$151,000 and \$673,000 for the quarter and six months ended September 30, 1994.

3. INVENTORIES

Inventories comprise (amounts in thousands):

	September 30, 1995	March 31, 1995
Finished goods	\$ 2,275	\$ 1,769
Purchased parts and components	822	203
	-----	-----
	\$ 3,097	\$ 1,972
	=====	=====

4. DEFERRED REVENUE

Revenue from licensing agreements which provide customers the right to multiple copies in exchange for guaranteed amounts is recognized upon delivery of the product master or the first copy; when per copy royalties on sales exceed the minimum guaranteed quantities, revenue is recognized. The Company defers recognition of revenue from licensing agreements until the completion by the Company of its future obligations under such agreements including, but not limited to, the achievement of technological feasibility of the products or assets to be delivered under such obligations and future collectibility. Deferred revenue of \$2,401,000 as of September 30, 1995 represents minimum guarantee payments received by the Company in advance of future deliveries of products or product components under such agreements.

5. AMORTIZATION OF INTANGIBLE ASSETS

Effective April 1, 1992, the Disc Company, Inc. ("TDC"), a Delaware

corporation and a wholly-owned subsidiary of International Consumer Technologies Corporation, was merged with and into the Company, with the Company as the surviving corporation. The excess of the purchase price over the estimated fair values of the net assets acquired was recorded as an intangible asset in the amount of \$24,417,000. This intangible asset is being amortized on a straight-line basis over a 20 year period. Amortization was approximately \$305,000 for each of the quarters ended September 30, 1995 and 1994 and \$611,000 for each of the the six month periods ended September 30, 1995. The Company systematically evaluates current and expected cash flow from operations on a non-discounted basis for the purpose of assessing the recoverability of recorded intangible assets. Some of the factors considered in this evaluation include operating results, business plans, budgets and economic projections. Should such factors indicate that recoverability might be impaired, the Company would appropriately adjust the recorded amount of the intangible asset and/or the period over which the recorded intangible asset is amortized.

6. EARNINGS (LOSS) PER COMMON SHARE

Earnings (loss) per common share is computed using the weighted average number of common and, when dilutive, common equivalent shares outstanding during the period. For the quarter ended September 30, 1995, the weighted average number of shares in the computation of earnings per share was increased by approximately 867,000 of common equivalent shares.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company is a diversified international publisher of interactive entertainment software. The Company develops and publishes entertainment software for a variety of platforms, including both personal computer CD-ROM desk-top systems, such as the Windows 95 operating system, and videogame set-top hardware systems, such as the Sega Saturn and Sony Playstation. The Company distributes its products worldwide through its direct sales force and, to a lesser extent, through third party distributors and licensees.

RESULTS OF OPERATIONS

Net revenues for the quarter and six months ended September 30, 1995 increased 307% and 181%, respectively, from the same periods last year. The increase in desk-top net revenues was primarily due to the initial release during the current quarter of "Mechwarrior 2" (PC CD) and "Pitfall: The Mayan Adventure" (PC CD) as well as continuing sales of the "Activision Atari 2600 Action Pack" line (PC CD and Macintosh CD). The increase in set-top net revenues is due to the initial release during the current quarter of "Mechwarrior 3050" (Super Nintendo Entertainment System ("SNES")), "Shanghai Triple Threat" (Sega Saturn) and continuing sales of "Pitfall: The Mayan Adventure" (SNES, Sega Genesis, Sega CD and Sega 32X). On-line, OEM, licensing and other net revenues increased due to OEM and licensing revenue related to "Mechwarrior 2", "Pitfall: The Mayan Adventure" and "Shanghai: Great Moments."

Net revenues by territory were as follows (amounts in thousands):

	Quarter Ended September 30,		Six Months Ended September 30,					
	1995	1994	1995	1994				
	% of Net	% of Net	% of Net	% of Net				
	Amount	Revenues	Amount	Revenues				
North America	\$ 14,789	78.5%	\$ 3,693	79.7%	\$16,972	76.6%	\$ 6,096	77.3%
Europe	1,958	10.4%	286	6.2%	2,028	9.1%	612	7.8%
Japan	1,057	5.6%	471	10.1%	1,896	8.6%	836	10.6%
Australia and Pacific Rim	1,044	5.5%	185	4.0%	1,271	5.7%	340	4.3%
	\$ 18,848	100.0%	\$ 4,635	100.0%	\$ 22,167	100.0%	\$ 7,884	100.0%

Net revenues by device/medium were as follows (amounts in thousands):

	Quarter Ended September 30,		Six Months Ended September 30,					
	1995	1994	1995	1994				
	% of Net	% of Net	% of Net	% of Net				
	Amount	Revenues	Amount	Revenues				
Set-top	\$ 2,084	11.1%	\$ 508	11.0%	\$ 2,769	12.5%	\$ 1,299	16.5%
Desk-top	13,499	71.6%	2,320	50.0%	15,537	70.1%	3,718	47.2%
On-line, OEM, licensing and other	3,265	17.3%	1,807	39.0%	3,861	17.4%	2,867	36.3%
	\$ 18,848	100.0%	\$ 4,635	100.0%	\$ 22,167	100.0%	\$ 7,884	100.0%

