SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 1995

O R

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

For the transition period from __________ to __________

Commission File Number 0-12699

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

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

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

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

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

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

The number of shares of the registrant's Common Stock outstanding as of February 13, 1996 was 13,748,763.

ACTIVISION, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ACTIVISION, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

(in thousands except share data)

	December 31, 1995	March 31, 1995
ASSETS	(UNAUDITED)	
Current assets:		
Cash and cash equivalents	$ 28,077	$ 37,355
Accounts receivable, less allowances of $7,684 and $4,469, respectively	11,575	5,566
Inventories, net	2,670	1,972
Prepaid software and license royalties	3,378	1,082
Other current assets	866	342
Total current assets	46,566	46,317
Property and equipment, net	2,964	1,643
Other assets	229	60
Excess purchase price over identifiable assets acquired, net	19,901	20,863
Total assets	$ 69,660	$ 68,883
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,987	$ 2,516
Accrued expenses	6,744	3,153
Deferred revenue	1,740	-
Total current liabilities	12,471	5,669
Other liabilities	495	510
Total liabilities	12,966	6,179
Commitments and contingencies		
Shareholders' equity:		
Common stock, $.000001 par value, 100,000,000 shares authorized, 14,227,846 and 14,183,594 shares issued and 13,727,846 and 14,183,594 outstanding, respectively	-	-
Additional paid-in capital	67,881	67,667
Accumulated deficit	(5,638)	(4,822)
Cumulative foreign currency translation	(271)	(141)
Less: treasury stock, cost of 500,000 shares	(5,278)	-

Total shareholders' equity	56,694	62,704
Total liabilities and shareholders' equity	$ 69,660	$ 68,883

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

ACTIVISION, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations

(in thousands except per share data)

(Unaudited)

	Quarter ended December 31,		Nine months ended December 31,	
	1995	1994	1995	1994
Net revenues	$ 17,578	$ 26,185	$ 39,745	$ 34,069
Cost of goods sold	7,131	16,256	15,428	19,580
Gross profit	10,447	9,929	24,317	14,489
Operating expenses:				
Product development	4,163	2,247	12,807	5,315
Sales and marketing	3,200	5,566	9,290	8,187
General and administrative	1,190	871	3,332	2,288
Amortization of intangible assets	321	321	963	963
Total operating expenses	8,874	9,005	26,392	16,753
Operating income (loss)	1,573	924	(2,075)	(2,264)
Other income:				
Interest, net	409	414	1,343	1,151
Income (loss) before provision for income taxes	1,982	1,338	(732)	(1,113)
Provision for income taxes	34	34	83	88
Net income (loss)	$ 1,948	$ 1,304	$ (815)	$ (1,201)
Net income (loss) per share	$ 0.13	$ 0.09	$ (0.06)	$ (0.09)
Number of shares used in computing net income (loss) per common share	15,209	13,907	14,077	13,860

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

ACTIVISION, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
For the nine months ended December 31,

(in thousands)
(Unaudited)
Increase (Decrease) in Cash

	1995	1994
Net cash used in operating activities	$ (1,840)	$ (12,460)
Cash flows from investing activities:		
Capital expenditures	(2,244)	(637)
Restricted cash	-	1,500
Net cash provided (used) by investing activities	(2,244)	863
Cash flows from financing activities:		
Payments under line of credit agreements	-	(4,695)
Borrowings under line of credit agreements	-	4,695
Proceeds from exercise of common stock options	214	105
Purchase of treasury stock	(5,278)	-
Net cash provided (used) by financing activities	(5,064)	105
Effect of exchange rate changes on cash	(130)	(24)
Net decrease in cash and cash equivalents	(9,278)	(11,516)
Cash and cash equivalents at beginning of period	37,355	38,093
Cash and cash equivalents at end of period	$ 28,077	$ 26,577

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

1. BASIS OF PRESENTATION

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

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

2. INVENTORIES

Inventories comprise (amounts in thousands):

	December 31, 1995	March 31, 1995
Finished goods	$ 1,976	$ 1,769
Purchased parts and components	694	203

	$ 2,670	$ 1,972
	======	======

3. DEFERRED REVENUE

Revenue from licensing agreements which provide customers the right to multiple copies in exchange for guaranteed amounts is recognized upon delivery of the product master or the first copy; when per copy royalties on sales exceed the minimum guaranteed quantities, revenue is recognized. The Company defers recognition of revenue from licensing agreements until the completion by the Company of its future obligations under such agreements including, but not limited to, the achievement of technological feasibility of the products or assets to be delivered under such obligations and future collectibility. Deferred revenue of $1,740,000 as of December 31, 1995 represents minimum guarantee payments received by the Company in advance of future deliveries of products or product components under such agreements.

4. AMORTIZATION OF INTANGIBLE ASSETS

Effective April 1, 1992, Disc Company, Inc. ("TDC"), a Delaware corporation and a wholly-owned subsidiary of International Consumer Technologies Corporation, was merged with and into the Company, with the Company as the surviving corporation. The excess of the purchase price over the estimated fair values of the net assets acquired was recorded as an intangible asset in the amount of $24,417,000. This intangible asset is being amortized on a straight-line basis over a 20 year period. Amortization was approximately $305,000 for each of the quarters ended December 31, 1995 and 1994 and $916,000 for each of the the nine month periods ended December 31, 1995 and 1994. The Company systematically evaluates current and expected cash flow from operations on a non-discounted basis for the purpose of assessing the recoverability of recorded intangible assets. Some of the factors considered in this evaluation include operating results, business plans, budgets and economic projections. Should such factors indicate that recoverability might be impaired, the Company would appropriately adjust the recorded amount of the intangible asset and/or the period over which the recorded intangible asset is amortized.

5. EARNINGS (LOSS) PER COMMON SHARE

Earnings (loss) per common share is computed using the weighted average number of common and, when dilutive, common equivalent shares outstanding during the period. For the quarter ended December 31, 1995, the weighted average number of shares in the computation of earnings per share was increased by approximately 1,239,000 of common equivalent shares.

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

OVERVIEW

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

RESULTS OF OPERATIONS

Net revenues for the quarter and nine months ended December 31, 1995 decreased 33% and increased 17%, respectively, from the same periods last year. The increase in desk-top net revenues during the current quarter was primarily due to continuing strong sales of "Mechwarrior 2" (DOS CD) which was released in July 1995, as well as the initial release of "Mechwarrior 2" (Windows 95 CD), five "Mighty Morphin Power Ranger" titles (Windows and Mac CD), "Mechwarrior 2 Expansion Pack: Ghost Bear's Legacy" (DOS CD) and "Earthworm Jim" (Windows 95 CD). The decrease in set-top net revenues during the current quarter was due to the Company's strategic change in its business emphasis from cartridge-based set-top system to CD-based desk-top systems. On-line, OEM, licensing and other net revenues increased during the current quarter due to OEM and licensing revenues related to "Mechwarrior 2", "Pitfall: The Mayan Adventure", "Shanghai: Great Moments" and "Earthworm Jim".

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

Quarter Ended December 31,	Nine Months Ended December 31,

	1995		1994		1995		1994	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
North America	$ 13,062	74.3%	$18,751	71.6%	$30,034	75.6%	$24,847	72.9%
Europe	1,791	10.2%	6,562	25.0%	3,819	9.6%	7,174	21.1%
Japan	1,901	10.8%	249	1.0%	3,797	9.6%	1,085	3.2%
Australia and Pacific Rim	824	4.7%	623	2.4%	2,095	5.2%	963	2.8%
	$ 17,578	100.0%	$ 26,185	100.0%	$ 39,745	100.0%	$34,069	100.0%

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

	Quarter Ended December 31,				Nine Months Ended December 31,			
	1995		1994		1995		1994	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
Set-top	$ 1,323	7.5%	$23,308	89.0%	$ 4,092	10.3%	$ 24,607	72.2%
Desk-top	12,066	68.7%	1,487	5.7%	27,603	69.5%	5,205	15.3%
On-line, OEM, licensing and other	4,189	23.8%	1,390	5.3%	8,050	20.2%	4,257	12.5%
	$ 17,578	100.0%	$26,185	100.0%	$39,745	100.0%	$34,069	100.0%

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

Included in on-line, OEM, licensing and other revenues is approximately $750,000 related to the settlement and sale of certain product licensing rights back to the original licensor.

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

	Quarter Ended December 31				Nine Months Ended December 31,			
	1995		1994		1995		1994	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
Activision Studios	$ 15,815	90.0%	$26,124	99.8%	$37,091	93.3%	$33,362	97.9%
Acquisitions and Affiliated Labels	1,763	10.0%	61	0.2%	2,654	6.7%	707	2.1%
	$ 17,578	100.0%	$26,185	100.0%	$39,745	100.0%	$34,069	100.0%

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

Cost of Goods Sold

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

Also included in cost of goods sold is royalty expense related to amounts due to developers, title owners or other royalty participants based on product sales. Various contracts are maintained with developers, product title owners or other royalty participants which state a royalty rate and term of agreement, among other items. The decrease in cost of goods sold is a result of the shift in the Company's strategy from cartridge-based set-top products to CD-based desk-top products.

Gross Profit

For the quarter ended December 31, 1995, gross profit as a percentage of net revenues was 59.4% compared to 37.9% for the quarter ended December 31, 1994. The majority of the Company's revenues in the quarter ended December 31, 1995 were derived from desk-top products that carry a higher gross profit than set-top products. In contrast, revenues derived from set-top products represented a greater portion of total net revenues in the quarter ended December 31, 1994. The increase in gross profit also was due to the increase in on-line, OEM, licensing and other revenues, which carry higher gross profit.

Gross profit increased as a percent of net revenues from 42.5% for the nine months ended December 31, 1994 to 61.2% for the nine months ended December 31, 1995. The increase in gross margin over this period was primarily due to the overall shift in the Company's product mix from cartridge-based set-top products to CD-based desk-top products.

Operating Expenses

	Quarter Ended December 31,				Nine Months Ended December 31,			
	1995		1994		1995		1994	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
Product development	$4,163	23.7%	$2,247	8.6%	$12,807	32.2%	$5,315	15.6%
Sales and marketing	3,200	18.2%	5,566	21.3%	9,290	23.4%	8,187	24.0%
General and administrative	1,190	6.8%	871	3.3%	3,332	8.4%	2,288	6.7%
Amortization of intangible assets	321	1.8%	321	1.2%	963	2.4%	963	2.8%
	$ 8,874	50.5%	$9,005	34.4%	$26,392	66.4%	$16,753	49.1%

Product development expenses increased due to the continued growth of the Company's product development departments, the increased number of products in product development and the increase in costs associated with enhanced production content and new technologies incorporated into such products. Approximately $3,507,000 and $8,249,000 of product development expenses for the quarter and nine months ended December 31, 1995, respectively, relate to products which will be released in subsequent periods. Sales and marketing expenses decreased for the quarter as a result of a reduction in broadcast advertising, although such reduction was partially offset by the growth of the sales and marketing departments. General and administrative expenses increased due to an increase in head count related expenses as compared to the same period in the prior year.

Amortization of intangible assets represents the amortization of the excess purchase price over identifiable assets acquired from the acquisition of Disc Company, Inc. on April 1, 1992 and the amortization of capitalized reorganization costs.

Other Income (Expense)

Interest income, net, was $409,000 and $1,343,000 for the quarter and nine months ended December 31, 1995, respectively, compared to approximately $414,000 and $1,151,000 for the quarter and nine months ended December 31, 1994. The decrease for the quarter ended December 31, 1995 was due to lower average cash balances during the period as a result of the Company's purchases of its common stock in the open market in December 1995, while the increase for the nine months ended December 31, 1995 was due to the higher yields earned on cash and cash equivalents.

Provision for Income Taxes

Income taxes represent foreign taxes withheld which may be available in the future as tax credits against future tax liability. In addition, the Company has significant net operating losses which may be carried forward against a portion of future taxable income for both federal and state tax purposes.

SEASONALITY

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

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

LIQUIDITY AND CAPITAL RESOURCES

On January 31, 1994, the Company completed a private placement of approximately 5,000,000 shares of its common stock. The net proceeds from this private placement, approximately $39.5 million, together with funds from operations, have been the Company's primary source of liquidity for the fiscal year ended March 31, 1995 and for the current fiscal year. At December 31, 1995, the Company had a balance of approximately $28.1 million of cash and cash equivalents.

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

The Company's working capital decreased $6.6 million from March 31, 1995 to December 31, 1995 as a result of the Company's purchases of its common stock in the open market in the amount of $5.3 million, the funding of the Company's expanding operations and additional capital expenditures. At December 31, 1995, net accounts receivable and inventories were $14.2 million, an increase of $6.7 million from $7.5 million as of March 31, 1995. The increase is due primarily to an increase in the Company's product sales in the third quarter of the fiscal year as compared to the quarter ended March 31, 1995.

As of December 31, 1995, total accounts payable and accrued liabilities were approximately $10.7 million versus $5.7 million at March 31, 1995. The increase at December 31, 1995 is related to the the increase in cost of goods sold as well as operating expenses related to the increase in the Company's product sales in the third quarter of the current fiscal year.

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

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

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURES

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

Date: February 13, 1996

ACTIVISION, INC.

/S/Robert A. Kotick (Robert A. Kotick)	Chairman, Chief Executive Officer (Principal Executive Officer) and Director	February 13, 1996
/S/Brian G. Kelly (Brian G. Kelly)	Chief Operating and Financial Officer and Director (Principal Financial Officer)	February 13, 1996
/S/Barry J. Plaga (Barry J. Plaga)	Chief Accounting Officer (Principal Accounting Officer)	February 13, 1996

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ACTIVISION, INC.

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