



## Activision Announces Record Second Quarter 2005 Results

October 26, 2004

SANTA MONICA, Calif., Oct. 26 /PRNewswire-FirstCall/ -- Activision, Inc. (Nasdaq: ATVI) today announced financial results for the second fiscal quarter ended September 30, 2004.

Net revenues were \$310.6 million, an increase of \$193.1 million or 164%, as compared to net revenues of \$117.5 million reported for the second quarter last fiscal year. Net income for the second fiscal quarter was \$25.5 million, as compared with a net loss for the second fiscal quarter last year of \$10.1 million. Earnings per diluted share were \$0.17, as compared with a loss per share of \$0.08 reported for the same period last year.

Net revenues for the six-month period ended September 30, 2004, were \$521.9 million, an increase of \$245.7 million or 89%, as compared to net revenues of \$276.2 million reported for the six-month period of last fiscal year. Net income for the six-month period was \$37.5 million, or earnings per diluted share of \$0.24, as compared with net loss of \$5.9 million, or a loss per share of \$0.04, reported for the same period last year.

Robert A. Kotick, Chairman and CEO of Activision, stated, "In addition to delivering record net revenues and earnings for the quarter, we also significantly increased our market position in North America and Europe. As of this date, five of our games have shipped more than one million units each and three of those titles have achieved multi-million -unit status. Our focus on big propositions is yielding tremendous results worldwide. As we look to the future, we will continue to leverage our increasing portfolio of franchises as we expand and strengthen our competitive position."

Kotick continued, "We are very excited about future growth opportunities that will result from the Nintendo® DS, PlayStation® Portable, wireless gaming, in-game advertising and the next-generation of console hardware. These emerging opportunities combined with the ever increasing installed base of console hardware and our strong portfolio of brands should enable us to continue growing our revenues, earnings and operating margin as we have over the past several years."

### Business Highlights

Activision's second quarter results were driven by strong worldwide sales of Spider-Man 2<sup>®</sup>, which was the company's best-selling title for the quarter, and newly released games across all platforms including Doom 3<sup>®</sup>, Rome: Total War<sup>®</sup> and Call of Duty: United Offensive<sup>®</sup> for the PC, X-Men<sup>®</sup> Legends and DreamWorks' Shark Tale for the PlayStation<sup>®</sup> 2 computer entertainment system, Xbox<sup>®</sup> video game system from Microsoft and Nintendo<sup>®</sup> Game Cube<sup>®</sup> and DreamWorks' Shark Tale for the Nintendo Game Boy<sup>®</sup> Advance and PC. The company's catalogue titles Shrek 2<sup>®</sup>, Tony Hawk's Underground and True Crime: Streets of L.A.<sup>®</sup> also performed well.

The company strengthened its market position worldwide resulting in a number of unprecedented rankings. Activision was the #1 PC publisher in North America for the month of August, according to NPD Techworld; the #1 publisher overall in the U.K. for the months of July and August, according to Chart Track; and the #1 publisher overall in Germany and the #2 publisher overall in France for the month of August, according to Media Control and GfK respectively.

Other highlights include:

- On October 21, Activision confirmed that based on strong consumer response to its action role playing game X-Men Legends, the company is developing a sequel based on the ever-popular Marvel franchise with Raven Software.
- According to NPD, Doom 3 is the #1 best-selling PC game in North America year to date.
- On October 18, Activision announced that the company is launching a groundbreaking test with Nielsen Entertainment using its newly released Tony Hawk's Underground 2 game to determine how long and how often players interact with brands. The Chrysler Group will be the first advertiser to take part in the test, which will measure consumer interaction with the Jeep<sup>®</sup> brand.
- Additionally on October 18, Activision and Nielsen Entertainment announced the results of a new study that examined the ability of game players to recall brand name products that were integrated within the video game experience. Among the

study's key findings were: brands with which gamers must actively interact substantially impact consumer awareness and recall; and that highly integrated ads tend to enhance a gamer's interest in purchasing the advertised products.

