

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark one)

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

FOR THE FISCAL YEAR ENDED MARCH 31, 2000

OR

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

95-4803544

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

3100 OCEAN PARK BLVD., SANTA MONICA, CA
(Address of principal executive offices)

90405
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (310) 255-2000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Common Stock, par value \$.000001 per share

(Title of Class)

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 for 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 X No
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

The aggregate market value of the Common Stock of the registrant held by non-affiliates of the registrant on June 19, 2000 was \$138,494,069.

The number of shares of the registrant's Common Stock outstanding as of June 19, 2000 was 23,682,010.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K, with respect to the 2000 Annual Meeting of Shareholders, are incorporated by reference into Part III of this Annual Report.

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PART I

ITEM 1. BUSINESS

(a) GENERAL

Activision, Inc. (together with its subsidiaries, "Activision" or the "Company") is a leading international publisher, developer and distributor of interactive entertainment and leisure products. The Company was originally incorporated in California in 1979. In December 1992, the Company reincorporated in Delaware. In June 2000, the Company reorganized into a holding company organizational structure as described below.

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 Nintendo N64 console systems and the Nintendo Gameboy Color handheld device.

Financial data for all periods presented reflect the retroactive effect of the merger, accounted for as a pooling of interests, with JCM Productions, Inc. dba Neversoft Entertainment ("Neversoft"), which was consummated on September 30, 1999. The Company additionally acquired Elsinore Multimedia, Inc. ("Elsinore") on June 29, 1999 and Expert Software, Inc. ("Expert") on June 22, 1999. The acquisitions of Elsinore and Expert were accounted for using the purchase method of accounting. Accordingly, the results of operations of Elsinore and Expert have been included in the Company's consolidated results of operations from the respective dates of acquisition. See the Consolidated Financial Statements and Notes thereto included in Item 8 of this Annual Report on Form 10-K for certain financial information required by Item 1. In the fourth quarter of the Company's fiscal year ended March 31, 2000, the Company adopted and began the implementation of a strategic restructuring plan. The plan and its components are described in Item 7 -- "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(b) HOLDING COMPANY 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.

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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.

(c) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The Company has two reportable segments: publishing CD-based and cartridge based interactive entertainment and leisure software, and distributing interactive entertainment and leisure products. Publishing relates to the development (both internally and externally), marketing and sale of products owned or controlled by the Company, either directly, by license or through its affiliate label program with third party publishers. Distribution refers to the shipping and sale by the Company's European distribution subsidiaries of other publishers' software and related products to the marketplace. See the Consolidated Financial Statements and Notes thereto included in Item 8 of this Annual Report on Form 10-K for certain financial information required by Item 1.

(d) NARRATIVE DESCRIPTION OF BUSINESS

FACTORS AFFECTING FUTURE PERFORMANCE

In connection with the Private Securities Litigation Reform Act of 1995 (the "Litigation Reform Act"), the Company is hereby disclosing certain cautionary information to be used in connection with written materials (including this Annual Report on Form 10-K) and oral statements made by or on behalf of its employees and representatives that may contain "forward-looking statements" within the meaning of the Litigation Reform Act. Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology. The listener or reader is cautioned that all forward-looking statements are necessarily speculative and there are numerous risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements. The discussion below highlights some of the more important risks identified by management, but should not be

assumed to be the only factors that could affect future performance. The reader or listener is cautioned that the Company does not have a policy of updating or revising forward-looking statements and thus he or she should not assume that silence by management over time means that actual events are bearing out as estimated in such forward-looking statements.

FLUCTUATIONS IN QUARTERLY RESULTS; FUTURE OPERATING RESULTS UNCERTAIN; SEASONALITY. The Company's quarterly operating results have varied significantly in the past and will likely vary significantly in the future depending on numerous factors, several of which are not under the Company's control. Such factors include, but are not limited to, demand for products published or distributed by the Company, the size and rate of growth of the interactive entertainment and leisure markets, development and promotional expenses relating to the introduction of new products, changes in operating systems and platforms, product returns, the timing of orders from major customers, delays in shipment, the level of price competition, the timing of product introductions by the Company and its competitors, product life cycles, product defects and other quality problems, the level of the Company's international revenues, and personnel changes. 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 expenses are based in part on the Company's product development, acquisition and marketing budgets. Many of the costs incurred by the Company to produce and sell its products are expensed as such costs are incurred, which often occurs before a product is released. In addition, a significant portion of the Company's expenses are fixed. As the Company increases its production, acquisition and sales 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 of 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

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comparisons of its operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

The Company's business has experienced and is expected to continue to experience significant seasonality, in part due to consumer buying patterns. Net revenues typically are significantly higher during the fourth calendar quarter, primarily due to the increased demand for consumer software during the year-end holiday buying season. Net revenues and net income in other quarters are generally lower and vary significantly as a result of new product introductions and other factors. On average in the past three fiscal years, the Company has earned approximately 15% of its net revenues in the quarter ending June 30th, 20% in the quarter ending September 30th, 45% in the quarter ending December 31st and 20% in the quarter ending March 31st. The Company expects its net revenues and operating results to continue to reflect significant seasonality.

DEPENDENCE ON NEW PRODUCT DEVELOPMENT; PRODUCT DELAYS. The Company's future success depends in part on the timely introduction of successful new products to replace declining revenues from older products. If, for any reason, revenues from new products were to fail to replace declining revenues from older products, the Company's business, operating results and financial condition would be materially and adversely affected. In addition, the Company believes that the competitive factors in the marketplace for premium-priced interactive products create the need for higher quality, distinctive products that incorporate increasingly complex technology and sophisticated graphics, sound and other effects and the need to support product releases with increased marketing, resulting in longer development periods and higher development, acquisition and marketing costs. The lack of market acceptance or significant delay in the introduction of, or the presence

of a defect in, one or more premium-priced products could have a material adverse effect on the Company's business, operating results and financial condition, particularly in view of the seasonality of the Company's business. Further, because a large portion of a product's revenue generally is associated with initial shipments, the delay of a product introduction expected near the end of a fiscal quarter may have a material adverse effect on operating results for that quarter.

The Company has, in the past, experienced significant delays in the introduction of certain new products. The timing and success of interactive entertainment software products remain unpredictable due to the complexity of product development, including the uncertainty associated with technological developments. Although the Company has implemented substantial development controls, there likely will be delays in developing and introducing new products in the future. There can be no assurance that new products will be introduced on schedule, or at all, or that they will achieve market acceptance or generate significant revenues.

RELIANCE ON THIRD PARTY DEVELOPERS AND INDEPENDENT CONTRACTORS. The percentage of products published by the Company that are developed by independent third party developers has increased significantly over the last several fiscal years. The Company also utilizes independent contractors for many aspects of products that are developed internally by the Company and its subsidiaries. The Company has less control over the scheduling and the quality of work by independent contractors and third party developers than that of its own employees. A delay in the work performed by independent contractors and third party developers or poor quality of such work may result in product delays. Although the Company intends to continue releasing products that are developed primarily by its own employees and employees of its subsidiaries, the Company's ability to grow its business and its future operating results will depend, in significant part, on the Company's continued ability to initiate and maintain relationships with skilled independent contractors and third party developers. There can be no assurance that the Company will be able to initiate and maintain such relationships successfully in the future.

UNCERTAINTY OF MARKET ACCEPTANCE; SHORT PRODUCT LIFE CYCLES. The market for interactive entertainment software platforms and software products has been characterized by shifts in consumer preferences and short life cycles. Consumer preferences for entertainment and leisure software products are difficult to predict and few such products achieve sustained market acceptance. There can be no assurance that new products introduced by the Company will achieve any significant degree of market acceptance, that such acceptance will be sustained for any significant period, or that product life cycles will be sufficient to permit the Company to recoup product acquisition, development, marketing and other associated costs. In addition, if market acceptance is not achieved, the Company could be forced to accept substantial product returns to maintain its relationships with retailers and its access to distribution channels. Failure of new

products to achieve or sustain market acceptance or product returns in excess of the Company's expectations would have a material adverse effect on the Company's business, operating results and financial condition.

PRODUCT CONCENTRATION; DEPENDENCE ON HIT PRODUCTS. The Company derives a significant portion of its revenues from a relatively small number of products released each year. Many of these products have substantial development, production and acquisition costs and marketing budgets. In fiscal 2000 the Company had two products which each accounted for approximately 10% of consolidated net revenues. In fiscal 1998, the Company had one product which accounted for approximately 10% of consolidated net revenues. In fiscal 1999, no single product accounted for greater than 10% of consolidated net revenues. The Company anticipates that a relatively limited number of products will continue, in the aggregate, to produce a disproportionate amount of revenues. Due to this dependence on a limited number of products, the failure of one or more of these products to achieve anticipated results

may have a material adverse effect on the Company's business, operating results and financial condition.

The Company's strategy also includes as a key component publishing titles that have franchise value, such that sequels, conversions, enhancements and add-on products can be released over time, thereby extending the life of the property in the market. While the focus on franchise properties, if successful, results in extending product life cycles, it also results in the Company depending on a limited number of titles for its revenues. There can be no assurance that the Company's existing franchise titles can continue to be exploited as successfully as in the past. In addition, new products that the Company believes will have potential value as franchise properties may not achieve market acceptance and therefore may not be a basis for future releases.

INDUSTRY COMPETITION; COMPETITION FOR SHELF SPACE. The interactive entertainment and leisure industry is intensely competitive. Competition is principally based on product quality and features, the compatibility of products with popular platforms, company or product line brand name recognition, access to distribution channels, marketing effectiveness, reliability and ease of use, price and technical support. Significant financial resources also have become a competitive factor in this industry, principally due to the substantial cost of product development and marketing that is required to support best-selling titles. In addition, competitors with broad product lines and popular titles typically have greater leverage with distributors and other customers who may be willing to promote titles with less consumer appeal in return for access to such competitor's most popular titles.

The Company's competitors range from small companies with limited resources to large companies with substantially greater financial, technical and marketing resources than those of the Company. The Company's competitors currently include Electronic Arts, Microsoft, Sony, Sega, Nintendo, Havas, Infogrames, Hasbro, THQ, Midway and Eidos, among many others.

The interactive entertainment software industry is undergoing significant consolidation which allows the Company's largest competitors to exercise control over a growing number of product lines and increasing concentration of development, financial and technical resources. As the Company's competitors grow stronger and competition increases, significant price pressure, increased production costs and reduced profit margins may result. Prolonged price competition or reduced demand would have a material adverse effect on the Company's business, operating results and financial condition. There can be no assurance that the Company will be able to compete successfully against current or future competitors or that competitive pressures faced by the Company will not have a material adverse effect on its business, operating results and financial condition.

Retailers typically have a limited amount of shelf space, and there is intense competition among interactive entertainment and leisure software producers for adequate levels of shelf space and promotional support from retailers. As the number of interactive entertainment and leisure products increase, the competition for shelf space has intensified, resulting in greater leverage for retailers and distributors in negotiating terms of sale, including price discounts and product return policies. The Company's products constitute a relatively small percentage of a retailer's sales volume, and there can be no assurance that retailers will continue to purchase the Company's products or promote the Company's products with adequate levels of shelf space and promotional support.

DEPENDENCE ON DISTRIBUTORS AND RETAILERS; RISK OF CUSTOMER BUSINESS FAILURE; PRODUCT RETURNS. The Company depends on access to retailers and distributors in order to market and sell its products. The loss

Company's principal distributors or retailers could materially adversely affect the Company's business, operating results and financial condition. An increasing focus by companies on inventory management and the maintenance of minimum inventory on-hand levels could affect the buying patterns of our principal distributors and retailers, thereby, resulting in less predictable purchasing patterns. Significant changes in the buying patterns of the Company's major customers could impact the Company's ability to accurately forecast sales and, resultantly, the necessary production to fill such sales, which could have a material adverse effect on the financial condition and results of operations of the Company. Further, certain mass market retailers have established exclusive buying relationships under which such retailers will buy consumer software only from one intermediary. In such instances, the price or other terms on which the Company sells to such retailers may be adversely affected by the terms imposed by such intermediary, or the Company may be unable to sell to such retailers on terms which the Company deems acceptable.

Retailers in the computer and software industry have from time to time experienced significant fluctuations in their businesses and there have been a number of business failures among these entities. The insolvency or business failure of any significant retailer or other wholesale purchaser of the Company's products could have a material adverse effect on the Company's business, operating results and financial condition. Sales are typically made on credit, with terms that vary depending upon the customer and the nature of the product. The Company does not hold collateral to secure payment. Although the Company has obtained insolvency risk insurance to protect against bankruptcy, insolvency, or liquidation that may occur to its customers, such insurance contains a significant deductible as well as a co-payment obligation, and the policy does not cover all instances of non-payment. In addition, while the Company maintains a reserve for uncollectible receivables that it believes to be adequate, the actual reserve which is maintained may not be sufficient in every circumstance. As a result of the foregoing, a payment default by a significant customer could have a material adverse effect on the Company's business, operating results and financial condition.

The Company also is exposed to the risk of product returns from retailers and other wholesale purchasers. Although the Company provides reserves for returns that it believes are adequate, and although the Company's agreements with certain of its customers place certain limits on product returns, the Company could be forced to accept substantial product returns to maintain its relationships with retailers and its access to distribution channels. Product returns that exceed the Company's reserves could have a material adverse effect on the Company's business, operating results and financial condition.

CHANGES IN TECHNOLOGY AND INDUSTRY STANDARDS. The consumer software industry is undergoing rapid changes, including evolving industry standards, frequent new platform introductions and changes in consumer requirements and preferences. The introduction of new technologies, including new console systems such as the Sony PlayStation 2, Microsoft X-Box and Nintendo Dolphin technologies that support multi-player on-line games, and new media formats and methods of consumer delivery such as on-line delivery, could render the Company's previously released products obsolete or unmarketable. The development cycle for products utilizing new console platforms, computer operating systems and microprocessors or formats may be significantly longer and more expensive than the Company's current development cycle for products on existing platforms, operating systems, microprocessors and formats and may require the Company to invest resources in products that may not become profitable. There can be no assurance that the mix of the Company's future product offerings will keep pace with technological changes or satisfy evolving consumer preferences, or that the Company will be successful in developing and marketing products for any future operating system or format. Failure to develop and introduce new products and product enhancements in a timely fashion could result in significant product returns and inventory obsolescence and could have a material adverse effect on the Company's business, operating results and financial condition.

RISKS ASSOCIATED WITH LEVERAGE. As of March 31, 2000, the Company had outstanding \$60.0 million of subordinated convertible notes due 2005. In June 1999, the Company obtained a term loan and revolving

credit facility composed of a \$25.0 million term loan and up to \$100.0 million of revolving credit loans and letters of credit. The proceeds of the term loan, which is due in June 2002, were used to complete the acquisition of Expert Software, Inc. and to pay expenses associated with the acquisition and the financing transaction. The revolving credit facility is used for working capital and general corporate purposes. As of March 31, 2000, there was \$20.0 million outstanding under the term loan and \$2.5 million outstanding under the revolving credit facility.

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The term loan and the revolving credit facility are collateralized by substantially all of the assets of the Company and of its US subsidiaries. The facility contains various financial and other covenants that the Company and its subsidiaries must comply with. If the Company were to default under the terms of the credit facility, either as a result of a failure to pay principal or interest when due or as a result of a breach of a financial or other covenant, the lenders could stop providing funds and letters of credit to the Company and could declare an event of default and foreclose on the collateral. This could also result in an acceleration of the subordinated notes. A default by the Company under the revolving credit and term loan facility would materially adversely affect the Company's business and could result in the Company declaring bankruptcy.

On June 8, 2000, the Company amended certain of the covenants of its term loan and revolving credit facility. The amended term loan and credit 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 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.

LIMITED PROTECTION OF INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS; RISK OF LITIGATION. The Company holds copyrights on the products, manuals, advertising and other materials owned by it and maintains trademark rights in the ACTIVISION name, the ACTIVISION logo, and the names of the products owned by the Company. The Company regards its software as proprietary and relies primarily on a combination of trademark, copyright and trade secret laws, employee and third-party nondisclosure agreements, and other methods to protect its proprietary rights. However, there can be no assurance that third parties will not assert infringement claims against the Company in the future with respect to current or future products. As is common in the industry, from time to time the Company receives notices from third parties claiming infringement of intellectual property rights of such parties. The Company investigates these claims and responds as it deems appropriate. Any claims or litigation, with or without merit, could be costly and could result in a diversion of management's attention, which could have a material adverse effect on the Company's business, operating results and financial condition. Adverse determinations in such claims or litigation could also have a material adverse effect on the Company's business, operating results and financial condition.

Unauthorized copying and other forms of piracy are common within the software industry, and if a significant amount of unauthorized copying of the Company's products were to occur, the Company's business, operating results and financial condition would be adversely effected. Policing unauthorized use of the Company's products is difficult, and while the Company is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to be a persistent problem. In selling its products, the Company relies primarily on "shrink wrap" licenses that are not signed by licensees and, therefore, may be unenforceable under the laws of certain jurisdictions. Further, the Company enters into transactions in countries where intellectual property laws are not well developed or are poorly enforced. Legal protections of the Company's rights may be ineffective in such countries.

DEPENDENCE ON KEY PERSONNEL; COMPETITION WITH INTERNET COMPANIES FOR KEY PERSONNEL. The Company's success depends to a significant extent on the performance and continued service of its senior management and certain key employees. Competition for highly skilled employees with technical, management, marketing, sales, product development and other specialized training is intense, and there can be no assurance that the Company will be successful in attracting and retaining such personnel. Specifically, the Company may experience increased costs in order to attract and retain skilled employees. Although the Company enters into term employment agreements with most of its skilled employees and management personnel, there can be no assurance that such employees will not leave the Company or compete against the Company. The Company's failure to attract or retain qualified employees could have a material adverse effect on the Company's business, operating results and financial condition.

The Company faces intense competition for talent from highly valued Internet companies. Competition for employees in the interactive software business continues to be intense. Recently, the most intense competition for recruiting and retaining key employees is from Internet companies. The high market valuations, large equity positions for key executives and creative talent and fast stock price appreciation of these companies make their compensation packages attractive to those who already are working in more mature companies. This situation could create difficulty for the Company to compete for the attraction and retention of executive and key creative talent.

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RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS: CURRENCY FLUCTUATIONS. International sales and licensing accounted for 71%, 66% and 51% of the Company's total revenues in the fiscal years 1998, 1999 and 2000, respectively. The Company intends to continue to expand its direct and indirect sales, marketing and localization activities worldwide. This expansion will require significant management time and attention and financial resources in order to develop adequate international sales and support channels. The Company may not be able to maintain or increase international market demand for its products. International sales are subject to inherent risks, including the impact of possible recessionary environments in economies outside the United States, currency fluctuations, the costs of transferring and localizing products for foreign markets, longer receivable collection periods and greater difficulty in accounts receivable collection, unexpected changes in regulatory requirements, difficulties and costs of staffing and managing foreign operations, and political and economic instability. The Company may not be able to sustain or increase international revenues and the foregoing factors may have a material adverse effect on the Company's future international revenues and, consequently, on the Company's business, operating results and financial condition. The Company currently does not engage in currency hedging activities. Although exposure to currency fluctuations to date has been insignificant, fluctuations in currency exchange rates may in the future have a material adverse impact on revenues from international sales and licensing and thus the Company's business, operating results and financial condition.

RISK OF DEFECTS. Interactive software products such as those offered by the Company frequently contain errors or defects. Despite extensive product testing, in the past the Company has released products with defects and has discovered errors in certain of its product offerings after their introduction. In particular, the PC hardware environment is characterized by a wide variety of non-standard peripherals (such as sound cards and graphics cards) and hardware configurations that make pre-release testing for programming or compatibility errors very difficult and time-consuming. Despite testing by the Company, new products or releases may contain errors after commencement of commercial shipments, resulting in a loss of or delay in market acceptance, which could have a material adverse effect on the Company's business, operating results and financial condition.

RISKS ASSOCIATED WITH ACQUISITIONS. As the Company executes acquisitions, it must integrate the operations of its acquired subsidiaries with its previously existing operations. This process, as

well as the process of managing new operations, requires substantial management time and effort and diverts the attention of management from other matters. In addition, there is a risk of loss of key employees, customers and vendors of the recently acquired operations as well as existing operations as this process is implemented. The Company may not be successful in integrating these operations.

Consistent with the Company's strategy of enhancing its distribution and product development capabilities, the Company intends to continue to pursue acquisitions of companies, intellectual property rights and other assets that can be purchased or licensed on acceptable terms and which the Company believes can be operated or exploited profitably. Some of these transactions could be material in size and scope. While the Company will continually be searching for appropriate acquisition opportunities, the Company may not be successful in identifying suitable acquisitions. If any potential acquisition opportunities are identified, the Company may not be able to consummate such acquisitions and if any such acquisition does occur, it may not enhance the Company's business or be accretive to the Company's earnings. As the interactive entertainment and leisure industry continues to consolidate, the Company faces significant competition in seeking acquisitions and may in the future face increased competition for acquisition opportunities. This may inhibit the Company's ability to complete suitable transactions. Future acquisitions could also divert substantial management time, could result in short term reductions in earnings or special transaction or other charges and may be difficult to integrate with existing operations or assets.

The Company may, in the future, issue additional shares of common stock in connection with one or more acquisitions, which may dilute its existing shareholders. The Company's shareholders will not have an opportunity, with respect to most of the Company's future acquisitions, to review the financial statements of the entity being acquired or to evaluate the benefits of the intellectual property rights being purchased or licensed, or to vote on the acquisitions.

RISK OF DISTRIBUTION COMPANIES' VENDOR DEFECTIONS; VENDOR CONCENTRATION. The Company's CD Contact, NBG and CentreSoft subsidiaries perform interactive entertainment distribution services in the Benelux territories, Germany and in the United Kingdom, respectively, and, via export, in other European

territories for a variety of entertainment software publishers, many of which are competitors of the Company. These services are generally performed under limited term contracts, some of which provide for cancellation in the event of a change of control. While the Company expects to use reasonable efforts to retain these vendors, the Company may not be successful in this regard. The cancellation or non-renewal of one or more of these contracts could have a material adverse effect on the Company's business, operating results and financial condition. Two of CD Contact's third party vendors accounted for 12% and 11%, respectively, of CD Contact's net revenues in fiscal year 2000. The net revenues from each of these vendors represented 1% of consolidated net revenues of the Company for this period. Three of CentreSoft's third party vendors accounted for 25%, 14%, and 10%, respectively, of CentreSoft's net revenues in fiscal year 2000. The net revenues from these vendors represented 5%, 3% and 2%, respectively, of consolidated net revenues of the Company for this period. Two of NBG's third party vendors accounted for 11% and 10%, respectively, of NBG's net revenues in fiscal year 2000. The net revenues from these vendors each represented 1% of consolidated net revenues of the Company for this period. All other third party vendors contributed less than 10% individually to the respective subsidiary's net revenues.

RISKS ASSOCIATED WITH FLUCTUATIONS IN STOCK VALUE. Due to analysts' expectations of continued growth and other factors, any shortfall in earnings could have an immediate and significant adverse effect on the trading price of the Company's common stock in any given period. As a result of the factors discussed in this report and other factors that may arise in the future, the market price of the Company's

common stock historically has been, and may continue to be subject to significant fluctuations over a short period of time. These fluctuations may be due to factors specific to the Company, to changes in analysts' earnings estimates, or to factors affecting the computer, software, entertainment, media or electronics industries or the securities markets in general.

STRATEGY

The Company's objective is to be a worldwide leader in the development, publishing and distribution of quality interactive entertainment and leisure products that deliver, at each point of the value spectrum, a highly satisfying experience. The Company's strategy includes the following elements:

CREATE AND MAINTAIN A BALANCED AND DIVERSIFIED PORTFOLIO OF OPERATIONS. The Company has assembled a large diversified portfolio of development, publishing and distribution operations and relationships which are complementary and, at the same time, reduce the Company's risk of concentration on any one developer, brand, platform, customer or market. The Company has focused historically on the development and publishing of premium products that provide the most sophisticated game play and entertainment experience at the top price point. While the Company will continue to take advantage of its expertise in this area, it has continued to diversify its business operations and product and audience mix. In addition to establishing, primarily through acquisitions, the European distribution business, the Company believes that as a result of its acquisition activities, it has positioned itself as a leading publisher of "value" products for the PC, which are characterized by less sophisticated game play and lower price points. Further, the Company publishes and distributes titles that operate on a variety of platforms (PC, Sony PlayStation, Sega Dreamcast and Nintendo N64 and Gameboy). This diversification helps to reduce the risk of downturn or underperformance in any of the Company's individual operations.

CREATE AND MAINTAIN STRONG BRANDS. The Company focuses its development and publishing activities principally on titles that are, or have the potential to become, franchise properties with sustainable consumer appeal and brand recognition. These titles can thereby serve as the basis for sequels, prequels, mission packs, other add-ons and related new titles that can be released over an extended period of time. The Company believes that the publishing and distribution of products based in large part on franchise properties enhances revenue predictability and the probability of high unit volume sales and operating profits. In addition, the Company has entered into a series of strategic partnerships with the owners of intellectual property pursuant to which the Company has acquired the rights to publish titles based on franchises such as STAR TREK, various Disney films such as TOY STORY 2, and Marvel Comic's properties such as SPIDERMAN, X-MEN and BLADE. The Company also has capitalized on the success of its TONY HAWK PRO SKATER products to sign long term agreements with superstars of extreme sports such as Mat Hoffman in BMX pro biking, Kelly Slater in pro surfing and Shaun Palmer in snow boarding.

FOCUS ON ON-TIME DELIVERY. The success of the Company's publishing business is dependent, in significant part, on its ability to develop games that will generate high unit volume sales that can be completed in accordance with planned budgets and schedules. In order to increase its ability to achieve this

objective, the Company's publishing units have implemented a formal control process for the development of the Company's products. This process includes three key elements: (i) in-depth reviews are conducted for each project at five intervals during the development process by a team that includes several of the Company's highest ranking operating managers; (ii) each project is led by a small team which is given incentives to deliver a high-quality product, on-schedule and within budget; and (iii) day-to-day progress is monitored by a dedicated process manager in order to insure that issues, if any, are promptly identified and addressed in a timely manner.

LEVERAGE INFRASTRUCTURE AND ORGANIZATION. The Company is continually striving to reduce its risk and increase its operating leverage and efficiency. For example, the Company has significantly increased its product making capabilities by allocating a larger portion of its product development investments to experienced independent development companies. These companies generally are small firms focused on a particular product type of game, run and owned by individuals who are willing to take development risk by accepting payments based on the completion of fixed performance milestones in exchange for a royalty on the revenue stream of the game after the Company recoups its development costs. The Company also has broadly instituted objective-based reward programs that provide incentives to management and staff to produce results that meet the Company's financial objectives.

GROW THROUGH CONTINUED STRATEGIC ACQUISITIONS. The interactive entertainment and leisure industry is consolidating, and the Company believes that success in this industry will be driven in part by the ability to take advantage of scale. Specifically, smaller companies are more capital constrained, enjoy less predictability of revenues and cashflow, lack product diversity and must spread fixed costs over a smaller revenue base. Several industry leaders are emerging that combine the entrepreneurial and creative spirit of the industry with professional management, the ability to access the capital markets and the ability to maintain favorable relationships with strategic developers, property owners and retailers. Through nine completed acquisitions since 1997, the Company believes that it has successfully diversified its operations, its channels of distribution, its development talent pool and its library of titles, and has emerged as one of the industry's leaders.

PRODUCTS

The Company historically has been best known for its action, adventure, strategy and simulation products. With the successful introduction of its TONY HAWK PRO SKATER product, the Company also has become one of the industry leaders in the extreme sport category. The Company also distributes products in other categories such as leisure and role playing. The Company may in the future expand its product offerings into new categories.

The Company's current and upcoming releases are based on intellectual property and other character or story rights licensed from third parties, as well as a combination of characters, worlds and concepts derived from the Company's extensive library of titles, and original characters and concepts owned and created by the Company. In publishing products based on licensed intellectual property rights, the Company generally seeks to capitalize on the name recognition, marketing efforts and goodwill associated with the underlying property.

In the past year, the Company has entered into a series of long term or multi-product agreements with the owners of intellectual property that is well known throughout the world. In addition to the strategic relationships established by the Company with Disney Interactive for several animated film properties, with Viacom Consumer Products for STAR TREK and with LucasArts Entertainment for STAR WARS and INDIANA JONES, the Company also has entered into long term license agreements with Cabela's for its BIG GAME HUNTER series of products, Marvel Comics for such properties as SPIDERMAN, X-MEN and BLADE, and such superstars of extreme sports as Tony Hawk, Mat Hoffman, Kelly Slater and Shaun Palmer. The Company may not be able to seek out and sustain new long term relationships of similar caliber in the future.

In addition to its own internally developed products, the Company publishes and distributes software products for other independent developers and publishers such as id Software, Sony, Sega, Nihilistic Software, and Heuristic Park. As the Company seeks to associate the "ACTIVISION" mark only with the highest quality interactive entertainment products, the Company attempts to be selective in acquiring publishing and distribution rights from third party developers. Such products typically are marketed under the Company's name as well as the name of the original developer. The Company believes that these efforts enable the Company to leverage its investment in worldwide sales and marketing and add a new source of

products while balancing the risks inherent in internal product development and production. This activity also allows

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the Company to enter new product genres more quickly and provide consumers with a wider variety of products.

The Company has established itself as a leader in the "value priced" software publishing business with such products as Cabela's BIG GAME HUNTER series. Products published by the Company in this category are generally developed by third parties, often under contract with the Company, and are marketed under the Activision Value and Head Games names.

PRODUCT DEVELOPMENT AND SUPPORT

The Company uses both internal and external resources to develop products. The Company also acquires rights to products through publishing and distribution arrangements with other interactive entertainment and leisure companies.

INTERNAL DEVELOPMENT

The Company's internal development and production groups are located at the Company's operational bases in California, Minnesota, Wisconsin, Florida, the United Kingdom and Japan.

Activision internally develops and produces titles using a model in which a core group of creative, production and technical professionals on staff at the Company, in cooperation with the Company's marketing and finance departments, have overall responsibility for the entire development and production process and for the supervision and coordination of internal and external resources. This team assembles the necessary creative elements to complete a title, using where appropriate outside programmers, artists, animators, musicians and songwriters, sound effects and special effects experts, and sound and video studios. The Company believes that this model allows the Company to supplement internal expertise with top quality external resources on an as needed basis.

The Company has adopted and implemented a rigorous procedure for the selection, development, production and quality assurance of its internally produced entertainment software titles. The process involves one or more pre-development, development and production phases, each of which includes a number of specific performance milestones. This procedure is designed to enable the Company to manage and control production and development budgets and timetables, to identify and address production and technical issues at the earliest opportunity, and to coordinate marketing and quality control strategies throughout the production and development phases, all in an environment that fosters creativity. Checks and balances are intended to be provided through the structured interaction of the project team with the Company's creative, technical, marketing and quality assurance/customer support personnel, as well as the legal, accounting and finance departments.

EXTERNAL DEVELOPMENT

The Company licenses or acquires software products from independent developers for publishing or distribution by the Company. Acquired titles generally are marketed under the Company's name as well as the name of the original developer. The agreements with developers provide the Company with exclusive publishing and/or distribution rights for a specific period of time for specified platforms and territories. These agreements often grant to the Company the right to publish and/or distribute sequels, conversions, enhancements and add-ons to the product originally being developed and produced by the developer. In consideration for its services, the developer receives a royalty based on net sales of the product that it has developed. Typically, the developer also receives a nonrefundable advance which is recoupable by the Company from the royalties otherwise required to be paid to the developer. The royalty generally is paid in stages, with

the payment of each stage tied to the completion of a detailed performance milestone.

The Company acquires titles from developers during various phases of the development and production processes for such titles. To the extent the Company acquires rights early in the development process, the Company generally will cause the independent developer to comply with the requirements of the pre-development, development and production processes applicable to titles internally produced by Activision. The Company will assign a game producer to each title who will serve as the principal liaison to the independent developer and help insure that performance milestones are timely met. The Company

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generally has the right to cease making payments to an independent developer if the developer fails to complete its performance milestones in a timely fashion.

The Company may make, from time to time, an investment and hold a minority equity interest in the third party developer in connection with entertainment software products to be developed by each of these developers for the Company, which the Company believes helps to create a closer relationship between the Company and the developer. In addition to the Company's minority interest in each of Pandemic Studios, Savage Entertainment, Raster Productions and Hammerhead Studios, the Company also acquired a minority equity interest in Gray Matter Studios in connection with the development of a product known as RETURN TO CASTLE WOLFENSTEIN. There can be no assurance that the Company will realize long term benefits from such type of investments or that it will continue to carry such investments at its current value.

PRODUCT SUPPORT

The Company provides various forms of product support to both its internally and externally developed titles. The Company's quality assurance personnel are involved throughout the development and production processes for each title published by the Company. All such products are subjected to extensive testing before release in order to insure compatibility with the widest possible array of hardware configurations and to minimize the number of bugs and other defects found in the products. To support its products after release, the Company provides on-line support to its customers on a 24-hour basis as well as operator help lines during regular business hours. The customer support group tracks customer inquiries and this data is used to help improve the development and production processes.

PUBLISHING AND DISTRIBUTION ACTIVITIES

MARKETING

The Company's marketing efforts include on-line activities (such as the creation of World Wide Web pages to promote specific Company titles), public relations, print and broadcast advertising, coordinated in-store and industry promotions including merchandising and point of purchase displays, participation in cooperative advertising programs, direct response vehicles, and product sampling through demonstration software distributed through the Internet or on compact discs. In addition, the Company's products contain software that enables customers to "electronically register" their purchases with the Company via modem. Through this process, the Company captures electronic mail addresses for its customers as well as a variety of additional market research data.

The Company believes that certain of its franchise properties have loyal and devoted audiences who purchase the Company's sequels as a result of dedication to the property and satisfaction from previous product purchases. Marketing of these sequels is therefore directed both toward the established market as well as broader audiences. In marketing titles based on licensed properties, the Company believes that it derives marketing synergies and related benefits from the marketing and promotional activities of the property owners. In

marketing titles owned by third party developers, the Company believes that it derives marketing synergies and related benefits from the previously established reputation of and goodwill associated with the developer and/or properties owned by the developer.

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SALES AND DISTRIBUTION

DOMESTIC SALES AND DISTRIBUTION. The Company's products are available for sale or rental in thousands of retail outlets domestically. The Company's domestic customers include Best Buy, CompUSA, Computer City, Electronic Boutique, Babbages, WalMart, K-Mart, Target and Toys "R" Us. During fiscal 2000 or fiscal 1999, no single domestic customer accounted for more than 10% of consolidated net revenues.

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 and discount warehouses and mail order companies. The Company believes that a direct relationship with retail accounts results in more effective inventory management, merchandising and communications than would be possible through indirect relationships. The Company has implemented electronic data interchange ("EDI") linkage with many of its retailers to facilitate the placing and shipping of orders. The Company seeks to continue to increase the number of retail outlets reached directly through its internal sales force. The Company utilizes wholesale distributors such as Ingram Micro to service independent channels.

INTERNATIONAL SALES AND DISTRIBUTION. The Company conducts its international publishing and distribution activities through offices in the United Kingdom, Germany, France, Australia, Canada, the Netherlands, Belgium and Japan. The Company seeks to maximize its worldwide revenues and profits by releasing high quality foreign language localizations concurrently with the English language releases, whenever practicable, and by continuing to expand the number of direct selling relationships it maintains with key retailers in major territories. As part of the restructuring plan adopted in March 2000, described in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Company is in the process of realigning its direct distribution system and restructuring its worldwide distributor relationships, significantly reducing the number of distributors.

In November 1997, the Company commenced its European distribution operations through the acquisitions of NBG in Germany and CentreSoft in the United Kingdom. CentreSoft is Sony's exclusive distributor of PlayStation products to the independent channel in the United Kingdom and employs approximately 165 people, including one of the largest entertainment software sales and marketing organizations in that country. In September 1998, the Company acquired CD Contact, a company specializing in the localization and marketing of entertainment software products in the Benelux territories. The assets and personnel of CD Contact have been integrated with the Company's other distribution operations to form the core of Activision's international distribution operations.

AFFILIATE LABELS. In addition to its own products, the Company distributes interactive entertainment products that are developed and marketed by other third party publishers through its "affiliate label" programs. The distribution of other publishers' products allows the Company to maximize the efficiencies of its sales force and provides the Company with the ability to better insure adequate shelf presence at retail stores for all of the products that it distributes. It also mitigates the risk associated with a particular title or titles published by Activision failing to achieve expectations. Services provided by the Company under its affiliate label program include order solicitation, in-store marketing, logistics and order fulfillment, sales channel management, as well as other accounting and general administrative functions.

During the fiscal year 2000, the Company's affiliate label

partners included LucasArts, Psygnosis, Fox Interactive, Interplay, Codemasters, 989 Studios and Encore Entertainment. Each affiliate label relationship is unique and may pertain only to distribution in certain geographic territory such as the United States or Europe and may be further limited only to the specifically named titles or titles operating on specific platforms.

OEM SALES AND DISTRIBUTION. The Company seeks to enhance the distribution of its products through licensing arrangements with original equipment manufacturers ("OEMs"). Under these arrangements, one or more of the Company's titles are "bundled" with hardware or peripheral devices sold and distributed by the OEM so that the purchaser of the hardware or device obtains the Company's software as part of the purchase or on a discounted basis. Although it is customary for the Company to receive a lower per unit price on sales through OEM bundle arrangements, the OEM customer makes a high unit volume commitment to the Company with little associated marketing costs. The Company also believes that such arrangements can substantially expand the distribution of its titles to a broader audience. Recent OEM partners include Gateway Computers, Franklin Computers, Logitech, Dell Computers and Diamond

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Multimedia. The Company also enters into OEM transactions through third party software aggregators who resell the Company products to OEM customers. The OEM market has been undergoing radical changes due to the declining prices of personal computers and hardware accessories and the reluctance of hardware manufacturers to produce large inventories. There can be no assurances that the Company will be able to find new or maintain productive relationship with its existing OEM customers. The Company's own OEM subsidiary, TDC, has been negatively impacted by the changes in the OEM market, as further described in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

LICENSING AND MERCHANDISING

The Company believes that a number of its products have the potential to be exploited in ancillary markets and media, such as product merchandising and traditional entertainment media. The Company seeks opportunities for the exploitation of these ancillary rights directly and through third party agents. Potential opportunities include the publication of strategy guides for selected titles, the adaptation of titles into comic books, novels, television series or motion pictures, and the licensing of product merchandising rights. The Company also has been licensing to third party developers on a selective basis some of its products for development and publishing on platforms, which the Company determines not to be economically viable to exploit with regard to that particular product. In addition, the Company has established "900" telephone numbers through a third party telephone bureau as hint lines for certain of its titles and has realized revenues from the calls made to these numbers. The Company believes that these types of licensing activities and other forms of ancillary exploitation can provide additional sources of revenue and increase the visibility of the title, thereby leading to additional unit sales and greater potential for additional sequels. There can be no assurance that the Company will be successful in exploiting its properties in ancillary markets or media or will continue to license its products for conversion to platforms it does not exploit directly.

INTERNET

The Company believes that there are opportunities for further exploitation of its titles through the Internet, on-line services, and dedicated Internet on-line gaming services. The Company is actively exploring the establishment of on-line game playing opportunities, on-line hint sites and Internet services as a method for realizing additional revenues from its products. There can be no assurance that the Company will be successful in exploiting these opportunities. The Company has been operating its on-line store under a third party fulfillment arrangement with Digital River, where customers can order a wide array of Activision titles.

HARDWARE LICENSES

The Company's console products currently are being developed or published primarily for the Sony PlayStation and PlayStation 2, Sega Dreamcast and Nintendo N64 and Gameboy. In order to maintain general access to the console systems marketplace, the Company has obtained licenses for each of these platforms. Each license allows the Company to create one or more products for the applicable system, subject to certain approval rights as to quality which are reserved by each licensor. Each license also requires that the Company pay the licensor a per unit license fee for each unit manufactured.

In contrast, the Company currently is not required to obtain any license for the development and production of PC-CD products. Accordingly, the Company's per unit manufacturing cost for PC-CD products is less than the per unit manufacturing cost for console products.

MANUFACTURING

The Company prepares a set of master program copies, documentation and packaging materials for its products for each respective hardware platform on which the product will be released. Except with respect to products for use on the Sony, Sega and Nintendo systems, the Company's disk duplication, packaging, printing, manufacturing, warehousing, assembly and shipping are performed by third party subcontractors.

In the case of products for the Sony, Sega and Nintendo systems, in order to maintain protection over their hardware technologies, such hardware producers generally specify and/or control the manufacturing and assembly of finished products. The Company delivers the master materials to the licensor or its approved replicator which then manufactures finished goods and delivers them to the Company for distribution under the Company's label. At the time the Company's product unit orders are filled by the

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manufacturer, the Company becomes responsible for the costs of manufacturing and the applicable per unit royalty on such units, even if the units do not ultimately sell.

To date, the Company has not experienced any material difficulties or delays in the manufacture and assembly of its products or material returns due to product defects.

COMPETITION

The interactive entertainment and leisure industry is intensely competitive and is in the process of substantial consolidation. The availability of significant financial resources has become a major competitive factor in this industry primarily as a result of the increasing development, acquisition, production and marketing budgets required to publish quality titles. In addition, competitors with large product lines and popular titles typically have greater leverage with distributors and other customers who may be willing to promote titles with less consumer appeal in return for access to such competitor's most popular titles. See "Factors Affecting Future Performance".

The Company seeks to compete by publishing high quality titles and by supporting these titles with substantial marketing efforts; by focusing on properties with sustainable consumer appeal; by working to strengthen its relationships with retailers and other resellers and otherwise expanding its channels of distribution; and by pursuing opportunities for strategic acquisitions. See "Strategy."

EMPLOYEES

As of March 31, 2000, the Company had 775 employees, including 268 in product development, 91 in North American publishing, 67 in

corporate finance, operations and administration, 90 in international publishing, and 259 in European distribution activities.

As of March 31, 2000, approximately 170 of the Company's full-time employees were subject to term employment agreements with the Company. These agreements generally commit such employees to employment terms of between one and three years from the commencement of their respective agreements. Most of the employees subject to such agreements are executives of the Company or members of the product development, sales or marketing divisions. These individuals perform services to the Company as executives, directors, producers, associate producers, computer programmers, game designers, sales directors and marketing product managers. The execution by the Company of employment agreements with such employees, in the Company's experience, significantly reduces the Company's turnover during the development and production of its entertainment software products and allows the Company to plan more effectively for future development activities.

None of the Company's employees are subject to a collective bargaining agreement, and the Company has experienced no labor-related work stoppages.

FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 7 of Notes to Consolidated Financial Statements included in Item 8.

ITEM 2. PROPERTIES

The Company's principal corporate, administrative, and product development offices are located in approximately 98,000 square feet of leased space in a building located at 3100 Ocean Park Boulevard, Santa Monica, California 90405. The following is a listing of the principal offices maintained by the Company at June 19, 2000:

Location of Principal Facilities	Square Feet	Lease Expiration Date
Santa Monica, California	98,000	April 30, 2007
Woodland Hills, California	10,000	April 20, 2005
Miami, Florida	7,000	June 29, 2005
Madison, Wisconsin	13,300	December 31, 2004
Eden Prairie, Minnesota	9,800	September 30, 2005
Dallas, Texas	2,300	February 28, 2003
Bentonville, Arkansas	250	February 28, 2001
New York, New York	500	April 30, 2001
Coral Gables, Florida	20,000	August 29, 2000
Middlesex, United Kingdom	10,600	July 23, 2005
Birmingham, United Kingdom	81,000	May 20, 2011 - May 31, 2012
Birmingham, United Kingdom	43,300	Month to Month
Antwerpen, Belgium	3,200	May 1, 2002
Eemnes, The Netherlands	1,900	January 1, 2001
Argenteuil, France	1,800	December 15, 2006
Sydney, Australia	3,400	September 30, 2000
Ismaning, Germany	4,200	November 30, 2001
Burglengenfeld, Germany	39,000	Owned
Tokyo, Japan	530	July 31, 2001

ITEM 3. 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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY 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 through June 19, 2000	\$11.13	\$6.13

On June 19, 2000, the reported last sales price for the Company's Common Stock was \$6.25.

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.

SALES OF UNREGISTERED EQUITY SECURITIES

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%.

In June 1999, the Company issued 204,448 shares of its common stock in connection with the acquisition of Elsinore Multimedia, Inc.

In September 1999, the Company issued 698,835 shares of its common stock in connection with the acquisition of JCM Productions,

In December 1999, the Company issued 77,031 shares of its common stock in connection with a 40% equity investment in Gray Matter Studios, formerly known as Video Games West, Inc.

