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, 2000

OR

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

For the transition period from __________ to __________

Commission File Number 0-12699

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

DELAWARE	95-4803544
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3100 OCEAN PARK BOULEVARD, SANTA MONICA, CA	90405
(Address of principal executive offices)	(Zip Code)

(310) 255-2000
(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 [ ]

The number of shares of the registrant's Common Stock outstanding as of February 9, 2001 was $26,282,864 .

ACTIVISION, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION.
Item 1. Financial Statements.

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

	December 31, 2000	March 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 52,348	$ 49,985
Accounts receivable, net of allowances of $44,751 and $31,521 at December 31, 2000 and March 31, 2000, respectively	166,871	108,108
Inventories	49,772	40,453
Prepaid royalties and capitalized software costs	21,224	31,655
Deferred income taxes	21,870	14,159
Other current assets	16,309	17,815
Total current assets	328,394	262,175
Prepaid royalties and capitalized software costs	11,060	9,153
Property and equipment, net	15,053	10,815
Deferred income taxes	3,748	6,055
Goodwill, net	10,892	12,347
Other assets	8,268	9,192
Total assets	$ 377,415	$ 309,737
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 11,390	$ 16,260
Accounts payable	80,560	38,284
Accrued expenses	73,929	49,404
Total current liabilities	165,879	103,948
Long-term debt, less current portion	5,722	13,778
Convertible subordinated notes	60,000	60,000
Other liabilities	2	2
Total liabilities	231,603	177,728
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $.000001 par value, 5,000,000 shares authorized, no shares issued at December 31, 2000 and March 31, 2000	-	-
Common stock, $.000001 par value, 50,000,000 shares authorized, 27,555,492 and 26,488,260 shares issued and 24,671,513 and 25,988,260 shares outstanding at December 31, 2000 and March 31, 2000, respectively	-	-
Additional paid-in capital	163,017	151,714
Retained earnings (deficit)	11,271	(8,361)
Accumulated other comprehensive loss	(8,227)	(6,066)
Less: Treasury stock, at cost, 2,883,979 shares and 500,000 shares at December 31, 2000 and March 31, 2000, respectively	(20,249)	(5,278)
Total shareholders' equity	145,812	132,009
Total liabilities and shareholders' equity	$ 377,415	$ 309,737

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,	
	2000	1999	2000	1999
Net revenues	$ 264,473	$ 268,862	$ 493,393	$ 468,367
Costs and expenses:				
Cost of sales - product costs	139,430	139,357	247,414	259,180
Cost of sales - royalties and software amortization	39,364	39,733	77,829	61,213
Product development	11,779	6,235	30,311	16,576
Sales and marketing	26,725	33,947	68,505	67,392
General and administrative	12,421	11,349	31,542	28,340
Total costs and expenses	229,719	230,621	455,601	432,701
Income from operations	34,754	38,241	37,792	35,666
Interest expense, net	(2,225)	(2,835)	(6,631)	(5,833)
Income before income tax provision	32,529	35,406	31,161	29,833
Income tax provision	12,024	13,105	11,529	11,043
Net income	$ 20,505	$ 22,301	$ 19,632	$ 18,790
Basic earnings per share	$ 0.84	$ 0.89	$ 0.80	$ 0.77
Weighted average common shares outstanding	24,443	25,075	24,407	24,367
Diluted earnings per share	$ 0.70	$ 0.75	$ 0.75	$ 0.71
Weighted average common shares outstanding - assuming dilution	30,372	30,483	28,883	29,431

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

ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	For the nine months ended December 31,	
	2000	1999
Cash flows from operating activities:		
Net income	$ 19,632	$ 18,790
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	(5,190)	12,130
Depreciation and amortization	4,502	6,400
Amortization of prepaid royalties and capitalized software costs	63,397	49,546
Expense related to common stock warrants	1,055	966
Tax benefit from exercise of stock options	2,295	2,686
Change in assets and liabilities (net of effects of purchases and acquisitions):		
Accounts receivable	(58,763)	(97,299)
Inventories	(9,319)	(8,761)
Other current assets	1,506	(8,207)
Other assets	(131)	(1,013)
Accounts payable	38,363	39,790
Accrued expenses	24,799	19,793
Other liabilities	(1)	(4)
Net cash provided by operating activities	82,145	34,817
Cash flows from investing activities:		
Cash used in purchase acquisitions (net of cash acquired)	-	(20,523)
Investment in prepaid royalties and capitalized software costs	(50,960)	(54,931)
Capital expenditures	(8,835)	(2,520)
Proceeds from disposal of property and equipment	1,394	-
Net cash used in investing activities	(58,401)	(77,974)
Cash flows from financing activities:		
Proceeds from issuance of common stock pursuant to employee stock option plans	8,148	14,916
Proceeds from issuance of common stock pursuant to employee stock purchase plan	327	419
Borrowing under line-of-credit agreements	361,282	202,956
Payment under line-of-credit agreements	(364,340)	(171,463)
Proceeds from term loan	-	25,000
Payment on term loan	(9,300)	-
Other notes payable, net	(368)	(5,449)
Cash paid to acquire line of credit and term loan	-	(3,355)
Purchase of treasury stock	(14,971)	-
Net cash provided by (used in) financing activities	(19,222)	63,024
Effect of exchange rate changes on cash	(2,159)	(1,170)
Net increase in cash and cash equivalents	2,363	18,697
Cash and cash equivalents at beginning of period	49,985	33,037
Cash and cash equivalents at end of period	$ 52,348	$ 51,734

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

ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the nine months ended December 31, 2000
(Unaudited)
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Deficit)
BALANCE, MARCH 31, 2000	26,488	$ -	$ 151,714	$ (8,361)
Components of comprehensive income:				
Net income	-	-	-	19,632
Foreign currency translation adjustment	-	-	-	-
Total comprehensive income				
Acquisition of treasury stock	-	-	-	-
Issuance of common stock pursuant to employee stock purchase plan	35	-	327	-
Issuance of common stock pursuant to employee stock option plans	1,032	-	8,148	-
Tax benefit attributable to employee stock option plans	-	-	2,295	-
Tax benefit derived from net operating loss carryforward utilization	-	-	533	-
BALANCE, DECEMBER 31, 2000	27,555	$ -	$ 163,017	$ 11,271

	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity
BALANCE, MARCH 31, 2000	(500)	$ (5,278)	$ (6,066)	$ 132,009
Components of comprehensive income:				
Net income	-	-	-	19,632
Foreign currency translation adjustment	-	-	(2,161)	(2,161)
Total comprehensive income				17,471
Acquisition of treasury stock	(2,384)	(14,971)	-	(14,971)
Issuance of common stock pursuant to employee stock purchase plan	-	-	-	327
Issuance of common stock pursuant to employee stock option plans	-	-	-	8,148
Tax benefit attributable to employee stock option plans	-	-	-	2,295
Tax benefit derived from net operating loss carryforward utilization	-	-	-	533
BALANCE, DECEMBER 31, 2000	(2,884)	$ (20,249)	$ (8,227)	$ 145,812

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

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Activision, Inc. (together with its subsidiaries, "Activision" or the "Company"). 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 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, 2000 as filed with the Securities and Exchange Commission (the "SEC").