For purposes of the foregoing presentation, net revenues from set-top systems relate to sales of entertainment software products designed by the Company for operation on a hardware device that is connected to a television set and displayed on a television screen. Examples of set-top systems include Super Nintendo Entertainment System ("SNES"), Sega Genesis ("SGS"), Sega Saturn ("Saturn"), Sony Playstation, Atari Jaguar, CD-I and 3DO Multiplayer ("3DO"). The Company designs products for operation on many of these systems, and normally it is required to pay a license fee for the right to create products for a particular system. Net revenues from desk-top systems relate to sales of those entertainment software products designed by the Company for operation through a personal computer's operating system software and that is displayed on the computer's monitor. Examples of computer operating systems include MS-DOS, Windows and the Macintosh operating system. The Company generally is not obligated to pay an operating system license fee for the right to produce desk-top products.

Net revenues by source were as follows:

	Quarter Ended September 30,		Six Months Ended September 30,	
	1995	1994	1995	1994
	% of Net	% of Net	% of Net	% of Net
	Amount	Revenues	Amount	Revenues
Activision Studios	\$ 18,563	98.5%	\$ 4,237	91.4%
Acquisitions and Affiliated Labels	285	1.5%	398	8.6%
	\$ 18,848	100.0%	\$ 4,635	100.0%
			\$ 21,276	96.0%
			\$ 7,238	91.8%
			891	4.0%
			646	8.2%
			\$ 7,884	100.0%

Net revenues from Activision Studios relate to those entertainment software products (both set-top and desk-top) designed, developed and produced through the Company's Activision Studios division and that are owned by the Company. Net revenues from Acquisitions and Affiliated Labels relate to those entertainment software products developed by third parties for which the Company obtains all or certain distribution rights. Such distribution rights may take the form of a co-ownership arrangement or a license, and the Company's obligation to incur marketing, promotion, sales and advertising expenses in connection with the rights being acquired may vary from product to product.

Cost of Goods Sold

Cost of goods sold related to set-top, desk-top and OEM revenues represents the manufacturing and related costs of computer software and video games. Manufacturers of the Company's computer software are located in the United States and Europe and are readily available. Set-top cartridges and CDs are manufactured by the respective video game console manufacturers, Nintendo and Sega, who require significant lead time to fulfill the Company's orders.

Also included in cost of goods sold is royalty expense related to amounts due to developers, title owners or other royalty participants based on product sales. Various contracts are maintained with developers, product title owners or other royalty participants which state a royalty rate and term of agreement, among other items. The increase in cost of goods sold is related to the increase in set-top, desk-top and OEM net revenues.

Gross Profit

For the quarter ended September 30, 1995, gross profit as a percentage of net revenues was 64.2% compared to 67.3% for the quarter ended September 30, 1994. The majority of the Company's revenues in the quarter ended September 30, 1995 were derived from products developed for use with desk-top systems, which carry a lower gross margin than on-line, OEM, licensing and other revenues. In the prior year's quarter, on-line, OEM, licensing and other revenue accounted for a significant portion of the Company's sales. The decrease in gross margin over the period also was due to the decrease in gross margin on cartridge products developed for set-top systems.

Gross profit increased as a percent of net revenues from 57.8% for the six months ended September 30, 1994 to 62.6% for the six months ended September 30, 1995. The increase in gross profit over this period was primarily due to an overall shift in the Company's product mix toward desk-top software products, which carry a relatively high gross margin, and away from set-top software products, which carry a relatively lower gross margin.

Operating Expenses

	Quarter Ended September 30,		Six Months Ended September 30,	
	1995	1994	1995	1994
	% of Net	% of Net	% of Net	% of Net
	Amount	Revenues	Amount	Revenues
Product development	\$ 4,065	21.6%	\$1,753	37.8%
Sales and marketing	4,197	22.3%	1,353	29.2%
General and admin.	1,156	6.1%	670	14.5%
Amortization of intangible assets	321	1.7%	321	6.9%
			\$8,644	38.9%
			\$3,068	38.9%
			6,090	27.5%
			2,621	33.2%
			2,142	9.7%
			1,417	18.0%
			642	2.9%
			642	8.1%

Product development expenses increased due to the continued growth of the Company's product development departments, the increased number of products in product development and the increase in costs associated with enhanced production content and new technologies incorporated into such products. Approximately 70% and 73% of product development expenses for the quarter and six months ended September 30, 1995, respectively, relate to products which will be released in subsequent periods. Sales and marketing expenses increased as a result of marketing programs for both specific product releases and corporate awareness programs as well as from the growth of the sales and marketing departments, but decreased as a percentage of revenues as a result of the increase in net revenues. General and administrative expenses increased due to an increase in head count related expenses as compared to the same period in the prior year.

Amortization of intangible assets represents the amortization of the excess purchase price over identifiable assets acquired from the acquisition of Disc Company, Inc. on April 1, 1992. This asset is being amortized on a straight-line basis over a 20-year period. Also included in the amortization amount is the amortization of capitalized reorganization costs, which are being amortized using a straight-line method over a five-year period.