- On October 13, Activision confirmed that the company is in development on new games based on Spider-Man 2 and Tony Hawk's Underground 2 which are expected to be launch titles for SCEA'S PlayStation® Portable Entertainment Platform.
- On September 22, Activision announced that the company's first title for the Nintendo® DS video game platform will be a new video game based on Spider-Man 2, which is currently the #1 best-selling movie game of 2004 according to NPD Funworld.

## Company Outlook

Activision also increased its outlook for fiscal 2005. For the full fiscal year, the company expects net revenues of \$1.15 billion, an increase of \$50 million, and earnings per diluted share of \$0.75. The company's previous fiscal year outlook was \$1.10 billion in net revenues and earnings per diluted share of \$0.69.

For the third quarter, the company expects net revenues of \$500 million and earnings per diluted share of \$0.49 as compared to its previous outlook of \$515 million in net revenues and earnings per diluted share of \$0.52. The change in Activision's third quarter outlook was based on over performance of its titles in the second quarter, which the company expects will result in a lower likelihood of reorders during the third quarter, and the movement of Doom 3 for the Xbox into the fourth quarter. For the fourth quarter, Activision expects net revenues of \$128 million and earnings per diluted share of \$0.01, as compared with its previous outlook of net revenues of \$120 million and earnings per diluted share of \$0.01.

Kotick continued, "We are on track to deliver another record year of net revenues and operating margin. Our net revenues exceeded \$1 billion for the trailing 12 month period. We ended the quarter with more than \$600 million in cash and short term investments. For the trailing 12 months, free cash flow was \$122 million and return on invested capital was 42%."

Looking ahead to the third quarter, Activision's slate will be driven by Tony Hawk's Underground 2 and Lemony Snicket's A Series of Unfortunate Events<sup>®</sup> for the PlayStation 2 computer entertainment system, Xbox video game system, Nintendo GameCube, Nintendo Game Boy Advance and the PC; Call of Duty: Finest Hour<sup>®</sup> for the PlayStation 2 computer entertainment system, Xbox video game system and Nintendo GameCube; Vampire: The Masquerade<sup>®</sup>-Bloodlines<sup>®</sup> and Shrek 2: Team Action for the PC; Spider-Man 2 for the Nintendo DS and Shrek 2<sup>®</sup>: Beg for Mercy! for the Nintendo Game Boy Advance.

## Non-GAAP Financial Measures

The company's press release includes the non-GAAP financial measures of "free cash flow" and "return on invested capital." A reconciliation of these non-GAAP financial measures to the most comparable GAAP financial measure appears at the end of this press release.

## Conference Call

Today at 4:30 p.m. EDT, Activision's management will host a conference call and Webcast to discuss its second quarter fiscal year 2005 results and outlook. The company welcomes all members of the financial and media communities to visit the "Investor Relations" area of <http://www.activision.com> to listen to the conference call via live Webcast or to listen to the call live by dialing into (913) 981-4903 in the U.S.

## About Activision

Headquartered in Santa Monica, California, Activision, Inc. is a leading worldwide developer, publisher and distributor of interactive entertainment and leisure products. Founded in 1979, Activision posted net revenues of \$948 million for the fiscal year ended March 31, 2004.

Activision maintains operations in the U.S., Canada, the United Kingdom, France, Germany, Italy, Japan, Australia, Scandinavia and the Netherlands. More information about Activision and its products can be found on the company's World Wide Web site, which is located at <http://www.activision.com>.

Note: The statements made in this press release that are not historical facts are "forward-looking" statements. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties. The company

cautions readers of this press release 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.

Such factors include, without limitation, product delays, retail acceptance of our products, industry competition, rapid changes in technology and industry standards, protection of proprietary rights, maintenance of relationships with key personnel, vendors and third-party developers, international economic and political conditions, integration of recently acquired subsidiaries and identification of suitable future acquisition opportunities.