None of the shares, warrants, options or shares into which the warrants or options are exercisable were registered under the Securities Act of 1933, as amended (the "Securities Act"), by reason of the exemption under Section 4(2) of the Securities Act. The Company subsequently registered the shares issued in connection with the Elsinore Multimedia, Inc., JCM Productions, Inc. dba Neversoft Entertainment and Gray Matter Studios transactions for resale by the holders thereof.

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 were 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 purchased 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.

ITEM 6. 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 Form 10-K.

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	FISCAL YEARS ENDED MARCH 31,				
	RESTATE ⁽¹⁾				
	2000	1999	1998	1997	1996
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)

	AS OF MARCH 31,				
	RESTATE ⁽¹⁾				
	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 pooling of interests. Consolidated financial information for fiscal years 1997 and 1996 has been restated retroactively for the effects of

the acquisitions of

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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 pooling 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.

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ITEM 7. 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 Item 1 and Item 6 of this 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.

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

	Fiscal years ended March 31,					
	(In thousands)					
	2000		1999		1998	
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%
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%
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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:

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.

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

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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.

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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.

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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.

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. See Item 1 "Business - Certain Cautionary Information" and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Restructuring." Accordingly, the Company believes that period-to-period comparisons of its operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

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

	Quarter ended							
					Restated			
	March 31, 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 Item 7 "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 6 3/4% convertible subordinated notes due 2005 (the "Notes"). The Notes are convertible, in whole or in part, at the option of the holder at any time after December 22, 1997 (the date of original issuance) and prior to the close of business on the business day immediately preceding the maturity date, unless previously redeemed or repurchased, into common stock,

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\$.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 1/2% 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 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.

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.

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.

ITEM 7A. 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 6 3/4% 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.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All other schedules of the Registrant are omitted because of the absence of conditions under which they are required or because the required information is included elsewhere in the financial statements or in the notes thereto.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference to the sections of the Company's definitive Proxy Statement for its 2000 Annual Meeting of Shareholders, entitled "Election of Directors" and "Executive Officers and Key Employees" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the sections of the Company's definitive Proxy Statement for its 2000 Annual Meeting of Shareholders, entitled "Executive Compensation" and "Indebtedness of Management" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the sections of the Company's definitive Proxy Statement for its 2000 Annual Meeting of Shareholders, entitled "Security Ownership of Certain Beneficial Owners and Management" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the sections of the Company's definitive Proxy Statement for its 2000 Annual Meeting of Shareholders, entitled "Certain Relationships and Related Transactions" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

- (a) 1. FINANCIAL STATEMENTS See Item 8. - Consolidated Financial Statements and Supplementary Data Index for Financial Statements and Schedule on page 32 herein.
2. FINANCIAL STATEMENT SCHEDULE The following financial statement schedule of Activision, Inc. for the years ended March 31, 2000, 1999 and 1998 is filed as part of this report and should be read in conjunction with the Consolidated Financial Statements of Activision, Inc.

Schedule II -- Valuation and Qualifying Accounts and Reserves

Other financial statement schedules are omitted because the information called for is not required or is shown either in the Consolidated Financial Statements or the

notes thereto.

3. EXHIBITS REQUIRED BY ITEM 601 OF REGULATION S-K

Exhibit Number -----	Exhibit -----
2.1	Agreement and Plan of Merger dated as of June 9, 2000 among Activision, Inc., Activision Holdings, Inc. and ATVI Merger Sub, Inc. (incorporated by reference to Exhibit 2.4 of the Company's Form 8-K filed June 16, 2000).
3.1	Amended and Restated Certificate of Incorporation of Activision Holdings, dated June 1, 2000 (incorporated by reference to Exhibit 2.5 of the Company's Form 8-K, filed on June 16, 2000).
3.2	Amended and Restated Bylaws of Activision Holdings (incorporated by reference to Exhibit 2.6 of the Company's Form 8-K, filed on June 16, 2000).
3.3	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Activision Holdings dated as of June 9, 2000 (incorporated by reference to Exhibit 2.7 of the Company's Form 8-K, filed on June 16, 2000).
4.1	Rights Agreement dated as of April 18, 2000, between the Company and Continental Stock Transfer & Trust Company, which includes as exhibits the form of Right Certificates as Exhibit A, the Summary of Rights to Purchase Series A Junior Preferred Stock as Exhibit B and the form of Certificate of Designation of Series A Junior Preferred Stock of the Company as Exhibit C, (incorporated by reference to the Company's Registration Statement on Form 8-A, Registration No. 001-15839, filed April 19, 2000).
10.1	Mediagenic 1991 Stock Option and Stock Award Plan, as amended (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, Registration No. 33-63638, filed on December 8, 1995).
10.2	Mediagenic 1991 Director Warrant Plan, as amended (incorporated by reference to Exhibit 28.2 to the Company's 34 Registration Statement on Form S-8, Registration No. 33-63638, filed on June 1, 1993).
10.3	Activision, Inc. Employee Stock Purchase Plan, as amended, (incorporated by reference to Exhibit 4.1 of the Company's Form S-8, Registration No. 333-36272 filed on May 4, 2000).
10.4	Activision, Inc. 1998 Incentive Plan (incorporated by reference to Appendix I of the Company's 1998 Proxy Statement).
10.5	Activision, Inc. 1999 Incentive Plan
10.6	Lease Agreement dated as of December 20, 1996, between the Company and Barclay Curci Investment Company (incorporated by reference to Exhibit 10.14 of the Company's Form 10-Q for the quarter ended December 31, 1996).
10.7	Share Exchange Agreement dated November 23, 1997, among the Company and the holders of all of the issued and outstanding capital stock of Combined Distribution (Holdings) Limited (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed December 5, 1997).

- 10.8 Purchase Agreement dated as of December 16, 1997, among the Company and Credit Suisse First Boston Corporation, Piper Jaffray, Inc. and UBS Securities LLC (the "Initial Purchasers") (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed December 23, 1997).
- 10.9 Registration Rights Agreement dated as of December 16, 1997, among the Company and the Initial Purchasers (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed December 23, 1997).
- 10.10 Indenture dated as of December 22, 1997, between the Company and State Street Bank and Trust Company of California, N.A., as Trustee (incorporated by reference to Exhibit 10.3 of the Company's Form 8-K filed December 23, 1997).
- 10.11 Employment agreement dated January 12, 1999 between the Company and Robert A. Kotick (incorporated by reference to Exhibit 10.10 of the Company's Form 10-K for the year ending March 31, 1999).
- 10.12 Employment agreement dated October 19, 1998 between the Company and Ronald Doornink (incorporated by reference to Exhibit 10.12 of the Company's Form 10-K for the year ending March 31, 1999).
- 10.13 Employment agreement dated March 4, 1999 between the Company and Lawrence Goldberg (incorporated by reference to Exhibit 10.13 of the Company's Form 10-K for the year ending March 31, 1999).
- 10.14 Employment agreement dated April 1, 1998 between the Company and Mitchell Lasky (incorporated by reference to Exhibit 10.15 of the Company's Form 10-K for the year ending March 31, 1999).

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- 10.15 Employment agreement dated April 1, 1998 between the Company and Ronald Scott (incorporated by reference to Exhibit 10.16 of the Company's Form 10-K for the year ending March 31, 1999).
- 10.16 Service Agreement dated November 24, 1997 between Combined Distribution (Holdings) Limited and Richard Andrew Steele (incorporated by reference to Exhibit 10.17 of the Company's Form 10-K for the year ending March 31, 1999).
- 10.17 Employment agreement dated January 12, 1999 between the Company and Brian G. Kelly (incorporated by reference to Exhibit 10.11 of the Company's Form 10-K for the year ending March 31, 1999).
- 10.18 Articles of Merger dated June 30, 1998 between S.B.F. Acquisition Corp., a wholly owned subsidiary of the Company, and S.B.F. Services, Limited dba Head Games Publishing (incorporated by reference to Exhibit 2.1 of the Company's Form 8-K, filed on July 2, 1998).
- 10.19 Share Exchange Agreement dated September 29, 1998 by and between the Company and Mr. Frank d'Oleire, Mrs. Christa d'Oleire, Ms. Fiona d'Oleire, Ms. Alexa d'Oleire acting as Dr. d'Oleire Beteiligungsgesellschaft bR, Mr. Martinus J.C. Bubbert, and Mr. Dennis W. Buis (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed on October 8, 1998).
- 10.20 Amended and Restated Agreement and Plan of Merger dated April 19, 1999 by and among the Company, Expert Acquisition Corp. and Expert Software, Inc. (incorporated by reference to Exhibit 2.1 of the Form 8-K of Expert Software, Inc., filed April 29, 1999).

- 10.21 Credit Agreement dated as of June 21, 1999 among the Company, Head Games Publishing, Inc., Expert Software, Inc., various financial institutions, PNC Bank, National Association, as issuing bank, administrative agent and collateral agent for such financial institutions, and Credit Suisse First Boston, as syndication agent (incorporated by reference to Exhibit 10.22 of the Company's Form 10-K for the year ending March 31, 1999).
- 10.22 Share Exchange Agreement dated as of June 29, 1999, among the Company, Jill G. Mark and Robert N. Herrick (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-3, Registration No. 333-85385, filed August 17, 1999).
- 10.23 Agreement and Plan of Reorganization dated as of September 30, 1999, among the Company, Neversoft Entertainment, Inc., JCM Productions, Inc., Joel Jewett, Michael West and Christopher Ward (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-3, Registration No. 333-94509, filed January 12, 2000).
- 10.24 Employment agreement dated July 12, 1999, between the Company and Mr. Michael Rowe (incorporated by reference to

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Exhibit 6.1 of the Company's Form 10-Q for the quarter ending June 30, 1999).

- 10.25 Employment agreement dated July 12, 1999, between the Company and Ms. Kathy Vrabek (incorporated by reference to Exhibit 6.2 of the Company's Form 10-Q for the quarter ending June 30, 1999).
- 10.26 Amendment to Employment Agreement between Mr. Ronald Doornink and the Company, dated April 30 1999 (incorporated by reference to Exhibit 6.1 of the Company's Form 10-Q for the quarter ending December 31, 1999).
- 10.27 Employment agreement dated April 7, 2000, between the Company and Mr. Michael Pole.
- 10.28 First Amendment effective as of June 8, 2000 to the Credit Agreement dated June 21, 1999 among the Company, Head Games Publishing, Inc., Expert Software, Inc., various financial institutions, PNC Bank, National Association as issuing bank, administrative agent and collateral agent for such lenders and Credit Suisse First Boston, as syndication agent.
- 21.1 Principal subsidiaries of the Company.
- 23.1 Independent Auditors' Consent.
- 27.1 Fiscal 1998 Year to Date Financial Data Schedule.
- 27.2 Fiscal 1999 Year to Date Financial Data Schedule.
- 27.3 Fiscal 2000 Year to Date Financial Data Schedule.

(b) Reports on Form 8-K. There have been no reports on Form 8-K that have been filed by the Company during the last quarter of the fiscal year ending March 31, 2000. The following reports on Form 8-K have been filed by the Company during the first quarter of the fiscal year ending March 31, 2001:

- 1.1 The Company filed a Form 8-K on April 19, 2000, reporting under "Item 5. Other Events" the announcement of the Company's stockholders' rights plan.
- 1.2 The Company filed a Form 8-K on June 16, 2000

reporting under "Item 5. Other Events" the announcement of the organizational restructuring of the Company into a holding company format organizational structure.

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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: June 28, 2000

ACTIVISION, INC.

By: /s/ ROBERT A. KOTICK

(Robert A. Kotick)
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ ROBERT A. KOTICK Chairman, Chief Executive Officer June 28, 2000
----- (Principal Executive Officer) and Director
(Robert A. Kotick)

By: /s/ BRIAN G. KELLY Co-Chairman and Director June 28, 2000

(Brian G. Kelly)

By: /s/ WILLIAM J. CHARDAVOYNE Chief Financial Officer June 28, 2000
----- and Chief Accounting Officer
(William J. Chardavoyne)

By: /s/ HAROLD A. BROWN Director June 28, 2000

(Harold A. Brown)

By: /s/ BARBARA S. ISGUR Director June 28, 2000

(Barbara S. Isgur)

By: Director June 28, 2000

(Steven T. Mayer)

By: Director June 28, 2000

(Robert J. Morgado)

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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.

KPMG LLP

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

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PART I. FINANCIAL INFORMATION.
 Item I. Financial Statements.

ACTIVISION, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	March 31, 2000	March 31, 1999
	-----	----- Restated -----
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.

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ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	For the years ended March 31,		
	2000	Restated	
		1999	1998
	-----	-----	-----
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.

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

For the years ended March 31, 2000, 1999 and 1998

(In thousands)	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)
	Shares	Amount		
BALANCE, MARCH 31, 1997	22,033	\$ -	\$ 79,147	\$ 6,610
Components of comprehensive income				
Net income for the year	-	-	-	4,970
Foreign currency translation adjustment	-	-	-	-
Total comprehensive income	-	-	-	-
Issuance of common stock and common stock warrants	82	-	1,214	-
Issuance of common stock pursuant to employee stock option plans	599	-	4,756	-
Issuance of common stock pursuant to employee stock purchase plan	64	-	582	-
Tax benefit attributable to employee stock option plans	-	-	1,247	-
Adjustment for change in year-end of pooled subsidiary	-	-	-	(639)
Conversion of Redeemable Preferred Stock	87	-	1,286	-
Conversion of Convertible Preferred Stock	15	-	214	-
Conversion of Subordinated Loan Stock Debentures	217	-	3,216	-
Issuance of stock to affect business combination	10	-	163	11
Dividends declared	-	-	-	(116)
	-----	-----	-----	-----
BALANCE, MARCH 31, 1998	23,107	-	91,825	10,836
Components of comprehensive income				
Net income for the year	-	-	-	14,891
Foreign currency translation adjustment	-	-	-	-
Total comprehensive income	-	-	-	-
Issuance of common stock and common stock warrants	-	-	3,368	-
Issuance of common stock pursuant to employee stock option plans	605	-	5,271	-
Issuance of common stock pursuant to employee stock purchase plan	92	-	798	-
Tax benefit attributable to employee stock option plans	-	-	1,059	-
Tax benefit derived from net operating loss carryforward utilization	-	-	2,430	-
Conversion of notes payable to common stock	-	-	4,500	-
	-----	-----	-----	-----
BALANCE, MARCH 31, 1999	23,804	-	109,251	25,727
Components of comprehensive income:				
Net loss for the year	-	-	-	(34,088)
Foreign currency translation adjustment	-	-	-	-
Total comprehensive loss	-	-	-	-

Issuance of common stock and common stock warrants	-	-	8,529	-
Issuance of common stock pursuant to employee stock option plans	2,331	-	21,718	-
Issuance of common stock pursuant to employee stock purchase plan	72	-	762	-
Tax benefit attributable to employee stock option plans	-	-	3,017	-
Tax benefit derived from net operating loss carryforward utilization	-	-	1,266	-
Acquisitions and investments made with common stock and common stock options	281	-	7,171	-
	-----	-----	-----	-----
BALANCE, MARCH 31, 2000	26,488	\$ -	\$ 151,714	\$ (8,361)
	=====	=====	=====	=====

(In thousands)	Treasury Stock		Accumulated	Shareholders'
	Shares	Amount	Other Comprehensive Income (loss)	
BALANCE, MARCH 31, 1997	(500)	\$ (5,278)	\$ (158)	\$ 80,321
Components of comprehensive income				
Net income for the year	-	-	-	4,970
Foreign currency translation adjustment	-	-	250	250
Total comprehensive income	-	-	-	5,220
Issuance of common stock and common stock warrants	-	-	-	1,214
Issuance of common stock pursuant to employee stock option plans	-	-	-	4,756
Issuance of common stock pursuant to employee stock purchase plan	-	-	-	582
Tax benefit attributable to employee stock option plans	-	-	-	1,247
Adjustment for change in year-end of pooled subsidiary	-	-	-	(639)
Conversion of Redeemable Preferred Stock	-	-	-	1,286
Conversion of Convertible Preferred Stock	-	-	-	214
Conversion of Subordinated Loan Stock Debentures	-	-	-	3,216
Issuance of stock to affect business combination	-	-	-	174
Dividends declared	-	-	-	(116)
	-----	-----	-----	-----
BALANCE, MARCH 31, 1998	(500)	(5,278)	92	97,475
Components of comprehensive income				
Net income for the year	-	-	-	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
Issuance of common stock pursuant to employee stock option plans	-	-	-	5,271
Issuance of common stock pursuant to employee stock purchase plan	-	-	-	798
Tax benefit attributable to employee stock option plans	-	-	-	1,059
Tax benefit derived from net operating loss carryforward utilization	-	-	-	2,430
Conversion of notes payable to common stock	-	-	-	4,500
	-----	-----	-----	-----
BALANCE, MARCH 31, 1999	(500)	(5,278)	(2,510)	127,190
Components of comprehensive income:				
Net loss for the year	-	-	-	(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
Issuance of common stock pursuant to employee stock option plans	-	-	-	21,718
Issuance of common stock pursuant to employee stock purchase plan	-	-	-	762
Tax benefit attributable to employee stock option plans	-	-	-	3,017
Tax benefit derived from net operating loss carryforward utilization	-	-	-	1,266
Acquisitions and investments made with common stock and common stock options	-	-	-	7,171
	-----	-----	-----	-----
BALANCE, MARCH 31, 2000	(500)	\$ (5,278)	\$ (6,066)	\$ 132,009
	=====	=====	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

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ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

For the years ended March 31,

	Restated		
	2000	1999	1998
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.

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ACTIVISION, INC. AND SUBSIDIARIES
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 ("NBS") 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.

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.

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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.

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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).

	Fiscal Year 2000		
	Activision	Neversoft	Total
	Six Months Ended	Six Months Ended	Six Months Ended
	Sept. 30, 1999	Sept. 30, 1999	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. Proforma 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.

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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:

	Fiscal Year 1999					Total Year Ended March 31, 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		
Revenues	\$ 412,225	\$ 2,195	\$ 22,065	\$ 41		\$ 436,526
Net income (loss)	\$ 14,194	\$ 394	\$ 666	\$ (363)		\$ 14,891

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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 on 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:

	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 on 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:

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

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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, 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
	=====	=====

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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.

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Information on the reportable segments for the three years ended March 31, 2000 is as follows:

	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 (loss)	\$ 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 (loss)	\$ 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:

	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

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

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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
	=====	=====	=====

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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 & 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 & 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.

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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 1/2% 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

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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:

2001	\$16,260
2002	10,190
2003	190
2004	190
2005	190
Thereafter	3,018

Total	\$30,038
	=====

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PRIVATE PLACEMENT OF CONVERTIBLE SUBORDINATED NOTES

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

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.

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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.

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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	Wtd Avg Ex Price	Shares	Wtd Avg Ex Price	Shares	Wtd Avg Ex 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.

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The following tables summarize information about all employee and director stock options and warrants outstanding as of March 31, 2000:

	Outstanding Options			Exercisable Options	
	Shares	Remaining Wtd Avg Contractual Life (in years)	Wtd Avg Exercise Price	Shares	Wtd Avg 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

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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.

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12. 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

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13. QUARTERLY FINANCIAL AND MARKET INFORMATION (UNAUDITED)

(Amounts in thousands, except per share data)	Quarter Ended				Year Ended
	June 30	Sept 30	Dec 31	Mar 31 (1)	
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."

14. 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.

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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.

15. 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 shares, 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.

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SCHEDULE II

ACTIVISION, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(In thousands)

COL. A ----- Description	COL. B ----- Balance at Beginning of Period	COL. C ----- Additions (A)	COL. D ----- Deductions (B)	COL. E ----- Balance at End of Period
Year ended March 31, 2000				
Allowance for sales returns, price protection and doubtful accounts	14,979	97,362	80,820	31,521
Deferred tax valuation allowance	6,916	6,125	-	13,041
Year ended March 31, 1999 (Restated)				
Allowance for sales returns, price protection and doubtful accounts	15,582	53,773	54,376	14,979
Deferred tax valuation allowance	8,107	1,239	2,430	6,916
Year ended March 31, 1998 (Restated)				
Allowance for sales returns, price protection and doubtful accounts	7,674	39,437	31,529	15,582
Deferred tax valuation allowance	8,107	-	-	8,107

- (A) Includes increases in allowance for sales returns, price protection and doubtful accounts due to normal reserving terms and allowance accounts acquired in conjunction with acquisitions.
- (B) Includes actual write-offs of uncollectible accounts receivable or sales returns and price protection, recoveries of previously written off receivables and foreign currency translation adjustments.

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EXHIBIT INDEX

ITEM 14(a). EXHIBITS.

Exhibit Number -----	Exhibit -----	Sequential Page Number -----
2.1	Agreement and Plan of Merger dated as of June 9, 2000 among Activision, Inc., Activision Holdings, Inc. and ATVI Merger Sub, Inc. (incorporated by reference to Exhibit 2.4 of the Company's Form 8-K filed June 16, 2000).	

- 3.1 Amended and Restated Certificate of Incorporation of Activision Holdings, dated June 1, 2000 (incorporated by reference to Exhibit 2.5 of the Company's Form 8-K, filed on June 16, 2000).
- 3.2 Amended and Restated Bylaws of Activision Holdings (incorporated by reference to Exhibit 2.6 of the Company's Form 8-K, filed on June 16, 2000).
- 3.3 Certificate of Amendment of Amended and Restated Certificate of Incorporation of Activision Holdings dated as of June 9, 2000 (incorporated by reference to Exhibit 2.7 of the Company's Form 8-K, filed on June 16, 2000).
- 4.1 Rights Agreement dated as of April 18, 2000, between the Company and Continental Stock Transfer & Trust Company, which includes as exhibits the form of Right Certificates as Exhibit A, the Summary of Rights to Purchase Series A Junior Preferred Stock as Exhibit B and the form of Certificate of Designation of Series A Junior Preferred Stock of the Company as Exhibit C, (incorporated by reference to the Company's Registration Statement on Form 8-A, Registration No. 001-15839, filed April 19, 2000).
- 10.1 Mediagenic 1991 Stock Option and Stock Award Plan, as amended (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, Registration No. 33-63638, filed on December 8, 1995).
- 10.2 Mediagenic 1991 Director Warrant Plan, as amended (incorporated by reference to Exhibit 28.2 to the Company's Registration Statement on Form S-8, Registration No. 33-63638, filed on June 1, 1993).
- 10.3 Activision, Inc. Employee Stock Purchase Plan, as amended, (incorporated by reference to Exhibit 4.1 of the Company's Form S-8, Registration No. 333-36272 filed on May 4, 2000).
- 10.4 Activision, Inc. 1998 Incentive Plan (incorporated by reference to Appendix I of the Company's 1998 Proxy Statement).
- 10.5 Activision, Inc. 1999 Incentive Plan
- 10.6 Lease Agreement dated as of December 20, 1996, between the Company and Barclay Curci Investment Company (incorporated by reference to Exhibit 10.14 of the Company's Form 10-Q for the quarter ended December 31, 1996).

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- 10.7 Share Exchange Agreement dated November 23, 1997, among the Company and the holders of all of the issued and outstanding capital stock of Combined Distribution (Holdings) Limited (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed December 5, 1997).
- 10.8 Purchase Agreement dated as of December 16, 1997, among the Company and Credit Suisse First Boston Corporation, Piper Jaffray, Inc. and UBS Securities LLC (the "Initial Purchasers") (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed December 23, 1997).
- 10.9 Registration Rights Agreement dated as of December 16, 1997, among the Company and the Initial Purchasers (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed December 23, 1997).
- 10.10 Indenture dated as of December 22, 1997, between the Company and State Street Bank and Trust Company of California, N.A., as Trustee (incorporated by reference to Exhibit 10.3 of the Company's Form 8-K filed December 23, 1997).
- 10.11 Employment agreement dated January 12, 1999 between the Company and Robert A. Kotick (incorporated by reference to Exhibit 10.10 of the Company's Form 10-K for the year ending March 31, 1999).
- 10.12 Employment agreement dated October 19, 1998 between the Company and Ronald Doornink (incorporated by reference to Exhibit 10.12 of the Company's Form 10-K for the year ending March 31, 1999).
- 10.13 Employment agreement dated March 4, 1999 between the Company and Lawrence Goldberg (incorporated by reference to Exhibit 10.13 of the Company's Form 10-K for the year ending March 31, 1999).

- 10.14 Employment agreement dated April 1, 1998 between the Company and Mitchell Lasky (incorporated by reference to Exhibit 10.15 of the Company's Form 10-K for the year ending March 31, 1999).
- 10.15 Employment agreement dated April 1, 1998 between the Company and Ronald Scott (incorporated by reference to Exhibit 10.16 of the Company's Form 10-K for the year ending March 31, 1999).
- 10.16 Service Agreement dated November 24, 1997 between Combined Distribution (Holdings) Limited and Richard Andrew Steele (incorporated by reference to Exhibit 10.17 of the Company's Form 10-K for the year ending March 31, 1999).
- 10.17 Employment agreement dated January 12, 1999 between the Company and Brian G. Kelly (incorporated by reference to Exhibit 10.11 of the Company's Form 10-K for the year ending March 31, 1999).
- 10.18 Articles of Merger dated June 30, 1998 between S.B.F. Acquisition Corp., a wholly owned subsidiary of the Company, and S.B.F.

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Services, Limited dba Head Games Publishing (incorporated by reference to Exhibit 2.1 of the Company's Form 8-K, filed on July 2, 1998).

- 10.19 Share Exchange Agreement dated September 29, 1998 by and between the Company and Mr. Frank d'Oleire, Mrs. Christa d'Oleire, Ms. Fiona d'Oleire, Ms. Alexa d'Oleire acting as Dr. d'Oleire Beteiligungsgesellschaft bR, Mr. Martinus J.C. Bubbert, and Mr. Dennis W. Buis (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed on October 8, 1998).
- 10.20 Amended and Restated Agreement and Plan of Merger dated April 19, 1999 by and among the Company, Expert Acquisition Corp. and Expert Software, Inc. (incorporated by reference to Exhibit 2.1 of the Form 8-K of Expert Software, Inc., filed April 29, 1999).
- 10.21 Credit Agreement dated as of June 21, 1999 among the Company, Head Games Publishing, Inc., Expert Software, Inc., various financial institutions, PNC Bank, National Association, as issuing bank, administrative agent and collateral agent for such financial institutions, and Credit Suisse First Boston, as syndication agent (incorporated by reference to Exhibit 10.22 of the Company's Form 10-K for the year ending March 31, 1999).
- 10.22 Share Exchange Agreement dated as of June 29, 1999, among the Company, Jill G. Mark and Robert N. Herrick (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-3, Registration No. 333-85385, filed August 17, 1999).
- 10.23 Agreement and Plan of Reorganization dated as of September 30, 1999, among the Company, Neversoft Entertainment, Inc., JCM Productions, Inc., Joel Jewett, Michael West and Christopher Ward (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-3, Registration No. 333-94509, filed January 12, 2000).
- 10.24 Employment agreement dated July 12, 1999, between the Company and Mr. Michael Rowe (incorporated by reference to Exhibit 6.1 of the Company's Form 10-Q for the quarter ending June 30, 1999).
- 10.25 Employment agreement dated July 12, 1999, between the Company and Ms. Kathy Vrabeck (incorporated by reference to Exhibit 6.2 of the Company's Form 10-Q for the quarter ending June 30, 1999).
- 10.26 Amendment to Employment Agreement between Mr. Ronald Doornink and the Company, dated April 30 1999 (incorporated by reference to Exhibit 6.1 of the Company's Form 10-Q for the quarter ending December 31, 1999).

- 10.27 Employment agreement dated April 7, 2000, between the Company and Mr. Michael Pole.
- 10.28 First Amendment effective as of June 8, 2000 to the Credit Agreement dated June 21, 1999 among the Company, Head Games Publishing, Inc., Expert Software, Inc., various financial institutions, PNC Bank, National Association as issuing bank, administrative agent and collateral agent for such lenders and Credit Suisse First Boston, as syndication agent.

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- 21.1 Principal subsidiaries of the Company.
- 23.1 Independent Auditors' Consent.
- 27.1 Fiscal 1998 Year to Date Financial Data Schedule.
- 27.2 Fiscal 1999 Year to Date Financial Data Schedule.
- 27.3 Fiscal 2000 Year to Date Financial Data Schedule.
- (b) Reports on Form 8-K. There have been no reports on Form 8-K that have been filed by the Company during the last quarter of the fiscal year ending March 31, 2000. The following reports on Form 8-K have been filed by the Company during the first quarter of the fiscal year ending March 31, 2001:
- 1.1 The Company filed a Form 8-K on April 19, 2000, reporting under "Item 5. Other Events" the announcement of the Company's stockholders' rights plan.
- 1.2 The Company filed a Form 8-K on June 16, 2000 reporting under "Item 5. Other Events" the announcement of the organizational restructuring of the Company into a holding company format organizational structure.

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ACTIVISION, INC.
1999 INCENTIVE PLAN

ACTIVISION, INC., a corporation formed under the laws of the State of Delaware (the "Company"), hereby establishes and adopts the following 1999 Incentive Plan (the "Plan").

RECITALS

WHEREAS, the Company desires to encourage high levels of performance by those individuals who are key to the success of the Company, to attract new individuals who are highly motivated and who will contribute to the success of the Company and to encourage such individuals to remain as directors and/or employees of the Company and its subsidiaries by increasing their proprietary interest in the Company's growth and success.

WHEREAS, to attain these ends, the Company has formulated the Plan embodied herein to authorize the granting of incentive awards through grants of share options ("Options"), grants of share appreciation rights, grants of Share Purchase Awards (hereafter defined) and grants of Restricted Share Awards (hereafter defined) to those individuals whose judgment, initiative and efforts are or have been responsible for the success of the Company.

NOW, THEREFORE, the Company hereby constitutes, establishes and adopts the following Plan and agrees to the following provisions:

ARTICLE 1.

PURPOSE OF THE PLAN

1.1 PURPOSE. The purpose of the Plan is to assist the Company and its subsidiaries in attracting and retaining selected individuals to serve as directors, officers, consultants, advisors and other key employees of the Company and its subsidiaries who will contribute to the Company's success and to achieve long-term objectives which will inure to the benefit of all shareholders of the Company through the additional incentive inherent in the ownership or increased ownership of the Company's shares of common stock ("Shares"). Options granted under the Plan will be either "incentive share options," intended to qualify as such under the provisions of Section 422 of the Internal Revenue Code of 1986, as amended from time to time (the "Code"), or "nonqualified share options." For purposes of the Plan, the term "subsidiary" shall mean "subsidiary corporation," as such term is defined in Section 424(f) of the Code, and "affiliate" shall have the meaning set forth in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For purposes of the Plan, the term "Award" shall mean a grant of an Option, a grant of a share appreciation right, a grant of a Share Purchase Award, a grant of a Restricted Share Award, or any other award made under the terms of the Plan.

ARTICLE 2.

SHARES SUBJECT TO AWARDS

2.1. NUMBER OF SHARES. Subject to the adjustment provisions of Section 9.10 hereof, the aggregate number of Shares which may be issued under Awards under the Plan, whether pursuant to Options, share appreciation rights, Share Purchase Awards or Restricted Share Awards shall not exceed 5,000,000. No Options to purchase fractional Shares shall be granted or issued under the Plan. For

purposes of this Section 2.1, the Shares that shall be counted toward such limitation shall include all Shares:

- (1) issued or issuable pursuant to Options that have been or may be exercised;

- (2) issued or issuable pursuant to Share Purchase Awards;
and
- (3) issued as, or subject to issuance as a Restricted Share Award.

2.2. SHARES SUBJECT TO TERMINATED AWARDS. The Shares covered by any unexercised portions of terminated Options granted under Articles 4 and 6, Shares forfeited as provided in Section 8.2(a) and Shares subject to any Awards which are otherwise surrendered by the Participant without receiving any payment or other benefit with respect thereto may again be subject to new Awards under the Plan. In the event the purchase price of an Option is paid in whole or in part through the delivery of Shares, the number of Shares issuable in connection with the exercise of the Option shall not again be available for the grant of Awards under the Plan. Shares subject to Options, or portions thereof, which have been surrendered in connection with the exercise of share appreciation rights shall not again be available for the grant of Awards under the Plan.

2.3 CHARACTER OF SHARES. Shares delivered under the Plan may be authorized and unissued Shares or Shares acquired by the Company, or both.

2.4 LIMITATIONS ON GRANTS TO INDIVIDUAL PARTICIPANT. Subject to adjustments pursuant to the provisions of Section 10.10 hereof, the maximum number of Shares with respect to which Options or stock appreciation rights may be granted hereunder to any employee during any fiscal year shall be 500,000 Shares (the "Limitation"). If an Option is cancelled, the cancelled Option shall continue to be counted toward the Limitation for the year granted. An Option (or a stock appreciation right) that is repriced during any fiscal year is treated as the cancellation of the Option (or stock appreciation right) and a grant of a new Option (or stock appreciation right) for purposes of the Limitation for that fiscal year.

ARTICLE 3.

ELIGIBILITY AND ADMINISTRATION

3.1. AWARDS TO EMPLOYEES AND DIRECTORS. (a) Participants who receive (i) Options under Articles 4 and 6 hereof or share appreciation rights under Article 5 ("Optionees"), and (ii) Share Purchase Awards under Article 7 or Restricted Share Awards under Article 8 (in either case, a "Participant"), shall consist of such officers, key employees, consultants, representatives and other contractors and agents and Directors (hereinafter defined) of the Company or any of its subsidiaries or affiliates as the Committee shall select from time to time, PROVIDED, HOWEVER, that an Option that is intended to qualify as an "incentive share option" may be granted only to an individual that is an employee of the Company or any of its subsidiaries. The Committee's designation of an Optionee or Participant in any year shall not require the Committee to designate such person to receive Awards or grants in any other year. The designation of an Optionee or Participant to receive Awards or grants under one portion of the Plan shall not require the Committee to include such Optionee or Participant under other portions of the Plan.

(b) No Option which is intended to qualify as an "incentive share option" may be granted to any employee or Director who, at the time of such grant, owns, directly or indirectly (within the meaning of Sections 422(b)(6) and 424(d) of the Code), shares possessing more than 10% of the total

combined voting power of all classes of shares of the Company or any of its subsidiaries or affiliates, unless at the time of such grant, (i) the option price is fixed at not less than 110% of the Fair Market Value (as defined below) of the Shares subject to such Option, determined on the date of the grant, and (ii) the exercise of such Option is prohibited by its terms after the expiration of five years from the date such Option is granted.

3.2. ADMINISTRATION. (a) The Plan shall be administered by a committee (the "Committee") consisting of not fewer than two Directors of the Company (the directors of the Company being hereinafter referred to as the "Directors"), as designated by the Directors. The Directors may remove from, add members to, or fill vacancies in the Committee. Unless otherwise determined by the Directors, each member of the Committee will be a "non-employee director"

within the meaning of Rule 16b-3 (or any successor rule) of the Exchange Act and an "outside director" within the meaning of Section 162(m)(4)(C)(i) of the Code and the regulations thereunder.

Notwithstanding any other provision of this Plan, any Award to a member of the Committee must be approved by the Board of Directors of the Company (excluding Directors who are also members of the Committee) to be effective.

(b) The Committee is authorized, subject to the provisions of the Plan, to establish such rules and regulations as it may deem appropriate for the conduct of meetings and proper administration of the Plan. All actions of the Committee shall be taken by majority vote of its members.

(c) Subject to the provisions of the Plan, the Committee shall have authority, in its sole discretion, to grant Awards under the Plan, to interpret the provisions of the Plan and, subject to the requirements of applicable law, including Rule 16b-3 of the Exchange Act, to prescribe, amend, and rescind rules and regulations relating to the Plan or any Award thereunder as it may deem necessary or advisable. All decisions made by the Committee pursuant to the provisions of the Plan shall be final, conclusive and binding on all persons, including the Company, its shareholders, Directors and employees, and other Plan participants.

ARTICLE 4.

OPTIONS

4.1. GRANT OF OPTIONS. DIRECTORS, OFFICERS AND OTHER KEY EMPLOYEES. The Committee shall determine, within the limitations of the Plan, those Directors, officers and other key employees of the Company and its subsidiaries and affiliates to whom Options are to be granted under the Plan, the number of Shares that may be purchased under each such Option and the option price, and shall designate such Options at the time of the grant as either "incentive share options" or "nonqualified share options"; PROVIDED, HOWEVER, that Options granted to employees of an affiliate (that is not also a subsidiary) or to non-employees of the Company may only be "nonqualified share options."

4.2. SHARE OPTION AGREEMENTS; ETC. All Options granted pursuant to Article 4 and Article 6 herein (a) shall be authorized by the Committee and (b) shall be evidenced in writing by share option agreements ("Share Option Agreements") in such form and containing such terms and conditions as the Committee shall determine which are not inconsistent with the provisions of the Plan, and, with respect to any Share Option Agreement granting Options which are intended to qualify as "incentive share options," are not inconsistent with Section 422 of the Code. Granting of an Option pursuant to the Plan shall impose no obligation on the recipient to exercise such option. Any individual who is granted an Option

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pursuant to this Article 4 and Article 6 herein may hold more than one Option granted pursuant to such Articles at the same time and may hold both "incentive share options" and "nonqualified share options" at the same time. To the extent that any Option does not qualify as an "incentive share option" (whether because of its provisions, the time or manner of its exercise or otherwise) such Option or the portion thereof which does not so qualify shall constitute a separate "nonqualified share option."

4.3. OPTION PRICE. Subject to Section 3.1(b), the option price per each Share purchasable under any "incentive share option" granted pursuant to this Article 4 and any "nonqualified share option" granted pursuant to Article 6 herein shall be determined by the Committee, but in the case of an "incentive share option" shall not be less than 100% of the Fair Market Value (as hereinafter defined) of such Share on the date of the grant of such Option. The option price per share of each Share purchasable under any "nonqualified share option" granted pursuant to this Article 4 shall be determined by the Committee at the time of the grant of such Option, but shall not be less than 85% of the Fair Market Value of such Share on the date of the grant of such Option.

4.4. OTHER PROVISIONS. Options granted pursuant to this Article 4 shall be made in accordance with the terms and provisions of Article 10 hereof

and any other applicable terms and provisions of the Plan.

ARTICLE 5.

SHARE APPRECIATION RIGHTS

5.1. GRANT AND EXERCISE. Share appreciation rights may be granted in conjunction with all or part of any Option granted under the Plan, as follows: (i) in the case of a nonqualified share option, such rights may be granted either at the time of the grant of such option or at any subsequent time during the term of the option; and (ii) in the case of an incentive share option, such rights may be granted only at the time of the grant of such option. A "share appreciation right" is a right to receive cash or Shares, as provided in this Article 5, in lieu of the purchase of a Share under a related Option. A share appreciation right or applicable portion thereof shall terminate and no longer be exercisable upon the termination or exercise of the related Option, and a share appreciation right granted with respect to less than the full number of Shares covered by a related Option shall not be reduced until, and then only to the extent that, the exercise or termination of the related Option exceeds the number of Shares not covered by the share appreciation right. A share appreciation right may be exercised by the holder thereof (the "Holder"), in accordance with Section 5.2 of this Article 5, by giving written notice thereof to the Company and surrendering the applicable portion of the related Option. Upon giving such notice and surrender, the Holder shall be entitled to receive an amount determined in the manner prescribed in Section 5.2 of this Article 5. Options which have been so surrendered, in whole or in part, shall no longer be exercisable to the extent the related share appreciation rights have been exercised.

5.2. TERMS AND CONDITIONS. Share appreciation rights shall be subject to such terms and conditions, not inconsistent with the provisions of the Plan, as shall be determined from time to time by the Committee, including the following:

(a) Share appreciation rights shall be exercisable only at such time or times and to the extent that the Options to which they relate shall be exercisable in accordance with the provisions of the Plan.

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(b) Upon the exercise of a share appreciation right, a Holder shall be entitled to receive up to, but no more than, an amount in cash or whole Shares as determined by the Committee in its sole discretion equal to the excess of the then Fair Market Value of one Share over the option price per Share specified in the related Option multiplied by the number of Shares in respect of which the share appreciation right shall have been exercised. The Holder shall specify in his written notice of exercise, whether payment shall be made in cash or in whole Shares. Each share appreciation right may be exercised only at the time and so long as a related Option, if any, would be exercisable or as otherwise permitted by applicable law.

(c) Upon the exercise of a share appreciation right, the Option or part thereof to which such share appreciation right is related shall be deemed to have been exercised for the purpose of the limitation of the number of Shares to be issued under the Plan, as set forth in Section 2.1 of the Plan.

(d) With respect to share appreciation rights granted in connection with an Option that is intended to be an "incentive share option," the following shall apply:

(i) No share appreciation right shall be transferable by a Holder otherwise than by will or by the laws of descent and distribution, and share appreciation rights shall be exercisable, during the Holder's lifetime, only by the Holder.

(ii) Share appreciation rights granted in connection with an Option may be exercised only when the Fair Market Value of the Shares subject to the Option exceeds the option price at which Shares can be acquired pursuant to the Option.

ARTICLE 6.

RELOAD OPTIONS

6.1. AUTHORIZATION OF RELOAD OPTIONS. Concurrently with the award of any Option (such Option hereinafter referred to as the "Underlying Option") to any participant in the Plan, the Committee may grant one or more reload options (each, a "Reload Option") to such participant to purchase for cash or Shares a number of Shares as specified below. A Reload Option shall be exercisable for an amount of Shares equal to (i) the number of Shares delivered by the Optionee to the Company to exercise the Underlying Option, and (ii) to the extent authorized by the Committee, the number of Shares used to satisfy any tax withholding requirement incident to the exercise of the Underlying Option, subject to the availability of Shares under the Plan at the time of such exercise. Any Reload Option may provide for the grant, when exercised, of subsequent Reload Options to the extent and upon such terms and conditions consistent with this Article 6, as the Committee in its sole discretion shall specify at or after the time of grant of such Reload Option. The grant of a Reload Option will become effective upon the exercise of an Underlying Option or Reload Option by the Optionee delivering to the Company Shares owned by the Optionee in payment of the exercise price and/or tax withholding obligations. Notwithstanding the fact that the Underlying Option may be an "incentive share option," a Reload Option is not intended to qualify as an "incentive share option" under Section 422 of the Code.

6.2. RELOAD OPTION AMENDMENT. Each Share Option Agreement shall state whether the Committee has authorized Reload Options with respect to the Underlying Option. Upon the exercise of an Underlying Option or other Reload Option, the Reload Option will be evidenced by an amendment to the underlying Share Option Agreement.

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6.3. RELOAD OPTION PRICE. The option price per Share payable upon the exercise of a Reload Option shall be the Fair Market Value of a Share on the date the grant of the Reload Option becomes effective.

6.4. TERM AND EXERCISE. Each Reload Option is fully exercisable immediately from the effective date of grant. The term of each Reload Option shall be equal to the remaining option term of the Underlying Option.

6.5. TERMINATION OF EMPLOYMENT. No additional Reload Options shall be granted to Optionees when Options and/or Reload Options are exercised pursuant to the terms of this Plan following termination of the Optionee's employment unless the Committee, in its sole discretion, shall determine otherwise.

6.6. APPLICABILITY OF OTHER SECTIONS. Except as otherwise provided in this Article 6, the provisions of Article 9 applicable to Options shall apply equally to Reload Options.

ARTICLE 7.

SHARE PURCHASE AWARDS

7.1. GRANT OF SHARE PURCHASE AWARD. The term "Share Purchase Award" means the right to purchase Shares of the Company and to pay for such Shares through a loan made by the Company to an employee (a "Purchase Loan") as set forth in this Article 7.

7.2. TERMS OF PURCHASE LOANS. (a) PURCHASE LOAN. Each Purchase Loan shall be evidenced by a promissory note. The term of the Purchase Loan shall be a period of years, as determined by the Committee, and the proceeds of the Purchase Loan shall be used exclusively by the Participant for purchase of Shares from the Company at a purchase price equal to the Fair Market Value on the date of the Share Purchase Award.

(b) INTEREST ON PURCHASE LOAN. A Purchase Loan shall be non-interest bearing or shall bear interest at whatever rate the Committee shall determine (but not in excess of the maximum rate permissible under applicable law), payable in a manner and at such times as the Committee shall determine. Those terms and provisions as the Committee shall determine shall be incorporated into the promissory note evidencing the Purchase Loan.

(c) FORGIVENESS OF PURCHASE LOAN. Subject to Section 7.4

hereof, the Company may forgive the repayment of up to 100% of the principal amount of the Purchase Loan, subject to such terms and conditions as the Committee shall determine and set forth in the promissory note evidencing the Purchase Loan. A Participant's Purchase Loan can be prepaid at any time, and from time to time, without penalty.

7.3. SECURITY FOR LOANS. (a) STOCK POWER AND PLEDGE. Purchase Loans granted to Participants shall be secured by a pledge of the Shares acquired pursuant to the Share Purchase Award. Such pledge shall be evidenced by a pledge agreement (the "Pledge Agreement") containing such terms and conditions as the Committee shall determine. Purchase Loans shall be recourse or non-recourse with respect to a Participant, as determined from time to time by the Committee. The share certificates for the Shares purchased by a Participant pursuant to a Share Purchase Award shall be issued in the Participant's name, but shall be held by the Company as security for repayment of the Participant's Purchase Loan together

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with a stock power executed in blank by the Participant (the execution and delivery of which by the Participant shall be a condition to the issuance of the Share Purchase Award). The Participant shall be entitled to exercise all rights applicable to such Shares, including, but not limited to, the right to vote such Shares and the right to receive dividends and other distributions made with respect to such Shares. When the Purchase Loan and any accrued but unpaid interest thereon has been repaid or otherwise satisfied in full, the Company shall deliver to the Participant the share certificates for the Shares purchased by a Participant under the Share Purchase Award.

(b) RELEASE AND DELIVERY OF SHARE CERTIFICATES DURING THE TERM OF THE PURCHASE LOAN. The Company shall release and deliver to each Participant certificates for Shares purchased by a Participant pursuant to a Share Purchase Award, in such amounts and on such terms and conditions as the Committee shall determine, which shall be set forth in the Pledge Agreement.

(c) RELEASE AND DELIVERY OF SHARE CERTIFICATES UPON REPAYMENT OF THE PURCHASE LOAN. The Company shall release and deliver to each Participant certificates for the Shares purchased by the Participant under the Share Purchase Award and then held by the Company, provided the Participant has paid or otherwise satisfied in full the balance of the Purchase Loan and any accrued but unpaid interest thereon. In the event the balance of the Purchase Loan is not repaid, forgiven or otherwise satisfied within 90 days after (i) the date repayment of the Purchase Loan is due (whether in accordance with its term, by reason of acceleration or otherwise), or (ii) such longer time as the Committee, in its discretion, shall provide for repayment or satisfaction, the Company shall retain those Shares then held by the Company in accordance with the Pledge Agreement.

(d) RECOURSE PURCHASE LOANS. Notwithstanding Sections 7.3(a), (b) and (c) above, in the case of a recourse Purchase Loan, the Committee may make such Purchase Loan on such terms as it determines, including without limitation, not requiring a pledge of the acquired Shares.

7.4. TERMINATION OF EMPLOYMENT. (a) TERMINATION OF EMPLOYMENT BY DEATH, DISABILITY OR BY THE COMPANY WITHOUT CAUSE; CHANGE OF CONTROL. In the event of a Participant's termination of employment by reason of death, "disability" or by the Company without "cause," or in the event of a "change of control," the Committee shall have the right (but shall not be required) to forgive the remaining unpaid amount (principal and interest) of the Purchase Loan in whole or in part as of the date of such occurrence. "Change of Control," "disability" and "cause" shall have the respective meanings as set forth in the promissory note evidencing the Purchase Loan.

(b) OTHER TERMINATION OF EMPLOYMENT. Subject to Section 7.4(a) above, in the event of a Participant's termination of employment for any reason, the Participant shall repay to the Company the entire balance of the Purchase Loan and any accrued but unpaid interest thereon, which amounts shall become immediately due and payable, unless otherwise determined by the Committee.

7.5. RESTRICTIONS ON TRANSFER. No Share Purchase Award or Shares purchased through such an Award and pledged to the Company as collateral

security for the Participant's Purchase Loan (and accrued and unpaid interest thereon) may be otherwise pledged, sold, assigned or transferred (other than by will or by the laws of descent and distribution).

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ARTICLE 8.

RESTRICTED AWARDS

8.1. RESTRICTED SHARE AWARDS. (a) GRANT. A grant of Shares made pursuant to this Article 8 is referred to as a "Restricted Share Award." The Committee may grant to any employee an amount of Shares in such manner, and subject to such terms and conditions relating to vesting, forfeitability and restrictions on delivery and transfer (whether based on performance standards, periods of service or otherwise) as the Committee shall establish (such Shares, "Restricted Shares"). The terms of any Restricted Share Award granted under this Plan shall be set forth in a written agreement (a "Restricted Share Agreement") which shall contain provisions determined by the Committee and not inconsistent with this Plan. The provisions of Restricted Share Awards need not be the same for each Participant receiving such Awards.

(b) ISSUANCE OF RESTRICTED SHARES. As soon as practicable after the date of grant of a Restricted Share Award by the Committee, the Company shall cause to be transferred on the books of the Company, Shares registered in the name of the Company, as nominee for the Participant, evidencing the Restricted Shares covered by the Award; provided, however, such Shares shall be subject to forfeiture to the Company retroactive to the date of grant, if a Restricted Share Agreement delivered to the Participant by the Company with respect to the Restricted Shares covered by the Award is not duly executed by the Participant and timely returned to the Company. All Restricted Shares covered by Awards under this Article 8 shall be subject to the restrictions, terms and conditions contained in the Plan and the Restricted Share Agreement entered into by and between the Company and the Participant. Until the lapse or release of all restrictions applicable to an Award of Restricted Shares, the share certificates representing such Restricted Shares shall be held in custody by the Company or its designee.

(c) SHAREHOLDER RIGHTS. Beginning on the date of grant of the Restricted Share Award and subject to execution of the Restricted Share Agreement as provided in Sections 8.1(a) and (b), the Participant shall become a shareholder of the Company with respect to all Shares subject to the Restricted Share Agreement and shall have all of the rights of a shareholder, including, but not limited to, the right to vote such Shares and the right to receive distributions made with respect to such Shares; PROVIDED, HOWEVER, that any Shares distributed as a dividend or otherwise with respect to any Restricted Shares as to which the restrictions have not yet lapsed shall be subject to the same restrictions as such Restricted Shares and shall be represented by book entry and held as prescribed in Section 8.1(b).

(d) RESTRICTION ON TRANSFERABILITY. None of the Restricted Shares may be assigned or transferred (other than by will or the laws of descent and distribution), pledged or sold prior to lapse or release of the restrictions applicable thereto.

(e) DELIVERY OF SHARES UPON RELEASE OF RESTRICTIONS. Upon expiration or earlier termination of the forfeiture period without a forfeiture and the satisfaction of or release from any other conditions prescribed by the Committee, the restrictions applicable to the Restricted Shares shall lapse. As promptly as administratively feasible thereafter, subject to the requirements of Section 12.1, the Company shall deliver to the Participant or, in case of the Participant's death, to the Participant's beneficiary, one or more stock certificates for the appropriate number of Shares, free of all such restrictions, except for any restrictions that may be imposed by law.

8.2. TERMS OF RESTRICTED SHARES. (a) FORFEITURE OF RESTRICTED SHARES. Subject to Section 8.2(b), all Restricted Shares shall be forfeited and returned to the Company and all rights of the

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Participant with respect to such Restricted Shares shall terminate unless the Participant continues in the service of the Company as an employee until the expiration of the forfeiture period for such Restricted Shares and satisfies any and all other conditions set forth in the Restricted Share Agreement. The Committee in its sole discretion, shall determine the forfeiture period (which may, but need not, lapse in installments) and any other terms and conditions applicable with respect to any Restricted Share Award.

(b) WAIVER OF FORFEITURE PERIOD. Notwithstanding anything contained in this Article 8 to the contrary, the Committee may, in its sole discretion, waive the forfeiture period and any other conditions set forth in any Restricted Share Agreement under appropriate circumstances (including the death, disability or retirement of the Participant or a material change in circumstances arising after the date of an Award) and subject to such terms and conditions (including forfeiture of a proportionate number of the Restricted Shares) as the Committee shall deem appropriate.

ARTICLE 9.

DEFERRED SHARE AWARDS

9.1. SHARES AND ADMINISTRATION. Awards of the right to receive Shares that are not to be distributed to the Participant until after a specified deferral period (such Award and the deferred Shares delivered thereunder hereinafter as the context shall require, the "Deferred Shares") may be made either alone or in addition to share options, share appreciation rights, or Restricted Share Awards, or Other Share-based Awards (hereafter defined) granted under the Plan. The Committee shall determine the Directors, officers and other key employees of the Company and its subsidiaries to whom and the time or times at which Deferred Shares shall be awarded, the number of Deferred Shares to be awarded to any Participant, the duration of the period (the "Deferral Period") during which, and the conditions under which, receipt of the Shares will be deferred, and the terms and conditions of the award in addition to those contained in Section 9.2. In its sole discretion, the Committee may provide for a minimum payment at the end of the applicable Deferral Period based on a stated percentage of the Fair Market Value on the date of grant of the number of Shares covered by a Deferred Share award. The Committee may also provide for the grant of Deferred Shares upon the completion of a specified performance period. The provisions of Deferred Share awards need not be the same with respect to each recipient.

9.2. TERMS AND CONDITIONS. Deferred Share awards made pursuant to this Article 9 shall be subject to the following terms and conditions:

(a) Subject to the provisions of the Plan, the Shares to be issued pursuant to a Deferred Share award may not be sold, assigned, transferred, pledged or otherwise encumbered during the Deferral Period or Elective Deferral Period (defined below), where applicable, and may be subject to a risk of forfeiture during all or such portion of the Deferral Period as shall be specified by the Committee. At the expiration of the Deferral Period and Elective Deferral Period, share certificates shall be delivered to the Participant, or the Participant's legal representative, in a number equal to the number of shares covered by the Deferred Share award.

(b) Amounts equal to any dividends declared during the Deferral Period with respect to the number of Shares covered by a Deferred Share award will be paid to the Participant currently, or deferred and deemed to be reinvested in additional deferred Shares or otherwise reinvested, as determined at the time of the award by the Committee, in its sole discretion.

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(c) Subject to the provisions of paragraph 9.2(d) of this Article 9, upon termination of employment for any reason during the Deferral Period for a given award, the Deferred Shares in question shall be forfeited by the Participant.

(d) In the event of the Participant's death or permanent disability during the Deferral Period (or Elective Deferral Period, where applicable), or in cases of special circumstances, the Committee may, in its

sole discretion, when it finds that a waiver would be in the best interests of the Company, waive in whole or in part any or all of the remaining deferral limitations imposed hereunder with respect to any or all of the Participant's Deferred Shares.

(e) Prior to completion of the Deferral Period, a Participant may elect to further defer receipt of the award for a specified period or until a specified event (the "Elective Deferral Period"), subject in each case to the approval of the Committee and under such terms as are determined by the Committee, all in its sole discretion.

(f) Each award shall be confirmed by a Deferred Share agreement or other instrument executed by the Company and the Participant.

ARTICLE 10.

GENERALLY APPLICABLE PROVISIONS

10.1. OPTION PERIOD. Subject to Section 3.1(b), the period for which an Option is exercisable shall not exceed ten years from the date such Option is granted, PROVIDED, HOWEVER, in the case of an Option that is not intended to be an "incentive share option," the Committee may prescribe a period in excess of ten years. After the Option is granted, the option period may not be reduced.

10.2. FAIR MARKET VALUE. If the Shares are listed or admitted to trading on a securities exchange registered under the Exchange Act or listed as a national market security on the National Association of Securities Dealers, Inc. Automated Quotations System ("NASDAQ"), the "Fair Market Value" of a Share as of a specified date shall mean the closing price of a share on the day immediately preceding the date as of which Fair Market Value is being determined (or if there was no reported sale on such date, on the last preceding date on which any reported sale occurred) on the principal securities exchange or NASDAQ on which the Shares are listed or admitted to trading. If the Shares are not listed or admitted to trading on any such exchange but are traded in the over-the-counter market or listed or traded on any similar system then in use, the Fair Market Value of a Share shall be the average of the high bid and low asked prices of the Shares for the day immediately preceding the date as of which the Fair Market Value is being determined (or if there was no reported sale on such date, on the last preceding date on which any reported sale occurred) reported on such system. If the Shares are not publicly traded, Fair Market Value shall be determined by the Committee in its sole discretion using appropriate criteria. In no case shall Fair Market Value be less than the par value of a Share. An Option shall be considered granted on the date the Committee acts to grant the Option or such later date as the Committee shall specify.

10.3. EXERCISE OF OPTIONS. Options granted under the Plan shall be exercised by the Optionee or by a Permitted Assignee thereof (or by his executors, administrators, guardian or legal representative, as provided in Sections 10.6 and 10.7 hereof) as to all or part of the Shares covered thereby, by the giving of written notice of exercise to the Company, specifying the number of Shares to be purchased, accompanied by payment of the full purchase price for the Shares being purchased. Full payment of such

purchase price shall be made within five business days following the date of exercise and shall be made (i) in cash or by certified check or bank check, (ii) with the consent of the Committee, by delivery of a promissory note in favor of the Company upon such terms and conditions as determined by the Committee, (iii) with the consent of Committee, by tendering previously acquired Shares (valued at its Fair Market Value, as determined by the Committee as of the date of tender), or (iv) with the consent of the Committee, any combination of (i), (ii) and (iii). In connection with a tender of previously acquired Shares pursuant to clause (iii) above, the Committee, in its sole discretion, may permit the Optionee to constructively exchange Shares already owned by the Optionee in lieu of actually tendering such Shares to the Company, provided that adequate documentation concerning the ownership of the Shares to be constructively tendered is furnished in form satisfactory to the Committee. The notice of exercise, accompanied by such payment, shall be delivered to the Company at its principal business office or such other office as the Committee may from time to time direct, and shall be in such form, containing such further provisions

consistent with the provisions of the Plan, as the Committee may from time to time prescribe. In no event may any Option granted hereunder be exercised for a fraction of a Share. The Company shall effect the transfer of Shares purchased pursuant to an Option as soon as practicable, and, within a reasonable time thereafter, such transfer shall be evidenced on the books of the Company. No person exercising an Option shall have any of the rights of a holder of Shares subject to an Option until certificates for such Shares shall have been issued following the exercise of such Option. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date of such issuance.

10.4. TRANSFERABILITY. No Option that is intended to qualify as an "incentive share option" under Section 422 of the Code shall be assignable or transferable by the Optionee, other than by will or the laws of descent and distribution, and such Option may be exercised during the life of the Optionee only by the Optionee or his guardian or legal representative. "Nonqualified share options" and any share appreciation rights granted in tandem therewith are transferrable (together and not separately) with the consent of the Compensation Committee of the Board of Directors by the Optionee or Holder, as the case may be, to any one or more of the following persons (each, a "Permitted Assignee"): (i) the spouse, parent, issue, spouse of issue, or issue of spouse ("issue" shall include all descendants whether natural or adopted) of such Optionee or Holder, as the case may be; (ii) a trust for the benefit of one or more of those persons described in clause (i) above or for the benefit of such Optionee or Holder, as the case may be, or for the benefit of any such persons and such Optionee or Holder, as the case may be; or (iii) an entity in which the Optionee or Holder or any Permitted Assignee thereof is a beneficial owner; provided, however, that such Permitted Assignee shall be bound by all of the terms and conditions of this Plan and shall execute an agreement satisfactory to the Company evidencing such obligation; provided further, however that any transfer by an Optionee or Holder who is not then a Director of the Company to any Permitted Assignee shall be subject to the prior consent of the Committee; and provided further, however, that such Optionee or Holder shall remain bound by the terms and conditions of this Plan. The Company shall cooperate with an Optionee's Permitted Assignee and the Company's transfer agent in effectuating any transfer permitted pursuant to this Section 10.4.

10.5. TERMINATION OF EMPLOYMENT. In the event of the termination of employment of an Optionee or the termination or separation from service of an advisor or consultant or a Director (who is an Optionee) for any reason (other than death or disability as provided below), any Option(s) granted to such Optionee under this Plan and not previously exercised or expired shall be deemed cancelled and terminated on the day of such termination or separation, unless the Committee decides, in its sole discretion, to extend the term of the Option for a period not to exceed three months after the date of such termination or separation, PROVIDED, HOWEVER, that in no instance may the term of the Option, as so extended, exceed the maximum term established pursuant to Section 3.1(b)(ii) or 10.1 above.

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Notwithstanding the foregoing, in the event of the termination or separation from service of an Optionee for any reason other than death or disability, under conditions satisfactory to the Company, the Committee may, in its sole discretion, allow any "nonqualified share options" granted to such Optionee under the Plan and not previously exercised or expired to be exercisable for a period of time to be specified by the Committee, PROVIDED, HOWEVER, that in no instance may the term of the Option, as so extended, exceed the maximum term established pursuant to Section 10.1 above.

10.6. DEATH. In the event an Optionee dies while employed by the Company or any of its subsidiaries or affiliates or during his term as a Director of the Company or any of its subsidiaries or affiliates, as the case may be, any Option(s) granted to him (or his Permitted Assignee) and not previously exercised or expired shall, to the extent exercisable on the date of death, be exercisable by the estate of such Optionee or by any person who acquired such Option by bequest or inheritance, or by the Permitted Assignee at any time within one year after the death of the Optionee, unless earlier terminated pursuant to its terms, PROVIDED, HOWEVER, that if the term of such Option would expire by its terms within six months after the Optionee's death, the term of such Option shall be extended until six months after the Optionee's death, PROVIDED FURTHER, HOWEVER, that in no instance may the term of the

Option, as so extended, exceed the maximum term established pursuant to Section 3.1(b)(ii) or 10.1 above.

10.7. DISABILITY. In the event of the termination of employment of an Optionee or the separation from service of a Director (who is an Optionee) due to total disability, the Optionee, or his guardian or legal representative, or a Permitted Assignee shall have the unqualified right to exercise any Option(s) which have not been previously exercised or expired and which the Optionee was eligible to exercise as of the first date of total disability (as determined by the Committee), at any time within one year after such termination or separation, unless earlier terminated pursuant to its terms, PROVIDED, HOWEVER, that if the term of such Option would expire by its terms within six months after such termination or separation, the term of such Option shall be extended until six months after such termination or separation, PROVIDED FURTHER, HOWEVER, that in no instance may the term of the Option, as so extended, exceed the maximum term established pursuant to Section 3.1(b)(ii) or 10.1 above. The term "total disability" shall, for purposes of this Plan, be defined in the same manner as such term is defined in Section 22(e)(3) of the Code.

10.8. AMENDMENT AND MODIFICATION OF THE PLAN. The Compensation Committee of the Board of Directors of the Company may, from time to time, alter, amend, suspend or terminate the Plan as it shall deem advisable, subject to any requirement for shareholder approval imposed by applicable law or any rule of any stock exchange or quotation system on which Shares are listed or quoted; provided that such Compensation Committee may not amend the Plan, without the approval of the Company's shareholders, to increase the number of Shares that may be the subject of Options under the Plan (except for adjustments pursuant to Section 10.9 hereof). In addition, no amendments to, or termination of, the Plan shall in any way impair the rights of an Optionee or a Participant (or a Permitted Assignee thereof) under any Award previously granted without such Optionee's or Participant's consent.

10.9. ADJUSTMENTS. In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities, the issuance of warrants or other rights to purchase Shares or other securities, or other similar corporate transaction or event affects the Shares with respect to which Options have been or may be issued under the Plan, such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as the

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Committee may deem equitable, adjust any or all of (i) the number and type of Shares that thereafter may be made the subject of Options, (ii) the number and type of Shares subject to outstanding Options and share appreciation rights, and (iii) the grant or exercise price with respect to any Option, or, if deemed appropriate, make provision for a cash payment to the holder of any outstanding Option; provided, in each case, that with respect to "incentive stock options," no such adjustment shall be authorized to the extent that such adjustment would cause such options to violate Section 422(b) of the Code or any successor provision; and provided further, that the number of Shares subject to any Option denominated in Shares shall always be a whole number. In the event of any reorganization, merger, consolidation, split-up, spin-off, or other business combination involving the Company (collectively, a "Reorganization"), the Compensation Committee of the Board of Directors or the Board of Directors may cause any Award outstanding as of the effective date of the Reorganization to be cancelled in consideration of a cash payment or alternate Award made to the holder of such cancelled Award equal in value to the fair market value of such cancelled Award. The determination of fair market value shall be made by the Compensation Committee of the Board of Directors or the Board of Directors, as the case may be, in their sole discretion.

10.10. CHANGE IN CONTROL. The terms of any Award may provide in the Share Option Agreement, Restricted Share Agreement, Purchase Loan or other document evidencing the Award, that upon a "Change in Control" of the Company (as that term may be defined therein), (i) Options (and share appreciation rights) accelerate and become fully exercisable, (ii) restrictions on Restricted Shares lapse and the shares become fully vested, (iii) Purchase Loans are

forgiven in whole or in part, and (iv) such other additional benefits as the Committee deems appropriate shall apply. For purposes of this Plan, a "Change in Control" shall mean an event described in the applicable document evidencing the Award or such other event as determined in the sole discretion of the Board of Directors of the Company. The Committee, in its discretion, may determine that, upon the occurrence of a Change in Control of the Company, each Option and share appreciation right outstanding hereunder shall terminate within a specified number of days after notice to the Participant or Holder, and such Participant or Holder shall receive, with respect to each Share subject to such Option or share appreciation right, an amount equal to the excess of the Fair Market Value of such Shares immediately prior to the occurrence of such Change in Control over the exercise price per share of such Option or share appreciation right; such amount to be payable in cash, in one or more kinds of property (including the property, if any, payable in the transaction) or in a combination thereof, as the Committee, in its discretion, shall determine.

10.11. OTHER PROVISIONS. (a) The Committee may require each Participant purchasing Shares pursuant to an Award under the Plan to represent to and agree with the Company in writing that such Participant is acquiring the Shares without a view to distribution thereof. The certificates for such Shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer.

(b) All certificates for Shares delivered under the Plan pursuant to any Award shall be subject to such share-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other restrictions of the Securities and Exchange Commission, any stock exchange upon which the Shares are then listed, and any applicable Federal or state securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(c) Awards granted under the Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution for, any other Awards granted under the Plan. If Awards are granted in substitution for other Awards, the Committee shall require the surrender of such other Awards in consideration for the grant of the new Awards. Awards granted in

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addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other Awards.

(d) Nothing contained in this Plan shall prevent the Board of Directors from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

(e) A Participant shall have no right as a shareholder until he or she becomes the holder of record.

(f) The Company will provide to its shareholders, at least annually, reports containing financial statements and management's discussion and analysis of financial conditions and results of operations.

ARTICLE 11.

MISCELLANEOUS

11.1. TAX WITHHOLDING. The Company shall notify an Optionee or Participant (or a Permitted Assignee thereof) of any income tax withholding requirements arising as a result of the grant of any Award, exercise of an Option or share appreciation rights or any other event occurring pursuant to this Plan. The Company shall have the right to withhold from such Optionee or Participant (or a Permitted Assignee thereof) such withholding taxes as may be required by law, or to otherwise require the Optionee or Participant (or a Permitted Assignee thereof) to pay such withholding taxes. If the Optionee or Participant (or a Permitted Assignee thereof) shall fail to make such tax payments as are required, the Company or its subsidiaries or affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to such Optionee or Participant or to take

such other action as may be necessary to satisfy such withholding obligations. In satisfaction of the requirement to pay withholding taxes, the Optionee (or Permitted Assignee) make a written election, which may be accepted or rejected in the discretion of the Committee, to have withheld a portion of the Shares then issuable to the Optionee (or Permitted Assignee) pursuant to the Option having an aggregate Fair Market Value equal to the withholding taxes.

11.2. RIGHT OF DISCHARGE RESERVED. Nothing in the Plan nor the grant of an Award hereunder shall confer upon any employee, Director or other individual the right to continue in the employment or service of the Company or any subsidiary or affiliate of the Company or affect any right that the Company or any subsidiary or affiliate of the Company may have to terminate the employment or service of (or to demote or to exclude from future Options under the Plan) any such employee, Director or other individual at any time for any reason. Except as specifically provided by the Committee, the Company shall not be liable for the loss of existing or potential profit from an Award granted in the event of termination of an employment or other relationship even if the termination is in violation of an obligation of the Company or any subsidiary or affiliate of the Company to the employee or Director.

11.3. NATURE OF PAYMENTS. All Awards made pursuant to the Plan are in consideration of services performed or to be performed for the Company or any subsidiary or affiliate of the Company. Any income or gain realized pursuant to Awards under the Plan and any share appreciation rights constitutes a special incentive payment to the Optionee, Participant or Holder and shall not be taken into account, to the extent permissible under applicable law, as compensation for purposes of any of the employee benefit plans of the Company or any subsidiary or affiliate of the Company except as may be

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determined by the Committee or by the Directors or directors of the applicable subsidiary or affiliate of the Company.

11.4. STATUS OF THE PLAN. The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant or Optionee by the Company, nothing contained herein shall give any such Participant or Optionee any rights that are greater than those of a general creditor of the Company. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver the Shares or payments in lieu of or with respect to Awards hereunder; provided, however, that the existence of such trusts or other arrangements is consistent with the unfunded status of the Plan.

11.5. SEVERABILITY. If any provision of the Plan shall be held unlawful or otherwise invalid or unenforceable in whole or in part, such unlawfulness, invalidity or unenforceability shall not affect any other provision of the Plan or part thereof, each of which remain in full force and effect. If the making of any payment or the provision of any other benefit required under the Plan shall be held unlawful or otherwise invalid or unenforceable, such unlawfulness, invalidity or unenforceability shall not prevent any other payment or benefit from being made or provided under the Plan, and if the making of any payment in full or the provision of any other benefit required under the Plan in full would be unlawful or otherwise invalid or unenforceable, then such unlawfulness, invalidity or unenforceability shall not prevent such payment or benefit from being made or provided in part, to the extent that it would not be unlawful, invalid or unenforceable, and the maximum payment or benefit that would not be unlawful, invalid or unenforceable shall be made or provided under the Plan.

11.6. GENDER AND NUMBER. In order to shorten and to improve the understandability of the Plan document by eliminating the repeated usage of such phrases as "his or her" and any masculine terminology herein shall also include the feminine, and the definition of any term herein in the singular shall also include the plural except when otherwise indicated by the context.

11.7. GOVERNING LAW. The Plan and all determinations made and actions taken thereunder, to the extent not otherwise governed by the Code or the laws of the United States, shall be governed by the laws of the State of Delaware and construed accordingly.

11.8. EFFECTIVE DATE OF PLAN; TERMINATION OF PLAN. The Plan shall be effective on the date of the approval of the Plan by the Board of Directors. Notwithstanding the foregoing, no Option intended to qualify as an incentive share option shall be granted hereunder until the Plan shall be approved by the holders of a majority of the shares entitled to vote thereon, provided such approval is obtained within 12 months after the date of adoption of the Plan by the Board of Directors. Awards may be granted under the Plan at any time and from time to time prior to May 31, 2009, on which date the Plan will expire except as to Awards and related share appreciation rights then outstanding under the Plan. Such outstanding Awards and share appreciation rights shall remain in effect until they have been exercised or terminated, or have expired.

11.9. CAPTIONS. The captions in this Plan are for convenience of reference only, and are not intended to narrow, limit or affect the substance or interpretation of the provisions contained herein.

April 7, 2000

Mr. Michael Pole
290 Ridgeway Road
Woodside, California 94062

Dear Mr. Pole:

This letter confirms the terms of your employment by Activision, Inc. ("Employer").

1. TERM

(a) The initial term of your employment under this agreement shall commence on May 15, 2000 and shall expire on April 30, 2003 (the "initial period").

(b) Employer shall have the irrevocable option to extend the term of this agreement beyond the initial period for an additional successive one year period.

(c) The option granted to Employer in Paragraph 1(b) of this agreement will be exercised by Employer by written notice given to you at least sixty (60) days prior to the expiration of the initial period.

2. SALARY

(a) In full consideration for all rights and services provided by you under this agreement, you shall be paid a base salary at the annual rate of \$300,000 during the portion of the initial period commencing on May 15, 2000 and ending on April 30, 2001, an annual base salary of \$320,000 during the portion of the initial period commencing on May 1, 2001 and ending on April 30, 2002, and an annual base salary of \$340,000 during the portion of the initial period commencing on May 1, 2002 and ending on April 30, 2003. If Employer exercises its option pursuant to Paragraph 1(b), you shall be paid an annual base salary of \$360,000 during such option period.

(b) Base salary payments shall be made in accordance with Employer's then prevailing payroll policy. Each base salary referred to in Paragraph 2(a) shall constitute your minimum base salary during the applicable period, and your base salary may be increased above the minimum at any time if Employer's Board of Directors (or the Compensation Committee of such Board of Directors), in its sole and absolute discretion, elects to do so. In the event of an increase in your base salary beyond the applicable minimum base salary for a particular period, such increased base salary shall then constitute your minimum base salary for all subsequent periods under this agreement, but only to the extent such increased base salary is in excess of the minimum base salary referred to in Paragraph 2(a) for the corresponding period.

(c) Notwithstanding anything to the contrary set forth above, but subject to the right of termination granted to you pursuant to Paragraph 12(b), Employer shall not be required to actually use your services, and payment of your base salary during the applicable period of your employment under this agreement will discharge Employer's obligations to you hereunder. Such payment, however, will not discharge your obligations to Employer hereunder.

(d) In addition to your base salary, you shall be eligible to receive a performance based bonus targeted at 60% of your annual base salary for each fiscal year of

Employer during which you are employed under this agreement (pro-rated for the amount of time that you actually perform services for Employer during a particular fiscal year). All bonus payments will be in compliance with

Employer's Management Bonus Plan for the applicable fiscal year, each of which is determined by Employer's senior management and Board of Directors (or the Compensation Committee of such Board of Directors) and is based on a number of factors that may include, without limitation, the achievement of specific corporate and divisional sales, operating margins and profitability levels.

(e) You also are being granted, under Employer's 1999 Incentive Plan, options to purchase 325,000 shares of Employer's common stock. The options will be issued on April 7, 2000 and will have an exercise price of \$8.00 per share (i.e., the market price of Employer's common stock on the date the options are issued). 50,000 of such options will vest on May 15, 2000; 100,000 of such options will vest on May 1, 2001; 100,000 of such options will vest on May 1, 2002; and 75,000 of such options will vest on May 1, 2003. The foregoing options will be governed in all other respects by Employer's 1999 Incentive Plan. You also shall be eligible to receive additional options, under Employer's existing or modified stock option plan, if Employer's Board of Directors (or the Compensation Committee of such Board of Directors), in its sole and absolute discretion, determines that the grant to you of additional options is appropriate.

3. TITLE

You are being employed under this agreement in the position of Executive Vice President, Worldwide Studios.

4. DUTIES

You shall personally and diligently perform, on a full-time and exclusive basis, such services as Employer may reasonably require, provided that such services are consistent with your position with Employer. You shall observe all reasonable rules and regulations adopted by Employer in connection with the operation of its business and carry out all instructions of Employer. You will at all times perform all of the duties and obligations required by you under this agreement in a loyal and conscientious manner and to the best of your ability and experience.

5. EXPENSES

To the extent you incur necessary and reasonable business expenses in the course of your employment, you shall be reimbursed for such expenses, subject to Employer's then current policies regarding reimbursement of such business expenses.

6. OTHER BENEFITS

You shall be entitled to those benefits which are standard for persons in similar positions with Employer, including coverage under Employer's health, life insurance and disability plans, and eligibility to participate in Employer's 401(k) plan. Nothing paid to you under any such plans and arrangements (nor any bonus or stock options which Employer's Board of Directors (or the Compensation Committee of such Board of Directors), in its sole and absolute discretion, shall provide to you) shall be deemed in lieu, or paid on account, of your base salary. You expressly agree and acknowledge

that after expiration or early termination of the term of your employment under this agreement, you are entitled to no additional benefits not expressly set forth in this agreement, except as specifically provided under the benefit plans referred to above and those benefit plans in which you subsequently may become a participant, subject in each case to the terms and conditions of each such plan. Notwithstanding anything to the contrary set forth above, you shall be eligible to receive those benefits provided by COBRA upon the expiration or early termination of the term of your employment under this Agreement.

7. VACATION AND PAID HOLIDAYS

(a) You will be entitled to paid vacation days in accordance with the normal vacation policies of Employer in effect from time to time, provided that in no event shall you be entitled to less than fifteen (15) days of paid

vacation per year.

(b) You shall be entitled to all paid holidays given by Employer to its full-time employees.

8. LOANS

(a) As an additional incentive to the commencement of your employment with Employer, Employer will provide you with a loan in the principal amount of \$100,000 by no later than April 30, 2000. Such loan will bear interest at the rate of 6-3/4% per annum and will be due and payable in full on April 30, 2002. However, the principal amount and accrued interest on such loan will be forgiven on a pro rata basis over the first twenty four (24) months of your employment, provided that you remain employed by Employer on the applicable date of forgiveness. In the event and to the extent the loan is forgiven, then within thirty (30) days after the end of each calendar year you shall be paid an additional "gross up" amount to cover the income taxes payable by you as a result of any forgiveness of indebtedness income that you earn during such calendar year in connection with the foregoing. In order to receive the foregoing loan, you shall be required to execute a promissory note substantially in the form of Exhibit A attached to this agreement.

(b) Employer also will provide you with an additional loan of \$100,000 by no later than April 30, 2000. Such loan also will bear interest at the rate of 6-3/4% per annum and will be due and payable in full on April 30, 2002. However, the principal amount and accrued interest on such loan will be forgiven in full on April 30, 2002 if the closing stock price of Employer's common stock as reported on NASDAQ is not at least \$16.00 per share (adjusted to reflect stock splits, stock dividends, combinations of shares and similar transactions occurring after April 7, 2000) for five (5) consecutive trading days from the date the loan is made through April 30, 2002. In order to receive the foregoing loan, you shall be required to execute a promissory note substantially in the form of Exhibit B attached to this agreement.

9. REIMBURSEMENT OF MOVING AND TEMPORARY LIVING EXPENSES

Employer shall reimburse you for the following expenses actually incurred by you in connection with the moving of your personal and household goods to the Los Angeles area: the reasonable expenses actually incurred by you for temporary living accommodations pending your search for a permanent residence in the Los Angeles area, subject to a maximum reimbursement for up to two month's temporary living

accommodations; customary home purchase expenses, subject to a maximum reimbursement of \$50,000; expenses relating to the transport of household goods; and rental car expenses; provided, however, in each case such expenses must be pre-approved in writing by Employer and you must provide Employer with documentation which adequately evidences such expenses.

10. PROTECTION OF EMPLOYER'S INTERESTS

(a) During the term of your employment by Employer, you will not compete in any manner, whether directly or indirectly, as a principal, employee, agent or owner, with Employer, or any affiliate of Employer, except that the foregoing will not prevent you from holding at any time less than five percent (5%) of the outstanding capital stock of any company whose stock is publicly traded.

(b) All rights worldwide with respect to any and all intellectual or other property of any nature produced, created or suggested by you during the term of your employment or resulting from your services which (i) relate in any manner at the time of conception or reduction to practice to the actual or demonstrably anticipated business of Employer, (ii) result from or are suggested by any task assigned to you or any work performed by you on behalf of Employer, or (iii) are based on any property owned or idea conceived by Employer, shall be deemed to be a work made for hire and shall be the sole and exclusive property of Employer. You agree to execute, acknowledge and deliver to Employer, at Employer's request, such further documents, including copyright and patent assignments, as Employer finds appropriate to evidence Employer's rights in such property.

(c) Any confidential and/or proprietary information of Employer or any affiliate of Employer shall not be used by you or disclosed or made available by you to any person except as required in the course of your employment, and upon expiration or earlier termination of the term of your employment, you shall return to Employer all such information which exists in written or other physical form (and all copies thereof) under your control. Without limiting the generality of the foregoing, you acknowledge signing and delivering to Employer the Activision Employee Proprietary Information Agreement attached to this agreement as Exhibit C, and you agree that all terms and conditions contained in such agreement, and all of your obligations and commitments provided for in such agreement, shall be deemed, and hereby are, incorporated into this agreement as if set forth in full herein. The provisions of the immediately preceding four sentences of this paragraph shall survive the expiration or earlier termination of this agreement.

11. SERVICES UNIQUE

You recognize that the services being performed by you under this agreement are of a special, unique, unusual, extraordinary and intellectual character giving them a peculiar value, the loss of which cannot be reasonably or adequately compensated for in damages, and in the event of a breach of this agreement by you (particularly, but without limitation, with respect to the provisions hereof relating to the exclusivity of your services and the provisions of paragraph 10 of this agreement), Employer shall, in addition to all other remedies available to it, be entitled to equitable relief by way of injunction and any other legal or equitable remedies.

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12. TERMINATION

(a) At any time during the term of your employment, Employer may terminate your employment under this agreement for (i) your willful, reckless or gross misconduct, (ii) your material breach of any term or provision of this agreement, or (iii) for other good cause, as such term is defined under California law.

(b) You may terminate your employment under this agreement (i) upon Employer's material breach of any term or provision of this agreement, or (ii) if Employer elects to not actually use your services and continues to pay your base salary pursuant to Paragraph 2(c) above for a period of one hundred twenty (120) consecutive days.

(c) In the event of the termination of your employment under this agreement pursuant to paragraphs 12(a) or (b), all obligations of Employer to you under this agreement shall immediately terminate.

(e) In the event of your death during the term of this agreement, this agreement shall terminate and Employer only shall be obligated to pay your estate or legal representative the salary provided for above to the extent earned by you prior to such event. In the event you are unable to perform the services required of you under this agreement as a result of any disability, and such disability continues for a period of 60 or more consecutive days or an aggregate of 90 or more days during any 12-month period during the term of this agreement, then Employer shall have the right, at its option, to terminate your employment under this agreement. Unless and until so terminated, during any period of disability during which you are unable to perform the services required of you under this agreement, your base salary shall be payable to the extent of, and subject to, Employer's policies and practices then in effect with regard to sick leave and disability benefits.

13. USE OF EMPLOYEE'S NAME

Employer shall have the right, but not the obligation, to use your name or likeness for any publicity or advertising purpose.

14. ASSIGNMENT

Employer may assign this agreement or all or any part of its rights under

this agreement to any entity which succeeds to all or substantially all of Employer's assets (whether by merger, acquisition, consolidation, reorganization or otherwise) or which Employer may own substantially, and this agreement shall inure to the benefit of such assignee.

15. NO CONFLICT WITH PRIOR AGREEMENTS

You represent to Employer that neither your commencement of employment under this agreement nor the performance of your duties under this agreement conflicts or will conflict with any contractual commitment on your part to any third party, nor does it or will it violate or interfere with any rights of any third party.

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June 21, 2000

16. POST-TERMINATION OBLIGATIONS

After the expiration or earlier termination of your employment under this agreement for any reason whatsoever, you shall not, either alone or jointly, with or on behalf of others, directly or indirectly, whether as principal, partner, agent, shareholder, director, employee, consultant or otherwise, at any time during a period of one (1) year following such expiration or termination, offer employment to, or solicit the employment or engagement of, or otherwise entice away from the employment of Employer or any affiliated entity, either for your own account or for any other person firm or company, any person who was employed by Employer or any such affiliated entity on the last day of your employment under this agreement, whether or not such person would commit any breach of his or her contract of employment by reason of his or her leaving the service of Employer or any affiliated entity.

17. ENTIRE AGREEMENT; AMENDMENTS; WAIVER, ETC.

(a) This agreement supersedes all prior or contemporaneous agreements and statements, whether written or oral, concerning the terms of your employment with Employer, and no amendment or modification of this agreement shall be binding against Employer unless set forth in a writing signed by Employer and delivered to you.

(b) You have given no indication, representation or commitment of any nature to any broker, finder, agent or other third party to the effect that any fees or commissions of any nature are, or under any circumstances might be, payable by Employer or any affiliate of Employer in connection with your employment under this agreement.

(c) No waiver by either party of any breach by the other party of any provision or condition of this agreement shall be deemed a waiver of any similar or dissimilar provision or condition at the same or any prior or subsequent time.

(d) Nothing contained in this agreement shall be construed so as to require the commission of any act contrary to law and wherever there is any conflict between any provision of this agreement and any present or future statute, law, ordinance or regulation, the latter shall prevail, but in such event the provision of this agreement affected shall be curtailed and limited only to the extent necessary to bring it within legal requirements.

(e) This agreement does not constitute a commitment of Employer with regard to your employment, express or implied, other than to the extent expressly provided for herein. Upon termination of this agreement, it is the contemplation of both parties that your employment with Employer shall cease, and that neither Employer nor you shall have any obligation to the other with respect to continued employment. In the event that your employment continues for a period of time following the stated expiration date of this contract, unless and until agreed to in a new subscribed written document, such employment or any continuation thereof is "at will," and may be terminated without obligation at any time by either party giving notice to the other.

(f) You hereby acknowledge that you have had an opportunity to seek legal counsel of your own choice regarding the effect and import of entering into this Agreement.

(g) This agreement shall be governed by and construed in accordance with the laws of the State of California without regard to conflict of law principles.

(h) In accordance with the Immigration Reform and Control Act of 1986, employment under this agreement is conditioned upon satisfactory proof of your identity and legal ability to work in the United States.

(i) To the extent permitted by law, you will keep the terms of this agreement confidential, and you will not disclose any information concerning this agreement to anyone other than your immediate family and professional representatives (provided they also agree to keep the terms of this agreement confidential).

18. NOTICES

All notices which either party is required or may desire to give the other shall be in writing and given either personally or by depositing the same in the United States mail addressed to the party to be given notice as follows:

To Employer: 3100 Ocean Park Boulevard
Santa Monica, California 90405
Attention: Executive Vice President
and General Counsel

To Employee: 290 Ridgeway Road
Woodside, California 94062

Either party may by written notice designate a different address for giving of notices. The date of mailing of any such notices shall be deemed to be the date on which such notice is given.

19. HEADINGS

The headings set forth herein are included solely for the purpose of identification and shall not be used for the purpose of construing the meaning of the provisions of this agreement.

If the foregoing accurately reflects our mutual agreement, please sign where indicated.

ACCEPTED AND AGREED TO:

EMPLOYER

EMPLOYEE

By: /s/ Lawrence Goldberg

Lawrence Goldberg
Executive Vice President
and General Counsel

By: /s/ Michael Pole

Michael Pole

Date: 4/14/00

Date: 4/14/00

\$100,000.00

April __, 2000
Santa Monica, California

FOR VALUE RECEIVED, and subject to the provisions of Paragraph 1 below, the undersigned, Michael Pole ("Maker"), promises to pay to Activision, Inc. ("Holder"), or its order, the sum of One Hundred Thousand Dollars (\$100,000.00), together with simple interest on the unpaid principal amount from the date hereof at the rate of Six and Three Quarters Percent (6-3/4%) per annum, payable monthly. The entire principal indebtedness under this Promissory Note and all accrued but unpaid interest, or so much thereof as may remain unpaid at the time, shall become due and payable on April 30, 2002, and payment of said principal indebtedness, or the balance thereof, and all interest thereon, together with all other sums due under the terms hereof, may be enforced and recovered at once, time being of the essence.

1. FORGIVENESS OF INDEBTEDNESS. The amount of principal due hereunder automatically will be reduced by Four Thousand One Hundred Sixty-Six and 67/100 Dollars (\$4,166.67) per month on the last day of each month, commencing on May 31, 2000, provided that the undersigned continues to be employed by the Holder on the applicable reduction date. All interest which is accrued but unpaid as of a particular principal reduction date also shall be forgiven to the extent a portion of the principal is forgiven on such date.

2. PREPAYMENT. Maker may prepay all or any portion of the principal amount of this Promissory Note and the interest due thereon at any time or times during the term of this Promissory Note without any other premium or penalty.

3. PAYMENT CREDITS. Each payment shall, when made, be credited first to interest then due, then to other expenses payable to Holder, including any collection costs, and the remainder to principal, and interest shall thereupon cease upon the principal so credited. All payments hereunder shall be made in lawful money of the United States of America at the principal executive offices of Holder located at 3100 Ocean Park Boulevard, Santa Monica, California 90405.

4. ATTORNEYS' FEES. Maker promises to pay all costs and expenses, including reasonable attorneys' fees, incurred in the collection and enforcement of this Promissory Note.

5. MAXIMUM INTEREST. The provisions of this Promissory Note shall not have the effect of, or be construed as, requiring or committing Maker to pay interest in excess of the highest rate per annum allowed by the laws for such jurisdiction whose laws shall govern this Promissory Note. If, under any circumstance, Holder shall ever receive as interest an amount which would exceed the highest applicable lawful rate as determined by a court of competent jurisdiction, then such amount which would be excessive interest shall, ipso facto, be applied to the reduction of the unpaid principal balance due hereunder and not to the payment of interest. This provision shall control and supersede every other provision of this Promissory Note.

6. EXERCISE OF RIGHTS. No single or partial exercise of any power granted to Holder under this Promissory Note shall preclude other or further exercise thereof or the exercise of any other power. No delay or omission on the part of Holder in exercising

any right under this Promissory Note shall operate as a waiver of such right or of any other right.

7. WAIVER OF NOTICE. The makers, endorsers, guarantors and sureties of this Promissory Note, and each of them, hereby waive diligence, demand, presentment for payment, notice of nonpayment, protest and notice of protest, and specifically consent to and waive notice of any renewals or extensions of this Promissory Note, whether made to or in favor of the makers or any other person or persons. The pleading of any statute of limitations as a defense to any demand against the makers, endorsers, guarantors or sureties is expressly waived by each and all of said parties.

8. SUCCESSORS AND ASSIGNS. The terms of this Promissory Note apply to, inure to the benefit of, and bind all parties hereto, their heirs, legatees, devisees, administrators, executors, successors and assigns.

9. SEVERABILITY. If any portion of this Promissory Note shall be held invalid or unenforceable, then the remainder of this Promissory Note shall be considered valid and enforceable according to its terms.

10. MISCELLANEOUS. This Promissory Note shall be governed and interpreted in accordance with the laws of the State of California. If suit is instituted by Maker against Holder or by Holder against Maker for any cause or matter arising from or in connection with the respective rights or obligations of Maker or the holder of this Promissory Note hereunder, the sole jurisdiction and venue for such action shall be the Superior Court of the State of California in and for the County of Los Angeles. Captions are for convenience only and shall not be used in construing meaning. This Promissory Note may only be changed, modified, or amended in writing by the mutual consent of Maker and the Holder. The provisions of this Promissory Note may only be waived in or by a writing signed by the party against whom enforcement of any waiver is sought.

IN WITNESS WHEREOF, Maker has executed this Promissory Note as of the date first written above.

Michael Pole

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June 21, 2000

EXHIBIT B

PROMISSORY NOTE

\$100,000.00

April __, 2000
Santa Monica, California

FOR VALUE RECEIVED, and subject to the provisions of Paragraph 1 below, the undersigned, Michael Pole ("Maker"), promises to pay to Activision, Inc. ("Holder"), or its order, the sum of One Hundred Thousand Dollars (\$100,000.00), together with simple interest on the unpaid principal amount from the date hereof at the rate of Six and Three Quarters Percent (6-3/4%) per annum. The entire principal indebtedness under this Promissory Note and all accrued but unpaid interest, or so much thereof as may remain unpaid at the time, shall become due and payable on April 30, 2002, and payment of said principal indebtedness, or the balance thereof, and all interest thereon, together with all other sums due under the terms hereof, may be enforced and recovered at once, time being of the essence.

1. FORGIVENESS OF INDEBTEDNESS. In the event the closing stock price of Holder's common stock as reported on NASDAQ is not at least \$16.00 per share (adjusted to reflect stock splits, stock dividends, combinations of shares and similar transactions occurring after the date hereof) for five (5) consecutive trading days from the date of this Promissory Note through April 30, 2000, then on April 30, 2002 the entire principal amount of this Promissory Note and all interest due thereon will be forgiven, and Maker will have no obligation to make any payment to Holder hereunder.

2. PREPAYMENT. Maker may prepay all or any portion of the principal amount of this Promissory Note and the interest due thereon at any time or times during the term of this Promissory Note without any other premium or penalty.

3. PAYMENT CREDITS. Each payment shall, when made, be credited first to interest then due, then to other expenses payable to Holder, including any collection costs, and the remainder to principal, and interest shall thereupon cease upon the principal so credited. All payments hereunder shall be made in lawful money of the United States of America at the principal executive offices of Holder located at 3100 Ocean Park Boulevard, Santa Monica, California 90405.

4. ATTORNEYS' FEES. Maker promises to pay all costs and expenses, including reasonable attorneys' fees, incurred in the collection and enforcement of this Promissory Note.

5. MAXIMUM INTEREST. The provisions of this Promissory Note shall not have the effect of, or be construed as, requiring or committing Maker to pay interest in excess of the highest rate per annum allowed by the laws for such jurisdiction whose laws shall govern this Promissory Note. If, under any circumstance, Holder shall ever receive as interest an amount which would exceed the highest applicable lawful rate as determined by a court of competent jurisdiction, then such amount which would be excessive interest shall, ipso

facto, be applied to the reduction of the unpaid principal balance due hereunder and not to the payment of interest. This provision shall control and supersede every other provision of this Promissory Note.

6. EXERCISE OF RIGHTS. No single or partial exercise of any power granted to Holder under this Promissory Note shall preclude other or further exercise thereof or the exercise of any other power. No delay or omission on the part of Holder in exercising any right under this Promissory Note shall operate as a waiver of such right or of any other right.

7. WAIVER OF NOTICE. The makers, endorsers, guarantors and sureties of this Promissory Note, and each of them, hereby waive diligence, demand, presentment for payment, notice of nonpayment, protest and notice of protest, and specifically consent to and waive notice of any renewals or extensions of this Promissory Note, whether made to or in favor of the makers or any other person or persons. The pleading of any statute of limitations as a defense to any demand against the makers, endorsers, guarantors or sureties is expressly waived by each and all of said parties.

8. SUCCESSORS AND ASSIGNS. The terms of this Promissory Note apply to, inure to the benefit of, and bind all parties hereto, their heirs, legatees, devisees, administrators, executors, successors and assigns.

9. SEVERABILITY. If any portion of this Promissory Note shall be held invalid or unenforceable, then the remainder of this Promissory Note shall be considered valid and enforceable according to its terms.

10. MISCELLANEOUS. This Promissory Note shall be governed and interpreted in accordance with the laws of the State of California. If suit is instituted by Maker against Holder or by Holder against Maker for any cause or matter arising from or in connection with the respective rights or obligations of Maker or the holder of this Promissory Note hereunder, the sole jurisdiction and venue for such action shall be the Superior Court of the State of California in and for the County of Los Angeles. Captions are for convenience only and shall not be used in construing meaning. This Promissory Note may only be changed, modified, or amended in writing by the mutual consent of Maker and the Holder. The provisions of this Promissory Note may only be waived in or by a writing signed by the party against whom enforcement of any waiver is sought.

IN WITNESS WHEREOF, Maker has executed this Promissory Note as of the date first written above.

MICHAEL POLE

EMPLOYEE PROPRIETARY INFORMATION AGREEMENT

In consideration of and as a condition of my employment by ACTIVISION, INC. and/or by companies which it owns, controls, or is affiliated with, and their successors in business (the "Company"), and the compensation now and hereafter paid to me for such employment, I hereby agree as follows:

1. CONFIDENTIALITY. I agree to hold in strictest confidence and not to disclose, make any use of, except for the benefit of the Company, lecture upon or publish, at any time either during the term of or subsequent to my employment, any of the Company's Proprietary Information (as defined below) which I may produce, obtain or otherwise acquire during the course of my employment, except as the Company may otherwise consent to in writing in its sole and absolute discretion. I further agree not to deliver, reproduce or in any way allow such Proprietary Information, or any documentation relating to such information, to be delivered or used by any third parties without the specific written direction or consent of a duly authorized representative of the Company.

The term "Proprietary Information" shall mean any and all trade secrets, confidential knowledge, data or any other proprietary information pertaining to any business of the Company or any of its clients, customers or consultants, licensees or affiliates. By way of illustration but not limitation, "Proprietary Information" includes (a) inventions, ideas, improvements, discoveries, trade secrets, processes, data, programs, knowledge, know-how, designs, techniques, formulas, test data, computer code, other works of authorship and designs whether or not patentable, copyrightable, or otherwise protected by law, and whether or not conceived of or prepared by me, either alone or jointly with others (hereinafter collectively referred to as "Inventions"); (b) information regarding research, development, new products and services, marketing plans and strategies, merchandising and selling, business plans, strategies, forecasts, projections, profits, investments, operations, financings, records, budgets and unpublished financial statements, licenses, prices and costs, suppliers and customers; and (c) identity, requirements, preferences, practices and methods of doing business of specific parties with whom the Company transacts business, and information regarding the skills and compensation of other employees of the Company and independent contractors performing services for the Company.

Notwithstanding the foregoing, the term "Proprietary Information" does not include any information which (i) is or becomes publicly available or part of the public domain through no fault of my own; (ii) is specifically authorized in writing by the Company to become publicly known; (iii) is rightfully received from a third party on a non-confidential basis, provided that the third party is not known to me to be bound by a confidentiality obligation to the Company, or (iv) was already properly known to me without restriction from the Company at the time of my receipt.

2. THIRD PARTY INFORMATION. I understand that the Company, from time to time, may enter into agreements with other parties which impose obligations or restrictions on the Company regarding Inventions made during the course of the work under such agreements or regarding the confidential nature of such works, or otherwise receive from third parties confidential or proprietary information ("Third Party Information") subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. During the term of my employment and thereafter, I agree to be bound by all such obligations and restrictions, will hold Third Party Information in the strictest confidence, will not disclose (to anyone other than Company personnel who need to know such information in connection with their work for the Company) or use, except in connection with my work for the Company, Third Party Information unless expressly authorized by the Company in writing, and will otherwise take all action necessary to discharge the obligations to the Company arising in connection with such Third Party Information.

3. WORK FOR HIRE STATEMENT. I hereby acknowledge and agree that all original works of authorship (the "Works of Authorship") which are produced, developed or authored by me (whether alone or jointly with others), or otherwise resulting from my work within the scope of my employment with the Company and which are

protectible by copyright are "works made for hire," as that term is defined in the United States Copyright Act (17 U.S.C., Section 101). In the event that any rights to the Works of Authorship are deemed not to be works made for hire, or in the event that I should, by operation of law, be deemed to retain any rights in such Works of Authorship, I hereby irrevocably assign, without any further consideration and regardless of any use by the Company of any such Work of Authorship, all of my rights, title and interest, if any, in and to such Works of Authorship to the Company. I agree that the Company, as the owner of all rights to the Works of Authorship, has the full and complete right to prepare and create derivative works based upon the Works of Authorship and any derivative works of such Works of Authorship and to use, reproduce, publish, print, copy, market, advertise, distribute, transfer, sell, publicly perform and publicly display, and otherwise exploit by all means now known or later developed, such Works of Authorship and derivative works anywhere throughout the world.

4. MORAL RIGHTS. I hereby irrevocably and unconditionally transfer and assign to the Company, without any further consideration, any and all Moral Rights (as defined below) I may have in or with respect to any and all Works of Authorship. To the extent that I cannot assign such rights, I hereby waive and agree never to assign such rights against the Company, the Company's successors-in-interest, or any of their licensees. "Moral Rights" shall mean any right to (i) divulge such Inventions to the public; (ii) retract such Invention from the public; (iii) claim authorship of such Invention; (iv) object to any distortion, mutilation, or other modification of such Invention; and (v) any and all similar rights, existing under judicial or statutory law of any country or jurisdiction in the world, or under any treaty regardless of whether or not such right is called or generally referred to as a "moral right."

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5. ASSIGNMENT OF INVENTIONS.

(a) In addition to the foregoing, I hereby assign and transfer to the Company my entire right, title and interest in and to all Inventions, whether or not patentable, and whether or not reduced to practice, made, learned or conceived by me (whether alone or jointly with others) during the period of my employment with the Company which relate in any manner at the time of conception or reduction to practice to the actual or demonstrably anticipated research or product development by the Company or to its business, or result from or are suggested by any task assigned to me or any work performed by me for or on behalf of the Company. I agree that all such Inventions shall be the sole and exclusive property of the Company and its assigns, and the Company and its assigns shall be the sole owners of all Inventions and any and all patents, copyrights and other proprietary rights related thereto; provided, however, that I hereby acknowledge and agree that this Agreement does not require assignments of an Invention which qualifies fully and expressly for protection under Section 2870 of the California Labor Code.

(b) If I have any right or rights to Inventions that cannot be assigned to the Company or waived by me, I unconditionally grant to the Company during the term of such rights, an exclusive, irrevocable, perpetual, worldwide, fully paid and royalty-free license, with rights to sublicense through multiple levels of sublicenses, to use, reproduce, publish, create derivative works of, market, advertise, distribute, sell, publicly perform and publicly display and otherwise exploit by all means now known or later developed, such Inventions.

6. DISCLOSURE OF INVENTIONS; PATENTS. I agree that in connection with any Invention:

(a) I will disclose such Invention promptly in writing to my immediate supervisor at the Company, with a copy to the Company's then acting Chief Operating Officer, regardless of whether I believe the invention is protected by Section 2870 of the California Labor Code, in order to permit the Company to claim rights to which it may be entitled under this Agreement. Such disclosure shall be received in confidence by the Company.

(b) I will, at the Company's request, promptly execute a written assignment of title to the Company for any Invention required to be assigned by Paragraph 4 ("Assignable Invention") and I will preserve any such Assignable

Invention as confidential information of the Company.

(c) Upon request, I agree to assist the Company or its nominee (at its expense) during and at any time subsequent to my employment in every reasonable way to obtain for its own benefit patents and copyrights for such Assignable Inventions in any and all countries, which Inventions shall be and remain the sole and exclusive property of the Company or its nominee whether or not patented or copyrighted. I agree to execute such papers and perform such lawful acts as the Company deems to be necessary to allow it to exercise all rights and interest in such patents and copyrights.

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7. EXECUTION OF DOCUMENTS.

(a) In connection with this Agreement, I further agree to execute, acknowledge and deliver to the Company or its nominee upon request and at its expense all such documents, including application for patents and copyrights and assignments of inventions, patents and copyrights to be issued therefor, as the Company may determine necessary or desirable to apply for, and obtain letters, patents and copyrights on such assignable invention in any and all countries and/or to protect the interest of the Company or its nominee in such inventions, patents or copyrights and to vest title thereto in the Company or its nominee.

(b) In the event the Company is unable, after reasonable efforts, to secure my signature on any document or documents needed to apply for or prosecute any patent, copyright or other right of protection relating to an Invention, whether because of my physical or mental incapacity or for any other reason whatsoever, I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney-in-fact, to act for and in my behalf and stead to execute and file any such application or applications and to do all other lawfully permitted acts to further the prosecution and issuance of patents, copyrights or similar protections thereon with the same legal force and effect as if executed by me; it is being expressly understood and intended by me that the grant of the foregoing irrevocable power of attorney is coupled with an interest.

8. MAINTENANCE OF RECORDS. I agree to keep and maintain adequate and current written records of all inventions made by me (in the form of notes, sketches, and drawings as may be specified by the Company), which records shall be available to and remain the sole property of the Company at all times.

9. PRIOR INVENTIONS. It is understood that all Inventions, if any, patented or unpatented, which are made by me prior to my employment by the Company, are excluded from the scope of this Agreement. To preclude any possible uncertainty, I have set forth on Exhibit I attached to this Agreement a complete list of all my prior Inventions, including those which are the property of a previous employer. I represent and covenant that the list is complete and that, if no items are on the list, I have no such prior Inventions. I agree to notify the Company in writing before I make any disclosure or perform any work on behalf of the Company which appears to threaten or conflict with proprietary rights I claim in any Invention or idea. In the event of my failure to give such notice, I agree that I will make no claim against the Company with respect to such Inventions or ideas.

10. RETURN OF COMPANY PROPERTY. I acknowledge and agree that all files, accounts, records, materials, documents, drawings, sketches, designs, diagrams, models, blue-prints, plans, specifications, manuals, books, forms, receipts, notes, reports, memoranda, studies, data, calculations, recordings, catalogues, compilations of information, correspondence and all copies, abstracts and summaries of the foregoing, instruments, tools and equipment and all other physical items related to the Company or to my employment with the Company, other than merely personal items, whether of a public nature or not, and whether prepared by me or not, are and shall remain the sole and

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exclusive property of the Company and shall not be removed from the premises of the Company, except as required in the course of employment by the Company, without prior written consent of the Company in each instance. In the event of termination of my employment with the Company for any reason whatsoever, I agree to promptly surrender and deliver to the Company all of the foregoing property, and I will not take with me any description containing or pertaining to any Proprietary Information which I may produce or obtain during the course of my employment. I agree to sign and deliver the "Termination Certification" attached to this Agreement as Exhibit II.

11. TRADE SECRETS OF OTHERS. I represent that my performance of all the terms of this Agreement and as an employee of the Company does not and will not breach any agreement to keep in confidence Proprietary Information, knowledge or data acquired by me in confidence or in trust prior to my employment with the Company, and during my employment by the Company, I will not improperly use or disclose to the Company, or induce the Company to use, any confidential or proprietary information or material belonging to any previous employer or other parties. I have not brought and will not bring onto the premises of the Company or use in the performance of my responsibilities at the Company any unpublished documents or any property belonging to any previous employer or any other person to whom I have an obligation of confidentiality unless consented to in writing by that previous employer or person. I agree not to enter into any agreement either written or oral in conflict with this Agreement.

12. CONFLICTING EMPLOYMENT. I agree that during my employment with the Company, I will not engage in any other employment, occupation, consulting or other activity relating to the business in which the Company is now or may hereafter become engaged, or which would otherwise conflict with my obligations to the Company.

13. ENFORCEMENT.

(a) I understand and agree that in the event of a prospective or actual breach of this Agreement by me, damages would not be an adequate remedy to compensate the Company for the losses suffered as a result of such breach. Accordingly, in addition to all other rights and remedies the Company has at law or in equity, in the event of a threatened or actual breach of any of the terms and provisions of this Agreement, the Company shall be entitled to a temporary restraining order, and to temporary and permanent injunctive relief, to prevent or terminate such anticipated or actual breach, without the necessity of proving actual damages or being required to post any bond or other undertaking in connection with any such action, provided that nothing in this Agreement shall be construed to limit the damages otherwise recoverable by the Company in any such event.

(b) In addition, the Company shall have the right to inform any person, company, organization or business entity, and the principals of the foregoing, and any other third parties that the Company reasonably believes to be receiving or intending to receive from me any Proprietary Information in violation of the terms of this Agreement, that participation by such entity or

persons with me in activities in violation of this Agreement may give rise to claims by Activision against such entity, persons or third parties.

14. PURPOSE AND INTENT. I acknowledge and agree that this Agreement does not constitute an agreement of employment and that nothing in this Agreement shall confer any right upon me with respect to my employment by the Company, including, without limitation continuation of such employment.

15. REPRESENTATIONS. I represent and warrant to the Company that:

(a) This Agreement does not constitute a violation of any other agreement to which I am a party and it has been executed and delivered by me after having an opportunity to consult with my legal and other professional counsel and advisors.

(b) I have full power and authority to enter into, and have obtained all necessary authorizations and approvals required for the execution and deliver of, this Agreement.

(c) I have taken all necessary actions to execute and deliver this Agreement, and this Agreement constitutes my valid and binding agreement, enforceable in accordance with its terms.

16. MODIFICATION. This Agreement may not be changed, modified, released, discharged, abandoned, or otherwise amended, in whole or in part, except by an instrument in writing, signed by me and the Company. I agree that any subsequent change or changes in duties, salary, or compensation shall not affect the validity of this Agreement.

17. ENTIRE AGREEMENT. I acknowledge receipt of this Agreement, and agree that with respect to the subject matter of this Agreement it is my entire agreement with the Company, superseding any previous written communications, representations, understandings or agreements with the Company or any of its officers or representatives.

18. SEVERABILITY. The provisions of this Agreement are severable and if any one or more provisions may be determined to be unenforceable, in whole or in part, the remaining provisions, and any partially unenforceable provisions to the extent enforceable, shall nevertheless be binding and enforceable.

19. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon my heirs, executors, administrators and other legal representatives and is for the benefit of the Company, its successors and assigns.

20. GOVERNING LAW. This Agreement has been executed and delivered by the parties hereto in California, and shall be governed by and construed in accordance with the internal laws (and not laws pertaining to conflicts or choice of law) of the State of California in all respects, including all matters of validity, construction and performance of this Agreement. All parties consent to the exercise of personal jurisdiction over them in California and agree that any lawsuit or arbitration arising out of or relating to this Agreement shall be

brought exclusively in a court of competent subject matter jurisdiction located within the County of Los Angeles, State of California.

21. COUNTERPARTS. This Agreement may be signed in two counterparts, each of which shall be deemed an original and both of which shall together constitute one agreement.

22. FAILURE TO ENFORCE. The failure of the Company to enforce any threatened or existing violation, default or breach of this Agreement shall not be deemed a waiver of such a violation, default or breach, and the Company shall have the right to enforce the same at a later time and the right to waive in writing any condition imposed herein for its benefit without thereby waiving any other provision or condition.

ACTIVISION, INC.

By: _____

Name: _____

Title: _____

Date: _____

Accepted and Agreed:

This is to certify that I do not have in my possession, nor have I failed to return, any files, accounts, records, materials, documents, drawings, sketches, designs, diagrams, models, blue-prints, plans, specifications, manuals, books, forms, receipts, notes, reports, memoranda, studies, data, calculations, recordings, catalogues, compilations of information, correspondence and all copies, abstracts and summaries of the foregoing, instruments, tools and equipment and all other physical items that are property of Activision, Inc. (the "Company") or are otherwise related to my employment with the Company, or any other property belonging to the Company and/or companies it owns, controls, or is affiliated with, or their respective successors and assigns.

I further certify that I have complied with and will continue to comply with all terms of the Employee Proprietary Information Agreement signed by me with the Company, including, without limitation, the reporting of any Inventions (as defined therein) conceived or made by me and covered by such agreement.

I further agree that in compliance with the Employee Proprietary Information Agreement, I will preserve as confidential all trade secrets, confidential information, knowledge, data or other information relating to products, processes, know-how, designs, formulas, test data, customer lists and other information identified as "Proprietary Information" of the Company, companies it owns, controls, or which are affiliated with the Company, or their successors and assigns under the terms of the Employee Proprietary Information Agreement.

/s/ Michael Pole

4/14/00

Employee Signature

Date

FIRST AMENDMENT TO CREDIT AGREEMENT
AND LIMITED WAIVER

This FIRST AMENDMENT TO CREDIT AGREEMENT AND LIMITED WAIVER (this "AMENDMENT") is dated as of June 8, 2000 and entered into by ACTIVISION, INC., a Delaware corporation ("ACTIVISION"), HEAD GAMES PUBLISHING, INC., a Minnesota corporation ("HEAD") and EXPERT SOFTWARE, INC., a Delaware corporation ("EXPERT"; each of Activision, Head and Expert, a "BORROWER" and collectively, "BORROWERS"), the financial institutions signatory to this Amendment which are parties to the Credit Agreement referred to below (the "LENDERS"), PNC BANK, NATIONAL ASSOCIATION, a national banking association, as issuing bank (in such capacity, the "ISSUING BANK"), and as administrative agent (in such capacity, the "ADMINISTRATIVE AGENT") and collateral agent (in such capacity, the "COLLATERAL AGENT") for the Lenders and CREDIT SUISSE FIRST BOSTON, a bank organized under the laws of Switzerland, acting through its New York branch, as syndication agent (in such capacity, the "SYNDICATION AGENT").

W I T N E S S E T H :

WHEREAS, the Borrowers, the Lenders, the Administrative Agent and the Syndication Agent are parties to that certain Credit Agreement dated as of June 21, 1999 (as modified prior to the date hereof, the "ORIGINAL CREDIT AGREEMENT");

WHEREAS, concurrently with the execution and delivery of this Amendment Activision is closing the Reorganization (as defined below) of its corporate organization so that it will become a wholly-owned Subsidiary of Activision Holdings, Inc., a Delaware corporation ("ACTIVISION HOLDINGS"), which will change its name to Activision, Inc., and Activision will then change its name to Activision Publishing, Inc.;

WHEREAS, Activision Holdings desires to become a Borrower;

WHEREAS, Activision and Activision Holdings desire to make certain investments in a newly created Subsidiary of Activision Holdings, Kaboom.com, Inc., a Delaware corporation ("KABOOM");

WHEREAS, Activision desires to repurchase a certain amount of its outstanding common stock and/or Convertible Subordinated Notes;

WHEREAS, the actions Activision desires to take require the consent of the Lenders under the Original Credit Agreement;

WHEREAS, Activision has entered into that certain Rights Agreement, dated as of April 18, 2000, with Continental Stock Transfer & Trust Company (the "Rights Agreement") providing for a dividend payable in rights to purchase shares of Series A Junior Preferred Stock or common stock of Activision under the circumstances described in the Rights Agreement; and

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WHEREAS, the parties hereto desire to amend certain provisions of the Original Credit Agreement on the terms and subject to the conditions provided herein;

NOW, THEREFORE, in consideration of the premises and the mutual agreements contained in this Amendment and for other good and valuable consideration, receipt of which is hereby acknowledged, the Borrowers, the Lenders, the Issuing Bank, the Administrative Agent, the Collateral Agent and the Syndication Agent hereby agree as follows:

ARTICLE I

DEFINITIONS

Unless otherwise defined herein, terms defined in the Original Credit Agreement shall have such defined meanings when used in this Amendment.

ARTICLE II

AMENDMENTS TO CREDIT AGREEMENT

SECTION 2.1. DEFINED TERMS. Section 1.01 of the Original Credit Agreement is hereby amended by:

(a) inserting the following terms and definitions therefor in the appropriate alphabetical order:

"ACTIVISION HOLDINGS" shall mean Activision Holdings, Inc., a Delaware corporation, which will be renamed Activision, Inc.

"KABOOM" shall mean Kaboom.com, Inc., a Delaware corporation and a wholly-owned Subsidiary of Activision Holdings.

"MERGER SUB" shall mean ATVI Merger Sub, Inc., a Delaware corporation and a wholly-owned Subsidiary of Activision Holdings.

"REORGANIZATION" shall mean the merger of Merger Sub with and into Activision, with Activision being the surviving corporation, and the conversion of all of the shares of capital stock of Activision into shares of capital stock of Activision Holdings.

(b) amending and restating the definitions of "Borrowers", "Change in Control", "Collateral", "Equity Issuance", "Joinder Agreement", "Leverage Ratio", "Net Income" and "Subsidiary" in their entirety to read as follows:

"BORROWERS" shall mean Activision Holdings, Activision, Head, Expert and any other Subsidiary of Activision Holdings which becomes a Borrower hereunder.

"CHANGE IN CONTROL" shall be deemed to have occurred if (a) any person or group (within the meaning of Rule 13d-5 of the Securities Exchange Act of 1934, as amended, as in

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effect on the date hereof) shall own directly or indirectly, beneficially or of record, shares representing more than 35% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of Activision Holdings, (b) a majority of the seats (other than vacant seats) on the board of directors of Activision Holdings shall at any time be occupied by persons who were neither (i) nominated by the board of directors of Activision Holdings, nor (ii) appointed by directors so nominated, or (c) any change in control (or similar event, however denominated) with respect to Activision Holdings or any of its Subsidiaries shall occur under and as defined in any indenture or agreement in respect of Indebtedness in an aggregate principal amount in excess of \$2,000,000 to which Activision Holdings or any of its Subsidiaries is a party, or (d) Activision ceases to be a wholly-owned Subsidiary of Activision Holdings, or (e) any Subsidiary of Activision which is a Borrower or UK Sub ceases to be a wholly-owned Subsidiary of Activision.

"COLLATERAL" shall mean all the "Collateral" as defined in any Security Document and shall also include any Mortgaged Properties, but shall exclude "Margin Stock" (as defined in Regulation U of the Board).

"EQUITY ISSUANCE" shall mean any issuance or sale by Activision Holdings or any Subsidiary of any Equity Interests of Activision Holdings or any Subsidiary, as applicable, or any obligations convertible into or exchangeable for, or giving any Person a right, option or warrant to acquire, such Equity Interests or such convertible or exchangeable obligations, except in each case for (a) any issuance or sale to a Borrower or any Subsidiary, (b) any issuance of directors' qualifying shares, (c) sales or issuances of common stock of Activision Holdings to management or key employees of Activision Holdings or any Subsidiary or Kaboom under any employee stock option or stock purchase plan or employee benefit plan in existence from time to time or other stock options from time to time granted to employees or directors, or in connection with license, distribution or development or other similar agreements, (d) conversion of the Convertible Subordinated Notes into common stock of Activision Holdings, (e)

issuance of common stock (or options or warrants to purchase common stock) of Activision Holdings as consideration for any Permitted Acquisition, (f) the issuance of common stock of Activision Holdings in connection with the Reorganization and (g) other issuances of Equity Interests for non-cash or no consideration.

"JOINDER AGREEMENT" shall mean a Borrower Joinder Agreement substantially in the form attached hereto as Exhibit E executed by Activision Holdings or any Domestic Subsidiary which becomes a Borrower hereunder.

"LEVERAGE RATIO" shall mean, (a) with respect to the Loan Parties on any date, the ratio of the daily average amount of Total Debt of the Loan Parties for the two months ended on such date to Adjusted EBITDA of the Loan Parties for such two month period and (b) with respect to Activision Holdings and its Subsidiaries on any date, the ratio of Total Debt of Activision Holdings and its Subsidiaries on a consolidated basis on such date to Adjusted EBITDA of Activision Holdings and its Subsidiaries on a consolidated basis for such two month period.

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"NET INCOME" shall mean, for any period, net income or loss of Activision Holdings and its Subsidiaries, or of the Loan Parties, as the case may be, for such period determined on a consolidated basis in accordance with GAAP; PROVIDED that there shall be excluded (a) the income of any Subsidiary to the extent that the declaration or payment of dividends or similar distributions by the Subsidiary of that income is prohibited by operation of the terms of its charter or any agreement, instrument, judgment, decree, statute, rule or governmental regulation applicable to the Subsidiary except to the extent that dividends or distributions are actually paid in compliance therewith, (b) the income (or loss) of any person accrued prior to the date it becomes a Subsidiary or is merged into or consolidated with a Borrower or any of its Subsidiaries or the date that person's assets are acquired by a Borrower or any of its Subsidiaries, and (c) the income of any Subsidiary which is not a wholly owned Subsidiary except to the extent that dividends or distributions are actually paid to Activision Holdings or a wholly owned Subsidiary.

"SUBSIDIARY" means any subsidiary of Activision Holdings, EXCLUDING, HOWEVER, Kaboom and any of its subsidiaries.

(c) adding the following clause (t) to the definition of "Eligible Receivables"

"(t) the Receivable is owed by Kaboom."

(d) deleting the reference to "Activision" in clause (a) of the definition of "Material Adverse Effect" and replacing it with "Activision Holdings".

SECTION 2.2. ADDITIONAL AMENDMENTS. The following sections of the Original Credit Agreement shall be amended as follows:

(a) All references to "Activision" in Section 5.04 shall be deleted and replaced with "Activision Holdings".

(b) Section 5.04 is further amended to require that the Borrowers shall provide to the Administrative Agent annual and quarterly financial statements for Kaboom, meeting the criteria described in clauses (a) and (b) of such Section 5.04.

(c) Section 5.12 is amended to add the following at the end of such Section.

"Promptly following the Reorganization, Activision Holdings shall pledge to the Collateral Agent the stock of Activision."

(d) Section 6.04 is amended to add the following clause (p) at the end of such Section:

"(p) Activision Holdings may acquire Equity Interests in, or make loans or advances to, Kaboom and Activision or any of its Domestic Subsidiaries may acquire Equity Interests in, or make loans or advances to, Kaboom, PROVIDED, HOWEVER, that (i) the aggregate amount

invested in Kaboom by Borrowers and

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their Subsidiaries, whether as an investment in Equity Interests or loans or advances, shall not exceed \$10,000,000 in the aggregate PLUS up to \$250,000 of short-term inter-company loans and advances at any time outstanding, (ii) all loans and advances shall be evidenced by promissory notes, and all such promissory notes and any certificates evidencing the Equity Interests of Kaboom shall be pledged by the applicable Borrower or Domestic Subsidiary as Collateral pursuant to the Pledge Agreement."

(e) Section 6.05 is amended to add the following clause (v) at the end of subsection (a):

"and (v) the Borrowers may effect the Reorganization."

(f) Section 6.06(a) is amended to add the following at the end of such Section:

"and PROVIDED FURTHER, that, as long as no Default or Event of Default shall have occurred and be continuing or shall result therefrom, Activision (prior to the Reorganization) or Activision Holdings (after the Reorganization) may purchase or redeem its common stock at a price no greater than \$10 per share and for a maximum amount, together with any funds used to redeem or purchase Convertible Subordinated Notes permitted under Section 6.14(b) hereof, of \$15,000,000."

(g) Section 6.07 is amended to add the following subsection (e):

"and (e) a Borrower or any Subsidiary may enter into the inter-company agreements with Kaboom described on Schedule 6.07(e) hereto."

(h) Each of Section 6.10(b) and Section 6.11(b) are amended to delete the references to "Activision and its Subsidiaries" and to replace them with "Borrowers and their Subsidiaries."

(i) Each of Sections 6.13(a) and (b) are amended to add the following immediately before the semicolon:

"LESS the amount paid by Activision or Activision Holdings since May 1, 2000 to purchase or redeem its common stock"

(j) Section 6.14(b) is amended to add the following at the end of such subsection:

";PROVIDED, HOWEVER, that, as long as no Default or Event of Default shall have occurred and be continuing or shall result therefrom, Activision Holdings or Activision may redeem or purchase the Convertible Subordinated Notes at a price no greater than 85% of par value and for a maximum amount, together with any funds used to redeem or purchase common stock of Activision or Activision Holdings permitted under Section 6.06(a) hereof, of \$15,000,000."

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(k) Section 6.16 is amended and restated as follows::

"SECTION 6.16. BUSINESS. With respect to Activision Holdings, engage in any business other than owning Equity Interests in Activision and Kaboom and, subject to compliance with Section 5.12 hereof, such other Subsidiaries as may be organized from time to time and with respect to Activision and other Subsidiaries, engage (directly or indirectly) in any business other than the businesses in which Activision and its Subsidiaries are engaged on the Closing Date and other businesses reasonably related thereto."

(l) The following Section 6.18 is added to the Original Credit Agreement:

"SECTION 6.18. MINIMUM UNDRAWN AVAILABILITY. Permit Undraw Availability (without giving effect to clause (iv) of the "Formula Amount" in Section 2.01) at any time to be less than an amount equal to \$15,000,000 LESS the aggregate amount of proceeds received by Activision or Activision Holdings from the exercise of stock options since May 1, 2000."

ARTICLE III

LIMITED WAIVER

The Lenders hereby waive any Default or Event of Default arising out of (a) the issuance by Activision of a dividend in "Rights" under and as defined in the Rights Agreement and (b) the failure of Activision to be in good standing in California as the result of failure to pay taxes in the amount of approximately \$300.00 as long as such Default or Event of Default is cured no later than July 15, 2000 and Borrowers delivers to Administrative Agent evidence of the good standing of Activision on or before such date.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

SECTION 4.1. REPRESENTATIONS AND WARRANTIES. In order to induce the Lenders to enter into this Amendment, each of the Borrowers hereby represents and warrants to each of the Lenders and the Administrative Agent that:

(a) Each representation and warranty of the Borrowers and each of their Subsidiaries contained in the Loan Documents is true and correct in all material respects as of the date hereof, and will be true and correct in all material respects as of the effective date of this Amendment.

(b) Each Borrower and each of its Subsidiaries has all requisite corporate power and authority to execute, deliver and perform this Amendment, and, in the case of the Subsidiary Guarantors, the Consent of Subsidiary Guarantors attached hereto (the "GUARANTOR CONSENT") and, in the case of Activision Holdings, to execute deliver and perform the Joinder Agreement

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and the other Loan Documents executed and delivered concurrently herewith. Activision and Merger Sub have all requisite corporate power and authority to effect the Reorganization.

(c) Each Loan Party has duly authorized, executed and delivered this Amendment and the Guarantor Consent, as applicable, and, as to Activision Holdings, the Joinder Agreement and the other Loan Documents, and neither its execution and delivery hereof or thereof nor its consummation of the transactions contemplated hereby or thereby (including the Reorganization) or its compliance with the terms hereof or thereof (i) conflicts with or constitutes a default under or results in a violation of the provisions of its governing documents or any requirement of law applicable to or binding on it or any of its properties, (ii) constitutes a default under or results in the violation of the provisions of any indenture, mortgage, deed of trust, agreement or other instrument to which it is a party or by which it or any of its properties or assets is or may be bound or affected, or (iii) results or could reasonably be expected to result in or requires the creation or imposition of (or the obligation to create or impose) any Lien (other than Liens in favor of the Collateral Agent) upon any of its property or assets under, or results in the acceleration of, any of its Indebtedness. The execution, delivery and performance of this Amendment, the Guarantor Consent, the Joinder Agreement and the other Loan Documents executed and delivered on the date hereof, as applicable, does not require the approval or consent of any holder or trustee of any Indebtedness or other obligations or any stockholder of any Borrower or any of its Subsidiaries nor does it require any filing (except (i) the filing of Uniform Commercial Code financing statements and filings with the United States Patent and Trademark Office and the United States Copyright Office, and (ii) the filing of a merger agreement to effect the Reorganization) with or consent or approval of any Governmental Authority, than those which have been obtained and are in full force and effect.

(d) This Amendment is a legal, valid and binding obligation of each Borrower, enforceable against each Borrower in accordance with its terms. The Guarantor Consent is a legal, valid and binding obligation of each Subsidiary

Guarantor, enforceable against each Subsidiary Guarantor in accordance with its terms. The Joinder Agreement and each other Loan Document executed and delivered by Activision Holdings in connection therewith are the legal, valid and binding obligations of Activision Holdings, enforceable against Activision Holdings in accordance with their terms.

(e) No fact is known to any Borrower which has resulted in, or could reasonably be expected to result in, a Material Adverse Effect.

(f) After giving effect to this Amendment, no event has occurred and is continuing or will result from the execution, delivery and performance of this Amendment or the other documents executed and delivered in connection herewith or the transactions contemplated hereby, including the Reorganization, that constitutes or will constitute a Default or Event of Default.

SECTION 4.2. ACKNOWLEDGMENT OF RELIANCE. Each of the Borrowers acknowledges that each of the Lenders and the Administrative Agent has entered into this Amendment in reliance upon the representations and warranties contained in this Article IV.

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ARTICLE V

CONDITIONS TO EFFECTIVENESS

This Amendment shall be effective only if and when signed by, and when counterparts hereof shall have been delivered to the Administrative Agent (by hand delivery, mail or telecopy) by, each of the Borrowers and the Required Lenders and only if and when each of the following conditions is satisfied:

SECTION 5.1. CONSENT OF SUBSIDIARY GUARANTORS. Each of the Subsidiary Guarantors shall have executed and delivered to the Administrative Agent the Guarantor Consent.

SECTION 5.2. JOINDER AGREEMENT AND LOAN DOCUMENTS. Activision Holdings shall have executed and delivered to the Administrative Agent the Joinder Agreement, and shall have become a party to the Loan Documents as a Borrower, and shall have delivered to the Collateral Agent the certificates evidencing the stock of Activision and Kaboom owned by it.

SECTION 5.3. SUPPORTING DOCUMENTS. The Borrowers shall have delivered to the Administrative Agent copies of resolutions of each of the Loan Parties approving and authorizing this Amendment, the Guarantor Consent, the Reorganization and, as to Activision Holdings, the Joinder Agreement and other Loan Documents, together with an incumbency certificate for the persons executing the applicable documents, all in form and substance satisfactory to the Administrative Agent.

SECTION 5.4. EXPENSE REIMBURSEMENTS. The Borrowers shall have paid all expense reimbursements due to the Administrative Agent in connection with this Amendment.

SECTION 5.5. LEGAL OPINIONS. Each of the Borrowers shall deliver to the Administrative Agent legal opinions of counsel to each of the Borrowers, in form and substance satisfactory to the Administrative Agent which may be in the form of one opinion.

SECTION 5.6. LIEN FILINGS. The Loan Parties shall have executed and delivered to the Collateral Agent such documents as may be reasonably requested by the Collateral Agent to perfect the Liens granted by the Loan Documents and to continue the perfection thereof, including such documents as may be necessary to reflect the Reorganization and the changes of the names of Activision and Activision Holdings.

SECTION 5.7. CONSENT FEE. The Borrowers shall have paid to the Administrative Agent for the ratable benefit of the Lenders a consent fee equal to \$175,000.

SECTION 5.8. NO DEFAULT; ACCURACY OF REPRESENTATIONS AND WARRANTIES. After giving effect to this Amendment, no Default or Event of Default shall have occurred and be continuing, and each representation and warranty made by the

Borrowers or any of their Subsidiaries herein or in the Loan Documents shall be true and correct in all material respects as if made on and as of the effective date of this Amendment, and the Borrowers shall have delivered to the Administrative Agent a certificate confirming such matters.

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ARTICLE VI

MISCELLANEOUS

SECTION 6.1. EFFECT OF AMENDMENT. From and after the date on which this Amendment becomes effective, all references in the Loan Documents to the Credit Agreement shall mean the Original Credit Agreement as amended hereby. Except as expressly amended or waived hereby, the Original Credit Agreement and the other Loan Documents, including the Liens granted thereunder, shall remain in full force and effect, and are hereby ratified and confirmed.

The issuance of the waiver contained herein does not constitute a waiver of any other Default or Event of Default.

SECTION 6.2. APPLICABLE LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 6.3. COMPLETE AGREEMENT. This Amendment sets forth exhaustively the complete agreement of the parties in respect of any amendment to any of the provisions of the Original Credit Agreement.

SECTION 6.4. HEADINGS & COUNTERPARTS. The Article and Section headings herein are intended solely for convenience of reference and shall not be used to interpret or construe the provisions hereof. This Amendment may be executed by one or more of the parties to this Amendment on any number of separate counterparts (including by telecopy), all of which taken together shall constitute but one and the same instrument.

[Remainder of page intentionally left blank.]

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IN WITNESS WHEREOF, the parties have caused this First Amendment to Credit Agreement to be executed and delivered by their proper and duly authorized officers as of the date first above written.

ACTIVISION, INC.

By: /s/ Lawrence Goldberg

Name: Lawrence Goldberg
Title: Executive Vice President,
Chief Operating Officer

HEAD GAMES PUBLISHING, INC.

By: /s/ Lawrence Goldberg

Name: Lawrence Goldberg
Title: Vice President

EXPERT SOFTWARE, INC.

By: /s/ Lawrence Goldberg

Name: Lawrence Goldberg
Title: Vice President

PNC BANK, NATIONAL ASSOCIATION,
individually and as Collateral Agent and Issuing
Bank and as Administrative Agent on behalf of
Lender

By: /s/ Thomas J. Stoltz

Name: Thomas J. Stoltz
Title: Vice President

PRINCIPAL SUBSIDIARIES OF THE REGISTRANT

EXHIBIT 21.1

Name of subsidiary -----	State or Other Jurisdiction of Incorporation or Organization -----
Activision Publishing, Inc.	Delaware
Activision Australia Pty Ltd.	Australia
Activision International B.V.	The Netherlands
Activision Deutschland GmbH	Germany
Activision GmbH	Germany
Activision New York, Inc.	New York
Activision Productions, Inc.	Delaware
Activision Texas, Inc.	Texas
Activision International Holdings, Inc.	California
Elsinore Multimedia, Inc.	Florida
Neversoft Entertainment, Inc.	California
Activision U.K. Ltd.	United Kingdom
CD Contact Data GmbH	Germany
CD Contact Data BV	The Netherlands
CentreSoft Ltd.	United Kingdom
CentreSoft France SARL	France
Combined Distribution (Holdings) Limited	United Kingdom
Contact Data Belgium N.V.	Belgium
The Disc Company International, Inc.	U.S. Virgin Islands
Expert Software, Inc.	Delaware
Head Games Publishing, Inc.	Minnesota
Jotaphoenicis Beteiligungs GmbH	Germany
Kappaphoenicis Beteiligungs GmbH	Germany
NBG EDV Handels und Verlags GmbH & Co. KG	Germany
PDQ Distribution Ltd.	United Kingdom
Raven Software Corporation	Wisconsin
Swfte International, Ltd.	Delaware

Target

Software Vertriebs GmbH

Germany

TDC Group, Inc.

Delaware

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the registration statements Nos. 333-30303, 333-36949, 333-43961, 333-46425, 333-56879, 333-61571, 333-67707, 033-75878, 333-85385, 333-96079 and 333-94509 on Form S-3 and Nos. 333-06130, 333-12621, 333-06054, 333-40727, 333-61573, 333-81239, 033-48411, 033-63638, 033-68144, 033-91074, 333-85383 and 333-36272 on Form S-8 of Activision, Inc. of our report dated May 5, 2000, except as to Note 14, which is as of June 9, 2000, relating to the 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, and the related financial statement schedule for each of the years in the three-year period ended March 31, 2000, which report appears in the March 31, 2000 annual report on Form 10-K of ACTIVISION, INC.

KPMG LLP

Los Angeles, California
June 28, 2000

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