Other Income (Expense)

Interest income, net was \$409,000 and \$934,000 for the quarter and six months ended September 30, 1995, respectively, compared to approximately \$388,000 and \$737,000 for the quarter and six months ended September 30, 1994. The increase was due to the higher yields earned on cash and cash equivalents during the current fiscal quarter and six months as compared to the same periods in the prior year.

Provision for Income Taxes

The income taxes of approximately \$10,000 and \$49,000 recorded in the provision for income taxes for the quarter and six months ended September 30, 1995, respectively, as compared to \$43,000 and \$54,000 for the quarter and six months ended September 30, 1994, represent foreign taxes withheld. These foreign taxes may be available in the future as tax credits against future tax liability. In addition, the Company has significant net operating losses which may be carried forward against a portion of future taxable income for both federal and state tax purposes.

Net Income (Loss)

For the reasons noted above, net income increased to \$2,765,000 for the quarter ended September 30, 1995 from a net loss of \$(632,000) for the same period of the prior fiscal year. For the six months ended September 30, 1995, net loss increased to \$(2,763,000) from a net loss of \$(2,505,000) for the same period of the prior fiscal year.

SEASONALITY

The Company's quarterly operating results have in the past varied significantly and will likely in the future vary significantly depending on a variety of factors, many of which are not under the Company's control. For example, net revenues may be higher during the fourth calendar quarter as a result of increased demand for consumer software during the year-end holiday buying season. Net revenues in other quarters can vary significantly as a result of the timing of new product introductions.

Products are generally shipped as orders are received, and consequently the Company operates with little or no backlog. Net revenues in any quarter are therefore substantially dependent on orders booked and shipped in that quarter. The Company's expense levels are based in large part on the Company's product development and marketing budgets. The majority of product development and marketing costs are expensed as incurred, which is often before a product is ever released. As the Company increases its development and marketing activities, current expenses will increase and, if sales from previously released products are below expectations, net income is likely to be disproportionately affected. Due to all the foregoing, revenues and operating results for any future quarter are not predictable with any significant degree of accuracy. Accordingly, the Company believes that period-to-period comparisons of operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

LIQUIDITY AND CAPITAL RESOURCES

On January 31, 1994, the Company completed a private placement of approximately 5,000,000 shares of its common stock. The net proceeds from this private placement, approximately \$39.5 million, together with funds from operations, have been the Company's primary source of liquidity for the fiscal year ended March 31, 1995 and for the current fiscal year. At September 30, 1995, the Company had a balance of approximately \$30.8 million of cash and cash equivalents.

The Company uses its working capital to finance ongoing operations, including acquisitions of inventory, to fund the development, production, marketing and selling of new products, and to obtain intellectual property rights for future products from third parties.

The Company's working capital decreased \$2.9 million from March 31, 1995 to September 30, 1995 as a result of the funding of the Company's expanding operations and additional capital expenditures. At September 30, 1995, net accounts receivable and inventories were approximately \$14.5 million, an increase of approximately \$7.0 million from approximately \$7.5 million as of March 31, 1995. The increase is due to an increase in the Company's product sales in the second quarter of the fiscal year as compared to the quarter ended March 31, 1995.

As of September 30, 1995, total accounts payable and accrued liabilities were approximately \$8.8 million versus \$5.7 million at March 31, 1995. The increase at September 30, 1995 is related to the the increase in cost of goods sold as well as sales and marketing expenses related to the increase in the Company's product sales in the second quarter of the current fiscal year.

Management believes that the Company's existing capital resources are sufficient to meet its current operational requirements for the foreseeable future.

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

PART II. - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its 1995 Annual Meeting of Stockholders on September 19, 1995 in Los Angeles, California. Two items were submitted to a vote of the stockholders:

1. The election of six directors to hold office for one year terms and until their respective successors are elected and have qualified. All six nominees were recommended by the Board of Directors, and all were elected. Set forth below are the results of the voting, for each director.

	For	Withheld
Robert A. Kotick	11,350,087	14,959
Howard E. Marks	11,350,087	14,959
Brian G. Kelly	11,350,089	14,957
Barbara S. Isgur	11,350,085	14,961
Steven T. Mayer	11,350,089	14,957
Martin J. Raynes	11,349,964	15,082

2. The adoption of an amendment to the Company 1991 Stock Option and Stock Award Plan to increase the number of shares of the Company's Common Stock reserved for issuance thereunder from 2,066,667 to 4,066,667 shares. This proposal was adopted by a vote of 8,711,262 in favor, 1,054,843 against, and 12,607 abstentions.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURES

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

Date: October 24, 1995

ACTIVISION, INC.

/S/Robert A. Kotick Chairman, Chief Executive October 24, 1995
(Robert A. Kotick) Officer (Principal Executive
 Officer) and Director

/S/Brian G. Kelly Chief Operating and Financial October 24, 1995

(Brian G. Kelly)

Officer and Director
(Principal Financial Officer)

/S/Barry J. Plaga
(Barry J. Plaga)

Chief Accounting Officer
(Principal Accounting Officer)

October 24, 1995

6-MOS

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