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 net income, shareholders' equity or cash flows.

2. ORGANIZATIONAL STRUCTURE

Effective June 9, 2000, Activision reorganized into a holding company form of organizational structure, whereby Activision Holdings, Inc., a Delaware corporation ("Activision Holdings"), became the holding company for Activision and its subsidiaries. The new holding company organizational structure will allow Activision to manage its entire organization more effectively and broadens the alternatives for future financings.

The holding company organizational structure was effected by a merger conducted pursuant to Section 251(g) of the General Corporation Law of the State of Delaware, which provides for the formation of a holding company structure without a vote of the stockholders of the constituent corporations. In the merger, ATVI Merger Sub, Inc., a Delaware corporation, organized for the purpose of implementing the holding company organizational structure (the "Merger Sub"), merged with and into Activision with Activision as the surviving corporation (the "Surviving Corporation"). Prior to the merger, Activision Holdings was a direct, wholly-owned subsidiary of Activision and Merger Sub was a direct, wholly owned subsidiary of Activision Holdings. Pursuant to the merger, (i) each issued and outstanding share of common stock of Activision (including treasury shares) was converted into one share of common stock of Activision Holdings, (ii) each issued and outstanding share of Merger Sub was converted into one share of the Surviving Corporation's common stock, and Merger Sub's corporate existence ceased, and (iii) all of the issued and outstanding shares of Activision Holdings owned by Activision were automatically canceled and retired. As a result of the merger, Activision became a direct, wholly owned subsidiary of Activision Holdings.

Immediately following the merger, Activision changed its name to "Activision Publishing, Inc." and Activision Holdings changed its name to "Activision, Inc." The holding company's common stock will continue to trade on The Nasdaq National Market under the symbol ATVI.

The conversion of shares of Activision's common stock in the merger occurred without an exchange of certificates. Accordingly, certificates formerly representing shares of outstanding common stock of Activision are deemed to represent the same number of shares of common stock of Activision Holdings. The change to the holding company structure was tax free for federal income tax purposes for stockholders.

These transactions had no impact on the Company's consolidated financial statements.

3. PREPAID ROYALTIES AND CAPITALIZED SOFTWARE COSTS

Prepaid royalties include payments made to independent software developers under development agreements and license fees paid to intellectual property rights holders for use of their trademarks or copyrights. Intellectual property rights, which have alternative future uses, are capitalized. Capitalized software costs represent costs incurred for development that are not recoupable against future royalties.

The Company accounts for prepaid royalties relating to development agreements and capitalized software costs in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." Software development costs and prepaid royalties are capitalized once technological feasibility is established. Technological feasibility is evaluated on a product-by-product basis. Software development costs are expensed if and when they are deemed

unrecoverable. Amounts related to software development, which are not capitalized, are charged immediately to product development expense.

The following criteria are used to evaluate recoverability of software development costs: historical performance of comparable products; the commercial acceptance of prior products released on a given game engine; orders for the product prior to its release; estimated performance of a sequel product based on the performance of the product on which the sequel is based; and actual development costs of a product as compared to the Company's budgeted amount.

Commencing upon product release, capitalized software development costs are amortized to cost of sales - royalties and software amortization on a straight-line basis over the estimated product life (generally one year or less) or on the ratio of current revenues to total projected revenues, whichever amortization amount is greater. Prepaid royalties are amortized to cost of sales - royalties and software amortization commencing upon the product release at the contractual royalty rate based on actual net product sales or on the ratio of current revenues to total projected revenues, whichever amortization amount is greater. For products that have been released, management evaluates the future recoverability of capitalized amounts on a quarterly basis.

As of December 31, 2000, prepaid royalties and unamortized capitalized software costs totaled $30.7 million (including $11.1 million classified as non-current) and $1.6 million, respectively. As of March 31, 2000, prepaid royalties and unamortized capitalized software costs totaled $29.2 million (including $9.2 million classified as non-current) and $11.6 million, respectively.

4. REVENUE RECOGNITION

Product Sales: The Company recognizes revenue from the sale of its products upon shipment. Subject to certain limitations, the Company permits customers to obtain exchanges or return products within certain specified periods and provides price protection on certain unsold merchandise. Management of the Company estimates the amount of future returns and price protections based upon historical results and current known circumstances. Revenue from product sales is reflected net of the allowance for returns and price protection.

Software Licenses: For those license agreements that provide the customers the right to multiple copies in exchange for guaranteed amounts, revenue is recognized at delivery. Per copy royalties on sales which exceed the guarantee are recognized as earned.

5. INTEREST EXPENSE, NET

Interest expense, net is comprised of the following (amounts in thousands):

	Three months ended December 31,		Nine months ended December 31,	
	2000	1999	2000	1999
Interest expense	$ (2,600)	$ (3,056)	$ (7,703)	$ (6,465)
Interest income	375	221	1,072	632
Net interest income (expense)	$ (2,225)	$ (2,835)	$ (6,631)	$ (5,833)

6. 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,	
	2000	1999
Non-cash investing and financing activities:		
Stock and warrants to acquire common stock issued in exchange for licensing rights	$ -	$ 6,482
Tax benefit derived from net operating loss carryforward utilization	533	-
Stock and options issued to effect business combination	-	5,971
Supplemental cash flow information:		
Cash paid for income taxes	$ 5,500	$ 4,775
Cash paid for interest	$ 5,803	$ 9,133

7. OPERATIONS BY REPORTABLE SEGMENTS AND GEOGRAPHIC AREA

The Company publishes, develops and distributes interactive entertainment and leisure products for a variety of game platforms, including PCs, the Sony PlayStation and PlayStation 2 console systems, the Nintendo 64 console system, the Nintendo Game Boy and the Sega Dreamcast console system. The Company has also begun product development for next-generation console systems and hand held devices, including Microsoft's Xbox and Nintendo's GameCube and Game Boy Advance. Based on its organizational structure, the Company operates in two reportable segments: publishing and distribution.

The Company's publishing segment publishes titles that are developed both internally through the studios owned by the Company and externally through third party developers. In the United States, the Company's products are sold primarily on a direct basis to major computer and software retailing organizations, mass market retailers, consumer electronic stores, discount warehouses and mail order companies. The Company conducts its international publishing activities through offices in the United Kingdom, Germany, France, Australia and Japan. The Company's products are sold internationally on a direct to retail basis and through third party distribution and licensing arrangements and through the Company's wholly-owned distribution subsidiaries located in the United Kingdom, the Netherlands and Germany.

The Company's distribution segment, located in the United Kingdom, the Netherlands and Germany, distributes interactive entertainment software and hardware and provides logistical services for a variety of publishers and manufacturers.

The President and Chief Operating Officer allocates resources to each of these segments using information on their respective revenues and operating profits before interest and taxes. The President and Chief Operating Officer has been identified as the Chief Operating Decision Maker as defined by SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," ("SFAS No. 131").

The President and Chief Operating Officer does not evaluate individual segments based on assets or depreciation.

The accounting policies of these segments are the same as those described in the Summary of Significant Accounting Policies in the Company's Annual Report on Form 10-K for the year ended March 31, 2000. Revenue derived from sales between segments is eliminated in consolidation.

Information on the reportable segments for the three and nine months ended December 31, 2000 and 1999 is as follows:

	Three months ended December 31, 2000		
	Publishing	Distribution	Total
Total segment revenues	$ 201,009	$ 63,464	$ 264,473
Revenue from sales between segments	(15,230)	15,230	-
Revenues from external customers	$ 185,779	$ 78,694	$ 264,473
Operating income	$ 30,708	$ 4,046	$ 34,754

	Nine months ended December 31, 2000		
	Publishing	Distribution	Total
Total segment revenues	$ 383,638	$ 109,755	$ 493,393
Revenue from sales between segments	(31,806)	31,806	-
Revenues from external customers	$ 351,832	$ 141,561	$ 493,393
Operating income	$ 35,262	$ 2,530	$ 37,792

	Three months ended December 31, 1999		
	Publishing	Distribution	Total
Total segment revenues	$ 183,504	$ 85,358	$ 268,862
Revenue from sales between segments	(14,950)	14,950	-
Revenues from external customers	$ 168,554	$ 100,308	$ 268,862
Operating income	$ 31,201	$ 7,040	$ 38,241

	Nine months ended December 31, 1999		
	Publishing	Distribution	Total
Total segment revenues	$ 323,976	$ 144,391	$ 468,367
Revenue from sales between segments	(28,620)	28,620	-
Revenues from external customers	$ 295,356	$ 173,011	$ 468,367
Operating income	$ 28,663	$ 7,003	$ 35,666

Geographic information for the three months and nine months ended December 31, 2000 and 1999 is based on the location of the selling entity. Revenues from external customers by geographic region were as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2000	1999	2000	1999
United States	$161,383	$145,241	$299,686	$239,842
Europe	100,032	119,372	185,441	220,137
Other	3,058	4,249	8,266	8,388
Total	$264,473	$268,862	$493,393	$468,367

Revenues by platform were as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2000	1999	2000	1999
Console	$203,855	$193,921	$365,552	$328,854
PC	60,618	74,941	127,841	139,513
Total	$264,473	$268,862	$493,393	$468,367

8. 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,	
	2000	1999	2000	1999
NUMERATOR				
Numerator for basic earnings per share - income available to common shareholders	$20,505	$22,301	$19,632	$18,790
Interest relating to dilutive convertible subordinated notes, net of tax	683	666	2,048	1,997
Numerator for diluted earnings per share	$21,188	$22,967	$21,680	$20,787
DENOMINATOR				
Denominator for basic earnings per share- weighted average common shares outstanding	24,443	25,075	24,407	24,367
Effect of dilutive securities:				
Employee stock options	2,532	1,958	1,295	1,614
Warrants	218	271	2	271
Conversion of convertible subordinated notes	3,179	3,179	3,179	3,179
Denominator for diluted earnings per share - weighted average common shares outstanding plus assumed conversions	30,372	30,483	28,883	29,431
Basic earnings per share	$ 0.84	$ 0.89	$ 0.80	$ 0.77
Diluted earnings per share	$ 0.70	$ 0.75	$ 0.75	$ 0.71

Options to purchase 2.2 million and 7.4 million shares of common stock at exercise prices ranging from $12.69 to $23.04 and from $10.06 to $23.04, respectively, were outstanding for the three months and nine months ended December 31, 2000, respectively, but were not included in the calculations of diluted earnings per share because their effect would be antidilutive. Options to purchase 719,000 and 948,000 shares of common stock at exercise prices ranging from $14.76 to $23.04 and from $13.81 to $23.04, respectively, were outstanding for the three months and nine months ended December 31, 1999, respectively, but were not included in the calculations of diluted earnings per share because their effect would be antidilutive.

9. COMMITMENTS

BANK LINES OF CREDIT AND OTHER DEBT

In June 1999, the Company obtained a $100.0 million revolving credit facility and a $25.0 million term loan (the "U.S. Facility") with a syndicate of banks ("the lender"). The U.S. Facility provides the Company with the ability to borrow up to $100.0 million and issue letters of credit up to $80.0 million on a revolving basis against eligible accounts receivable and inventory. The term loan portion of the U.S. Facility has a three year term with principal amortization on a straight-line quarterly basis which began December 31, 1999 and a borrowing rate based on the banks' base rate (which is generally equivalent to the published prime rate) plus 2% or LIBOR plus 3%. The revolving portion of the U.S Facility has a borrowing rate based on the banks' base rate plus 1.75% or LIBOR plus 2.75% and matures June 2002. The U.S. Facility had a weighted average interest rate on outstanding borrowings of approximately 9.85% and 9.79% for the three months and nine months ended December 31, 2000, respectively. The Company pays a commitment fee of 1/2% on the unused portion of the revolving line. The U.S. Facility is collateralized by substantially all of the assets of the Company and its U.S. subsidiaries. The U.S. Facility contains various covenants that limit the ability of the Company to incur additional indebtedness, pay dividends or make other distributions, create certain liens, sell assets, or enter into certain mergers or acquisitions. The Company is also required to maintain specified financial ratios related to net worth and fixed charges. The Company was in compliance with these covenants as of December 31, 2000. As of December 31, 2000, $10.7 million was outstanding under the term loan portion of the U.S. Facility. As of December 31, 2000, there were no borrowings outstanding and $ 28.3 million of letters of credit outstanding against the revolving portion of the U.S. Facility.

On June 8, 2000, the Company amended certain of the covenants of its U.S. Facility. The amended U.S. Facility permits the Company to purchase up to $15.0 million in shares of its common stock as well as its convertible subordinated notes in accordance with the Company's stock repurchase program (described in Note 10), to distribute "Rights" under the Company's shareholders' rights plan (described in Note 11), and to reorganize the Company's organizational structure into a holding company form.

The Company has a revolving credit facility through its CD Contact subsidiary in the Netherlands (the "Netherlands Facility"). The Netherlands Facility permits revolving credit loans and letters of credit up to Netherlands Guilders ("NLG") 26 million ($11.1 million), based upon eligible accounts receivable and inventory balances. The Netherlands Facility is due on demand, bears interest at a Eurocurrency rate plus 1.25% (weighted average interest rate of 5.5% as of December 31, 2000), is collateralized by British Pounds ("GBP") 3.0 million ($4.5 million) letters of credit issued by the Company's CentreSoft subsidiary and matures August 2003. As of December 31, 2000, letters of credit outstanding under the Netherlands Facility were approximately NLG 134,000 ($57,000) and borrowings outstanding were NLG 6.2 million ($2.7 million).

The Company also has revolving credit facilities through its CentreSoft subsidiary located in the United Kingdom (the "UK Facility") and its NBG subsidiary located in Germany (the "German Facility"). The UK Facility provides for GBP 7.0 million ($10.5 million) of revolving loans and GBP 3.0 million ($4.5 million) of letters of credit, bears interest at LIBOR plus 2%, is collateralized by substantially all of the assets of the subsidiary and matures July 2001. The UK Facility also contains various covenants that require the subsidiary to maintain specified financial ratios related to, among others, fixed charges. The Company was in compliance with these covenants as of December 31, 2000. No borrowings were outstanding against the UK facility as of December 31, 2000. Letters of credit of GBP 3.0 million ($4.5 million) were outstanding against the UK Facility as of December 31, 2000, issued on behalf of the Company's CD Contact subsidiary as described above. The German Facility provides for revolving loans up to Deutsche Mark ("DM") 4 million ($1.9 million), bears interest at 5.9%, is collateralized by a cash deposit of approximately GBP 650,000 ($971,000) made by the Company's CentreSoft subsidiary and has no expiration date. No borrowings were outstanding against the German Facility as of December 31, 2000.

As of December 31, 2000, the Company had $3.7 million of mortgage loans relating to the land, office and warehouse facilities of it's German and Netherlands subsidiaries.

DEVELOPER CONTRACTS

In the normal course of business, the Company enters into contractual arrangements with third parties for the development of products. Under these agreements, the Company commits to provide specified payments to a developer, contingent upon the developer's achievement of contractually specified milestones. Assuming all contractually specified milestones are achieved, the total future minimum contract commitment for contracts in place as of December 31, 2000 is approximately $55.1 million and is scheduled to be distributed as follows (amounts in thousands):

Fiscal	
2001	$ 11,632
2002	23,743
2003	10,477
2004	3,000
2005	2,125
Thereafter	4,125
Total	$ 55,102

Additionally, under the terms of a production financing arrangement, the Company has a commitment to purchase two future PlayStation 2 titles from independent third party developers upon their completion for an estimated $8.0 million in the aggregate. Failure by the developers to complete the project within the contractual time frame or specifications alleviates the Company's commitment.

LEGAL PROCEEDINGS

The Company is party to routine claims and suits brought against it in the ordinary course of business, including disputes arising over the ownership of intellectual property rights and collection matters. In the opinion of management, the outcome of such routine claims will not have a material adverse effect on the Company's business, financial condition, results of operations or liquidity.

The federal income tax return for fiscal 1997 is currently under examination. While the ultimate results of such examination cannot be predicted with certainty, the Company's management believes that the examination will not have a material adverse effect on its consolidated financial condition or results of operations.

10. REPURCHASE PLAN

As of May 9, 2000, the Board of Directors authorized the Company to purchase up to $15.0 million in shares of its common stock as well as its convertible subordinated notes. The shares and notes could be purchased from time to time through the open market or in privately negotiated transactions. The amount of shares and notes purchased and the timing of purchases was based on a number of factors, including the market price of the shares and notes, market conditions, and such other factors as the Company's management deemed appropriate. The Company has financed the purchase of shares with available cash. During the quarter ended June 30, 2000, the Company repurchased 2.3 million shares of its common stock for approximately $15.0 million.

11. SHAREHOLDERS' RIGHTS PLAN

On April 18, 2000, the Company's Board of Directors approved a shareholders rights plan (the "Rights Plan"). Under the Rights Plan, each common stockholder at the close of business on April 19, 2000 will receive a dividend of one right for each share of common stock held. Each right represents the right to purchase one one-hundredth (1/100) of a share of the Company's Series A Junior Preferred Stock at an exercise price of $40.00.

Initially, the rights are represented by the Company's common stock certificates and are neither exercisable nor traded separately from the Company's common stock. The rights will only become exercisable if a person or group acquires 15% or more of the common stock of the Company, or announces or commences a tender or exchange offer which would result in the bidder's beneficial ownership of 15% or more of the Company's common stock.

In the event that any person or group acquires 15% or more of the Company's outstanding common stock, each holder of a right (other than such person or members of such group) will thereafter have the right to receive, upon exercise of such right, in lieu of shares of Series A Junior Preferred Stock, the number of shares of common stock of the Company having a value equal to two times the then current exercise price of the right. If the Company is acquired in a merger or other business combination transaction after a person has acquired 15% or more the Company's common stock, each holder of a right will thereafter have the right to receive, upon exercise of such right, a number of the acquiring company's common shares having a market value equal to two times the then current exercise price of the right. For persons who, as of the close of business on April 18, 2000, beneficially own 15% or more of the common stock of the Company, the Rights Plan "grandfathers" their current level of ownership, so long as they do not purchase additional shares in excess of certain limitations.

The Company may redeem the rights for $.01 per right at any time until the first public announcement of the acquisition of beneficial ownership of 15% of the Company's common stock. At any time after a person has acquired 15% or more (but before any person has acquired more than 50%) of the Company's common stock, the Company may exchange all or part of the rights for shares of common stock at an exchange ratio of one share of common stock per right. The rights expire on April 18, 2010.

As discussed in Note 9, the Company obtained an amendment to its U.S. Facility relating to the Rights Plan and the Company's repurchase plan.

12. NEW ACCOUNTING PRONOUNCEMENTS

In July 2000, the Emerging Issues Task Force reached a consensus on issue No. 00-15 ("EITF 00-15"), "Classification in the Statement of Cash Flows of the Income Tax Benefit Realized by a Company upon Employee Exercise of a Nonqualified Stock Option." The EITF concluded that income tax benefits realized upon an employee's exercise of a nonqualified stock option should be classified as an operating cash flow. Accordingly, the Company reclassified tax benefits resulting from the exercise of stock options on its Consolidated Statements of Cash Flows.

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS No. 133") is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company does not currently participate in hedging activities or own derivative instruments but plans to adopt SFAS No. 133 beginning April 1, 2001. The Company does not expect the adoption of SFAS No. 133 to have a material impact on its financial position or results of operations.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements." SAB 101 provides guidance on the recognition, presentation, and disclosure of revenue in financial statements of all public registrants. Any change in the Company's revenue recognition policy resulting from the implementation of SAB 101 would be reported as a change in accounting principle. In June 2000, the SEC issued SAB 101B which delays the implementation date of SAB 101 until the fourth fiscal quarter of fiscal years beginning after December 15, 1999. The Company does not expect the adoption of SAB 101 to have a material impact on its financial position or results of operations.

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

OVERVIEW

The Company is a leading international publisher, developer and distributor of interactive entertainment and leisure products. The Company currently focuses its publishing, development and distribution efforts on products designed for personal computers ("PCs") as well as the Sony PlayStation ("PSX") and PlayStation 2 ("PS2") and Nintendo N64 ("N64") console systems and Nintendo Game Boy handheld game devices. The Company is also currently focusing on the development of products for Microsoft's Xbox and Nintendo's GameCube and Game Boy Advance. During January 2001, Sega Corp., the maker of the Sega Dreamcast ("Dreamcast") announced that it would quit making the Dreamcast in March 2001. Net revenues from the Dreamcast have historically represented only a small percentage of the Company's total net revenues. Accordingly, the Company believes that the departure of the Dreamcast console system from the market will not have a material impact upon its financial position or results of operations.

The Company's products span a wide range of genres and target markets.

The Company distributes its products worldwide through its direct sales forces, through its distribution subsidiaries, and through third party distributors and licensees.

The Company recognizes revenue from the sale of its products upon shipment. Subject to certain limitations, the Company permits customers to obtain exchanges and returns within certain specified periods and provides price protection on certain unsold merchandise. Revenue from product sales is reflected after deducting the estimated allowance for returns and price protection. Management of the Company estimates the amount of future returns and price protection based upon historical results and current known circumstances. With respect to license agreements that provide customers the right to multiple copies in exchange for guaranteed amounts, revenue is recognized upon delivery. Per copy royalties on sales that exceed the guarantee are recognized as earned.

Cost of sales-product costs represents the cost to purchase, manufacture and distribute PC and console product units. Manufacturers of the Company's PC software are located worldwide and are readily available. Console CDs and cartridges are manufactured by the respective video game console manufacturers, Sony, Nintendo and Sega or its agents, who often require significant lead time to fulfill the Company's orders.

Cost of sales-royalties and software amortization represents amounts due developers, product owners and other royalty participants as a result of product sales, as well as amortization of capitalized software development costs. The costs incurred by the Company to develop products are accounted for in accordance with accounting standards that provide for the capitalization of certain software development costs once technological feasibility is established and such costs are determined to be recoverable. Additionally, various contracts are maintained with developers, product owners or other royalty participants, which state a royalty rate, territory and term of agreement, among other items. Commencing upon product release, prepaid royalties are amortized to cost of sales - royalties and software amortization at the contractual royalty rate based on actual net product sales or on the ratio of current revenues to total projected revenues, whichever is greater, and capitalized software costs are amortized to cost of sales-royalties and software amortization on a straight-line basis over the estimated product life or on the ratio of current revenues to total projected revenues, whichever is greater.

For products that have been released, management evaluates the future recoverability of prepaid royalties and capitalized software costs on a quarterly basis. Prior to a product's release, the Company charges to expense, as part of product development costs, capitalized costs when, in management's estimate, such amounts are not recoverable. The following criteria are used to evaluate recoverability: historical performance of comparable products; the commercial acceptance of prior products released on a given game engine; orders for the product prior to its release; estimated performance of a sequel product based on the performance of the product on which the sequel is based; and actual development costs of a product as compared to the Company's budgeted amount.

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, channel, platform and segment:

	Three months ended December 31, (In thousands)				Nine months ended December 31, (In thousands)			
	2000		1999		2000		1999	
Net revenues	$264,473	100%	$268,862	100%	$493,393	100%	$468,367	100%
Costs and expenses:								
Cost of sales - product costs	139,430	53%	139,357	52%	247,414	50%	259,180	55%
Cost of sales - royalties and software amortization	39,364	15%	39,733	15%	77,829	16%	61,213	13%
Product development	11,779	4%	6,235	2%	30,311	6%	16,576	4%
Sales and marketing	26,725	10%	33,947	13%	68,505	14%	67,392	14%
General and administrative	12,421	5%	11,349	4%	31,542	6%	28,340	6%
Total costs and expenses	229,719	87%	230,621	86%	455,601	92%	432,701	92%
Income from operations	34,754	13%	38,241	14%	37,792	8%	35,666	8%
Interest expense, net	(2,225)	(1%)	(2,835)	(1%)	(6,631)	(1%)	(5,833)	(1%)
Income before income tax provision	32,529	12%	35,406	13%	31,161	7%	29,833	7%
Income tax provision	12,024	4%	13,105	5%	11,529	2%	11,043	2%
Net income	$ 20,505	8%	$ 22,301	8%	$ 19,632	5%	$ 18,790	5%
NET REVENUES BY TERRITORY:								
United States	$161,383	61%	$145,241	54%	$299,686	61%	$239,842	51%
Europe	100,032	38%	119,372	44%	185,441	38%	220,137	47%
Other	3,058	1%	4,249	2%	8,266	1%	8,388	2%
Total net revenues	$264,473	100%	$268,862	100%	$493,393	100%	$468,367	100%
NET REVENUES BY CHANNEL:								
Retailer/Reseller	$255,451	97%	$260,328	97%	$476,514	97%	$448,853	96%
OEM, Licensing, on-line and other	9,022	3%	8,534	3%	16,879	3%	19,514	4%
Total net revenues	$264,473	100%	$268,862	100%	$493,393	100%	$468,367	100%
ACTIVITY/PLATFORM MIX:								
Publishing:								
Console	$154,759	77%	$132,427	72%	$283,827	74%	$225,993	70%
PC	46,250	23%	51,077	28%	99,811	26%	97,983	30%
Total publishing net revenues	201,009	76%	183,504	68%	383,638	78%	323,976	69%
Distribution:								
Console	49,096	77%	61,494	72%	81,725	74%	102,861	71%
PC	14,368	23%	23,864	28%	28,030	26%	41,530	29%
Total distribution net revenues	63,464	24%	85,358	32%	109,755	22%	144,391	31%
Total net revenues	$264,473	100%	$268,862	100%	$493,393	100%	$468,367	100%

	Three months ended December 31,				Nine months ended December 31,			
	(In thousands)				(In thousands)			
	2000		1999		2000		1999	
OPERATING INCOME BY SEGMENT:								
Publishing	$ 30,708	12%	$ 31,201	12%	$ 35,262	7%	$ 28,663	6%
Distribution net revenues	4,046	1%	7,040	2%	2,530	1%	7,003	2%
Total operating income	$ 34,754	13%	$ 38,241	14%	$ 37,792	8%	$ 35,666	8%

RESULTS OF OPERATIONS - THREE AND NINE MONTHS ENDED DECEMBER 31, 2000 AND 1999

NET REVENUES

Net revenues decreased from $268.9 million to $264.5 million for the three month period ended December 31, 1999 and 2000, respectively, and increased from $468.4 million to $493.4 million for the nine month period ended December 31, 1999 and 2000, respectively. Publishing net revenues increased 10% and 18% for the three months and nine months ended December 31, 2000, respectively, over the same period last year, from $183.5 million to $201.0 million for the three month period and from $324.0 to $383.6 for the nine month period. These increases in publishing net revenues were partially offset by a decrease in net revenues from the Company's distribution business. Distribution net revenues for the three months and nine months ended December 31, 2000 decreased 26% and 24%, respectively, from the same period last year, from $85.4 million to $63.5 million for the three month period and from $144.4 million to $109.8 million for the nine month period.

The increase in publishing net revenues for the three months ended December 31, 2000 over the same period last year, was primarily driven by a 17% increase in publishing console net revenues, from $132.4 million to $154.8 million. This increase was due to the continued success of Tony Hawk Pro Skater 2 for the PSX and Spiderman for the PSX, which were both launched in the quarter ending September 30, 2000, as well as the continued sales of the original Tony Hawk Pro Skater. As reported by NPD TRST (Toy Retail Sales Tracking System), Tony Hawk Pro Skater 2 was the number one selling PSX game in North America in units and dollars for calendar year 2000. Between its launch in late September 2000 and December 31, 2000, over 2.5 million units of Tony Hawk Pro Skater 2 for the PSX have been shipped on a worldwide basis. NPD TRST also reported that the original Tony Hawk Pro Skater and Spiderman were the number five and number ten PSX games, respectively, in North America in dollars for calendar year 2000. Additionally, the increase was due to the release in the third quarter of fiscal 2001 of these titles on additional platforms, including Tony Hawk Pro Skater 2 for Dreamcast and Nintendo's Game Boy Color and Spiderman for N64 and Nintendo's Game Boy Color. This increase in publishing console net revenues for the quarter was slightly offset by a 9% decrease in publishing PC net revenues for the three months ended December 31, 2000 from the same period last year, from $51.1 million to $46.3 million. This decrease is reflective of the strong results experienced from the release of Quake 3 Arena for the PC during the third quarter of fiscal 2000. During the third quarter of fiscal 2001, there was no such comparable PC product performance. Additionally, in the third quarter of fiscal 2000, approximately 16 PC titles were launched compared to only 9 PC titles released in the third quarter of fiscal 2001.

For the nine months ended December 31, 2000, the increase in publishing net revenues was primarily driven by a 26% increase in publishing console net revenues over the same period last year, from $226.0 million to $283.8 million. This increase was primarily due to the new launches of Tony Hawk Pro Skater 2 and Spiderman for the PSX and other console systems during the second and third quarters of fiscal 2001 and the continued success of the original Tony Hawk Pro Skater as described above. Also contributing to its continued revenue stream, in September 2000, the original Tony Hawk Pro Skater was selected for inclusion in Sony Computer Entertainment America's "Greatest Hits" series, which features a selection of best-selling PSX games. For the nine months ended December 31, 2000, publishing PC net revenues remained relatively flat with a 2% increase over the same period last year, from $98.0 million to $99.8 million.

The decrease in distribution net revenues for the three months and nine months ended December 31, 2000 from the same period last year was mainly attributable to the continued weakness in the European console market as a result of the transition to next-generation console systems. Based on previous new hardware launches, the Company expects that its distribution business will benefit in future periods from the introduction of PS2.

Domestic net revenues increased 11% and 25% for three months and nine months ended December 31, 2000, respectively, over the same period last year, from $145.2 million to $161.4 million for the three month period and from $239.8 million to $299.7 million for the nine month period. For the reasons previously described, these increases were driven by the increases in the Company's publishing console net revenues.

International net revenues decreased 17% and 15% for the three months and nine months ended December 31, 2000, respectively, over the same period last year, from $123.6 million to $103.1 million for the three month period and from $228.5 million to $193.7 million for the nine month period. These decreases are due primarily to the decrease in net revenues from the Company's distribution business.

COSTS AND EXPENSES

Cost of sales - product costs as a percentage of net revenues for the three months ended December 31, 2000 remained relatively consistent with the same period last year, increasing only 1%, from 52% as of December 31, 1999 to 53% as of December 31, 2000. Cost of sales - product costs as a percentage of net revenues for the nine months ended December 31, 2000 decreased from 55% as of December 31, 1999 to 50% as of December 31, 2000. This year to date decrease was due to product mix. During the nine months ended December 31, 1999, the Company shipped a larger number of lower margin, third party titles. In the nine months ended December 31, 2000, the Company shipped significantly more Activision titles.

Cost of sales - royalty and software amortization expense represented 15% of net revenues for both the three months ended December 31, 2000 and 1999. Cost of sales - royalty and software amortization expense represented 16% and 13% of net revenues for the nine months ended December 31, 2000 and 1999, respectively. This increase in cost of sales - royalty and software amortization expense as a percentage of net revenues for the nine months ended December 31, 2000 was primarily due to changes in the Company's product mix, with an increase in the number of branded products with higher royalty obligations as compared to the same period in the prior fiscal year.

Product development expenses of $11.8 million and $6.2 million represented 4% and 2% of net revenues for the three months ended December 31, 2000 and 1999, respectively. Product development expenses of $30.3 million and $16.6 million represented 6% and 4% of net revenues for the nine months ended December 31, 2000 and 1999, respectively. These increases in product development expenses in dollars and as a percentage of net revenues reflect the Company's investment in the development of products for next-generation console and hand-held devices, including PS2, Xbox, GameCube and Game Boy Advance. The increases are also reflective the increase in the number of titles expected to be released in fiscal 2002, 38 titles, compared to fiscal 2001, 30 titles. Of the 38 titles expected to be released in fiscal 2002, 15 titles are for next-generation platforms, which have higher development costs than existing-platform titles.

Sales and marketing expenses of $26.7 million and $33.9 million represented 10% and 13% of net revenues for the three months ended December 31, 2000 and 1999, respectively. Sales and marketing expenses of $68.5 million and $67.4 million represented 14% and 14% of net revenues for the nine months ended December 31, 2000 and 1999, respectively. The decrease in sales and marketing expenses in dollars and as a percentage of net revenues for the three months ended December 31, 2000 compared to the same period last year is due to the higher spending incurred in the second quarter of fiscal 2001 on several new releases during that quarter, including Tony Hawk 2 and Spiderman. Additionally, the decrease reflects the Company's ability to generate savings by building on the existing awareness of our branded products and sequel titles sold during the third quarter of fiscal 2001.

General and administrative expenses of $12.4 million and $11.3 million represented 5% and 4% of net revenues for the three months ended December 31, 2000 and 1999, respectively. General and administrative expenses of $31.5 million and $28.3 million represented 6% and 6% of net revenues for the nine months ended December 31, 2000 and 1999, respectively. These changes in general and administrative expenses were due to an increase in headcount related expenses for worldwide administrative support, partially offset by a decrease in goodwill amortization. Goodwill amortization in fiscal 2001 decreased compared to fiscal 2000 due to the write-off in the fourth quarter of fiscal 2000 of goodwill relating to Expert as described in the Company's Annual Report on Form 10-K for the year ended March 31, 2000.

OPERATING INCOME

Operating income for the three months ended December 31, 2000 and 1999 was $34.8 million (13% of net revenues) and $38.2 million (14% of net revenues), respectively. Operating income for the nine months ended December 31, 2000 and 1999 was $37.8 million (8% of net revenues) and $35.7 million (8% of net revenues), respectively.

The decrease in operating income for the three months ended December 31, 2000 over the same period last year was primarily due to a decrease in the operating income of the Company's distribution business, from $7.0 million to $4.0 million. The increase in operating income for the nine months ended December 31, 2000 over the same period last year was primarily due to an increase in publishing operating income, from $28.7 million to $35.3 million, partially offset by a decrease in distribution operating income, from $7.0 million to $2.5 million. The publishing

operating income increase for the nine months ended December 31, 2000 over the same period last year was primarily the result of increased net revenues and a change in the Company's product mix. In fiscal 2001, the Company shipped significantly more Activision titles. In the prior year, the Company shipped a significant number of lower margin, third-party titles. Distribution operating income decreases were primarily due to reduced net revenues from the continued weakness in the European console market as a result of the transition to next-generation console systems. Based on previous new hardware launches, the Company expects that its distribution business will benefit in future periods from the introduction of PS2.

OTHER INCOME (EXPENSE)

Interest expense, net of interest income, decreased to $2.2 million for the three months ended December 31, 2000, from $2.8 million for the three months ended December 31, 1999. This decrease in interest expense was due to lower average borrowings on the revolving portion of the Company's $125.0 million term loan and revolving credit facility (the "U.S. Facility") during the third quarter of fiscal 2001 when compared to the same period in prior year. Interest expense, net of interest income increased to $6.6 million for the nine months ended December 31, 2000 from $5.8 million for the nine months ended December 31, 1999. This increase is the result of a full nine months of interest expense incurred relating to the Company's U.S. Facility for the nine months ended December 31, 2000 versus only six months of interest expense in the same period last year as the U. S. Facility was obtained in June 1999. Prior to obtaining the U.S. Facility, the Company's previous line of credit only provided for borrowings up to $40.0 million.

PROVISION FOR INCOME TAXES

The income tax provision of $12.0 million and $11.5 million for the three months and nine months ended December 31, 2000, respectively, reflect the Company's effective income tax rate of approximately 37%. The significant items generating the variance between the Company's effective rate and its statutory rate of 35% are state taxes and nondeductible goodwill amortization, partially offset by a decrease in the Company's deferred tax asset valuation allowance and research and development tax credits. The realization of deferred tax assets primarily is dependent on the generation of future taxable income. Management believes that it is more likely than not that the Company will generate taxable income sufficient to realize the benefit of net deferred tax assets recognized.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents increased $2.4 million, from $50.0 million at March 31, 2000 to $52.3 million at December 31, 2000. The increase in cash during the nine months ended December 31, 2000 resulted from $82.1 million of cash provided by operating activities, partially offset by $58.4 million used in investing activities and $19.2 million used in financing activities. The cash provided by operating activities primarily was the result of changes in accounts payable and accrued liabilities, driven by a seasonal change in working capital needs. The cash used in investing activities primarily is the result of the Company's continued investment in product development. Approximately $51.0 million was utilized in connection with the acquisition of publishing or distribution rights to products being developed by third parties, the execution of new license agreements granting the Company 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 financing activities is primarily the result of $12.7 in net cash payments on borrowings, as well as $15.0 million of cash used by the Company to purchase its common stock under its repurchase program. These outflows were partially offset by $8.5 million of cash proceeds from the issuance common stock pursuant to employee stock option plans and the employee stock purchase plan.

In connection with the Company's purchases of Nintendo N64 software cartridges for distribution in North America and Europe, Nintendo requires the Company to provide irrevocable letters of credit prior to accepting purchase orders from the Company. Furthermore, Nintendo maintains a policy of not accepting returns of Nintendo N64 software cartridges. Because of these and other factors, the carrying of an inventory of Nintendo N64 software cartridges entails significant capital and risk. As of December 31, 2000, the Company had $4.2 million of Nintendo N64 hardware and software cartridge inventory on hand, which represented approximately 8.5% of all inventory.

In December 1997, the Company completed the private placement of $60.0 million principal amount of 6 3/4% convertible subordinated notes due 2005 (the "Notes"). The Notes are convertible, in whole or in part, at the option

of the holder at any time after December 22, 1997 (the date of original issuance) and prior to the close of business on the business day immediately preceding the maturity date, unless previously redeemed or repurchased, into common stock, $.000001 par value, of the Company, at a conversion price of $18.875 per share, (equivalent to a conversion rate of 52.9801 shares per $1,000 principal amount of Notes), subject to adjustment in certain circumstances. The Notes are redeemable, in whole or in part, at the option of the Company at any time on or after January 10, 2001. If redemption occurs prior to December 31, 2003, the Company must pay a premium on such redeemed Notes.

In June 1999, the Company obtained a $100.0 million revolving credit facility and a $25.0 million term loan (the "U.S. Facility") with a syndicate of banks ("the lender"). The U.S. Facility provides the Company with the ability to borrow up to $100.0 million and issue letters of credit up to $80.0 million on a revolving basis against eligible accounts receivable and inventory. The term loan portion of the U.S. Facility has a three year term with principal amortization on a straight-line quarterly basis which began December 31, 1999 and a borrowing rate based on the banks' base rate (which is generally equivalent to the published prime rate) plus 2% or LIBOR plus 3%. The revolving portion of the U.S Facility has a borrowing rate based on the banks' base rate plus 1.75% or LIBOR plus 2.75% and matures June 2002. The U.S. Facility had a weighted average interest rate of approximately 9.85% and 9.79% for the three months and nine months ended December 31, 2000, respectively. The Company pays a commitment fee of 1/2% on the unused portion of the revolving line. The U.S. Facility is collateralized by substantially all of the assets of the Company and its U.S. subsidiaries. The U.S. Facility contains various covenants that limit the ability of the Company to incur additional indebtedness, pay dividends or make other distributions, create certain liens, sell assets, or enter into certain mergers or acquisitions. The Company is also required to maintain specified financial ratios related to net worth and fixed charges. The Company was in compliance with these covenants as of December 31, 2000. As of December 31, 2000, $10.7 million was outstanding under the term loan portion of the U.S. Facility. As of December 31, 2000, there were no borrowings outstanding and $ 28.3 million of letters of credit outstanding against the revolving portion of the U.S. Facility.

On June 8, 2000, the Company amended certain of the covenants of its U.S. Facility. The amended U.S. Facility permits the Company to purchase up to $15.0 million in shares of its common stock as well as its convertible subordinated notes in accordance with the Company's stock repurchase program (described in Note 10), to distribute "Rights" under the Company's shareholders' rights plan (described in Note 11), and to reorganize the Company's organizational structure into a holding company form.

The Company has a revolving credit facility through its CD Contact subsidiary in the Netherlands (the "Netherlands Facility"). The Netherlands Facility permits revolving credit loans and letters of credit up to Netherlands Guilders ("NLG") 26 million ($11.1 million), based upon eligible accounts receivable and inventory balances. The Netherlands Facility is due on demand, bears interest at a Eurocurrency rate plus 1.25% (weighted average interest rate of 5.5% as of December 31, 2000), is collateralized by GBP 3.0 million ($4.5 million) letters of credit issued by the Company's CentreSoft subsidiary and matures August 2003. As of December 31, 2000, letters of credit outstanding under the Netherlands Facility were approximately NLG 134,000 ($57,000) and borrowings outstanding were NLG 6.2 million ($2.7 million).

The Company also has revolving credit facilities through its CentreSoft subsidiary located in the United Kingdom (the "UK Facility") and its NBG subsidiary located in Germany (the "German Facility"). The UK Facility provides for British Pounds ("GBP") 7.0 million ($10.5 million) of revolving loans and GBP 3.0 million ($4.5 million) of letters of credit, bears interest at LIBOR plus 2%, is collateralized by substantially all of the assets of the subsidiary and matures July 2001. The UK Facility also contains various covenants that require the subsidiary to maintain specified financial ratios related to, among others, fixed charges. The Company was in compliance with these covenants as of December 31, 2000. No borrowings were outstanding against the UK facility as of December 31, 2000. Letters of credit of GBP 3.0 million ($4.5 million) were outstanding against the UK Facility as of December 31, 2000, issued on behalf of the Company's CD Contact subsidiary as described above. The German Facility provides for revolving loans up to Deutsche Mark ("DM") 4 million ($1.9 million), bears interest at 5.9%, is collateralized by a cash deposit of approximately GBP 650,000 ($971,000) made by the Company's CentreSoft subsidiary and has no expiration date. No borrowings were outstanding against the German Facility as of December 31, 2000.In the normal course of business, the Company enters into contractual arrangements with third parties for the development of products. Under these agreements, the Company commits to provide specified payments to a developer, contingent upon the developer's achievement of contractually specified milestones. Assuming all contractually specified milestones are achieved, the total future minimum contract commitment for contracts in

place as of December 31, 2000 is approximately $55.1 million and is scheduled to be distributed as follows (amounts in thousands):

Fiscal	
2001	$11,632
2002	23,743
2003	10,477
2004	3,000
2005	2,125
Thereafter	4,125
Total	$55,102

Additionally, under the terms of a production financing arrangement, the Company has a commitment to purchase two future PlayStation 2 titles from independent third party developers upon their completion for an estimated $8.0 million in the aggregate. Failure by the developers to complete the project within the contractual time frame or specifications alleviates the Company's commitment.

The Company historically has financed its acquisitions through the issuance of shares of its common stock. The Company will continue to evaluate potential acquisition candidates as to the benefit they bring to the Company and as to the ability of the Company to make such acquisitions and maintain compliance with its bank facilities.

In May 2000, the Board of Directors authorized the Company to purchase up to $15.0 million in shares of its common stock as well as its convertible subordinated notes. The shares and notes could be purchased in the open market or in privately negotiated transactions at such times and in such amounts as management deemed appropriate, depending on market conditions and other factors. In the quarter ended June 30, 2000, the Company repurchased 2.3 million shares of its common stock for approximately $15.0 million.

The Company believes that it has sufficient working capital ($162.5 million at December 31, 2000), as well as proceeds available from the U.S. Facility, the UK Facility, the Netherlands Facility and the German Facility, to finance the Company's operational requirements for at least the next twelve months, including acquisitions of inventory and equipment, the funding of the development, production, marketing and sale of new products and the acquisition of intellectual property rights for future products from third parties.

FACTORS AFFECTING FUTURE PERFORMANCE

In connection with the Private Securities Litigation Reform Act of 1995 (the "Litigation Reform Act"), the Company has 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 its employees and representatives that may contain "forward-looking statements" within the meaning of the Litigation Reform Act. Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology. The listener or reader is cautioned that all forward-looking statements are necessarily speculative and there are numerous risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements. 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 the Company's Annual Report on Form 10-K for the year ended March 31, 2000 which is incorporated herein by reference. The reader or listener is cautioned that the Company does not have a policy of updating or revising forward-looking statements and thus he or she should not assume that silence by management over time means that actual events are bearing out as estimated in such forward-looking statements.

RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2000, the Emerging Issues Task Force reached a consensus on issue No. 00-15 ("EITF 00-15"), "Classification in the Statement of Cash Flows of the Income Tax Benefit Realized by a Company upon Employee Exercise of a Nonqualified Stock Option." The EITF concluded that income tax benefits realized upon an employee's exercise of a nonqualified stock option should be classified as an operating cash flow. Accordingly, the Company reclassified tax benefits resulting from the exercise of stock options on its Consolidated Statements of Cash Flows.

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS No. 133") is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company does not currently participate in hedging activities or own derivative instruments but plans to adopt SFAS No. 133 beginning April 1, 2001. The Company does not expect the adoption of SFAS No. 133 to have a material impact on its financial position or results of operations.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements." SAB 101 provides guidance on the recognition, presentation, and disclosure of revenue in financial statements of all public registrants. Any change in the Company's revenue recognition policy resulting from the implementation of SAB 101 would be reported as a change in accounting principle. In June 2000, the SEC issued SAB 101B which delays the implementation date of SAB 101 until the fourth fiscal quarter of fiscal years beginning after December 15, 1999. The Company does not expect the adoption of SAB 101 to have a material impact on its financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the potential loss arising from fluctuations in market rates and prices. The Company's market risk exposures primarily include fluctuations in interest rates and foreign currency exchange rates. The Company's market risk sensitive instruments are classified as "other than trading." The Company's exposure to market risk as discussed below includes "forward-looking statements" and represents an estimate of possible changes in fair value or future earnings that would occur assuming hypothetical future movements in interest rates or foreign currency exchange rates. The Company's views on market risk are not necessarily indicative of actual results that may occur and do not represent the maximum possible gains and losses that may occur, since actual gains and losses will differ from those estimated, based upon actual fluctuations in foreign currency exchange rates, interest rates and the timing of transactions.

INTEREST RATE RISK

The Company has a number of variable rate and fixed rate debt obligations, denominated both in U.S. dollars and various foreign currencies as detailed in Note 9 to the Consolidated Financial Statements appearing elsewhere in this Quarterly Report. The Company manages interest rate risk by monitoring its ratio of fixed and variable rate debt obligations in view of changing market conditions. Additionally, in the future, the Company may consider the use of interest rate swap agreements to further manage potential interest rate risk.

As of December 31, 2000, the carrying value of the Company's variable rate debt was $13.4 million, which includes the U.S. Facility ($10.7 million) and the Netherlands Facility ($2.7 million). Based upon the variable rate debt outstanding as of December 31, 2000, a hypothetical 1% increase in the applicable interest rates of the Company's variable rate debt would increase annual interest expense by approximately $134,000.

The Company additionally has 6 3/4% convertible subordinated notes (the "Notes") that have a carrying value of $60.0 million and a fair value of $55.2 million as of December 31, 2000. The fair value of the Notes was determined based on quoted market prices. A hypothetical 1% increase in market rate of the Notes would decrease their fair value by approximately $552,000.

FOREIGN CURRENCY EXCHANGE RATE RISK

The Company transacts business in many different foreign currencies and may be exposed to financial market risk resulting from fluctuations in foreign currency exchange rates, particularly British Pounds ("GBP"). The volatility of GBP (and all other applicable currencies) will be monitored frequently throughout the coming year. While the Company has not traditionally engaged in foreign currency hedging, the Company may in the future use hedging programs, currency forward contracts, currency options and/or other derivative financial instruments commonly utilized to reduce financial market risks if it is determined that such hedging activities are appropriate to reduce risk.

PART II. - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is party to routine claims and suits brought against it in the ordinary course of business including disputes arising over the ownership of intellectual property rights and collection matters. In the opinion of management, the outcome of such routine claims will not have a material adverse effect on the Company's business, financial condition or results of operations.

The federal income tax return for fiscal 1997 is currently under examination. While the ultimate results of such examination cannot be predicted with certainty, the Company's management believes that the examination will not have a material adverse effect on its consolidated financial condition or results of operations.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

The Company has filed no reports on Form 8-K during the quarterly period ended December 31, 2000.

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, 2001

ACTIVISION, INC.

/s/ William J. Chardavoyne ------------------------------ (William J. Chardavoyne)	Chief Financial Officer and Chief Accounting Officer	February 13, 2001