

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the Quarterly Period Ended December 31, 2002

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

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**ACTIVISION, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**95-4803544**

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

**3100 Ocean Park Boulevard,  
Santa Monica, CA**  
(Address of principal executive offices)

**90405**  
(Zip Code)

**(310) 255-2000**

(Registrant's telephone number, including area code)

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

The number of shares of the registrant's Common Stock outstanding as of January 23, 2003 was 66,166,964.

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**ACTIVISION, INC. AND SUBSIDIARIES**

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**PART I. FINANCIAL INFORMATION.**

**Item 1. Financial Statements.**

**ACTIVISION, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except share data)**

	December 31, 2002	March 31, 2002
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 358,984	\$ 279,007
Short-term investments	169,874	—
Accounts receivable, net of allowances of \$76,728 and \$42,019 at December 31, 2002 and March 31, 2002, respectively	158,393	76,733
Inventories	37,284	20,736
Software development	43,657	36,263
Intellectual property licenses	10,612	6,326
Deferred income taxes	27,345	22,608
Other current assets	11,553	15,200
	817,702	456,873
Software development	7,818	3,254
Intellectual property licenses	42,221	10,899
Property and equipment, net	19,741	17,832
Deferred income taxes	11,806	28,795
Other assets	3,729	3,242
Goodwill	68,100	35,992
	971,117	556,887
Total assets	\$ 971,117	\$ 556,887
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Current portion of long-term debt	\$ 145	\$ 168
Accounts payable	106,658	64,410
Accrued expenses	93,815	59,096
	200,618	123,674
Total current liabilities	200,618	123,674

Long-term debt, less current portion	2,676	3,122
Total liabilities	203,294	126,796
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Preferred stock, \$.000001 par value, 3,750,000 shares authorized, no shares issued at December 31, 2002 and March 31, 2002	—	—
Series A Junior Preferred stock, \$.000001 par value, 1,250,000 shares authorized, no shares issued at December 31, 2002 and March 31, 2002	—	—
Common stock, \$.000001 par value, 125,000,000 shares authorized, 71,428,422 and 61,034,263 shares issued and 65,284,867 and 56,705,504 shares outstanding at December 31, 2002 and March 31, 2002, respectively	—	—
Additional paid-in capital	675,779	397,528
Retained earnings	138,521	64,384
Less: Treasury stock, at cost, 6,143,555 and 4,328,759 shares at December 31, 2002 and March 31, 2002, respectively	(44,182)	(20,323)
Accumulated other comprehensive loss	(2,295)	(11,498)
Total shareholders' equity	767,823	430,091
Total liabilities and shareholders' equity	\$ 971,117	\$ 556,887

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

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

	For the three months ended December 31,		For the nine months ended December 31,	
	2002	2001	2002	2001
Net revenues	\$ 378,685	\$ 371,341	\$ 739,115	\$ 621,523
Costs and expenses:				
Cost of sales—product costs	204,881	195,560	369,004	347,840
Cost of sales—software royalties and amortization	33,503	34,997	67,396	47,699
Cost of sales—intellectual property licenses	14,918	23,087	32,704	33,546
Product development	13,758	10,848	38,768	29,059
Sales and marketing	33,875	31,883	84,644	67,064
General and administrative	10,989	13,165	37,308	32,603
Total costs and expenses	311,924	309,540	629,824	557,811
Operating income	66,761	61,801	109,291	63,712
Investment income, net	2,533	271	6,554	1,923
Income before income tax provision	69,294	62,072	115,845	65,635
Income tax provision	24,947	22,962	41,708	24,281
Net income	\$ 44,347	\$ 39,110	\$ 74,137	\$ 41,354
Basic earnings per share	\$ 0.66	\$ 0.75	\$ 1.15	\$ 0.84
Weighted average common shares outstanding	66,806	52,359	64,559	49,254
Diluted earnings per share	\$ 0.63	\$ 0.66	\$ 1.06	\$ 0.73

Weighted average common shares outstanding assuming dilution	70,815	59,293	69,881	56,635
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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**  
(Unaudited)  
(In thousands)

	For the nine months ended December 31,	
	2002	2001
<b>Cash flows from operating activities:</b>		
Net income	\$ 74,137	\$ 41,354
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	12,817	(27,009)
Depreciation and amortization	6,826	5,085
Amortization and write-offs of capitalized software development costs and intellectual property licenses	75,800	52,141
Tax benefit of stock options and warrants exercised	24,053	44,535
Loss on equity investments and other	224	—
Changes in operating assets and liabilities (net of effects of acquisitions):		
Accounts receivable	(80,649)	(128,697)
Inventories	(16,548)	13,258
Software development and intellectual property licenses	(123,366)	(60,958)
Other assets	4,970	1,875
Accounts payable	41,984	60,172
Accrued expenses and other liabilities	28,802	42,667
Net cash provided by operating activities	49,050	44,423
<b>Cash flows from investing activities:</b>		
Capital expenditures	(6,941)	(6,583)
Proceeds from disposal of property and equipment	505	624
Purchases of short-term investments	(384,117)	—
Proceeds from sales and maturities of short-term investments	214,817	—
Cash payment to effect business combinations, net of cash acquired	(21,199)	—
Minority capital investment	(1,500)	—
Other	—	(129)
Net cash used in investing activities	(198,435)	(6,088)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock to employees	18,862	39,987
Payment on term loan	—	(8,550)
Other borrowings, net	(717)	(1,384)
Redemption of convertible subordinated notes	—	(62)
Proceeds from issuance of common stock pursuant to underwritten public offering, net of offering costs	248,072	—
Purchase of structured stock repurchase agreements	(25,000)	—
Purchase of treasury stock	(18,929)	(74)
Net cash provided by financing activities	222,288	29,917
Effect of exchange rate changes on cash	7,074	889
Net increase in cash and cash equivalents	79,977	69,141
Cash and cash equivalents at beginning of period	279,007	125,550

Cash and cash equivalents at end of period

\$ 358,984    \$ 194,691

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

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**ACTIVISION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the nine months ended December 31, 2002**  
**(Unaudited)**  
**(In thousands)**

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity
	Shares	Amount			Shares	Amount		
<b>Balance, March 31, 2002</b>	<b>61,034</b>	<b>\$ —</b>	<b>\$ 397,528</b>	<b>\$ 64,384</b>	<b>(4,329)</b>	<b>\$ (20,323)</b>	<b>\$ (11,498)</b>	<b>\$ 430,091</b>
Components of comprehensive income:								
Net income	—	—	—	74,137	—	—	—	74,137
Unrealized appreciation on short-term investments	—	—	—	—	—	—	498	498
Foreign currency translation adjustment	—	—	—	—	—	—	8,705	8,705
Total comprehensive income								83,340
Issuance of common stock pursuant to underwritten public offering	7,500	—	247,291	—	—	—	—	247,291
Issuance of common stock pursuant to employee stock option and stock purchase plans and common stock warrants	2,543	—	18,862	—	—	—	—	18,862
Issuance of common stock warrants	—	—	2,184	—	—	—	—	2,184
Tax benefit attributable to employee stock options and common stock warrants	—	—	24,053	—	—	—	—	24,053
Issuance of common stock to effect business combinations	351	—	10,861	—	—	—	—	10,861
Structured stock repurchase transactions	—	—	(25,000)	—	—	—	—	(25,000)
Purchase of treasury stock	—	—	—	—	(1,815)	(23,859)	—	(23,859)
<b>Balance, December 31, 2002</b>	<b>71,428</b>	<b>\$ —</b>	<b>\$ 675,779</b>	<b>\$ 138,521</b>	<b>(6,144)</b>	<b>\$ (44,182)</b>	<b>\$ (2,295)</b>	<b>\$ 767,823</b>

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 (Unaudited)**  
**For the three and nine months ended December 31, 2002**

**1. Basis of Presentation**

The accompanying consolidated financial statements include the accounts of Activision, Inc. and its subsidiaries ("Activision" or "we"). The information furnished is unaudited and reflects all adjustments that, in the opinion of management, are necessary to provide a fair statement of the results for the interim periods presented. The consolidated financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2002 as filed with the Securities and Exchange Commission.

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

**2. Acquisitions**

Effective October 4, 2002, we acquired all of the outstanding ownership interests of Luxoflux Corp., ("Luxoflux"), a privately held interactive software development company, in exchange for \$9.0 million in cash. Luxoflux is an experienced, multi-platform, console software developer. This acquisition further enables us to implement our multi-platform development strategy by augmenting our internal product development capabilities

for console systems. The purchase price of the transaction, including acquisition costs, was approximately \$9.2 million and has been allocated to assets acquired and liabilities assumed as follows (amounts in thousands):

Current assets	\$	537
Property and equipment		83
Other assets		15
Goodwill		9,098
Current liabilities		(508)
	\$	9,225

Goodwill has been included in the publishing segment of our business and is non-deductible for tax purposes. A significant portion of the purchase price for this acquisition was assigned to goodwill as the primary asset we acquired in the transaction was an assembled workforce with proven technical and design talent with a history of high quality product creation. The results of operations of Luxoflux are included in our consolidated statement of operations beginning October 4, 2002. Pro forma consolidated statements of operations are not shown, as they would not differ materially from reported results.

Approximately 110,000 shares of our common stock may be issued to Luxoflux's equity holders and employees over the course of several years, depending on the satisfaction of certain product performance requirements and other criteria. This contingent consideration will be recorded as an additional element of the purchase price for Luxoflux when those contingencies are resolved.

Effective May 20, 2002, we acquired all of the outstanding ownership interests of Z-Axis Ltd. ("Z-Axis"), a privately held interactive software development company, in exchange for \$12.5 million in cash and 249,190 shares of our common stock valued at approximately \$8.2 million. Z-Axis is an experienced, multi-platform, console software developer. This acquisition further enables us to implement our multi-platform development strategy by augmenting our internal product development

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capabilities for console systems. The purchase price of the transaction, including acquisition costs, was valued at approximately \$20.9 million and has been allocated to assets acquired and liabilities assumed as follows (amounts in thousands):

Current assets	\$	1,645
Other intangibles		113
Property and equipment		172
Other assets		20
Goodwill		20,239
Current liabilities		(1,323)
	\$	20,866

Goodwill has been included in the publishing segment of our business and is non-deductible for tax purposes. A significant portion of the purchase price for this acquisition was assigned to goodwill as the primary asset we acquired in the transaction was an assembled workforce with proven technical and design talent with a history of high quality product creation. The results of operations of Z-Axis are included in our consolidated statement of operations beginning May 20, 2002. Pro forma consolidated statements of operations are not shown, as they would not differ materially from reported results.

Approximately 93,000 additional shares of our common stock may be issued to Z-Axis' equity holders over the course of several years, depending on the satisfaction of certain product performance requirements and other criteria. This contingent consideration will be recorded as an additional element of the purchase price for Z-Axis when those contingencies are resolved.

### 3. Short-term Investments

Short-term investments generally mature between three months and two years. Investments with maturities beyond one year may be classified as short-term based on their liquid nature and because such securities represent the investment of cash that is available for current operations. All of our short-term investments are classified as available-for-sale and are carried at fair market value with unrealized appreciation (depreciation) reported as a separate component of accumulated other comprehensive loss in shareholders' equity.

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The following table summarizes our investments in securities as of December 31, 2002 (amounts in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>Cash and cash equivalents</i>				
Cash and time deposits	\$ 137,914	\$ —	\$ —	\$ 137,914
Money market instruments	110,992	—	—	110,992
Auction rate notes	110,141	—	(63)	110,078

Cash and cash equivalents	359,047	—	(63)	358,984
<i>Short-term investments</i>				
Corporate bonds	32,113	107	(5)	32,215
Taxable municipal bonds	3,502	—	—	3,502
U.S. agency issues	62,626	91	(12)	62,705
Asset-backed securities	71,072	610	(230)	71,452
Short-term investments	169,313	808	(247)	169,874
Cash, cash equivalents and short-term investments	\$ 528,360	\$ 808	\$ (310)	\$ 528,858

The following table summarizes the maturities of our investments in debt securities as of December 31, 2002 (amounts in thousands):

	Amortized Cost	Fair Value
Due in one year or less	\$ 147,109	\$ 147,152
Due after one year through two years	61,273	61,348
	208,382	208,500
Asset-backed securities	71,072	71,452
Total	\$ 279,454	\$ 279,952

The specific identification method is used to determine the cost of securities disposed with realized gains and losses reflected in investment income, net. For the three months ended December 31, 2002, net realized gains on short-term investments consisted of \$188,000 of gross realized gains and \$56,000 of gross realized losses. For the nine months ended December 31, 2002, net realized gains on short-term investments consisted of \$191,000 of gross realized gains and \$116,000 of gross realized losses.

#### 4. Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. Our inventories consist of the following (amounts in thousands):

	December 31, 2002	March 31, 2002
Purchased parts and components	\$ 1,763	\$ 892
Finished goods	35,521	19,844
	\$ 37,284	\$ 20,736

#### 5. Goodwill and Other Intangible Assets

##### *Goodwill*

The changes in the carrying amount of goodwill for the nine months ended December 31, 2002 are as follows (amounts in thousands):

	Publishing	Distribution	Total
Balance as of March 31, 2002	\$ 31,626	\$ 4,366	\$ 35,992
Goodwill acquired during the period	29,337	—	29,337
Issuance of contingent consideration	2,668	—	2,668
Adjustment to original purchase allocation	(447)	—	(447)
Effect of foreign currency exchange rates	—	550	550
Balance as of December 31, 2002	\$ 63,184	\$ 4,916	\$ 68,100

In July 2002 in connection with the satisfaction of certain product performance requirements as specified in the prior fiscal year acquisition agreement with Treyarch Invention, LLC, we issued 101,635 of our common shares with an assigned value of \$2.7 million.

##### *Acquired Intangible Assets*

Acquired intangible assets are as follows (amounts in thousands):

	December 31, 2002		March 31, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Amortized Intangible Assets</b>				
Acquired software development and royalty agreements	\$ 113	\$ (113)	\$ 84	\$ —

Acquired intangible assets are included in the consolidated balance sheets in other current assets. For the nine months ended December 31, 2002, aggregate amortization expense related to acquired intangible assets was \$113,400. There was no such amortization for the three months ended December 31, 2002 or for the three and nine months ended December 31, 2001.

## 6. Income Taxes

The income tax provision of \$24.9 million and \$41.7 million for the three and nine months ended December 31, 2002, respectively, reflects our effective income tax rate of approximately 36%. The income tax provision of \$23.0 million and \$24.3 million for the three and nine months ended December 31, 2001, respectively, reflects our effective income tax rate of approximately 37%. For both periods, the significant item that generated the variance between our effective rate and our statutory rate of 35% was state taxes, partially offset by research and development tax credits.

