SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

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

Date of report (Date of earliest event reported)
January 6, 1998 (November 26, 1997)

ACTIVISION, INC.

(Exact name of registrant as specified in charter)

Delaware	0-12699	94-2606438
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

3100 Ocean Park Blvd., Santa Monica, CA	90405
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code (310) 255-2000

(Former Name or Former Address, if Changed Since Last Report)

ITEM 5. OTHER EVENTS

As previously disclosed by Activision, Inc., a Delaware corporation (the "Company") in prior fillings: During November 1997, the Company completed the acquisition of Combined Distribution (Holdings) Limited, a privately held company based in Birmingham, England, which is the parent company of CentreSoft Limited and PDQ Limited ("CentreSoft"); and, also in November 1997, a wholly-owned indirect German subsidiary of the Company acquired NBG EDV Handels- und Verlags GmbH ("NBG"), a privately held software distributor and publisher based in Burglengenfeld, Germany, and Target Software Vertriebs GmbH ("Target"), a small affiliated software retailer.

The above mergers have been accounted for as poolings-of-interests. Generally accepted accounting principles proscribe giving effect to a consummated business combination accounted for by the pooling-of-interests method in financial statements that do not include the date of consummation. The Company has prepared restated supplemental consolidated financial statements as of March 31, 1997 and 1996 and for each of the three years ended March 31, 1997, 1996 and 1995 reflecting the above-described transactions, and the Company is filing them as Exhibit 99.1 to this Current Report on Form 8-K so that the Company may incorporate by reference to this report, such financial statements into any future registration statements filed by the Company with the Securities Exchange Commission. Unaudited restated supplemental interim consolidated financial statements as of June 30, 1997 and September 30, 1997 and for the three month periods ended June 30, 1997 and 1996 and for the three month and the six month periods ended September 30, 1997 and 1996 reflecting the above-described transactions also have been included herein as Exhibit 99.4.

The supplemental consolidated financial statements do not extend through the date of consummation of the CentreSoft and NBG acquisitions. However, these statements will become the historical consolidated financial statements of the Company after financial statements covering the date of consummation of the business combinations are issued.

In addition, the selected supplemental consolidated financial data and management's discussion and analysis of financial condition and results of operations of the Company have been prepared to give retroactive effect to the above-described transactions and appear herein as Exhibits 99.2 and 99.3, respectively. Management's discussion and analysis of financial condition and results of operations of the Company for the periods presented in the supplemental interim consolidated financial statements appears herein as part of Exhibit 99.4.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

(b) Exhibits

23.1 Consent of KPMG Peat Marwick LLP.

23.2 Consent of Coopers & Lybrand LLP.

23.3 Consent of Grant Thornton.

27 Financial Data Schedule.

99.1 Supplemental Consolidated Financial Statements of Activision, Inc. as of March 31, 1997 and 1996 and for each of the three years ended March 31, 1997, 1996 and 1995 (as restated to reflect the acquisitions of CentreSoft on November 26, 1997 and NBG on November 26, 1997).

99.2 Selected Supplemental Consolidated Financial Data of Activision, Inc. (as restated to reflect the acquisitions of CentreSoft on November 26, 1997 and NBG on November 26, 1997).

99.3 Supplemental Management's Discussion and Analysis of Financial Condition and Results of Operations of Activision, Inc. (as restated to reflect the acquisitions of CentreSoft on November 26, 1997 and NBG on November 26, 1997).

99.4 Supplemental Interim Consolidated Financial Statements of Activision, Inc. as of June 30, 1997 and for the three month periods ended June 30, 1997 and 1996 and as of September 30, 1997 and for the three month and the six month periods ended September 30, 1997 and 1996 (as restated to reflect the acquisitions of CentreSoft on November 26, 1997 and NBG on November 26, 1997).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: January 6, 1998

ACTIVISION, INC.

By /s/ Barry J. Plaga

Name: Barry J. Plaga
Title: Senior Vice President and Chief Financial Officer

Exhibit 23.1

The Board of Directors
ACTIVISION, INC.:

We consent to the incorporation by reference in the registration statements (No. 33-68144, 33-75878, 333-30303 and 333-36949) on Form S-3 and (No. 33-48411, 33-63638, 33-91074, 333-06130, 333-12621, 333-06054 and 333-40727) on Form S-8 of ACTIVISION, INC., of our report dated May 8, 1997, except as to note 2 which is as of November 26, 1997 and note 15 which is as of December 22, 1997, which report is based upon our audit and the report of other auditors, with respect to the supplemental consolidated balance sheet of ACTIVISION, INC. and subsidiaries as of March 31, 1997, and the related supplemental consolidated statements of operations, changes in shareholders' equity, and cash flows for the year then ended which report appears in the Form 8-K of ACTIVISION, INC. dated January 6, 1998.

KPMG Peat Marwick LLP

Los Angeles, California
January 6, 1998

Exhibit 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Activision, Inc. on Forms S-8 (File Nos. 33-48411, 33-63638, 33-91704, 333-06130, 333-12621, 333-06054 and 333-40727) and Forms S-3 (File Nos. 33-68144, 33-75878, 333-30303 and 333-36949) of our report dated May 15, 1996 except for Note 12, as to which the date is June 10, 1997, on our audits of the consolidated financial statements and financial statement schedule of Activision, Inc. and Subsidiaries as of March 31, 1996 and for the years ended March 31, 1996 and 1995, which report is included in this Form 8-K Current Report dated January 6, 1998.

COOPERS & LYBRAND L.L.P.

Los Angeles, California
January 6, 1998

Exhibit 23.3

CONSENT OF INDEPENDENT AUDITORS

We have issued our report dated August 7, 1997 (except for Note 16 as to which the date is November 26, 1997) accompanying the financial statements of Combined Distribution (Holdings) Limited and subsidiaries as of April 30, 1997 and for the period June 28, 1996 (inception) to April 30, 1997 included in this Report on Form 8-K. We consent to the incorporation by reference of said report in the Registration Statements of Activision, Inc. on Forms S-8 (File Nos. 33-48411, 33-63638, 33-91074, 333-06130, 333-12621, 333-06054 and 333-40727) and Forms S-3 (File Nos. 33-68144, 33-75878, 333-30303 and 333-36949).

GRANT THORNTON
Registered Auditors
Chartered Accountants

Central Milton Keynes,
England
January 6, 1998

5
1,000

YEAR
MAR-31-1997
MAR-31-1997
21,358
0
54,307
7,674
8,283
87,168
15,032
8,042
119,754
33,710
0
1,500
0
0
81,980
119,754
154,644
154,644
87,121
53,715
0
0
(233)
14,041
4,815
9,226
0
0
0
9,226
.50
.50

Exhibit 99.1

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
ACTIVISION, INC.:

We have audited the accompanying supplemental consolidated balance sheet of ACTIVISION, INC. and subsidiaries as of March 31, 1997 and the related supplemental consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended. In connection with our audit of the supplemental consolidated financial statements, we also have audited supplemental financial statement schedule II for the year ended March 31, 1997. These supplemental consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these supplemental consolidated financial statements and financial statement schedule based on our audit. We did not audit the financial statements of Combined Distribution (Holdings) Limited, a wholly-owned subsidiary, which statements reflect total assets constituting 21 per cent and total revenues constituting 44 per cent of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Combined Distribution (Holdings) Limited, is based solely on the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The supplemental consolidated financial statements and financial statement schedule give retroactive effect to the merger of ACTIVISION, INC. and Combined Distribution (Holdings) Limited, on November 26, 1997, which has been accounted for as a pooling of interests as described in Note 2 to the supplemental consolidated financial statements. Generally accepted accounting principles proscribe giving effect to a consummated business combination accounted for by the pooling-of-interests method in financial statements that do not include the date of consummation. These financial statements do not extend through the date of consummation. However, they will become the historical consolidated financial statements of ACTIVISION, INC. and subsidiaries after financial statements covering the date of consummation of the business combination are issued.

In our opinion, based on our audit and the report of the other auditors, the supplemental consolidated financial statements referred to above present fairly, in all material respects, the financial position of ACTIVISION, INC. and subsidiaries as of March 31, 1997, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles applicable after financial statements are issued for a period which includes the date of consummation of the business combination. Also, in our opinion, the related supplemental financial statement schedule for the year ended March 31, 1997, when considered in relation to the basic supplemental consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG PEAT MARWICK LLP

Los Angeles, California
May 8, 1997 (except as to Note
2 which is as of November 26, 1997,
and Note 14, which is as of December 22, 1997)

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of ACTIVISION, INC. and Subsidiaries

We have audited the accompanying consolidated balance sheet of ACTIVISION, INC. and subsidiaries as of March 31, 1996 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years ended March 31, 1996 and 1995. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule for each of the two years in the period ended March 31, 1996. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ACTIVISION, INC. and subsidiaries as of March 31, 1996, and the consolidated results of their operations and their cash flows for each of the two years in the period ended March 31, 1996, in conformity with generally accepted accounting principles. In addition, in our opinion, the related financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

We previously audited and reported on the consolidated balance sheet of ACTIVISION, INC. and subsidiaries as of March 31, 1996 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years ended March 31, 1996 and 1995, prior to ACTIVISION, INC.'s pooling-of-interest with Raven Software Corporation on August 26, 1997 and NBG EDV Handels und Verlags GmbH on November 26, 1997. As described in Note 14 to the supplemental consolidated financial statements, ACTIVISION, INC.'s supplemental consolidated financial statements were not retroactively restated for these transactions, except for weighted average shares outstanding and earnings per share data which were retroactively restated for the effect of the acquisitions for all periods presented which restatements were not audited by us.

COOPERS & LYBRAND, LLP

Los Angeles, California
May 15, 1996, except for Note 12,
as to which the date is June 10, 1997.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Directors of Combined Distribution (Holdings) Limited and Subsidiaries.

We have audited the consolidated balance sheet of Combined Distribution (Holdings) Limited (a United Kingdom Limited Company) and subsidiaries as of April 30, 1997 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the period from June 28, 1996 (inception) to April 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Combined Distribution (Holdings) Limited and subsidiaries as of April 30, 1997, and the consolidated results of their operations and their cash flows for the ten months then ended in conformity with U.S. generally accepted accounting principles.

GRANT THORNTON
Registered Auditors
Chartered Accountants

Central Milton Keynes
England
August 7, 1997

ACTIVISION, INC. AND SUBSIDIARIES
SUPPLEMENTAL CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

	March 31, 1997	March 31, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21,358	$ 25,288
Accounts receivable, net of allowances of $7,674 and $7,005, respectively	46,633	19,909
Inventories, net	8,283	2,975
Prepaid software and license royalties	6,559	3,652
Prepaid expenses and other current assets	1,222	1,183
Deferred income taxes	1,493	1,500
Total current assets	85,548	54,507
Property and equipment, net	5,990	3,326
Deferred income taxes	4,212	-
Other assets	255	200
Excess purchase price over identifiable assets acquired, net	23,749	19,580
Total assets	$ 119,754	$ 77,613
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable to bank	$ 1,600	$ -
Current portion of subordinated loan stock debentures	683	-
Accounts payable	19,291	4,592
Accrued expenses	12,136	9,688
Total current liabilities	33,710	14,280
Subordinated loan stock debentures	2,533	-
Other liabilities	31	334
Total liabilities	36,274	14,614
Commitments and contingencies		
Redeemable preferred stock	1,286	-
Convertible preferred stock	214	-
Shareholders' equity:		
Common stock, $.000001 par value, 50,000,000 shares authorized, 17,113,077 and 14,250,180 shares issued and 16,613,077 and 13,750,180 outstanding, respectively	-	-
Additional paid-in capital	78,752	67,904
Retained earnings	8,664	708
Cumulative foreign currency translation	(158)	(335)
Less: Treasury stock, cost of 500,000 shares	(5,278)	(5,278)
Total shareholders' equity	81,980	62,999
Total liabilities and shareholders' equity	$ 119,754	$ 77,613

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

ACTIVISION, INC. AND SUBSIDIARIES
SUPPLEMENTAL CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share data)

	For the years ended March 31, 1997	1996	1995
Net revenues	$ 154,644	$ 61,393	$ 40,669
Cost of goods sold	87,121	21,749	21,293
Gross profit	67,523	39,644	19,376
Operating expenses:			
Product development	18,195	17,505	7,274
Sales and marketing	26,297	13,920	10,410
General and administrative	7,718	4,404	3,366
Amortization of intangible assets	1,505	1,283	1,283
Total operating expenses	53,715	37,112	22,333
Operating income (loss)	13,808	2,532	(2,957)
Other income:			
Interest income	233	1,707	1,592
Income (loss) before income taxes	14,041	4,239	(1,365)
Income tax provision (benefit)	4,815	(1,291)	155
Net income (loss)	$ 9,226	$ 5,530	$ (1,520)
Net income (loss) per common share	$ 0.50	$ 0.34	$ (0.10)
Number of shares used in computing net income (loss) per common share	18,051	16,271	15,265

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

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

(In thousands)

	Common Stock		Common Stock Warrants		Additional Paid-in Capital	Retained Earnings (Deficit)
	Shares	Amount	Warrants	Amount		
Balance March 31, 1994	13,849	$ -	267	$ 120	$ 67,356	$ (3,302)
Exercise of common stock warrants	267	-	(267)	(120)	200	-
Issuance of common stock pursuant to employee stock purchase plan	59	-	-	-	99	-
Issuance of common stock pursuant to directors stock purchase plan	8	-	-	-	12	-
Net loss for the year	-	-	-	-	-	(1,520)
Foreign currency translation adjustment	-	-	-	-	-	-
Balance March 31, 1995	14,183	$ -	-	$ -	$ 67,667	$ (4,822)
Issuance of common stock pursuant to employee stock purchase plan	50	-	-	-	224	-
Issuance of common stock pursuant to directors stock purchase plan	17	-	-	-	13	-
Purchase of treasury stock	-	-	-	-	-	-
Net income for the year	-	-	-	-	-	5,530
Foreign currency translation adjustment	-	-	-	-	-	-
Balance March 31, 1996	14,250	-	-	-	$ 67,904	$ 708
Issuance of common stock	63	-	-	-	822	-
Issuance of common stock pursuant to employee stock option plan	313	-	-	-	2,209	-
Issuance of common stock pursuant to employee stock purchase plan	19	-	-	-	179	-
Tax benefit attributable to employee stock option plan	-	-	-	-	736	-
Tax benefit derived from net operating loss carryforward utilization	-	-	-	-	6,634	-
Issuance of common stock on formation of CentreSoft	2,468	-	-	-	268	-
Net income for the year	-	-	-	-	-	9,226
Foreign currency translation adjustment	-	-	-	-	-	-
Dividends declared	-	-	-	-	-	(1,270)
Balance March 31, 1997	17,113	$ -	-	$ -	$ 78,752	$ 8,664

	Cumulative Foreign Currency Translation	Treasury Stock		Share-holders' Equity
		Shares	Amount	
Balance March 31, 1994	$ (189)	-	$ -	$ 63,985
Exercise of common stock warrants	-	-	-	80
Issuance of common stock pursuant to employee stock purchase plan	-	-	-	99
Issuance of common stock pursuant to directors stock purchase plan	-	-	-	12
Net loss for the year	-	-	-	(1,520)

Foreign currency translation adjustment	48	-	-	48
Balance March 31, 1995	$ (141)	-	$ -	$ 62,704
Issuance of common stock pursuant to employee stock purchase plan	-	-	-	224
Issuance of common stock pursuant to directors stock purchase plan	-	-	-	13
Purchase of treasury stock	-	500	(5,278)	(5,278)
Net income for the year	-	-	-	5,530
Foreign currency translation adjustment	(194)	-	-	(194)
Balance March 31, 1996	$ (335)	500	$ (5,278)	$ 62,999
Issuance of common stock	-	-	-	822
Issuance of common stock pursuant to employee stock option plan	-	-	-	2,209
Issuance of common stock pursuant to employee stock option plan	-	-	-	179
Tax benefit attributable to employee stock option plan	-	-	-	736
Tax benefit derived from net operating loss carryforward utilization	-	-	-	6,634
Issuance of equity interests in CentreSoft Management Buyout	-	-	-	268
Net income for the year	-	-	-	9,226
Foreign currency translation adjustment	177	-	-	177
Dividends declared	-	-	-	(1,270)
Balance March 31, 1997	$ (158)	500	$ (5,278)	$ 81,980

ACTIVISION, INC. AND SUBSIDIARIES
SUPPLEMENTAL CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the years ended March 31,		
	1997	1996	1995
Cash flows from operating activities:			
Net income (loss)	$ 9,226	$ 5,530	$ (1,520)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Deferred income taxes	3,165	(1,500)	-
Depreciation and amortization	4,118	2,646	1,942
Gain on Disposal	34	-	-
Change in assets and liabilities:			
Accounts receivable	(14,249)	(14,343)	(3,641)
Inventories	(2,415)	(1,003)	551
Prepaid software and license royalties	(2,085)	(2,570)	(202)
Prepaid expenses and other current assets	(39)	(841)	126
Other assets	(55)	(140)	37
Accounts payable	3,368	2,076	587
Accrued expenses	(5,558)	6,535	911
Other liabilities	(334)	(176)	(11)
Net cash used in operating activities	(4,824)	(3,786)	(1,220)
Cash flows from investing activities:			
Capital expenditures	(4,249)	(3,045)	(1,256)
Restricted cash	-	-	1,500
Cash paid by Combined Distribution (Holdings) Limited to acquire CentreSoft Limited (net of cash acquired)	(3,878)	-	-
Net cash provided by (used in) investing activities	(8,127)	(3,045)	244
Cash flows from financing activities:			
Proceeds from issuance and exercise of common stock options and warrants	2,209	237	191
Proceeds from employee stock purchase plan	179	-	-
Proceeds from issuance of common stock	268	-	-
Proceeds from issuance of subordinated loan stock debentures	3,216	-	-
Proceeds from issuance of redeemable preferred stock	1,286	-	-
Proceeds from issuance of convertible preferred stock	214	-	-
Payments under line-of-credit agreements	-	-	(4,695)
Borrowings under line-of-credit agreements	1,600	-	4,695
Other	2	-	(1)
Purchase of treasury stock	-	(5,278)	-
Dividends paid by Combined Distribution (Holdings) Limited	(130)	-	-
Net cash provided by (used in) financing activities	8,844	(5,041)	190
Effect of exchange rate changes on cash	177	(195)	48
Net decrease in cash and cash equivalents	(3,930)	(12,067)	(738)
Cash and cash equivalents at beginning of year	25,288	37,355	38,093
Cash and cash equivalents at end of year	$ 21,358	$ 25,288	$ 37,355
Non-cash investing activities:			
Stock issued in exchange for licensing rights	$ 822	$ -	$ -
Tax benefit derived from stock option exercises	736	-	-
Tax benefit derived from net operating loss carryforward utilization	6,634	-	-
Supplemental cash flow information:			
Cash paid for income taxes	$ 473	$ 124	$ 193
Cash paid for interest	-	20	18

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

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 systems, including the Windows 95 operating system, and video game console hardware systems such as the Sony Playstation ("Playstation") and Sega Saturn ("Saturn"). The Company distributes its products worldwide primarily through its direct sales force, its distribution subsidiaries in Europe and, to a lesser extent through third party distributors and licensees.

BASIS OF PRESENTATION

These supplemental consolidated financial statements reflect the pooling of interests of Activision, Inc. with Combined Distribution (Holdings) Limited ("CentreSoft") (see Note 2 "Acquisitions"). The supplemental consolidated financial statements do not extend through the date of consummation of the CentreSoft and NBG acquisitions. However, these statements will become the historical consolidated financial statements of the Company after financial statements covering the date of consummation of the business combination are issued.

As further described in Note 14, certain acquisitions (which occurred after March 31, 1996) have not been retroactively reflected in the historical financial statements of the Company for years ending on or before March 31, 1996 which are presented herein as supplemental consolidated financial statements, except for weighted averages shares outstandings and earnings per share data.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Activision, Inc., a Delaware corporation, and its wholly-owned subsidiaries (the Company.) All intercompany accounts and transactions have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and short-term investments with original maturities of not more than 90 days.

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of temporary cash investments and accounts receivable. The Company places its temporary cash investments with quality financial institutions. At various times during the fiscal years ended March 31, 1997, 1996 and 1995, the Company had deposits in excess of the $100,000 Federal Deposit Insurance Corporation ("FDIC") limit at these financial institutions. At March 31, 1997, the Company had approximately $13.4 million invested in short-term United States government backed securities. The Company's customer base includes retail outlets and distributors including consumer electronics and computer specialty stores, discount chains, video rental stores and toy stores in the United States and countries worldwide. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. The Company generally does not require collateral or other security from its customers.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of the Company's cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate their carrying values due to the relatively short maturities of these instruments. Trade receivables are primarily due from retailers and OEMs.

CAPITALIZED SOFTWARE DEVELOPMENT COSTS

Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," provides for the capitalization of certain software development costs once technological feasibility is established. The capitalized costs are then amortized on a straight-line basis over the estimated product life, or on the ratio of current revenues to total projected revenues, whichever is greater. The software development costs that have been capitalized to date have been immaterial.

PREPAID SOFTWARE AND LICENSED PROPERTY ROYALTIES

Prepaid royalties represent prepayments made to independent software developers under development agreements. Prepaid royalties are expensed at the contractual royalty rate as cost of goods sold based on actual net product sales. Management evaluates the future realization of prepaid royalties quarterly, and charges to cost of goods sold any amounts that management deems unlikely to be amortized at the contract royalty rate through product sales.

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 within certain specified periods, and provides price protection on certain unsold merchandise. Revenue from product sales is reflected net of the allowance for returns and price protection.

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

ADVERTISING EXPENSES

The Company expenses advertising and the related costs as incurred. Advertising expenses for the years ended March 31, 1997, 1996 and 1995 were approximately $3,285,000, $1,940,000 and $3,564,000, respectively, and are included in sales and marketing expense in the statement of operations.

AMORTIZATION OF INTANGIBLE ASSETS

The excess of cost over net assets acquired is being amortized over 20 years using the straight-line method. As of March 31, 1997 and 1996, accumulated amortization amounted to $6,342,000 and $4,837,000, respectively. The company adopted the provisions of SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of," on April 1, 1996. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events of changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. Adoption of this Statement did not have a material impact on the Company's financial position, results of operations, or liquidity.

INCOME TAXES

The Company accounts for income taxes using Statement of Financial Accounting Standards No. 109 (SFAS No. 109), "Accounting for Income Taxes." Under SFAS No. 109 income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

FOREIGN CURRENCY TRANSLATION

The Company's foreign subsidiaries maintain their accounting records in their local currency. The currencies are then converted to United States dollars and the effect of the foreign currency translation is reflected as a component of shareholders' equity in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation."

NET INCOME (LOSS) PER COMMON SHARE

Net income (loss) per common share is computed using the weighted average number of common and, when dilutive, common equivalent shares outstanding during the period.

The weighted average number of shares outstanding for all periods presented has been adjusted to reflect the shares issued in conjunction with the acquisitions of Raven Software Corporation and NBG EDV Handels und Verlags GmbH. The weighted average shares outstanding for 1997 has also been adjusted to reflect the shares issued in conjunction with acquisition of Combined Distribution (Holdings) Ltd. from June 28, 1996 (inception of Centresoft).

Net income utilized to compute earning per share in 1997 has been reduced by dividends on redeemable preferred stock and convertible preferred stock.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

STOCK OPTION PLAN

Prior to April 1, 1996, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. As such, compensation expense would be recorded on the date of the grant only if the current market price of the underlying stock exceeded the exercise price. On April 1, 1996, the Company adopted SFAS No. 123, Accounting for Stock-Based Compensation, which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of the grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

RECLASSIFICATIONS

Certain amounts in the consolidated financial statements have been reclassified to conform with the current year's presentation.

2. ACQUISITIONS

On November 26, 1997, the Company completed its acquisition of CentreSoft by the issuance of 2,787,043 shares of the Company's common stock in exchange for all the outstanding Ordinary Shares, "A" Ordinary Shares, "B" Ordinary shares, redeemable preferred stock, convertible preferred stock and secured loan stock debentures of CentreSoft. In addition, the Company issued options to acquire 50,325 shares of the Company's common stock which was in exchange for outstanding CentreSoft stock options. The acquisition of CentreSoft is being accounted for in accordance with the pooling of interests method of accounting and, accordingly, the accompanying supplemental consolidated financial statements have been retroactively adjusted as if CentreSoft and the Company had operated as one since June 28, 1996 (inception of CentreSoft). These supplemental consolidated financial statements will become the primary historical consolidated financial statements of the Company upon issuance of financial statements covering the date of consummation of the CentreSoft acquisition.

CentreSoft began operations on June 28, 1996 (See Note 3. Management Buyout of CentreSoft), and, accordingly, there is no restatement of periods prior to April 1, 1996.

The following represents net revenues and net income of the Company and CentreSoft prior to restatement (amounts in thousands):

	Year ended March 31,		
	1997	1996	1997
Net revenues:			
The Company	$ 86,483	$ 61,393	$ 40,669
CentreSoft	70,219	-	-
Elimination of intercompany revenues	(2,058)	-	-
	$ 154,644	$ 61,393	$ 40,669
Net income:			
The Company	$ 7,107	$ 5,530	$ (1,520)
CentreSoft	2,119	-	-
	$ 9,226	$ 5,530	$ (1,520)

CentreSoft previously used the fiscal year ended April 30 for its financial reporting. Accordingly, the supplemental consolidated balance sheet contained herein includes the financial position of CentreSoft as of April 30, 1997, and the supplemental consolidated statement of operations for the year ended March 31, 1997 contained herein includes the results of operations of CentreSoft for the ten months ended April 30, 1997. The month ended April 30, 1997 also will be included in the results of operations for the year ended March 31, 1998 and for the interim periods include therein. CentreSoft's net revenues and net income for the month ended April 30, 1997 were approximately $8.0 million and $639,000, respectively.

All costs related to the acquisition of CentreSoft have not been reflected in the Company's supplemental consolidated financial statements but will be reflected in the consolidated statement of operations for the quarter ended

December 31, 1997, the period in which

the acquisition was completed. Such costs are non-recurring and were comprised primarily of consulting, legal and accounting costs and are expected to approximate $1.4 million.

3. MANAGEMENT BUYOUT OF CENTRESOFT

On June 28, 1996, CentreSoft's management completed a buyout of Centresoft ("Management Buyout"). In the Management Buyout, CentreSoft acquired all the outstanding ordinary shares of CentreSoft Limited ("CentreSoft") for approximately $7,428,000 in cash from Centregold plc, a subsidiary of Eidos plc ("Eidos"). The acquisition agreement provides for a contingent payment of a maximum of approximately $812,000 to Eidos if CentreSoft is later sold at above a certain price, resulting in a total purchase price of approximately $8,240,000. This contingent payment has been recorded by the Company as a result of the Company's acquisition of CentreSoft in November 1997. The Management Buyout was accounted for by CentreSoft by the purchase method of accounting. The excess of the purchase price over the estimated fair values of the net assets acquired was recorded by CentreSoft as an intangible asset in the amount of $6,486,000. This intangible asset is being amortized on a straight-line basis over a 20 year period. Amortization was approximately $238,000 for the year ended March 31, 1997.

The assets and liabilities of CentreSoft acquired on June 28, 1996 were as follows (amounts in thousands):

	BOOK VALUE & FAIR VALUE
Assets:	
Cash and cash equivalents	$ 3,550
Accounts receivables, net	12,474
Inventories	2,892
Fixed assets	1,061
Total assets	19,977
Liabilities:	
Accounts payable	11,331
Accrued liabilities	6,892
Total liabilities	18,223
Net assets	1,754
Cost in excess of net assets acquired	6,486
Consideration (including net costs of $767) satisfied by cash	$8,240

In connection with the Management Buyout, CentreSoft received proceeds from the issuance of secured subordinated loan stock debentures, redeemable preferred stock, convertible preferred stock, "A" ordinary shares, "B" ordinary shares and ordinary shares.

SECURED SUBORDINATED LOAN STOCK DEBENTURES

Proceeds from the issuance of the Secured Subordinated Loan Stock Debentures ("Debentures") totaled $3,216,000. The Debentures bear interest at the rate of 15% per annum and repayment was required as follows (amounts in thousands);

January 1998	$ 683
July 1998	683
January 1999	603
July 1999	603
January 2000	603
July 2000	41
	$ 3,216

The Debentures are debt instruments, secured by the assets of CentreSoft, and are subordinated to CentreSoft's bank credit facility pursuant to a written Inter-Creditor Deed. In addition, the Debentures cannot be repaid without written consent from such bank. Holders of the Debentures are not entitled to receive any voting rights, any share of profits or any conversion rights into equity securities. In connection with the acquisition of CentreSoft by the Company on November 26, 1997, the Debentures were exchanged for 217,405 shares of the Company's common stock.

REDEEMABLE PREFERRED STOCK

Proceeds from the issuance of the 800,000 shares of Redeemable Preferred Stock with a stated par value of $0.16 per share totaled $1,286,000. The Preferred Stock was entitled to a cumulative dividend of $0.19 per share per annum. The scheduled redemption dates were as follows (amounts in thousands):

July 2000	$ 563
January 2001	723
	$ 1,286

In connection with the acquisition of CentreSoft by the Company on November 26, 1997, the Preferred Stock was exchanged for 86,962 shares of the Company's common stock.

CONVERTIBLE PREFERRED STOCK

Proceeds from the issuance of 133,333 shares of Convertible Preferred Stock with a stated par value of $1.61 per share totaled $214,000. The Convertible Preferred Stock was entitled to a dividend of 12% per annum. The Convertible Preferred Stock was convertible into Ordinary Shares on a one-for-one basis in the event the Company had not redeemed the Redeemable Preferred Stock or Convertible Preferred Stock by the period ending six months after the final redemption date of January 31, 2001. The redemption schedule for the Convertible Stock was as follows (amounts in thousands):

January 1998	$ 32
July 1998	32
January 1999	29
July 1999	29
January 2000	29
July 2000	29
January 2000	34
	$ 214

In connection with the acquisition of CentreSoft by the Company on November 26, 1997, the Convertible Preferred Stock were exchanged for 14,494 shares of the Company's common stock.

"A" ORDINARY SHARES, "B" ORDINARY SHARES AND ORDINARY SHARES

CentreSoft had three classes of ordinary shares outstanding, consisting of "A" Ordinary Shares, "B" Ordinary Shares and Ordinary Shares. Each class had a stated par value of $0.02 per share. Proceeds from the issuance of the 47,059 shares of "A" Ordinary Shares, 19,608 shares of "B" Ordinary Shares and 100,000 shares of Ordinary Shares was $76,000, $31,000 and $161,000, respectively.

Subject to payment of the dividends on the Redeemable Preferred Stock and the Convertible Preferred Stock (including any arrears or accruals), the holders of the "A" