



Activision Announces Record First Quarter 2005 Results

July 21, 2004

Activision Announces Record First Quarter 2005 Results

**Net Revenues Hit Q1 All Time High, Rising 33% Year Over Year
Company Increases Q2 and Fiscal 2005 Net Revenues and E.P.S. Outlook
FY 2005 Earnings Per Diluted Share Outlook Up 28% Year Over Year**

SANTA MONICA, Calif., July 21 /PRNewswire-FirstCall/ -- Activision, Inc. (Nasdaq: ATVI) today announced financial results for the first fiscal quarter ended June 30, 2004.

Net revenues were \$211.3 million as compared to net revenues of \$158.7 million reported for the first quarter last fiscal year. Net income for the first fiscal quarter was \$12.0 million, an increase of \$7.8 million, as compared with net income of \$4.2 million for the previous first quarter. Earnings per diluted share were \$0.08, an increase of \$0.05, as compared with \$0.03 per diluted share reported for the same period last year.

Robert A. Kotick, Chairman and CEO of Activision, stated, "In addition to delivering record net revenues for the first quarter, we also significantly increased our earnings. Both Shrek 2™ and Spider-Man 2™ were top-selling titles, and as of today, the two titles combined have shipped more than five million units. In the past nine months, all five games created by our internal development studios have each shipped more than one million units, with three shipping more than three million units."

Kotick continued, "Our focus on big propositions is yielding superb results and we intend to continue leveraging our increasing portfolio of franchises. For the balance of this year and next year, our production strategy centers around developing games based on proven, predictable brands.

This strategy should enable us to grow our revenues, earnings and operating margin, and increase our return on invested capital as we have over the past few years. As we look toward the future, Activision will also selectively develop groundbreaking original content, as we did last year with the introductions of True Crime: Streets of L.A.™ and Call of Duty™."

Business Highlights

Activision's results were driven by strong global consumer response to its products across all platforms. During the quarter, the company released Shrek 2™ and Spider-Man 2™ for the PlayStation® 2 computer entertainment system, Xbox® video game system, Nintendo® GameCube™, Nintendo Game Boy® Advance and the PC and True Crime: Streets of L.A.™ for the PC.

Other highlights include:

- * Today, Activision announced that one of its wholly owned studios, Neversoft, the creators behind the Tony Hawk franchise, is in development on a compelling new intellectual property that will bring Neversoft's world renowned development prowess to a new genre. The unnamed title is slated for release in fiscal 2006, alongside a new game based on the Tony Hawk franchise that Neversoft will also develop for fiscal 2006.
- * According to NPD TRSTS, Spider-Man 2 was the #1 best-selling video game in the U.S. across all platforms for the month of June. Additionally, Shrek 2 was the #1 best-selling title across all platforms for the month of May and the #2 game behind Spider-Man 2 in June.
- * On July 16, Activision Value Publishing announced a multi-year alliance with Discovery Consumer Products to develop and distribute video games based on the popular television series American Chopper.

- * On July 14, Activision confirmed that id Software's highly anticipated DOOM 3(TM) for the PC has entered manufacturing and will begin shipping to retail stores worldwide the week of August 2.
- * On July 7, Activision announced that the company's North American Publishing unit has shipped more than two million units of its Spider-Man 2 video game timed to the theatrical release of Sony Pictures Entertainment's Columbia Pictures "Spider-Man(R) 2".
- * On April 8, Activision announced that it had partnered with Nielsen Entertainment to develop a new initiative that will allow video game companies to supply advertisers with audience measurement metrics to help them assess the impact of in-game ad exposure. The new initiative will provide tools for advertisers to effectively measure everything from ad exposure to demographics to audience recall when it comes to video game use.

Activision also increased its outlook for fiscal 2005. For the second quarter, the company expects net revenues of \$254 million and earnings per diluted share of \$0.08. For the third quarter, it expects net revenues of \$515 million and earnings per diluted share of \$0.52. For the fourth quarter, Activision expects net revenues of \$120 million and earnings per diluted share of \$0.01. For the full fiscal year, the company expects net revenues of \$1.10 billion and earnings per diluted share of \$0.69. The company's previous fiscal year outlook was \$1.05 billion in net revenues and earnings per diluted share of \$0.64. The company's revised outlook represents a 16% increase in net revenues and a 28% increase in earnings per diluted share year over year.

Looking ahead to the second quarter, Activision's slate will be driven by Doom 3™ and Rome: Total War™, two of the most anticipated PC games of the year; Call of Duty: United Offensive™, the expansion pack to the best-selling, critically acclaimed PC title Call of Duty; DreamWork's Shark Tale™, for the PlayStation 2 computer entertainment system, Xbox video game system, Nintendo GameCube, Nintendo Game Boy Advance and the PC; and X-Men Legends™ for the PlayStation 2 computer entertainment system, Xbox video game system and Nintendo GameCube.

Today at 4:30 p.m. EDT, Activision's management will host a conference call and Webcast to discuss its Q1 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 (719) 457-2617 in the U.S.

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 June 30,	
	2004	2003
	Restated	
Net revenues	\$211,276	\$158,725
Costs and expenses:		
Cost of sales - product costs	89,088	76,610
Cost of sales - software royalties and amortization	12,283	15,498
Cost of sales - intellectual property licenses	17,648	10,143
Product development	21,105	13,580
Sales and marketing	41,734	26,285
General and administrative	13,685	11,463
Total operating expenses	195,543	153,579
Operating income	15,733	5,146
Investment income, net	2,112	1,257
Income before provision for income taxes	17,845	6,403
Provision for income taxes	5,888	2,240
Net income	\$11,957	\$4,163
Basic earnings per share	\$0.09	\$0.03
Weighted average common shares outstanding	137,765	132,069
Diluted earnings per share	\$0.08	\$0.03
Weighted average common shares outstanding assuming dilution	153,407	140,655

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)

	June 30,	March 31,
	2004	2004
ASSETS		
Current assets:		
Cash, cash equivalents and short-term investments	\$539,146	\$587,649
Accounts receivable, net	123,048	62,577
Inventories	39,635	26,427
Software development	75,696	58,320
Intellectual property licenses	15,159	32,115
Deferred income taxes	23,497	26,127
Other current assets	21,184	18,660
Total current assets	837,365	811,875
Software development	21,660	28,386

Intellectual property licenses	17,630	16,380
Property and equipment, net	24,841	25,539
Deferred income taxes	6,666	9,064
Other assets	1,243	1,080
Goodwill	76,436	76,493
Total assets	\$985,841	\$968,817

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$75,558	\$72,874
Accrued expenses	56,534	63,205
Total current liabilities	132,092	136,079
Shareholders' equity:		
Common stock	-	--
Additional paid-in capital	770,257	758,626
Retained earnings	220,236	208,279
Treasury stock	(144,128)	(144,128)
Accumulated other comprehensive income	7,384	9,961
Total shareholders' equity	853,749	832,738
Total liabilities and shareholders' equity	\$985,841	\$968,817

ACTIVISION, INC. AND SUBSIDIARIES

FINANCIAL INFORMATION

For the Quarter Ended June 30, 2004 and 2003

(Amounts in thousands)

			Percent		
			Increase		
			(Decrease)		
	Quarter Ended			Quarter Ended	
	June 30, 2004	June 30, 2003		June 30, 2003	
	Amount	%of Total		Amount	%of Total

Geographic Revenue

Mix

United States	\$125,191	59%	\$82,739	52%	51%
International	86,085	41%	75,986	48%	13%
Total net revenues	\$211,276	100%	\$158,725	100%	33%

Activity/Platform

Mix

Publishing:

Console	\$119,127	74%	\$88,484	77%	35%
Hand-held	18,430	11%	4,596	4%	301%
PC	24,095	15%	21,325	19%	13%
Total publishing	\$161,652	77%	\$114,405	72%	41%

Distribution:

Console	\$39,194	79%	\$35,342	80%	11%
Hand-held	3,655	7%	2,912	6%	26%
PC	6,775	14%	6,066	14%	12%
Total distribution	\$49,624	23%	\$44,320	28%	12%
Total net revenues	\$211,276	100%	\$158,725	100%	33%

ACTIVISION, INC. AND SUBSIDIARIES

FINANCIAL INFORMATION

For the Quarter Ended June 30, 2004 and 2003

	Quarter Ended June 30, 2004	Quarter Ended June 30, 2003
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Publishing Net Revenues

PC	15%	19%	
Console	74%	77%	
PlayStation 2	42%	37%	
Microsoft Xbox	16%	31%	
Nintendo GameCube		15%	5%
PlayStation	1%	4%	
Hand-held	11%	4%	
Game Boy Advance		11%	4%
Total publishing net revenues	100%	100%	

SOURCE Activision, Inc.