## 7. Software Development Costs and Intellectual Property Licenses

Software development costs include payments made to independent software developers under development agreements, as well as direct costs incurred for internally developed products.

We account for software development 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 are capitalized once technological feasibility of a

product is established and such costs are determined to be recoverable. Technological feasibility of a product encompasses both technical design documentation and game design documentation. For products where proven game engine technology exists, this may occur early in the development cycle. Technological feasibility is evaluated on a product-by-product basis. Prior to a product's release, we expense, as part of cost of sales—software royalties and amortization, capitalized costs when we believe such amounts are not recoverable. Capitalized costs for those products that are cancelled or abandoned are charged to product development expense. Amounts related to software development which are not capitalized are charged immediately to product development expense. We evaluate the future recoverability of capitalized amounts on a quarterly basis. The recoverability of capitalized software development costs is evaluated based on the expected performance of the specific products for which the costs relate. The following criteria are used to evaluate expected product performance: 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 our budgeted amount.

Commencing upon product release, capitalized software development costs are amortized to cost of sales—software royalties and amortization based on the ratio of current revenues to total projected revenues, generally resulting in an amortization period of six months or less. For products that have been released in prior periods, we evaluate the future recoverability of capitalized amounts on a quarterly basis. The primary evaluation criterion is actual title performance.

Intellectual property license costs represent license fees paid to intellectual property rights holders for use of their trademarks or copyrights in the development of our products.

We evaluate the future recoverability of capitalized intellectual property licenses on a quarterly basis. The recoverability of capitalized intellectual property license costs is evaluated based on the expected performance of the specific products in which the licensed trademark or copyright is used. Prior to the related product's release, we expense, as part of cost of sales—intellectual property licenses, capitalized intellectual property costs when we believe such amounts are not recoverable. Capitalized intellectual property costs for those products that are cancelled or abandoned are charged to product development expense. The following criteria are used to evaluate expected product performance: 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 our budgeted amount.

Commencing upon the related product's release, capitalized intellectual property license costs are amortized to cost of sales—intellectual property licenses based on the ratio of current revenues for the specific product to total projected revenues for all products in which the licensed trademark or copyright will be utilized. As intellectual property license contracts may extend for multiple years, the amortization of capitalized intellectual property license costs relating to such contracts may extend beyond one year. For products that have been released, we evaluate the future recoverability of capitalized amounts on a quarterly basis. The primary evaluation criterion is actual title performance.

As of December 31, 2002, capitalized software development costs included \$16.3 million of internally developed software costs and \$35.2 million of payments made to independent software developers. As of March 31, 2002, capitalized software development costs included \$16.0 million of internally developed software costs and \$23.5 million of payments made to independent software developers. Capitalized

intellectual property licenses were \$52.8 million and \$17.2 million as of December 31, 2002 and March 31, 2002, respectively. Amortization and write-offs of capitalized software development costs and intellectual property licenses, combined, was \$41.1 million and \$34.6 million for the three months ended December 31, 2002 and 2001, respectively. Amortization and

write-offs of capitalized software development costs and intellectual property licenses, combined, was \$75.8 million and \$52.1 million for the nine months ended December 31, 2002 and 2001, respectively.

## 8. Comprehensive Income

The components of comprehensive income for the three and nine months ended December 31, 2002 and 2001 were as follows (amounts in thousands):

	Three months ended December 31,		Nine months ended December 31,	
	2002	2001	2002	2001
Net income	\$ 44,347	\$ 39,110	\$ 74,137	\$ 41,354
Other comprehensive income (loss)				
Foreign currency translation adjustment	2,529	(435)	8,705	1,077
Unrealized appreciation on short-term investments	624	—	498	—
Other comprehensive income (loss)	3,153	(435)	9,203	1,077
Comprehensive income	\$ 47,500	\$ 38,675	\$ 83,340	\$ 42,431

## 9. Revenue Recognition

We recognize revenue from the sale of our products upon the transfer of title and risk of loss to our customers. We may permit product returns from or grant price protection to our customers on unsold merchandise under certain conditions. Price protection policies, when granted and applicable, allow customers a credit against amounts they owe us with respect to merchandise unsold by them. With respect to license agreements that provide customers the right to make multiple copies in exchange for guaranteed amounts, revenue is recognized upon delivery of such copies. Per copy royalties on sales that exceed the guarantee are recognized as earned. In addition, in order to recognize revenue for both product sales and licensing transactions, persuasive evidence of an arrangement must exist and collection of the related receivable must be probable.

Revenue from product sales is reflected after deducting the estimated allowance for returns and price protection. Management must make estimates of potential future product returns and price protection related to current period product revenue. We estimate the amount of future returns and price protection based upon historical experience, customer inventory levels and changes in the demand and acceptance of our products by the end consumer.

## 10. Investment Income, Net

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

	Three months ended December 31,		Nine months ended December 31,	
	2002	2001	2002	2001
Interest expense	\$ (138)	\$ (615)	\$ (810)	\$ (1,732)
Interest income	2,539	886	7,289	3,655
Net realized gain on investments	132	—	75	—
Investment income, net	\$ 2,533	\$ 271	\$ 6,554	\$ 1,923

## 11. Supplemental Cash Flow Information

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

Nine months ended  
December 31,

	2002	2001
<i>Non-cash investing and financing activities</i>		
Conversion of convertible subordinated notes, net of conversion costs	\$ —	\$ 58,651
Subsidiaries acquired with common stock	10,861	15,553
Issuance of options and common stock warrants	2,184	3,217
Stock offering costs	781	—
Change in unrealized appreciation on short-term investments	498	—
<i>Supplemental cash flow information</i>		
Cash paid for income taxes	\$ 3,847	\$ 2,085
Cash paid (received) for interest, net	(5,933)	(1,665)

## 12. Operations by Reportable Segments and Geographic Area

Based upon our organizational structure, we operate two business segments: (i) publishing of interactive entertainment software and (ii) distribution of interactive entertainment software and hardware products.

Publishing refers to the development, marketing and sale of products, either directly, by license or through our affiliate label program with third party publishers. In the United States, our products are sold primarily on a direct basis to mass-market retailers, consumer electronics stores, discount warehouses and office super-stores. We conduct our international publishing activities through offices in the United Kingdom, Germany, France, Australia, Sweden, Canada and Japan. Our products are sold internationally on a direct to retail basis, through third party distribution and licensing arrangements and through our wholly-owned European distribution subsidiaries.

Distribution refers to our European operations located in the United Kingdom, the Netherlands and Germany that provide logistical and sales services to third party publishers of interactive entertainment software, our own publishing operations and manufacturers of interactive entertainment hardware.

Resources are allocated to each of these segments using information on their respective net revenues and operating profits before interest and taxes. The segments are not evaluated based on assets or depreciation.

The accounting policies of these segments are the same as those described in the Summary of Significant Accounting Policies in our Annual Report on Form 10-K for the year ended March 31, 2002. Revenue derived from sales between segments is eliminated in consolidation.

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Information on the reportable segments for the three and nine months ended December 31, 2002 and 2001 is as follows (amounts in thousands):

	Three months ended December 31, 2002		
	Publishing	Distribution	Total
Total segment revenues	\$ 256,729	\$ 121,956	\$ 378,685
Revenues from sales between segments	(26,345)	26,345	—
Revenues from external customers	\$ 230,384	\$ 148,301	\$ 378,685
Operating income	\$ 54,926	\$ 11,835	\$ 66,761
Goodwill	\$ 63,184	\$ 4,916	\$ 68,100
Total assets	\$ 818,659	\$ 152,458	\$ 971,117
	Three months ended December 31, 2001		
	Publishing	Distribution	Total
Total segment revenues	\$ 260,737	\$ 110,604	\$ 371,341
Revenues from sales between segments	(25,178)	25,178	—
Revenues from external customers	\$ 235,559	\$ 135,782	\$ 371,341
Operating income	\$ 53,497	\$ 8,304	\$ 61,801
Goodwill	\$ 21,045	\$ 4,452	\$ 25,497
Total assets	\$ 425,659	\$ 168,543	\$ 594,202

	Nine months ended December 31, 2002		
	Publishing	Distribution	Total
Total segment revenues	\$ 536,972	\$ 202,143	\$ 739,115
Revenues from sales between segments	(51,535)	51,535	—
Revenues from external customers	\$ 485,437	\$ 253,678	\$ 739,115
Operating income	\$ 96,659	\$ 12,632	\$ 109,291
Goodwill	\$ 63,184	\$ 4,916	\$ 68,100
Total assets	\$ 818,659	\$ 152,458	\$ 971,117

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	Nine months ended December 31, 2001		
	Publishing	Distribution	Total
Total segment revenues	\$ 441,195	\$ 180,328	\$ 621,523
Revenues from sales between segments	(38,659)	38,659	—
Revenues from external customers	\$ 402,536	\$ 218,987	\$ 621,523
Operating income	\$ 54,311	\$ 9,401	\$ 63,712
Goodwill	\$ 21,045	\$ 4,452	\$ 25,497
Total assets	\$ 425,659	\$ 168,543	\$ 594,202

Geographic information for the three and nine months ended December 31, 2002 and 2001 is based on the location of the selling entity. Revenues from external customers by geographic region were as follows (amounts in thousands):

	Three months ended December 31,		Nine months ended December 31,	
	2002	2001	2002	2001
United States	\$ 179,643	\$ 194,497	\$ 380,045	\$ 332,441
Europe	190,030	171,531	342,561	278,902
Other	9,012	5,313	16,509	10,180
Total	\$ 378,685	\$ 371,341	\$ 739,115	\$ 621,523

Revenues by platform were as follows (amounts in thousands):

	Three months ended December 31,		Nine months ended December 31,	
	2002	2001	2002	2001
Console	\$ 320,528	\$ 254,353	\$ 582,160	\$ 376,496
Hand-held	25,632	50,438	56,859	137,072
PC	32,525	66,550	100,096	107,955
Total	\$ 378,685	\$ 371,341	\$ 739,115	\$ 621,523

As of and for the three and nine months ended December 31, 2002, we had one customer that accounted for 17% of consolidated net revenues and 29% of consolidated accounts receivable, net. As of and for the three and nine months ended December 31, 2001, we had one customer that accounted for 15% of consolidated net revenues and 23% of consolidated accounts receivable, net. This customer was the same customer in all periods and was a customer of both our publishing and distribution businesses.

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### 13. Computation of Earnings Per Share

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

	Three months ended December 31,		Nine months ended December 31,	
	2002	2001	2002	2001
<b>Numerator</b>				
Numerator for basic and diluted earnings per share—income available to common shareholders	\$ 44,347	\$ 39,110	\$ 74,137	\$ 41,354
<b>Denominator</b>				
Denominator for basic earnings per share—weighted average common shares outstanding	66,806	52,359	64,559	49,254
<b>Effect of dilutive securities:</b>				
Employee stock options and stock purchase plan	3,761	6,454	4,948	6,742
Warrants to purchase common stock	248	480	374	639
Potential dilutive common shares	4,009	6,934	5,322	7,381
Denominator for diluted earnings per share—weighted average common shares outstanding plus assumed conversions	70,815	59,293	69,881	56,635
Basic earnings per share	\$ 0.66	\$ 0.75	\$ 1.15	\$ 0.84
Diluted earnings per share	\$ 0.63	\$ 0.66	\$ 1.06	\$ 0.73

Options to purchase 4,702,748 shares of common stock at exercise prices ranging from \$18.61 to \$33.24 and options to purchase 2,254,633 shares of common stock at exercise prices ranging from \$24.98 to \$33.24 were outstanding for the three and nine months ended December 31, 2002, respectively, but were not included in the calculation of diluted earnings per share because their effect would be antidilutive.

Options to purchase 100,094 shares of common stock at exercise prices ranging from \$23.39 to \$25.81 and options to purchase 80,713 shares of common stock at exercise prices ranging from \$21.63 to \$25.81 were outstanding for the three and nine months ended December 31, 2001, respectively, but were not included in the calculation of diluted earnings per share because their effect would be antidilutive.

### 14. Commitments

#### *Credit Facilities and Other*

In June 1999, we obtained a \$100.0 million revolving credit facility and a \$25.0 million term loan with a syndicate of banks (the "U.S. Facility"). The revolving portion of the U.S. Facility provided us with the ability to borrow up to \$100.0 million, including issuing letters of credit up to \$80.0 million, on a revolving basis against eligible accounts receivable and inventory. The term loan had a three-year term with principal amortization on a straight-line quarterly basis beginning December 31, 1999, a borrowing rate based on the banks' base rate (which was generally equivalent to the published prime rate) plus 2% or LIBOR plus 3% and was to expire June 2002. The revolving portion of the U.S. Facility had a borrowing rate based on the banks' base rate plus 1.75% or LIBOR plus 2.75%. In May 2001, we accelerated our repayment of the outstanding balance under the term loan portion of the U.S. Facility. In connection with the accelerated repayment, we amended the U.S. Facility (the

"Amended and Restated U.S. Facility"). The Amended and Restated U.S. Facility eliminated the term loan, reduced the revolver to \$78.0 million and reduced the interest rate to the banks' base rate plus 1.25% or LIBOR plus 2.25%. The Amended and Restated U.S. Facility was collateralized by substantially all of our assets and expired in August 2002. Due to our improved financial position, including significant cash, cash equivalent and short-term investment balances and minimal debt, we did not seek additional bank financing upon the expiration of the Amended and Restated U.S. Facility.

We have a revolving credit facility through our CD Contact subsidiary in the Netherlands (the "Netherlands Facility"). The Netherlands Facility permitted revolving credit loans and letters of credit up to Euro ("EUR") 2.5 million (\$2.6 million) as of December 31, 2002, based upon eligible accounts receivable balances. The Netherlands Facility is due on demand, bears interest at a Eurocurrency rate plus 1.25%, is collateralized by the subsidiary's accounts receivable and inventory and a EUR 0.5 million (\$0.5 million) guarantee made by our Centresoft subsidiary through its bank facility and expires August 2003. As of December 31, 2002, there were no borrowings or letters of credit outstanding under the Netherlands Facility.

We also have revolving credit facilities with our CentreSoft subsidiary located in the United Kingdom (the "UK Facility") and our NBG subsidiary located in Germany (the "German Facility"). As of December 31, 2002, the UK Facility provided Centresoft with the ability to borrow up to Great British Pounds ("GBP") 8.0 million (\$12.8 million), including issuing letters of credit, on a revolving basis. Furthermore, as of December 31, 2002, under the UK Facility, Centresoft provided a EUR 0.5 million (\$0.5 million) guarantee which served as collateral for the

Netherlands Facility. The UK Facility bears interest at LIBOR plus 1.5%, is collateralized by substantially all of the assets of the subsidiary and expires in October 2003. The UK Facility also contains various covenants that require the subsidiary to maintain specified financial ratios related to, among others, fixed charges. As of December 31, 2002, we were in compliance with these covenants. No borrowings were outstanding against the UK Facility as of December 31, 2002. The German Facility provided for revolving loans up to EUR 0.8 million (\$0.8 million) as of December 31, 2002, bears interest at a Eurocurrency rate plus 2.5%, is collateralized by the subsidiary's accounts receivable, inventory and certain property and equipment and expires June 2003. No borrowings were outstanding against the German Facility as of December 31, 2002.

In connection with our purchases of Nintendo GameCube and Game Boy software for distribution in North America and Europe, Nintendo requires us to provide either standby letters of credit or cash prepayment prior to accepting purchase orders.

#### *Private Placement of Convertible Subordinated Notes*

In December 1997, we completed the private placement of \$60.0 million principal amount of 6<sup>3</sup>/<sub>4</sub>% convertible subordinated notes due 2005 (the "Notes"). The Notes were 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 our common stock at a conversion price of \$12.583 per share, subject to adjustment in certain circumstances. During the three months ended June 30, 2001, we called for the redemption of the Notes. In connection with that call, holders converted to common stock approximately \$58.7 million aggregate principal amount of their Notes, net of conversion costs. The remaining Notes were redeemed for cash.

#### *Software Developer and Intellectual Property License Contracts*

In the normal course of business, we enter into contractual arrangements with third parties for the development of products, as well as for the rights to intellectual property. Under these agreements, we commit to provide specified payments to a developer or intellectual property holder, based upon

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contractual arrangements. Assuming all contractual provisions are met, the total future minimum contract commitment for contracts in place as of December 31, 2002 is approximately \$135.4 million and is scheduled to be paid as follows (amounts in thousands):

#### *Fiscal year ending March 31,*

2003	\$	23,681
2004		71,050
2005		19,991
2006		12,300
2007 and thereafter		8,425
Total	\$	135,447

#### *Legal Proceedings*

We are party to routine claims and suits brought by us and against us in the ordinary course of business, including disputes arising over the ownership of intellectual property rights, contractual claims and collection matters. In the opinion of management, the outcome of such routine claims will not have a material adverse effect on our business, financial condition, results of operations or liquidity.

### **15. Capital Transactions**

On October 4, 2002, our Board of Directors authorized a buyback program under which we can repurchase up to \$150.0 million of our common stock. Under the program, shares may be purchased as determined by management from time to time in the open market or in privately negotiated transactions, including privately negotiated structured option transactions, and through transactions in the options markets. Depending on market conditions and other factors, these purchases may be commenced or suspended at any time or from time to time without prior notice.

As of December 31, 2002, we had repurchased approximately 1.8 million shares of our common stock at an average cost of \$13.15 per share. Additionally under the Board approved buyback program, we entered into a series of structured stock repurchase transactions in the aggregate amount of \$25.0 million. These transactions may be settled in cash or stock based on the market price of our common stock on the date of the settlement. Upon settlement, we will either have our capital investment returned with a premium or receive up to approximately 2.1 million shares of our common stock, depending, respectively, on whether the market price of our common stock is above or below a pre-determined price agreed in connection with each such transaction. These transactions are recorded in shareholders' equity in the accompanying consolidated balance sheet as of December 31, 2002.

On December 16, 2002, the Board of Directors approved the Activision 2002 Studio Employee Retention Incentive Plan (the "2002 Studio Plan"). The 2002 Studio Plan permits the granting of "Awards" in the form of non-qualified stock options and restricted stock awards to key studio employees (other than executive officers) of Activision, our subsidiaries and affiliates and to contractors and others. The exercise price for Awards issued under the 2002 Studio Plan is determined at the discretion of the Board of Directors (or the Compensation Committee of the Board of Directors, which administers the 2002 Studio Plan), and in the case of non-qualified options, must exceed or be equal to 85% of the fair market value of our common stock at the date of grant. Options typically become exercisable in installments over a period not to exceed five years. Awards must typically be exercised within 10 years of the date of grant. The 2002 Studio Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. The total number of shares of common stock available for distribution under the 2002 Studio Plan is 800,000. There were 400,000 shares remaining for grant under the 2002 Studio Plan as of December 31, 2002.

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## 16. Related Parties

In August 2001, we elected to our Board of Directors an individual who is a partner in a law firm that has provided legal services to Activision for more than ten years. The fees we paid to the law firm account for less than 1% of the firm's total revenues. The rates charged to us were at arm's length, and we believe that the fees are competitive with the fees charged by other law firms.

## 17. Recently Issued Accounting Standards

In June 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be initially measured at fair value and recognized when the liability is incurred. The provisions of SFAS No. 146 are required to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

In January 2003, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. It also requires disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for annual and interim periods beginning after December 15, 2002. As we have elected not to change to the fair value based method of accounting for stock-based employee compensation, the adoption of SFAS No. 148 will not have an impact upon our financial condition or results of operations.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### OVERVIEW

We are a leading international publisher of interactive entertainment software products. We have built a company with a diverse portfolio of products that spans a wide range of categories and target markets and that is used on a variety of game hardware platforms and operating systems. We have created, licensed and acquired a group of highly recognizable brands which we market to a growing variety of consumer demographics.

Our products cover the action/adventure, action sports, racing, role-playing, simulation, first-person action and strategy game categories. We offer our products in versions that operate on the Sony PlayStation 2 ("PS2"), Sony PlayStation ("PS1"), Nintendo GameCube ("GameCube") and Microsoft Xbox ("Xbox") console systems, Nintendo Game Boy Advance ("GBA") hand-held device, as well as on personal computers ("PC").

Our publishing business involves the development, marketing and sale of products, either directly, by license or through our affiliate label program with third party publishers. In the United States, our products are sold primarily on a direct basis to mass-market retailers, consumer electronics stores, discount warehouses and office super-stores. We conduct our international publishing activities through offices in the United Kingdom, Germany, France, Australia, Sweden, Canada and Japan. Our products are sold internationally on a direct to retail basis, through third party distribution and licensing arrangements and through our wholly-owned European distribution subsidiaries. In addition to publishing, we maintain distribution operations located in the United Kingdom, the Netherlands and Germany that provide logistical and sales services to third party publishers of interactive entertainment software, our own publishing operations and manufacturers of interactive entertainment hardware.

Our profitability is directly affected by the mix of revenues from our publishing and distribution segments. Publishing operating margins are substantially higher than margins realized from our distribution segment. Operating margins in our distribution segment are also affected by the mix of hardware and software sales, with software producing higher margins than hardware.

Our focus with respect to future game development will be on big, well-established brands that we believe we can build into successful franchises such as our super heroes and action sports brands. With regards to our super heroes brands, we recently exercised an option to develop and publish the video game based on the "Spider-Man" movie sequel which is expected to be released in the spring of 2004. *Spider-Man: The Movie* was a key release for the first quarter of fiscal 2003 and has continued to perform strongly throughout fiscal 2003. In December 2002, we expanded our long-term alliance with Marvel Enterprises through an exclusive, multi-year, licensing agreement that expires in 2009. The agreement extends our exclusive rights to develop and publish video games based on Marvel's comic book franchises Spider-Man, X-MEN, Fantastic Four and Iron Man. The agreement additionally provides us the rights to develop video games in conjunction with motion pictures and television series involving X-MEN, Fantastic Four and Iron Man. Further, another important strategy of ours is to continue to be a leader in the action sports category. On October 23, 2002, in the action sports category, we released *Tony Hawk's Pro Skater 4* across multiple platforms. We will continue to promote our action sports franchises with the release of titles for existing franchises such as *Tony Hawk's Pro Skater* and *Street Hoops*, as well as new action sports titles, such as *Wakeboarding Unleashed*, as well as titles related to motor cross and snowboarding.

We will also continue to evaluate emerging brands that we believe have potential to become successful franchises. For example, in August, 2002, we entered into an exclusive licensing agreement to develop and publish video games for the best-selling children's book series, Lemony Snicket's "A Series of Unfortunate Events" that is in development for a feature film by Paramount Pictures and Nickelodeon Movies. In December 2002, we also entered into a multi-year, multi-property, publishing agreement with DreamWorks SKG that grants us the exclusive rights to publish video games based on DreamWork's three upcoming computer-animated films, as well as their sequels.

We intend to utilize these new intellectual property acquisitions and our existing library of intellectual property to further focus our future game development on big, well-established brands that we believe have the potential to become franchise properties with sustainable consumer appeal and brand recognition. We also intend to create a limited number of new intellectual properties that we believe have the potential to join this list of franchise properties. Accordingly, we have chosen to

eliminate certain small and non-core projects from our development plan and expect to reduce the number of titles released in fiscal 2004. Additionally, in order to maintain the competitiveness of our products and to take advantage of increasingly sophisticated technology associated with new hardware platforms, we intend to increase the amount of time spent play testing new products, to conduct more extensive product quality evaluations and to lengthen product development schedules to allow time to make the improvements indicated by the testing and evaluations. This may result in an increase in future product development costs. Further, as a result of the expected increase in the length of product development schedules, the expected release dates of certain fiscal 2004 titles have been shifted to fiscal 2005.

### **Critical Accounting Policies**

We have identified the policies below as critical to our business operations and the understanding of our financial results. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 1 in the Notes to the Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended March 31, 2002 as filed with the Securities and Exchange Commission. 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.

*Revenue Recognition.* We recognize revenue from the sale of our products upon the transfer of title and risk of loss to our customers. Revenue from product sales is recognized after deducting the estimated allowance for returns and price protection. We may permit product returns from or grant price protection to our customers on unsold merchandise under certain conditions. Price protection policies, when granted and applicable, allow customers a credit against amounts they owe us with respect to merchandise unsold by them. With respect to license agreements that provide customers the right to make multiple copies in exchange for guaranteed amounts, revenue is recognized upon delivery of such copies. Per copy royalties on sales that exceed the guarantee are recognized as earned. In addition, in order to recognize revenue for both product sales and licensing transactions, persuasive evidence of an arrangement must exist and collection of the related receivable must be probable. Revenue recognition also determines the timing of certain expenses, including cost of sales—intellectual property licenses and cost of sales—software royalties and amortization.

*Allowances for Returns, Price Protection, Doubtful Accounts and Inventory Obsolescence.* We may permit product returns from or grant price protection to our customers under certain conditions. The conditions our customers must meet to be granted the right to return products or price protection are, among other things, compliance with applicable payment terms, delivery to us of weekly inventory and sell-through reports, and consistent participation in the launches of our premium title releases. We may also consider other factors, including the facilitation of slow moving inventory and other market factors. Management must make estimates of potential future product returns and price protection related to current period product revenue. We estimate the amount of future returns and price protection based upon historical experience, customer inventory levels and changes in the demand and acceptance of our products by the end consumer. Significant management judgments and estimates must be made and used in connection with establishing the allowance for returns and price protection in any accounting period. Material differences may result in the amount and timing of our revenue for any period if management makes different judgments or utilizes different estimates.

Similarly, management must make estimates of the uncollectibility of our accounts receivable. In estimating the allowance for doubtful accounts, we analyze historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in our customers' payment terms and their economic condition, as well as whether we can obtain sufficient credit insurance. Any significant changes in any of these criteria would impact management's estimates in establishing our allowance for doubtful accounts.

We value inventory at the lower of cost or market. We regularly review inventory quantities on hand and in the retail channel and record a provision for excess or obsolete inventory based on the

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future expected demand for our products. Significant changes in demand for our products would impact management's estimates in establishing our inventory provision.

*Software Development Costs.* Software development costs include payments made to independent software developers under development agreements, as well as direct costs incurred for internally developed products.

We account for software development 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 are capitalized once technological feasibility of a product is established and such costs are determined to be recoverable. Technological feasibility of a product encompasses both technical design documentation and game design documentation. For products where proven game engine technology exists, this may occur early in the development cycle. Technological feasibility is evaluated on a product-by-product basis. Prior to a product's release, we expense, as part of cost of sales—software royalties and amortization, capitalized costs when we believe such amounts are not recoverable. Capitalized costs for those products that are cancelled or abandoned are charged to product development expense. Amounts related to software development which are not capitalized are charged immediately to product development expense. We evaluate the future recoverability of capitalized amounts on a quarterly basis. The recoverability of capitalized software development costs is evaluated based on the expected performance of the specific products for which the costs relate. The following criteria are used to evaluate expected product performance: 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 our budgeted amount.

Commencing upon product release, capitalized software development costs are amortized to cost of sales—software royalties and amortization based on the ratio of current revenues to total projected revenues, generally resulting in an amortization period of six months or less. For products that have been released in prior periods, we evaluate the future recoverability of capitalized amounts on a quarterly basis. The primary evaluation criterion is actual title performance.

Significant management judgment and estimates are utilized in the assessment of when technological feasibility is established, as well as in

the ongoing assessment of the recoverability of capitalized costs.

*Intellectual Property Licenses.* Intellectual property license costs represent license fees paid to intellectual property rights holders for use of their trademarks or copyrights in the development of our products.

We evaluate the future recoverability of capitalized intellectual property licenses on a quarterly basis. The recoverability of capitalized intellectual property license costs is evaluated based on the expected performance of the specific products in which the licensed trademark or copyright is used. Prior to the related product's release, we expense, as part of cost of sales—intellectual property licenses, capitalized intellectual property costs when we believe such amounts are not recoverable. Capitalized intellectual property costs for those products that are cancelled or abandoned are charged to product development expense. The following criteria are used to evaluate expected product performance: 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 our budgeted amount.

Commencing upon the related product's release, capitalized intellectual property license costs are amortized to cost of sales—intellectual property licenses based on the ratio of current revenues for the specific product to total projected revenues for all products in which the licensed trademark or copyright will be utilized. As intellectual property license contracts may extend for multiple years, the amortization of capitalized intellectual property license costs relating to such contracts may extend beyond one year. For products that have been released, we evaluate the future recoverability of capitalized amounts on a quarterly basis. The primary evaluation criterion is actual title performance.

Significant management judgment and estimates are utilized in the assessment of the recoverability of capitalized costs.

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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 and platform, as well as operating income by business segment (amounts in thousands):

	Three months ended December 31,				Nine months ended December 31,			
	2002		2001		2002		2001	
Net revenues	\$ 378,685	100%	\$ 371,341	100%	\$ 739,115	100%	\$ 621,523	100%
Costs and expenses:								
Cost of sales—product costs	204,881	54	195,560	53	369,004	50	347,840	56
Cost of sales—software royalties and amortization	33,503	9	34,997	9	67,396	9	47,699	8
Cost of sales—intellectual property licenses	14,918	4	23,087	6	32,704	4	33,546	5
Product development	13,758	3	10,848	3	38,768	5	29,059	5
Sales and marketing	33,875	9	31,883	9	84,644	12	67,064	11
General and administrative	10,989	3	13,165	3	37,308	5	32,603	5
Total costs and expenses	311,924	82	309,540	83	629,824	85	557,811	90
Operating income	66,761	18	61,801	17	109,291	15	63,712	10
Investment income, net	2,533	1	271	—	6,554	1	1,923	1
Income before income tax provision	69,294	19	62,072	17	115,845	16	65,635	11
Income tax provision	24,947	7	22,962	6	41,708	6	24,281	4
Net income	\$ 44,347	12%	\$ 39,110	11%	\$ 74,137	10%	\$ 41,354	7%
NET REVENUES BY TERRITORY:								
United States	\$ 179,643	47%	\$ 194,497	52%	\$ 380,045	51%	\$ 332,441	53%
Europe	190,030	50	171,531	46	342,561	47	278,902	45
Other	9,012	3	5,313	2	16,509	2	10,180	2
Total net revenues	\$ 378,685	100%	\$ 371,341	100%	\$ 739,115	100%	\$ 621,523	100%
ACTIVITY/PLATFORM MIX:								
Publishing:								
Console	\$ 211,993	83%	\$ 176,081	68%	\$ 409,919	77%	\$ 255,181	58%
Hand-held	19,574	7	31,879	12	45,061	8	101,479	23
PC	25,162	10	52,777	20	81,992	15	84,535	19
Total publishing net revenues	256,729	68	260,737	70	536,972	73	441,195	71

Distribution:								
Console	108,535	89	78,272	71	172,241	85	121,315	67
Hand-held	6,058	5	18,559	17	11,798	6	35,593	20
PC	7,363	6	13,773	12	18,104	9	23,420	13
<b>Total distribution net revenues</b>	<b>121,956</b>	<b>32</b>	<b>110,604</b>	<b>30</b>	<b>202,143</b>	<b>27</b>	<b>180,328</b>	<b>29</b>
<b>Total net revenues</b>	<b>\$ 378,685</b>	<b>100%</b>	<b>\$ 371,341</b>	<b>100%</b>	<b>\$ 739,115</b>	<b>100%</b>	<b>\$ 621,523</b>	<b>100%</b>
OPERATING INCOME BY SEGMENT:								
Publishing	\$ 54,926	15%	\$ 53,497	15%	\$ 96,659	13%	\$ 54,311	9%
Distribution	11,835	3	8,304	2	12,632	2	9,401	1
<b>Total operating income</b>	<b>\$ 66,761</b>	<b>18%</b>	<b>\$ 61,801</b>	<b>17%</b>	<b>\$ 109,291</b>	<b>15%</b>	<b>\$ 63,712</b>	<b>10%</b>

## Results of Operations—Three and Nine Months Ended December 31, 2002 and 2001

### Net Revenues

Net revenues for the three months ended December 31, 2002 increased 2% over the same period last year, from \$371.3 million to \$378.7 million. Net revenues for the nine months ended December 31, 2002 increased 19% over the same period last year, from \$621.5 million to \$739.1 million. The increase in the three-month period was generated by our distribution business, offset by a small decrease in publishing net revenues. The increase in the nine-month period was generated by both our publishing and distribution businesses.

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Publishing net revenues for the three months ended December 31, 2002 decreased 2% from \$260.7 million to \$256.7 million. The following table details our publishing net revenues by platform as a percentage of total publishing net revenues for the three months ended December 31, 2002 and 2001:

	Three months ended December 31,	
	2002	2001
<b>Publishing Net Revenues</b>		
<b>PC</b>	<b>10%</b>	<b>20%</b>
<b>Console</b>	<b>83%</b>	<b>68%</b>
PlayStation 2	48	33
Microsoft Xbox	13	4
Nintendo GameCube	12	6
PlayStation	10	20
Nintendo 64	—	4
Sega Dreamcast	—	1
<b>Hand-held</b>	<b>7%</b>	<b>12%</b>
Game Boy Advance	6	7
Game Boy Color	1	5
<b>Total publishing net revenues</b>	<b>100%</b>	<b>100%</b>

There were several factors that affected the fiscal 2003 third quarter net revenue performance of our publishing business. First, positively impacting our performance, was an improvement in console software sales. Our publishing console net revenues for the three months ended December 31, 2002 increased 20% when compared to the same period last year, from \$176.1 million to \$212.0 million. Publishing console net revenues in the three months ended December 31, 2002 reflect the multi-national, cross-platform release of *Tony Hawk's Pro Skater 4*, which performed well on many platforms, in both the domestic and international markets. Additionally, catalog sales remained strong for *Spider-Man: The Movie*, released in the first quarter of fiscal 2003. We also had strong sales from titles under our Cabela's brand. Second, sales for the legacy console systems and hand-held devices did not perform as expected, particularly PS1 and Nintendo's Game Boy Color, and partially offset an improvement in sales for the current generation of console systems. Another negative impact on third quarter publishing sales was the decline in our PC software sales. Publishing PC net revenues for the three months ended December 31, 2002 decreased 52% when compared to the same period last year, from \$52.8 million to \$25.2 million. For the three months ending December 31, 2001, we released two premium PC titles, including *Return to Castle Wolfenstein*, which was one of our top performing titles during that period. In contrast, for the three months ended December 31,

2002, we released only one smaller PC title. Lastly, although *Tony Hawk's Pro Skater 4* performed well, the other console titles we released during the three months ended December 31, 2002, did not perform as strongly, negatively impacting publishing console sales.

Distribution net revenues for the three months ended December 31, 2002 increased 10% from \$110.6 million to \$122.0 million. The overall increase was primarily due to the positive impact of the year-over-year strengthening of the Euro and the Great British Pound ("GBP") in relation to the U.S. dollar. In addition, the product mix of our distribution business changed in the three months ended December 31, 2002 over the same period last year. Distribution console net revenues for the three months ended December 31, 2002 increased 39% over the same period last year, from \$78.3 million to \$108.5 million. Distribution console net revenues for the three months ended December 31, 2002 benefited from the international hardware launches of Xbox and GameCube in March 2002 and May 2002, respectively. The increase in distribution console net revenues was offset by a decline in distribution hand-held net revenues from \$18.6 million for the three months ended December 31, 2001, to \$6.1 million for the three months ended December 31, 2002. This decrease reflects the fact that the GBA hardware was launched in June 2001. Distribution hand-held sales for the three months ended December 31, 2001 benefited accordingly. The increase in distribution console net revenues was also offset by a decline in distribution PC net revenues from \$13.8 million for the three months ended

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December 31, 2001, to \$7.4 for the three months ended December 31, 2002, primarily as a result of fewer premium PC titles released into the market in fiscal 2003 when compared to fiscal 2002.

Domestic net revenues declined 8% from \$194.5 million for the three months ended December 31, 2001, to \$179.6 million for the three months ended December 31, 2002 for the reasons as detailed above in the discussion of our publishing business net revenues. International net revenues increased by 13% from \$176.8 million for the three months ended December 31, 2001, to \$199.0 million for the three months ended December 31, 2002. International net revenues were positively affected due to the year-over-year strengthening of the Euro and the GBP in relation to the U.S. dollar.

Publishing net revenues for the nine months ended December 31, 2002 increased 22% from \$441.2 million to \$537.0 million. The following table details our publishing net revenues by platform as a percentage of total publishing net revenues for the nine months ended December 31, 2002 and 2001:

	Three months ended December 31,	
	2002	2001
<b>Publishing Net Revenues</b>		
<b>PC</b>	<b>15%</b>	<b>19%</b>
<b>Console</b>	<b>77%</b>	<b>58%</b>
PlayStation 2	42	21
Microsoft Xbox	13	2
Nintendo GameCube	13	4
PlayStation	8	23
Nintendo 64	1	7
Sega Dreamcast	—	1
<b>Hand-held</b>	<b>8%</b>	<b>23%</b>
Game Boy Advance	7	15
Game Boy Color	1	8
<b>Total publishing net revenues</b>	<b>100%</b>	<b>100%</b>

The increase in publishing net revenues was primarily attributable to a 61% increase in console software sales, from \$255.2 million to \$409.9 million due to the simultaneous cross-platform, multi-national release in the first quarter of fiscal 2003 of *Spider-Man: The Movie*, the third quarter fiscal 2003 release of *Tony Hawk's Pro Skater 4* and the benefit from a price reduction in console hardware prices resulting in an increased hardware base. This increase was partially offset by a 56% decrease in publishing hand-held net revenues, from \$101.5 million to \$45.1 million. This decrease reflects the fact that the GBA hardware was launched in June 2001. Our GBA software sales for the nine months ended December 31, 2001 benefited from the related hardware launch. Additionally, we released fewer titles for the hand-held platforms in the nine months ended December 31, 2002, 11 titles, in comparison to 19 titles in the same period last year.

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Distribution net revenues for the nine months ended December 31, 2002 increased 12% from the same period last year, from \$180.3 million to \$202.1 million, driven by an increase in distribution console net revenues. Distribution console net revenues for the nine months ended December 31, 2002 increased 42% over the same period last year, from \$121.3 million to \$172.2 million. Distribution console net revenues for the nine months ended December 31, 2002 benefited from the international hardware launches of Xbox and GameCube in March 2002 and May 2002, respectively. Additionally, we benefited from the price reduction on PS2 hardware that was effective September 2001, as this resulted in both an

increase in sales of PS2 hardware, as well as an increase in sales of PS2 software due to the corresponding larger installed hardware base. This increase was partially offset by declines in distribution hand-held and PC net revenues for the reasons described above in the discussion of distribution net revenues for the three months ended December 31, 2002. Distribution net revenues for the nine months ended December 31, 2002 additionally benefited from a year-over-year strengthening of the Euro and the GBP in relation to the U.S. dollar.

Domestic net revenues grew 14% from \$332.4 million for the nine months ended December 31, 2001 to \$380.0 million for the nine months ended December 31, 2002. International net revenues increased by 24% from \$289.1 million for the nine months ended December 31, 2001 to \$359.1 million for the nine months ended December 31, 2002. The increase in domestic net revenues is attributable to the improvements in our publishing segment as described above, and the increase in international net revenues is attributable to the improvements in both our publishing and distribution segments as described above.

A significant portion of our publishing net revenues is derived from products based on a relatively small number of popular brands each year. For example, for the three months ended December 31, 2002, approximately 31% of consolidated net revenues and 46% of publishing net revenues were generated by our Tony Hawk brand. We expect that a limited number of popular brands will continue to produce a disproportionately large amount of our publishing net revenues.

#### *Costs and Expenses*

Cost of sales—product costs represented 54% and 53% of consolidated net revenues for the three months ended December 31, 2002 and 2001, respectively. There were several factors that affected cost of sales—product costs as a percentage of consolidated net revenues. First, distribution net revenues as a percentage of total consolidated net revenues increased from 30% for the three months ended December 31, 2001 to 32% for the three months ended December 31, 2002. Distribution net revenues have a higher per unit cost as compared to publishing net revenues. Second, the product mix of our publishing business changed. In the three months ended December 31, 2002, a higher proportion of publishing net revenues were derived from console sales than from PC sales as compared to the three months ended December 31, 2001. Console systems have a higher manufacturing cost per unit than PCs. Lastly, these increases in cost of sales—product costs as a percentage of consolidated net revenues were partially offset by the lower proportion of sales from hand-held devices in the three months ended December 31, 2002 as compared to the three months ended December 31, 2001. Hand-held devices generally have the highest manufacturing per unit cost of all platforms. Cost of sales—product costs represented 50% and 56% of consolidated net revenues for the nine months ended December 31, 2002 and 2001, respectively. The decrease was due to several factors. First, the product mix of our publishing business for the nine months ended December 31, 2002 reflects a lower proportion of net revenues from hand-held devices, as compared to the nine months ended December 31, 2001. Second, distribution net revenues as a percentage of total consolidated net revenues decreased from 29% for the nine months ended December 31, 2001 to 27% for the nine months ended December 31, 2002. Lastly, our console manufacturing costs for the nine months ended December 31, 2002 benefited from the economies of scale due to the high volume of *Spider-Man: The Movie* units manufactured.

Cost of sales—software royalties and amortization remained constant as a percentage of publishing net revenues at 13% for the three months ended December 31, 2002 and 2001. Cost of sales—software royalties and amortization increased as a percentage of publishing net revenues to 13% for the nine

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months ended December 31, 2002, from 11% for the nine months ended December 31, 2001. The increase reflects the change in the product mix of our publishing business. Though GBA titles generally have the highest per unit manufacturing cost of all platforms, they have the lowest product development cost structure. As such, in the nine months ended December 31, 2001 in which GBA titles accounted for a higher proportion of publishing net revenues, the related cost of sales—software royalties and amortization was correspondingly low. This is in comparison to the nine months ended December 31, 2002 in which console titles accounted for a higher proportion of publishing net revenues. Console titles such as PS2, Xbox and GameCube have high product development cost structures, and the release of titles on these platforms will result in a correspondingly high cost of sales—software royalties and amortization.

Cost of sales—intellectual property licenses for the three months ended December 31, 2002 decreased as a percentage of publishing net revenues over the same period last year, from 9% to 6%. In absolute dollars, for the three months ended December 31, 2002 as compared to the three months ended December 31, 2001, cost of sales—intellectual property licenses also decreased from \$23.1 million to \$14.9 million. These decreases were due to the fact that one of our top performing titles released in the third quarter of fiscal 2002 had a higher intellectual property royalty rate structure than any of the top performing titles released in the third quarter of fiscal 2003. Cost of sales—intellectual property licenses for the nine months ended December 31, 2002 decreased as a percentage of publishing net revenues over the same period last year, from 8% to 6%. As described above, this is due to one of our top performing titles released in the third quarter of fiscal 2002 having a higher intellectual property royalty rate structure than any of the top performing titles released in the third quarter of fiscal 2003. In absolute dollars, cost of sales—intellectual property licenses remained relatively flat at \$32.7 million and \$33.5 million, for the nine months ended December 31, 2002 and 2001, respectively. This was the result of the overall higher volume of publishing net revenues in the nine months ended December 31, 2002 as compared to the nine months ended December 31, 2001.

Product development expenses as a percentage of publishing net revenues have stayed relatively flat for the three months ended December 31, 2002 and 2001 at 5% and 4%, respectively, as well as for the nine months ended December 31, 2002 and 2001 at 7%. In absolute dollars, product development expense for the three months ended December 31, 2002 increased \$3.0 million over the same period last year, from \$10.8 million to \$13.8 million. In absolute dollars, product development expense for the nine months ended December 31, 2002 increased \$9.7 million over the same period last year, from \$29.1 million to \$38.8 million. These increases in absolute dollars reflect the change in the product mix of titles in development, more console and less hand-held, during the fiscal 2003 periods. The cost to develop titles for console systems, such as PS2, Xbox and GameCube, is higher than the cost to develop titles for the legacy console systems and hand-held devices. Additionally, we had more titles in development during fiscal 2003 than fiscal 2002.

Sales and marketing expenses for the three months ended December 31, 2002 and 2001 remained relatively constant at \$33.9 million and \$31.9 million, respectively, representing 9% of consolidated net revenues for both periods. Sales and marketing expenses of \$84.6 million and \$67.1 million for the nine months ended December 31, 2002 and 2001, respectively, represented 12% and 11% of consolidated net revenues, respectively. The increase in sales and marketing expense dollars for the nine months ended December 31, 2002 over the same period last year was the result of increased costs in both our publishing and distribution businesses. The increase in sales and marketing expense dollars in our

publishing business was the result of a significant marketing program in support of the simultaneous cross-platform, multi-national release of *Spider-Man: The Movie* during the first quarter of fiscal 2003, as well as increased TV and print ads in support of second quarter releases such as *Street Hoops*. Additionally, in the nine months ended December 31, 2002, we also provided sponsorship for select action sports tours/tournaments in support of our Activision O<sub>2</sub> brand. The increase in sales and marketing expense dollars in our distribution business was the due to an increasing percentage of our distribution business being generated from large national accounts. Such large national accounts generally result in increased sales costs.

General and administrative expenses for the three months ended December 31, 2002, decreased \$2.2 million over the same period last year, from \$13.2 million to \$11.0 million. As a percentage of consolidated net revenues, general and administrative expenses remained constant at approximately 3% for both periods. The decrease in absolute dollars is primarily the result of reductions in payroll and benefits related costs. General and administrative expenses for the nine months ended December 31, 2002, increased \$4.7 million over the same period last year, from \$32.6 million to \$37.3 million. As a percentage of consolidated net revenues, general and administrative expenses remained constant at approximately 5% for both periods. The increase in absolute dollars was primarily due to an increase in worldwide administrative support needs and headcount related expenses as a result of acquisitions and our continued growth. The increase was also due to the incurrence in the first quarter of fiscal 2003 of an approximate \$2.0 million charge for the relocation of our UK distribution facility due to the increased growth of our UK distribution and UK publishing businesses.

#### *Operating Income*

Operating income for the three months ended December 31, 2002, was \$66.8 million, compared to \$61.8 million in the same period last year. Operating income for the nine months ended December 31, 2002, was \$109.3 million, compared to \$63.7 million in the same period last year. The increase in operating income for the three months ended December 31, 2002 over the same period last year was due to improvements in our distribution business and, to a lesser degree, our publishing business. Distribution operating income improvement reflects increased control over incremental costs and reductions in headcount related expenses. The increase in operating income for the nine months ended December 31, 2002 over the same period last year was primarily due to an increase in the success of our publishing business due to the benefits generated by cross-platform releases and our continued focus on building operating efficiencies and controlling costs.

#### *Investment Income, Net*

Investment income, net for the three months ended December 31, 2002 was \$2.5 million as compared to \$0.3 million for the three months ended December 31, 2001. Investment income, net for the nine months ended December 31, 2002 was \$6.6 million as compared to \$1.9 million for the nine months ended December 31, 2001. These increases were primarily due to higher average cash and short-term investment balances. For the nine months ended December 31, 2002, the increase was partially offset by lower interest rates.

#### *Provision for Income Taxes*

The income tax provision of \$24.9 million and \$41.7 million for the three and nine months ended December 31, 2002, respectively, reflects our effective income tax rate of approximately 36%. The significant item that generated the variance between our effective rate and our statutory rate of 35% was state taxes, partially offset by research and development tax credits. The realization of deferred tax assets depends primarily on the generation of future taxable income. We believe that it is more likely than not that we will generate taxable income sufficient to realize the benefit of net deferred tax assets recognized.

#### **Liquidity and Capital Resources**

As of December 31, 2002, our primary source of liquidity is comprised of \$359.0 million of cash and cash equivalents and \$169.9 million of short-term investments. We believe that we have sufficient working capital (\$617.1 million at December 31, 2002), as well as proceeds available from our international credit facilities (described below), to finance our operational requirements for at least the next twelve months, including purchases of inventory and equipment, the funding of the development, production, marketing and sale of new products and the acquisition of intellectual property rights for future products from third parties. We have historically financed our acquisitions through the issuance of shares of common stock or a combination of common stock and cash. We will continue to evaluate potential acquisition candidates as to the benefit they bring to us and as to our ability to make such acquisitions.

#### *Cash Flows*

Our cash and cash equivalents were \$359.0 million at December 31, 2002 compared to \$279.0 million at March 31, 2002. This \$80.0 million increase in cash and cash equivalents for the nine months ended December 31, 2002, included \$49.1 million and \$222.3 million provided by operating and financing activities, respectively, offset by \$198.4 million utilized in investing activities. The principal components comprising cash flows from operating activities included favorable operating results, tax benefits from stock option and warrant exercises and seasonal increases in accounts payable, partially offset by our continued investment in software development and intellectual property licenses and seasonal increases in accounts receivable. Approximately \$123.4 million was expended in the nine months ended December 31, 2002 in connection with the acquisition of publishing or distribution rights to products being developed by third parties, the execution of new license agreements granting us long-term rights to intellectual property of third parties, as well as the capitalization of product development costs relating to internally developed products. The cash used in investing activities primarily was the result of the investment of excess cash balances into short-term investment vehicles. The goal of our short-term investments is to maximize return while minimizing risk, maintaining liquidity, coordinating with anticipated working capital needs and providing for prudent investment diversification. Cash used in investing activities was also the result of business combinations and equipment purchases. On May 20, 2002, we acquired all of the outstanding ownership interests of Z-Axis Ltd. ("Z-Axis"), a privately held interactive software development company, in exchange for \$12.5 million in cash and 249,190 shares of our common stock valued at approximately \$8.2 million. Then, on October 4, 2002, we acquired all of the outstanding ownership interests of Luxoflux Corp. ("Luxoflux"), a privately held interactive software development company, in exchange for \$9.0 million in cash.

The cash provided by financing activities primarily is the result of proceeds from the June 7, 2002 issuance of 7,500,000 shares of our common stock for proceeds of approximately \$247.3 million, net of offering costs, partially offset by cash used to purchase treasury stock and enter into structured stock repurchase transactions. On October 4, 2002, our Board of Directors authorized a buyback program under which we can repurchase up to \$150.0 million of our common stock. Under the program, shares may be purchased as determined by management from time to time in the open market or in privately negotiated transactions, including privately negotiated structured option transactions, and through transactions in the options markets. Depending on market conditions and other factors, these purchases may be commenced or suspended at any time or from time to time without prior notice. As of December 31, 2002, we had repurchased approximately 1.8 million shares of our common stock at an average cost of \$13.15 per share for which \$18.9 million was settled in cash as of December 31, 2002 and \$5.0 million was settled in cash in January 2003. Additionally, under the Board approved buyback program, we entered into a series of structured stock repurchase transactions in the aggregate amount of \$25.0 million. These transactions may be settled in cash or stock based on the market price of our common stock on the date of the settlement. Upon settlement, we will either have our capital investment returned with a premium or receive up to approximately 2.1 million shares of our common stock, depending, respectively, on whether the market price of our common stock is above or below a pre-determined price agreed in connection with each such transaction.

#### Credit Facilities

In June 1999, we obtained a \$100.0 million revolving credit facility and a \$25.0 million term loan with a syndicate of banks (the "U.S. Facility"). The revolving portion of the U.S. Facility provided us with the ability to borrow up to \$100.0 million, including issuing letters of credit up to \$80.0 million, on a revolving basis against eligible accounts receivable and inventory. The term loan had a three-year term with principal amortization on a straight-line quarterly basis beginning December 31, 1999, a borrowing rate based on the banks' base rate (which was generally equivalent to the published prime rate) plus 2% or LIBOR plus 3% and was to expire June 2002. The revolving portion of the U.S. Facility had a borrowing rate based on the banks' base rate plus 1.75% or LIBOR plus 2.75%. In

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May 2001, we accelerated our repayment of the outstanding balance under the term loan portion of the U.S. Facility. In connection with the accelerated repayment, we amended the U.S. Facility (the "Amended and Restated U.S. Facility"). The Amended and Restated U.S. Facility eliminated the term loan, reduced the revolver to \$78.0 million and reduced the interest rate to the banks' base rate plus 1.25% or LIBOR plus 2.25%. The Amended and Restated U.S. Facility was collateralized by substantially all of our assets and expired in August 2002. Due to our improved financial position, including significant cash, cash equivalent and short-term investment balances and minimal debt, we did not seek additional bank financing upon the expiration of the Amended and Restated U.S. Facility.

We have a revolving credit facility through our CD Contact subsidiary in the Netherlands (the "Netherlands Facility"). The Netherlands Facility permitted revolving credit loans and letters of credit up to Euro ("EUR") 2.5 million (\$2.6 million) as of December 31, 2002, based upon eligible accounts receivable balances. The Netherlands Facility is due on demand, bears interest at a Eurocurrency rate plus 1.25%, is collateralized by the subsidiary's accounts receivable and inventory and a EUR 0.5 million (\$0.5 million) guarantee made by our Centresoft subsidiary through its bank facility and expires August 2003. As of December 31, 2002, there were no borrowings or letters of credit outstanding under the Netherlands Facility.

We also have revolving credit facilities with our CentreSoft subsidiary located in the United Kingdom (the "UK Facility") and our NBG subsidiary located in Germany (the "German Facility"). As of December 31, 2002, the UK Facility provided Centresoft with the ability to borrow up to Great British Pounds ("GBP") 8.0 million (\$12.8 million), including issuing letters of credit, on a revolving basis. Furthermore, as of December 31, 2002, under the UK Facility, Centresoft provided a EUR 0.5 million (\$0.5 million) guarantee which served as collateral for the Netherlands Facility. The UK Facility bears interest at LIBOR plus 1.5%, is collateralized by substantially all of the assets of the subsidiary and expires in October 2003. The UK Facility also contains various covenants that require the subsidiary to maintain specified financial ratios related to, among others, fixed charges. As of December 31, 2002, we were in compliance with these covenants. No borrowings were outstanding against the UK Facility as of December 31, 2002. The German Facility provided for revolving loans up to EUR 0.8 million (\$0.8 million) as of December 31, 2002, bears interest at a Eurocurrency rate plus 2.5%, is collateralized by the subsidiary's accounts receivable, inventory and certain property and equipment and expires June 2003. No borrowings were outstanding against the German Facility as of December 31, 2002.

#### Commitments

In connection with our purchases of Nintendo GameCube and Game Boy software for distribution in North America and Europe, Nintendo requires us to provide either standby letters of credit or cash prepayment prior to accepting purchase orders.

In the normal course of business, we enter into contractual arrangements with third parties for the development of products, as well as for the rights to intellectual property. Under these agreements, we commit to provide specified payments to a developer or intellectual property holder, based upon contractual arrangements. Assuming all contractual provisions are met, the total future minimum contract commitment for contracts in place as of December 31, 2002 is approximately \$135.4 million and is scheduled to be paid as follows (amounts in thousands):

Fiscal year ending March 31,

2003	\$	23,681
2004		71,050
2005		19,991
2006		12,300
2007 and thereafter		8,425
Total	\$	135,447

## Recently Issued Accounting Standards

In June 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be initially measured at fair value and recognized when the liability is incurred. The provisions of SFAS No. 146 are required to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

In January 2003, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. It also requires disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for annual and interim periods beginning after December 15, 2002. As we have elected not to change to the fair value based method of accounting for stock-based employee compensation, the adoption of SFAS No. 148 will not have an impact upon our financial condition or results of operations.

## Factors Affecting Future Performance

In connection with the Private Securities Litigation Reform Act of 1995 (the "Litigation Reform Act"), we have disclosed certain cautionary information to be used in connection with written materials (including this Quarterly Report on Form 10-Q) and oral statements made by or on behalf of our 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. For a discussion that highlights some of the more important risks identified by management, but which should not be assumed to be the only factors that could affect future performance, see our Annual Report on Form 10-K for the fiscal year ended March 31, 2002 which is incorporated herein by reference. The reader or listener is cautioned that we do 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.

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the potential loss arising from fluctuations in market rates and prices. Our market risk exposures primarily include fluctuations in interest rates and foreign currency exchange rates. Our market risk sensitive instruments are classified as "other than trading." Our 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. Our 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

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We do not use derivative financial instruments in our investment portfolio. We manage our interest rate risk by maintaining an investment portfolio consisting primarily of debt instruments with high credit quality and relatively short average maturities. We also manage our interest rate risk by

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maintaining sufficient cash and cash equivalent balances such that we are typically able to hold our investments to maturity. As of December 31, 2002, our cash equivalents and short-term investments included debt securities of \$280.0 million.

The following table presents the amounts and related weighted average interest rates of our investment portfolio as of December 31, 2002 (amounts in thousands):

	Average Interest Rate	Amortized Cost	Fair Value
<i>Cash equivalents</i>			
Fixed rate	1.63%	\$ 110,141	\$ 110,078
Variable rate	1.32	110,992	110,992
<i>Short-term investments</i>			
Fixed rate	2.47%	\$ 169,313	\$ 169,874

Our short-term investments generally mature between three months and two years.

### Foreign Currency Exchange Rate Risk

We transact business in many different foreign currencies and may be exposed to financial market risk resulting from fluctuations in foreign currency exchange rates, particularly GBP and EUR. The volatility of GBP and EUR (and all other applicable currencies) will be monitored frequently throughout the coming year. When appropriate, we enter into hedging transactions in order to mitigate our risk from foreign currency fluctuations. We will continue to use hedging programs in the future and may use 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. We do not hold or purchase any foreign currency contracts for trading purposes. As of December 31, 2002, we had no material outstanding hedging contracts.

## Market Price Risk

With regard to the structured stock repurchase transactions described in Note 15 in the Notes to the Consolidated Financial Statements, it is possible that at settlement we could take delivery of shares at an effective repurchase price higher than the then market price.

## Item 4. Controls and Procedures

Within 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic reports filed with the Securities and Exchange Commission. In addition, we reviewed our internal controls, and there have been no significant changes in our internal controls or in other factors that could significantly affect those internal controls subsequent to the date we carried out our last evaluation.

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## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings

We are party to routine claims and suits brought by us and against us in the ordinary course of business including disputes arising over the ownership of intellectual property rights, contractual claims and collection matters. In the opinion of management, the outcome of such routine claims will not have a material adverse effect on our business, financial condition or results of operations.

### Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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|------|--|
| 1.1  | Underwriting agreement between Activision and Goldman, Sachs & Co. dated June 4, 2002 (incorporated by reference to Exhibit 1.1 of Activision's 8-K, filed June 6, 2002).  |
| 3.1  | Amended and Restated Certificate of Incorporation, dated June 1, 2000 (incorporated by reference to Exhibit 2.5 of our Current Report on Form 8-K, filed on June 16, 2000).  |
| 3.2  | Certificate of Amendment of Amended and Restated Certificate of Incorporation, dated June 9, 2000 (incorporated by reference to Exhibit 2.7 of our Current Report on Form 8-K, filed on June 16, 2000).  |
| 3.3  | Certificate of Amendment of Amended and Restated Certificate of Incorporation, dated August 23, 2001 (incorporated by reference to Exhibit 3.3 of Amendment No. 1 to our Registration Statement on Form S-3, Registration No. 333-66280, filed on August 31, 2001).  |
| 3.4  | Certificate of Designation of Series A Junior Preferred Stock, dated December 27, 2001 (incorporated by reference to Exhibit 3.4 of our Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2001).   |
| 3.5  | Amended and Restated By-laws dated August 1, 2000 (incorporated by reference to Exhibit 3.2 of our Current Report on Form 8-K, filed July 11, 2001).   |
| 4.1  | Rights Agreement dated as of April 18, 2000, between us 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 Activision as Exhibit C (incorporated by reference to our Registration Statement on Form 8-A, Registration No. 001-15839, filed April 19, 2000). |
| 10.1 | Employment agreement dated November 20, 2002, between Activision Publishing, Inc. and George Rose.   |
| 10.2 | Activision, Inc. 2002 Studio Employee Retention Incentive Plan.  |
| 99.1 | Certification of Robert A. Kotick pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 99.2 | Certification of Ronald Doornink pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 99.3 | Certification of William J. Chardavoyne pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |

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(b) Reports on Form 8-K

- 1.1 We filed a Form 8-K on October 11, 2002, reporting under "Item 7. Financial Statements, Pro Forma Financial Statements and Exhibits" and "Item 9. Regulation FD Disclosure" issuing a press release announcing a buyback program under which we can repurchase up to \$150 million of our common stock and issuing a press release announcing our acquisition of Luxoflux Corporation.
- 1.2 We filed a Form 8-K on December 17, 2002, reporting under "Item 7. Financial Statements, Pro Forma Financial Statements and Exhibits" and "Item 9. Regulation FD Disclosure" issuing a press release announcing revenue and earnings guidance for the third and fourth fiscal quarters for the 2003 fiscal year and for the full 2003 and 2004 fiscal years.

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## SIGNATURES

Pursuant to the requirements 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: January 31, 2003

ACTIVISION, INC.

/s/ WILLIAM J. CHARDAVOYNE

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William J. Chardavoynne  
Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

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## CERTIFICATIONS

### CERTIFICATION

I, Robert A. Kotick, Chairman and Chief Executive Officer of Activision, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Activision, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's

internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 31, 2003

/s/ ROBERT A. KOTICK

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Robert A. Kotick  
*Chairman and Chief Executive Officer*

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**CERTIFICATION**

I, Ronald Doornink, President of Activision Inc., and Chief Executive Officer of Activision Publishing, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Activision, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 31, 2003

/s/ RONALD DOORNINK

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Ronald Doornink  
*President, Activision, Inc. and  
Chief Executive Officer, Activision Publishing, Inc.*

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## **CERTIFICATION**

I, William J. Chardavoyne, Executive Vice President and Chief Financial Officer of Activision, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Activision, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 31, 2003

/s/ WILLIAM J. CHARDAVOYNE

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William J. Chardavoyne  
*Executive Vice President and Chief Financial Officer*

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As of November 20, 2002

George Rose  
3041 Hutton Drive  
Beverly Hills, California 90210

Dear Mr. Rose:

This letter confirms the terms of your employment by Activision Publishing, Inc. ("Employer"), on the terms and conditions set forth below.

**1. Term**

(a) The initial term of your employment under this agreement shall commence on November 01, 2002 and expire on March 31, 2005, unless earlier terminated as provided below (the "initial term").

(b) Employer shall have the option to extend the initial term of this agreement for an additional successive one-year period. The initial term and the option period, if exercised, shall be referred to as the "term."

(c) Employer may exercise the option granted to it under this agreement by giving written notice to Employee at least sixty (60) days prior to the expiration of the initial term.

**2. Salary**

(a) In full consideration for all rights and services provided by you under this agreement, you shall receive an annual base salary of \$240,000 from the effective date of this Agreement to October 31, 2003. On November 1, 2003, your annual base salary will be increased to \$260,000. On November 1, 2004, your annual base salary will be increased to \$280,000. If Employer exercises its option pursuant to Paragraph 1(b), your annual base salary on November 1, 2005, will be increased to \$300,000.

(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.

(c) Employer shall not be required to actually use your services during the term of this agreement. You will not be permitted or authorized to act on behalf of Employer if Employer is not utilizing your services unless specifically authorized in writing to the contrary by Employer. If Employer chooses not to use your services, Employer will continue your coverage under Employer's health, life insurance and disability plans, and participation in Employer's 401(k) plan during this period. Payment of your base salary during the term of your employment under this agreement will discharge Employer's obligations to you hereunder. Your obligations to Employer under this agreement generally, and specifically with regard to Paragraph 8, shall continue throughout the term of this agreement. Moreover, you have an obligation to abide by the terms of the Employee Proprietary Information Act executed by you.

(d) In addition to your base salary, you may be eligible to receive an annual discretionary bonus. Your target bonus is 55%, provided that the actual amount of this bonus, if any, is within the sole and absolute discretion of the Employer's Board of Directors (or the Compensation Committee of the

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Board of Directors). Certain of the criteria that will be considered to evaluate your eligibility for a bonus is your achievement of specific objectives and/or your contribution to the success of the corporate goals and objectives. Employer's overall financial performance will also be considered in determining whether any bonus is awarded and, if so, the amount. Discretionary bonuses, if granted, are generally paid to employees in May. You must remain continuously employed by Employer through the date on which the discretionary bonus is paid to be eligible to receive a bonus. Employer retains the right to modify, at any time, any and all of the criteria used to determine whether Employee is eligible for a bonus and, if so, the amount of any such bonus.

(e) You also are being granted, under the Activision Inc. ("company") existing or modified Board-approved stock option plan, a non-qualified stock option ("NQSO") to purchase 40,000 shares of the company's common stock. Such option is in addition to the stock options of Employer previously granted to you. The option to purchase 40,000 shares referred to above will vest ratably over four years, with one fourth of the amount granted vesting at the end of each year. The option will have an exercise price that will be the market low of such common stock on the date that it is issued, and will be governed in all other respects by the company's stock option plan in effect at the time of the grant.

**3. Title**

You are being employed under this agreement in the position of Sr. Vice President, Legal and Business Affairs and General Counsel.

**4. Duties**

You shall personally and diligently perform, on a full-time and exclusive basis, such services as Employer or any of its related or affiliated

entities or divisions may reasonably require. You are also required to read, review and observe all of Employer's existing policies, procedures, rules and regulations as well as those adopted by Employer during the term of your employment. 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 the expiration or early termination of the term of your employment under this agreement pursuant to paragraph 9, you are entitled to no additional benefits, except as specifically provided under the benefit plans referred to above and those benefit plans in which you subsequently may become a participant, and subject in each case to the terms and conditions of each such plan. Notwithstanding anything to the contrary set forth above, you shall be entitled to receive those benefits provided by COBRA upon the expiration or earlier termination of this agreement.

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## 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 twenty (20) days of paid vacation per year.

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

## 8. **Protection of Employer's Interests**

(a) **Duty of Loyalty.** During the term of your employment, 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) **Property of Employer.** 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) **Confidentiality.** 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 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 this paragraph shall survive the expiration or earlier termination of this agreement.

(d) **Covenant Not to Solicit.** After the expiration of the term of this agreement or earlier termination of your employment pursuant to Paragraphs 9(a) or (b) of 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 directly or indirectly 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 during the term of your employment, 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.

## 9. **Termination**

(a) **Employer.** At any time during the term of this agreement, Employer may terminate your employment under this agreement for your (i) willful, reckless or gross misconduct, (ii) negligent performance of job responsibilities, (iii) conviction of a felony or crime involving dishonesty or moral turpitude, or (iv) commitment of any prohibited conduct listed in Section 7.2 of Employer's Employee Handbook.

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(b) **Employee.** You may terminate your employment under this agreement (and, thereby, forfeit your right to receive any compensation or benefits under this agreement) (i) upon any relocation of the place at which you primarily are performing your services to Employer to a location which is outside Los Angeles County, 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) **Death or Disability.** 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 your death. 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.

(d) **Termination of Obligations.** In the event of the termination of your employment under this agreement pursuant to Paragraph 9(a) or 9(b), all obligations of Employer to you under this agreement shall immediately terminate.

#### **10. 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.

#### **11. 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.

#### **12. 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.

#### **13. Representations and Warranties**

Employee represents and warrants that he has provided Employer with complete and accurate information regarding his skills and experience. Employee further represents and warrants that he has the skills and abilities to perform the job responsibilities for which he is being hired (see paragraphs 3 and 4, above) based on his skills and experience. Based on Employee's representations regarding his skills and abilities, Employer has agreed to hire and compensate Employee pursuant to the terms of this agreement.

#### **14. General Provisions**

(a) **Entire Agreement.** This agreement supersedes all prior or contemporaneous agreements and statements, whether written or oral, concerning the terms of your employment with Employer, and no

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amendment or modification of this agreement shall be binding unless it is set forth in a writing signed by both Employer and Employee. To the extent that this agreement conflicts with any of Employer's policies, procedures, rules or regulations, this agreement shall supersede the other policies, procedures, rules or regulations. Without limiting the generality of the foregoing, you acknowledge that this agreement supersedes your prior written agreement with Employer dated September 15, 1999, and such agreement is hereby declared terminated and of no further force and effect.

(b) **No Broker.** 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) **Waiver.** 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) **Prevailing Law.** 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) **Expiration.** 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 expiration of the term 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 your continued employment. In the event that your employment continues for a period of time following the term unless and until agreed to in a new subscribed written document, such continuation of your employment shall be "at will," and may be terminated without obligation at any time by either party giving notice to the other.

(f) **Choice of Law.** 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.

(g) **Immigration.** 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.

(h) **Venue and Jurisdiction.** The parties agree that all actions or proceedings initiated by either party hereto arising directly or indirectly out of this agreement shall be litigated in federal or state court in Los Angeles, California. The parties hereto expressly submit and consent in advance to such jurisdiction and agree that service of summons and complaint or other process or papers may be made by registered or certified mail addressed to the relevant party at the address set forth below. The parties hereto waive any claim that a federal or state court in Los Angeles, California, is an inconvenient or an improper forum.

(i) **Severability.** If any provision of this agreement is held to be illegal, invalid or unenforceable under existing or future laws effective during the term of this agreement, such provisions shall be fully severable, the agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part of this agreement, and the remaining provisions of this agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance from this agreement. Furthermore, in lieu of such illegal, invalid or unenforceable provision, there shall be added automatically as part of this agreement a provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible and be legal and enforceable.

(j) **Legal Counsel.** Employee acknowledges that he has been given the opportunity to consult with legal counsel of his own choosing regarding this agreement. Employee understands and agrees that Activision's General Counsel, or any other attorney or member of management who has discussed any term or condition of this agreement with him, is only acting on behalf of the company and not on behalf of Employee.

(k) **Right to Negotiate.** Employee hereby acknowledges that he has been given the opportunity to participate in the negotiation of the terms of this agreement.

(l) **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 8 of this agreement).

(m) **Injunctive Relief.** In the event of a breach or threatened breach of this agreement, you hereby agree that any remedy at law for any breach or threatened breach of this agreement will be inadequate and, accordingly, each party hereby stipulates that the other is entitled to obtain injunctive relief for any such breaches or threatened breaches. The injunctive relief provided for in this paragraph is in addition to, and is not in limitation of, any and all other remedies at law or in equity otherwise available to the applicable party. The parties agree to waive the requirement of posting a bond in connection with a court's issuance of an injunction.

(n) **Remedies Cumulative.** The remedies in this paragraph are not exclusive, and the parties shall have the right to pursue any other legal or equitable remedies to enforce the terms of this agreement.

(o) **Attorneys' Fees And Costs.** If either party brings an action to enforce, interpret or apply the terms of this agreement or declare its rights under this agreement, the prevailing party in such action, including all appeals, shall receive all of its or his attorneys' fees, experts' fees, and all of its or his costs, in addition to such other relief as may be granted.

#### 15. 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: Senior Vice President,  
Business Affairs and General Counsel

To Employee: 3041 Hutton Drive  
Beverly Hills, California 90210

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.

#### 16. 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

By: /s/ MICHAEL ROWE

\_\_\_\_\_  
Michael Rowe  
Executive Vice President,  
Human Resources

Date: 11/20/02

##### Employee

By: /s/ GEORGE ROSE

\_\_\_\_\_  
George Rose

Date: 11/20/02

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QuickLinks

[Exhibit 10.1](#)

As Adopted by the Board of Directors  
On December 16, 2002

**ACTIVISION, INC.  
2002 STUDIO EMPLOYEE RETENTION INCENTIVE PLAN**

ACTIVISION, INC., a corporation formed under the laws of the State of Delaware (the "Company"), hereby establishes and adopts the following 2002 Studio Employee Retention Incentive Plan (the "Plan").

**RECITALS**

WHEREAS, the Company desires to encourage high levels of performance by those employees and contractors working for the Company's studios who are key to the success of the Company and to encourage such employees and contractors working for the Company's studios to remain as 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") or grants of Restricted Share Awards (hereafter defined) made under the Plan to those persons (each such person, a "Participant") whose judgment, initiative and efforts are or have been or will be 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 retaining selected key employees and contractors working for the Company's studios whose judgment, initiative and efforts are responsible for the success of the Company and its subsidiaries and to help the Company and its subsidiaries secure and retain the services of such individuals. Options granted under the Plan will be 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 or a grant of a Restricted Share 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 6.9 hereof, the aggregate number of Company shares of common stock, par value \$.000001 per share ("Shares") which may be issued under Awards under the Plan, whether pursuant to Options or Restricted Share Awards shall not exceed 800,000. 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; and
- (2) 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 Article 4 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

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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.

**2.3. Character of Shares.** Shares delivered under the Plan may be authorized and unissued Shares or Shares acquired by the Company, or both.

**ARTICLE 3.  
ELIGIBILITY AND ADMINISTRATION**

**3.1. Awards to Studio Employees.** Participants who receive (i) Options under Article 4 hereof ("Optionees"), and (ii) Restricted Share Awards under Article 5 shall consist of such key studio employees of the Company or any of its subsidiaries or affiliates as the Committee (as defined in Section 3.2 below) shall select from time to time. Executive officers and Directors (as defined in Section 3.2 below) of the Company shall not be eligible to receive Awards under the Plan. 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.

**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 Internal Review Code of 1986, as amended (the "Code") and the regulations thereunder.

- (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. The Committee shall have no authority to reduce the exercise price of any Options granted under the Plan (except in connection with adjustments pursuant to Section 6.9 below). 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.** The Committee shall determine, within the limitations of the Plan, those key studio employees of the Company and its subsidiaries and affiliates to whom Options are to be granted under the Plan and the number of Shares that may be purchased under each such Option and the option price.

**4.2. Share Option Agreements; etc.** All Options granted pursuant to this Article 4 shall be (a) authorized by the Committee and (b) evidenced in writing by share option agreements ("Share Option Agreements") in such form and containing such terms and conditions as the Committee shall determine that are not inconsistent with the provisions of the Plan. Granting of an Option pursuant to

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the Plan shall impose no obligation on the recipient to exercise such Option. Any individual who is granted an Option pursuant to this Article 4 may hold more than one Option granted pursuant to such Article at the same time.

**4.3. Option Price.** The option exercise price per share of each Share purchasable under any "nonqualified share option" that is 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 6 hereof and any other applicable terms and provisions of the Plan.

#### **ARTICLE 5. RESTRICTED SHARE AWARDS**

**5.1. Restricted Share Awards. (a) Grant.** A grant of Shares made pursuant to this Article 5 is referred to as a "Restricted Share Award." The Committee may grant to any Participant 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 5 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 5.1(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 or any other property (other than cash) 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 5.1(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

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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 7.1, 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.

**5.2. Terms of Restricted Shares. (a) Forfeiture of Restricted Shares.** Subject to Section 5.2(b), all Restricted Shares shall be forfeited and returned to the Company and all rights of the 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 and the Committee has the discretion to modify the terms and conditions of a Restricted Share award as long as the rights of the Participant are not impaired.

**(b) Waiver of Forfeiture Period.** Notwithstanding anything contained in this Article 5 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 6. GENERALLY APPLICABLE PROVISIONS**

**6.1. Option Period.** The period for which an Option is exercisable shall be set by the Committee. After the Option is granted, the option period may not be reduced, subject to expiration due to termination of employment or otherwise.

**6.2. Fair Market Value.** The "Fair Market Value" of a Share shall be determined in good faith by the Committee in its sole discretion from time to time. 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.

**6.3. Exercise of Options.** Vested Options granted under the Plan shall be exercised by the Optionee or by a Permitted Assignee thereof (or by his or her executors, administrators, guardian or legal representative, as provided in Sections 6.6 and 6.7 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 at the time of exercise and shall be made (i) in cash or by certified check or bank check or wire transfer of immediately available funds, (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) that have been owned for a period of at least six months (or such other period to avoid accounting charges against the Company's earnings), (iv) if Shares are traded on a national securities exchange, the Nasdaq Stock Market, Inc. or quoted on a national quotation system sponsored by the National Association of Securities Dealers, Inc. and the Committee authorizes this method of exercise, through the delivery of irrevocable instructions to a broker approved by the Committee to deliver promptly to the Company an amount equal to the purchase price, or (v) with the consent of the Committee, any combination of (i), (ii), (iii) and (iv). In connection with a tender of previously acquired Shares pursuant to clause (iii) above, the Committee, in its sole discretion, may permit the

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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, subject to Section 6.4 herein, 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.

**6.4. Transferability.** "Non-qualified share options" are transferable with the consent of the Committee by the Optionee, 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; (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; (iii) an entity in which the Optionee or any Permitted Assignee thereof is a beneficial owner; or (iv) in the case of a transfer by an Optionee who is a non-employee director, another non-employee director of the Company; provided that such Permitted Assignee shall be bound by and subject to all of the terms and conditions of this Plan and the Share Option Agreement relating to the transferred Option and shall execute an agreement satisfactory to the Company evidencing such obligations; and provided further that such Optionee shall remain bound by the terms and conditions of this Plan. The Company shall cooperate with any Permitted Assignee and the Company's transfer agent in effectuating any transfer permitted under this Section 6.4.

**6.5. Termination of Employment.** Unless the Committee determines otherwise, in the event of the termination of employment of an Optionee or the termination or separation from service of an advisor or consultant for any reason (other than death or disability as provided below), any Option(s) held by such Optionee (or Permitted Assignee) under this Plan and not previously exercised or expired shall be deemed cancelled and terminated on the day of such termination or separation, *provided, however*, that in no instance may the term of the Option, if extended by the Committee, exceed the maximum term established pursuant to Section 6.1 above.

**6.6. Death.** In the event an Optionee dies while employed by the Company or any of its subsidiaries or affiliates or during his term as an employee of the Company or any of its subsidiaries or affiliates, as the case may be, any Option(s) held by such Optionee (or his Permitted Assignee) and not previously expired or exercised 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 6.1

above.

**6.7. Disability.** In the event of the termination of employment of an Optionee or the separation from service of an employee of the Company, 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) that have not expired or been previously exercised and that 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*

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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 6.1 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.

**6.8. Amendment and Modification of the Plan.** The Committee 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 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.

**6.9. 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 Awards have been or may be issued under the Plan, such that an adjustment is determined in good faith 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 Committee may deem equitable, adjust any or all of (i) the number and type of Shares that thereafter may be made the subject of Awards, (ii) the number and type of Shares subject to outstanding Awards, and (iii) the grant or exercise price with respect to any Award, or, if deemed appropriate, make provision for a cash payment to the holder of any outstanding Award provided that the number of Shares subject to any Award 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 Committee or the Board of Directors of the Company 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 (whether from the Company or another entity that is a party to the Reorganization) or a combination thereof made to the holder of such cancelled Award substantially equivalent in value to the fair market value of such cancelled Award. The determination of fair market value shall be made by the Committee or the Board of Directors, as the case may be, in their sole discretion.

**6.10. Change of Control.** The terms of any Award may provide in the Share Option Agreement, Restricted Share Agreement, or other document evidencing the Award, that upon a "Change of Control" of the Company (as that term may be defined therein), (i) Options immediately vest and become fully exercisable, (ii) restrictions on Restricted Shares lapse and the shares become fully vested, and (iii) such other additional benefits as the Committee deems appropriate shall apply, subject in each case to any terms and conditions contained in the applicable document evidencing such Award. For purposes of this Plan, a "Change of 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 of Control of the Company, each Option outstanding hereunder shall terminate within a specified number of days after notice to the Participant, and such Participant shall receive, with respect to each Share subject to such Option, an amount equal to the excess of the Fair Market Value of such Share immediately prior to the occurrence of such Change of Control over the exercise price per share of such Option; 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.

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**6.11. Employment Violation.** Each Share Option Agreement evidencing an Option granted hereunder shall include and be subject to the following terms:

(a) The terms of this Section 6.11 shall apply to the Option if the Optionee is or shall become subject to an employment agreement with the Company.

(b) If the Optionee materially breaches his or her employment agreement (it being understood that any breach of the post-termination obligations contained therein shall be deemed to be material) for so long as the terms of such employment agreement shall apply to the Optionee (each an "Employment Violation"), the Company shall have the right to require (i) the termination and cancellation of the unexercised portion of the Option, if any, whether vested or unvested, and (ii) payment by the Optionee to the Company of the Recapture Amount (as defined below). Such termination of unexercised Options and payment of the Recapture Amount, as the case may be, shall be in addition to, and not in lieu of, any other right or remedy available to the Company arising out of or in connection with any such Employment Violation including, without limitation, the right to terminate Optionee's employment if not already terminated, seek injunctive relief and additional monetary damages.

(c) "Recapture Amount" shall mean the gross gain realized or unrealized by the Optionee upon each exercise of his Option during the period beginning on the date which is twelve (12) months prior to the date of the Optionee's Employment Violation and ending on the date of computation (the "Look-back Period"), which gain shall be calculated as the sum of:

(i) if the Optionee has exercised any portion of his Option during the Look-back Period and sold any of the Shares acquired on exercise thereafter, an amount equal to the product of (x) the sales price per Share sold minus the exercise price per Share times

(y) the number of Shares as to which the Option was exercised and which were sold at such sales price; plus

(ii) if the Optionee has exercised any portion of his Option during the Look-back Period and not sold any of the Shares acquired on exercise thereafter, with respect to each of such Shares an amount equal to the product of (x) the greatest of the following: (1) the Fair Market Value per Share on the date of exercise, (2) the arithmetic average of the per Share closing sales prices as reported on NASDAQ for the thirty (30) trading day period ending on the trading day immediately preceding the date of the Company's written notice of its exercise of its rights under this clause (h), or (3) the arithmetic average of the per Share closing sales prices as reported on NASDAQ for the thirty (30) trading day period ending on the trading day immediately preceding the date of computation, minus the exercise price per Share times (y) the number of Shares as to which this Option was exercised and which were not sold;

provided, however, in lieu of payment by the Optionee to the Company of the Recapture Amount determined pursuant to subclause (ii) above, the Optionee, in his or her discretion, may tender to the Company the Shares acquired upon exercise of this Option during the Look-back Period and the Optionee shall not be entitled to receive any consideration from the Company in exchange therefor.

With respect to any other Awards granted hereunder, the terms of any Restricted Share Agreement, or any other document evidencing an Award under the Plan, may include comparable provisions to those set forth in this Section 6.11.

**6.12. 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.

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(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 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.

**6.13. Terms of Option Grant.** Notwithstanding anything in Section 6.4, 6.5, 6.6, 6.7, 6.10 and 6.11 to the contrary, the Committee may grant an Option under such terms and conditions as may be provided in the Share Option Agreement given to the Optionee and the Committee has the discretion to modify the terms and conditions of an Option after grant as long as the rights of the Optionee are not impaired unless the Optionee otherwise consents, *provided, however*, that in no instance may the exercise price of the Option be reduced after the date of grant (except in connection with adjustments pursuant to Section 6.9 hereof).

## ARTICLE 7. MISCELLANEOUS

**7.1. Tax Withholding.** The Company shall have the right to make all payments or distributions pursuant to the Plan to an Optionee or Participant (or a Permitted Assignee thereof) net of any applicable Federal, State and local taxes required to be paid as a result of the grant of any Award, exercise of an Option or any other event occurring pursuant to this Plan. The Company or any subsidiary or affiliate thereof shall have the right to withhold from wages or other amounts otherwise payable to 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 Participant (or Permitted Assignee) may 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 Plan having an aggregate Fair Market Value equal to the withholding taxes.

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**7.2. Right of Discharge Reserved.** Nothing in the Plan nor the grant of an Award hereunder shall confer upon any employee 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 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 with respect to an Award 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 studio employee.

**7.3. 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 constitutes a special incentive payment to the Optionee or Participant 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 determined by the Committee or by the Directors or directors of the applicable subsidiary or affiliate of the Company.

**7.4. Unfunded 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.

**7.5. 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.

**7.6. 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.

**7.7. 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.

**7.8. 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. Awards may be granted under the Plan at any time and from time to time prior to December 18, 2012, on which date the Plan will expire except as to Awards outstanding under the Plan. Such outstanding Awards shall remain in effect until they have been exercised or terminated, or have expired.

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**7.9. 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.

**7.10. Dissolution or Liquidation.** In the event of the proposed dissolution or liquidation of the Company, the Committee shall notify each Optionee and Participant as soon as practicable prior to the effective date of such proposed transaction. The Committee in its sole discretion may permit an Optionee to exercise an Option until ten days prior to such transaction with respect to all vested and exercisable Shares covered thereby and with respect to such number of unvested Shares as the Committee shall determine. In addition, the Committee may provide that any forfeiture provision or Company repurchase option applicable to any Restricted Share Award shall lapse as to such number of Shares as the Committee shall determine, contingent upon the occurrence of the proposed dissolution or liquidation at the time and in the manner contemplated. To the extent an Option has not been previously exercised, the Option shall terminate automatically immediately prior to the consummation of the proposed action. To the extent a forfeiture provision applicable to a Restricted Share Award has not been waived by the Committee, the related Restricted Share Award shall be forfeited automatically immediately prior to the consummation of the proposed action.

**7.11. Successors and Assigns.** This Plan shall be binding upon and inure to the benefit of the respective successors and permitted assigns of the Company, Optionees and Participants.

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**STOCK OPTION AGREEMENT  
(Non-Transferable)**

Stock Option #

For Shares

Issued Pursuant to the  
2002 Studio Employee Retention Incentive Plan of  
**ACTIVISION, INC.**

THIS CERTIFIES that on \_\_\_\_\_ (the "Issuance Date") \_\_\_\_\_ (the "Holder") was granted an option (the "Option") to purchase at the option price of \$ \_\_\_\_\_ per share, all or any part of \_\_\_\_\_ fully paid and non-assessable shares ("Shares") of common stock, par value \$.000001 per share, of ACTIVISION, INC., a Delaware corporation (the "Company"), upon and subject to the following terms and conditions:

**a. Terms of the Plan.** The Option is granted pursuant to, and is subject to the terms and conditions of, the Company's 2002 Studio Employee Retention Incentive Plan (the "Plan"), the terms, conditions and definitions of which are hereby incorporated herein as though set forth at length, and the receipt of a copy of which the Holder hereby acknowledges by his signature below. Capitalized terms used herein shall have the meanings set forth in the Plan, unless otherwise defined herein.

b. *Expiration.* This Option shall expire on [ ] unless extended or earlier terminated in accordance herewith.

c. *Exercise.* This Option may be exercised or surrendered during the Holder's lifetime only by the Holder or his/her guardian or legal representative. THIS OPTION SHALL NOT BE TRANSFERABLE BY THE HOLDER OTHERWISE THAN BY WILL OR BY THE LAWS OF DESCENT AND DISTRIBUTION, SUBJECT TO THE TERMS AND CONDITIONS OF THE PLAN.

This Option shall vest and be exercisable as follows:

Vesting Date	Shares Vested at Vesting Date	Cumulative Shares Vested at Vesting Date
[vesting schedule]		

This Option shall be exercised by the Holder (or by her executors, administrators, guardian or legal representative) as to all or part of the Shares, 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 at the time of exercise and shall be made (i) in cash or by certified check or bank check or wire transfer of immediately available funds, (ii) with the consent of the Company, by tendering previously acquired Shares (valued at its Fair Market Value (as defined in the Plan), as determined by the Company as of the date of tender), or (iii) with the consent of the Company, a combination of (i) and (ii). Such notice of exercise, accompanied by such payment, shall be delivered to the Company at its principal business office or such other office as the Company may from time to time direct, and shall be in such form, containing such further provisions as the Company may from time to time prescribe. In no event may this Option 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 this Option shall have any of the rights of a holder of Shares subject to this 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.

(d) *Termination of Employment.* In the event of the termination of employment or separation from service of the Holder for any reason (other than death or disability as provided below), this Option, to the extent not previously exercised or expired, shall be deemed cancelled and terminated on the day of such termination or separation, unless the Company decides, in its sole discretion, to extend the term of this Option, subject to the terms of the Plan.

(e) *Death.* In the event the Holder 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, this Option, to the extent not previously exercised or expired, shall, to the extent exercisable on the date of death, be exercisable by the estate of the Holder or by any person who acquired this Option by bequest or inheritance, at any time within one year after the death of the Holder, *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 Sections 6.1 of the Plan.

(f) *Disability.* In the event of the termination of employment of the Holder or the separation from service of the Holder due to total disability, the Holder, or her guardian or legal representative, shall have the unqualified right to exercise any portion of this Option which has not been previously exercised or expired and which the Holder was eligible to exercise as of the first date of total disability (as determined by the Company), at any time within one year after such termination or separation, *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 6.1 of the Plan. The term "total disability" shall, for purposes of this Share Option Agreement, be defined in the same manner as such term is defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended.

(g) *Change of Control.* If the Holder is an active employee of the Company or any of its subsidiaries at the time there occurs a "Change of Control" of the Company (as defined below) and the Holder's employment is terminated by the Company or any of its subsidiaries other than for Cause (as defined below) within twelve (12) months following such Change of Control, or such longer period as the Committee may determine, the portion, if any, of this Option with respect to which the right to

exercise has not yet accrued, shall immediately vest and be exercisable in full, effective upon such termination, for a period of 30 days thereafter, or such longer period as the Committee may determine. For purposes of this Option, a "Change of Control" of the Company shall be deemed to occur if:

(i) there shall have occurred a Change of Control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as in effect on the date hereof, whether or not the Company is then subject to such reporting requirement, *provided, however,* that there shall not be deemed to be a Change of Control of the Company if immediately prior to the occurrence of what would otherwise be a Change of Control of the Company (a) the Holder is the other party to the transaction (a "Control Event") that would otherwise result in a Change of Control of the Company or (b) the Holder is an executive officer, trustee, director or more than 5% equity holder of the other party to the Control Event or of any entity, directly or indirectly, controlling such other party;

(ii) the Company merges or consolidates with, or sells all or substantially all of its assets to, another company (each, a "Transaction"), *provided, however,* that a Transaction shall not be deemed to result in a Change of Control of the Company if (a) immediately prior thereto the circumstances in (i)(a) or (i)(b) above exist, or (b) (1) the shareholders of the Company, immediately before such Transaction own, directly or indirectly, immediately following such Transaction in excess of fifty percent (50%) of the combined voting

power of the outstanding voting securities of the corporation or other entity resulting from such Transaction (the "Surviving Corporation") in substantially the same proportion as their ownership of the voting securities of the Company immediately before such Transaction and (2) the individuals who were members of the Company's Board of Directors immediately prior to the execution of the agreement providing for such Transaction constitute at least a majority of the members of the board of directors or the board of trustees, as the case may be, of the Surviving Corporation, or of a corporation or other entity beneficially directly or indirectly owning a majority of the outstanding voting securities of the Surviving Corporation; or

(iii) the Company acquires assets of another company or a subsidiary of the Company merges or consolidates with another company (each, an "Other Transaction") and (a) the shareholders of the Company, immediately before such Other Transaction own, directly or indirectly, immediately following such Other Transaction 50% or less of the combined voting power of the outstanding voting securities of the corporation or other entity resulting from such Other Transaction (the "Other Surviving Corporation") in substantially the same proportion as their ownership of the voting securities of the Company immediately before such Other Transaction or (b) the individuals who were members of the Company's Board of Directors immediately prior to the execution of the agreement providing for such Other Transaction constitute less than a majority of the members of the board of directors or the board of trustees, as the case may be, of the Other Surviving Corporation, or of a corporation or other entity beneficially directly or indirectly owning a majority of the outstanding voting securities of the Other Surviving Corporation, *provided, however*, that an Other Transaction shall not be deemed to result in a Change of Control of the Company if immediately prior thereto the circumstances in (i)(a) or (i)(b) above exist.

For purposes of this clause (g), "Cause" shall mean (unless a different definition is used in the Holder's written employment agreement with the Company, if any, in which case such different definition shall apply to the Holder) any of the following:

(i) material breach by the Holder of his or her employment agreement, if any, or material failure by the Holder to perform his or her duties (other than as a result of incapacity due to physical or mental illness) during his or her employment with the Company after written notice of

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such breach or failure and the Holder failed to cure such breach or failure to the Company's reasonable satisfaction within five (5) days after receiving such written notice;

(ii) material breach by the Holder of his or her Employee Proprietary Information Agreement or other similar arrangement entered into by the Holder in connection with his or her employment by the Company; or

(iii) any act of fraud, misappropriation, misuse, embezzlement or any other material act of dishonesty in respect of the Company or its funds, properties, assets or other employees.]

**(h) Employment Violation.** In consideration of the granting and by acceptance of this Option, the Holder hereby agrees that the terms of this clause (h) shall apply to the Option. The Holder acknowledges and agrees that each exercise of this Option and each written notice of exercise delivered to the Company and executed by the Holder shall serve as a reaffirmation of and continuing agreement by the Holder to comply with the terms contained in this clause (h).

The Company and the Holder acknowledge and agree that if the Holder materially breaches his or her employment agreement (it being understood that any breach of the post-termination obligations contained therein shall be deemed to be material) for so long as the terms of such employment agreement shall apply to the Holder (each an "Employment Violation"), the Company shall have the right to require (i) the termination and cancellation of the unexercised portion of this Option, if any, whether vested or unvested, and (ii) payment by the Holder to the Company of the Recapture Amount (as defined below). The Company and the Holder further agree that such termination of unexercised Options and payment of the Recapture Amount, as the case may be, shall be in addition to, and not in lieu of, any other right or remedy available to the Company arising out of or in connection with any such Employment Violation including, without limitation, the right to terminate the Holder's employment if not already terminated, seek injunctive relief and additional monetary damages.

For purposes of this clause (h), the "Recapture Amount" shall mean the gross gain realized or unrealized by the Holder upon each exercise of this Option during the period beginning on the date which is twelve (12) months prior to the date of the Holder's Employment Violation and ending on the date of computation (the "Look-back Period"), which gain shall be calculated as the sum of:

(i) if the Holder has exercised any portion of this Option during the Look-back Period and sold any of the Shares acquired on exercise thereafter, an amount equal to the product of (x) the sales price per Share sold minus the exercise price per Share times (y) the number of Shares as to which this Option was exercised and which were sold at such sales price; plus

(ii) if the Holder has exercised any portion of this Option during the Look-back Period and not sold any of the Shares acquired on exercise thereafter, with respect to each of such Shares an amount equal to the product of (x) the greatest of the following: (1) the Fair Market Value per Share on the date of exercise, (2) the arithmetic average of the per Share closing sales prices as reported on NASDAQ for the thirty (30) trading day period ending on the trading day immediately preceding the date of the Company's written notice of its exercise of its rights under this clause (h), or (3) the arithmetic average of the per Share closing sales prices as reported on NASDAQ for the thirty (30) trading day period ending on the trading day immediately preceding the date of computation, minus the exercise price per Share times (y) the number of Shares as to which this Option was exercised and which were not sold;

provided, however, in lieu of payment by the Holder to the Company of the Recapture Amount determined pursuant to subclause (ii) above, the Holder, in his or her discretion, may tender to the Company the Shares acquired upon exercise of this Option during the Look-back Period and the Optionee shall not be entitled to receive any consideration from the Company in exchange therefor.

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**(i) Adjustments.** In the event that the Company shall determine that any dividend or other distribution (whether in the form of cash, shares of common stock of the Company, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization,

merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of shares of common stock of the Company or other securities, the issuance of warrants or other rights to purchase shares of common stock of the Company, or other securities, or other similar corporate transaction or event affects the Shares, such that an adjustment is determined by the Company to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available to the Holder, then the Company shall, in such manner as the Company may deem equitable, adjust any or all of (i) the number and type of shares of common stock of the Company subject to this Option, and (ii) the grant or exercise price with respect to this Option, or, if deemed appropriate, make provision for a cash payment to the Holder.

**(j) Delivery of Share Certificates.** Within a reasonable time after the exercise of this Option, the Company shall cause to be delivered to the person entitled thereto a certificate for the Shares purchased pursuant to the exercise of this Option. If this Option shall have been exercised with respect to less than all of the Shares subject to this Option, the Company shall also cause to be delivered to the person entitled thereto a new Stock Option Agreement in replacement of this Stock Option Agreement if surrendered at the time of the exercise of this Option, indicating the number of Shares with respect to which this Option remains available for exercise, or the Company shall make a notation in its books and records to reflect the partial exercise of this Option.

**(k) Withholding.** In the event that the Holder elects to exercise this Option or any part thereof, and if the Company or any subsidiary or affiliate of the Company shall be required to withhold any amounts by reasons of any federal, state or local tax laws, rules or regulations in respect of the issuance of Shares to the Holder pursuant to this Option, the Company or such subsidiary or affiliate shall be entitled to deduct and withhold such amounts from any payments to be made to the Holder. In any event, the Holder shall make available to the Company or such subsidiary or affiliate, promptly when requested by the Company or such subsidiary or affiliate, sufficient funds to meet the requirements of such withholding; and the Company or such subsidiary or affiliate shall be entitled to take and authorize such steps as it may deem advisable in order to have such funds available to the Company or such subsidiary or affiliate out of any funds or property due or to become due to the Holder.

**(l) Reservation of Shares.** The Company hereby agrees that at all times there shall be reserved for issuance and/or delivery upon exercise of this Option such number of Shares as shall be required for issuance or delivery upon exercise hereof.

**(m) Rights of Holder.** Nothing contained herein shall be construed to confer upon the Holder any right to be continued in the employ of the Company and/or any subsidiary or affiliate of the Company or derogate from any right of the Company and/or any subsidiary or affiliate of the Company to retire, request the resignation of, or discharge the Holder at any time, with or without cause. The Holder shall not, by virtue hereof, be entitled to any rights of a shareholder in the Company, either at law or in equity, and the rights of the Holder are limited to those expressed herein and are not enforceable against the Company except to the extent set forth herein.

**(n) Exclusion from Pension Computations.** By acceptance of the grant of this Option, the Holder hereby agrees that any income realized upon the receipt or exercise hereof, or upon the disposition of the Shares received upon its exercise, is special incentive compensations and, to the extent permissible under applicable law, shall not be taken into account as "wages", "salary" or "compensation" in determining the amount of any payment under any pension, retirement, incentive, profit sharing, bonus or deferred compensation plan of the Company or any of its subsidiaries or affiliates.

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**(o) Registration; Legend.** The Company may postpone the issuance and delivery of Shares upon any exercise of this Option until (a) the admission of such Shares to listing on any stock exchange or exchanges on which Shares of the Company of the same class are then listed and (b) the completion of such registration or other qualification of such Shares under any state or federal law, rule or regulation as the Company shall determine to be necessary or advisable. The Holder shall make such representations and furnish such information as may, in the opinion of counsel for the Company, be appropriate to permit the Company, in light of the then existence or non-existence with respect to such Shares of an effective Registration Statement under the Securities Act of 1933, as amended, to issue the Shares in compliance with the provisions of that or any comparable act.

The Company may cause the following or a similar legend to be set forth on each certificate representing Shares or any other security issued or issuable upon exercise of this Option unless counsel for the Company is of the opinion as to any such certificate that such legend is unnecessary:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT, THE AVAILABILITY OF WHICH IS ESTABLISHED BY AN OPINION FROM COUNSEL TO THE COMPANY.

**(p) Amendment.** The Company may at any time or from time to time amend the terms of the Plan, and may, with the consent of the Holder, at any time or from time to time amend the terms and conditions of this Option, *provided, however*, that in no instance may the exercise price of this Option be reduced after the date of grant (except in connection with adjustments pursuant to Section 6.9 of the Plan).

**(q) Notices.** Any notice which either party hereto may be required or permitted to give to the other shall be in writing, and may be delivered personally or by mail, postage prepaid, or overnight courier, addressed as follows: if to the Company, at its office at 3100 Ocean Park Boulevard, Santa Monica, California 90405, Attn: General Counsel, or at such other address as the Company by notice to the Holder may designate in writing from time to time; and if to the Holder, at the address shown below her signature on this Stock Option Agreement, or at such other address as the Holder by notice to the Company may designate in writing from time to time. Notices shall be effective upon receipt.

**(r) Interpretation.** A determination of the Committee as to any questions which may arise with respect to the interpretation of the provisions of this Option and of the Plan shall be final and binding. The Committee may authorize and establish such rules, regulations and revisions thereof as it may deem advisable.

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IN WITNESS WHEREOF, the parties have executed this Stock Option Agreement as of the date set forth above.

ACTIVISION, INC.

By:

\_\_\_\_\_  
Name:  
Title:

Date:

Attest:

\_\_\_\_\_  
\_\_\_\_\_

ACCEPTED:

\_\_\_\_\_  
Option Holder

\_\_\_\_\_  
Address

\_\_\_\_\_  
City

State

Zip Code

\_\_\_\_\_  
Social Security Number

QuickLinks

[ACTIVISION, INC. 2002 STUDIO EMPLOYEE RETENTION INCENTIVE PLAN STOCK OPTION AGREEMENT](#)

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**Exhibit 99.1**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Activision, Inc. (the "Company") on Form 10-Q for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert A. Kotick, Chief Executive Officer of the Company, certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ROBERT A. KOTICK

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Robert A. Kotick  
Chairman and Chief Executive Officer  
Activision, Inc.  
January 31, 2003

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[Exhibit 99.1](#)

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Exhibit 99.2

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Activision, Inc. (the "Company") on Form 10-Q for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald Doornink, President of the Company and Chief Executive Officer of Activision Publishing, Inc., certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RONALD DOORNINK

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Ronald Doornink  
President, Activision, Inc.  
Chief Executive Officer,  
Activision Publishing, Inc.  
January 31, 2003

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[Exhibit 99.2](#)

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**Exhibit 99.3**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Activision, Inc. (the "Company") on Form 10-Q for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William J. Chardavoyne, Chief Financial Officer of the Company, certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ WILLIAM J. CHARDAVOYNE

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William J. Chardavoyne  
Chief Financial Officer  
Activision, Inc.  
January 31, 2003

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[Exhibit 99.3](#)