These important factors and other factors that potentially could affect the company's financial results are described in our filings with the Securities and Exchange Commission, including the company's most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. Readers of this press release are referred to such filings. The company may change its intention, belief or expectation, at any time and without notice, based upon any changes in such factors, in the company's assumptions or otherwise. The company undertakes no obligation to release publicly any revisions to its forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

ACTIVISION, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except earnings per share data)

	Quarter ended		Six months ended	
	September 30,	September 30,	September 30,	September 30,
	2004	2003	2004	2003
Net revenues	\$310,626	\$117,523	\$521,902	\$276,248
Costs and expenses:				
Cost of sales - product costs	123,177	72,391	212,265	149,001
Cost of sales - software royalties and amortization	46,363	11,397	58,646	26,895
Cost of sales - intellectual property licenses	17,551	7,401	35,199	17,544
Product development	19,881	15,894	40,986	29,474
Sales and marketing	53,234	17,237	94,968	43,522
General and administrative	15,762	10,136	29,447	21,599
Total operating expenses	275,968	134,456	471,511	288,035
Operating income (loss)	34,658	(16,933)	50,391	(11,787)
Investment income, net	2,645	1,404	4,757	2,661
Income (loss) before provision for income taxes	37,303	(15,529)	55,148	(9,126)
Provision (benefit) for income taxes	11,760	(5,436)	17,648	(3,196)
Net income (loss)	\$25,543	\$(10,093)	\$37,500	\$(5,930)
Basic earnings per share	\$0.18	\$(0.08)	\$0.27	\$(0.04)
Weighted average common shares outstanding	138,505	132,243	138,137	132,158
Diluted earnings per share	\$0.17	\$(0.08)	\$0.24	\$(0.04)
Weighted average common shares outstanding assuming dilution	152,685	132,243	153,127	132,158

Share and earnings per share data have been restated to reflect our three-for-two stock split for shareholders of record as of February 23, 2004, paid March 15, 2004.

ACTIVISION, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands)

September 30,      March 31,  
2004                      2004

ASSETS

Current assets:

Cash, cash equivalents and short-term investments	\$606,087	\$587,649
Accounts receivable, net	138,586	62,577
Inventories	63,690	26,427
Software development	79,432	58,320
Intellectual property licenses	15,945	32,115
Deferred income taxes	21,203	26,127
Other current assets	29,930	18,660
Total current assets	954,873	811,875
Software development	21,023	28,386
Intellectual property licenses	19,885	16,380
Property and equipment, net	24,712	25,539
Deferred income taxes	5,056	9,064
Other assets	1,018	1,080
Goodwill	77,602	76,493
Total assets	\$1,104,169	\$968,817

#### LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$103,001	\$72,874
Accrued expenses	113,341	63,205
Total current liabilities	216,342	136,079
Shareholders' equity:		
Common stock	--	--
Additional paid-in capital	777,337	758,626
Retained earnings	245,779	208,279
Treasury stock	(144,128)	(144,128)
Accumulated other comprehensive income	8,839	9,961
Total shareholders' equity	887,827	832,738
Total liabilities and shareholders' equity	\$1,104,169	\$968,817

#### ACTIVISION, INC. AND SUBSIDIARIES

##### FINANCIAL INFORMATION

For the Quarter and Six Months Ended September 30, 2004 and 2003  
(Amounts in thousands)

	Quarter Ended		Percent Increase (Decrease)	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Geographic Revenue Mix				
United States	\$157,705	\$46,450	51%	40%
International	152,921	71,073	49%	60%
Total net revenues	\$310,626	\$117,523	100%	100%

#### Activity/Platform Mix

##### Publishing:

Console	\$145,542	55%	\$46,019	64%	216%
Hand-held	23,669	9%	4,187	6%	465%
PC	97,184	36%	21,590	30%	350%
Total publishing	\$266,395	86%	\$71,796	61%	271%

##### Distribution:

Console	\$29,929	68%	\$33,188	73%	-10%
Hand-held	3,556	8%	4,730	10%	-25%
PC	10,746	24%	7,809	17%	38%
Total distribution	\$44,231	14%	\$45,727	39%	-3%
Total net revenues	\$310,626	100%	\$117,523	100%	164%

Percent  
Increase  
Six Months Ended (Decrease)  
September 30, 2004 September 30, 2003

Amount	% of	%	%	%	%
Total	Total	Total	Total	Total	Total
Geographic Revenue Mix					
United States	\$282,896	54%	\$129,189	47%	119%
International	239,006	46%	147,059	53%	63%
Total net revenues	\$521,902	100%	\$276,248	100%	89%

Activity/Platform Mix

Publishing:

Console	\$264,669	62%	\$134,503	72%	97%
Hand-held	42,099	10%	8,783	5%	379%
PC	121,279	28%	42,915	23%	183%
Total publishing	\$428,047	82%	\$186,201	67%	130%

Distribution:

Console	\$69,123	74%	\$68,530	76%	1%
Hand-held	7,211	8%	7,642	9%	-6%
PC	17,521	19%	13,875	15%	26%
Total distribution	\$93,855	18%	\$90,047	33%	4%
Total net revenues	\$521,902	100%	\$276,248	100%	89%

ACTIVISION, INC. AND SUBSIDIARIES

FINANCIAL INFORMATION

For the Quarter and Six Months Ended September 30, 2004 and 2003

	Quarter Ended September 30, 2004	Quarter Ended September 30, 2003	Six Months Ended September 30, 2004	Six Months Ended September 30, 2003
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Publishing Net  
Revenues

PC	36%	30%	28%	23%
Console	55%	64%	62%	72%
PlayStation 2	33%	32%	37%	35%
Microsoft Xbox	14%	18%	15%	26%
Nintendo				
GameCube	8%	4%	10%	5%
PlayStation	0%	10%	0%	6%
Hand-held	9%	6%	10%	5%
Game Boy Advance	9%	5%	10%	5%
Game Boy Color	0%	1%	0%	0%
Total publishing net revenues	100%	100%	100%	100%

ACTIVISION, INC. AND SUBSIDIARIES

Non-GAAP Disclosures

Free Cash Flow

(In thousands)

Trailing Twelve Months	Three Months Ended	Three Months Ended	Three Months Ended	Three Months Ended
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	09/30/2004	09/30/2004	06/30/2004	03/31/2004	12/31/2003
Net Cash Provided by Operating Activities	\$130,202	\$62,846	\$(52,136)	\$21,069	\$98,423
Less: Capital Expenditures	\$(8,204)	\$(2,562)	\$(1,881)	\$(2,521)	\$(1,240)
Free Cash Flow	\$121,998	\$60,284	\$(54,017)	\$18,548	\$97,183

#### ACTIVISION, INC. AND SUBSIDIARIES

Non-GAAP Disclosures  
Return on Invested Capital  
(In thousands)

	Trailing Twelve Months Ended 09/30/2004	Three Months Ended 09/30/2004	Three Months Ended 06/30/2004	Three Months Ended 03/31/2004	Three Months Ended 12/31/2003
NET OPERATING PROFIT AFTER TAXES					
Net income	\$121,145	\$25,543	\$11,957	\$6,664	\$76,981
Less:					
Investment income	(8,272)	(2,645)	(2,112)	(2,051)	(1,464)
Tax effect on Investment income (B)	2,703	846	697	677	483
Net Operating Profit After Taxes	\$115,576	\$23,744	\$10,542	\$5,290	\$76,000

#### INVESTED CAPITAL

Total assets (A)	\$1,040,030	\$1,104,169	\$985,841	\$968,817	\$1,101,291
Less:					
Cash and short term investments (A)	571,140	606,087	539,146	587,649	551,677
Current liabilities (A)	196,034	216,342	132,092	136,079	299,623
Invested capital	\$272,856	\$281,740	\$314,603	\$245,089	\$249,991
Return on Invested Capital	42%	8%	3%	2%	30%

(A) Amounts for the trailing twelve months represent averages of the previous four fiscal quarters

(B) Tax effect represents investment income multiplied by our effective tax rate.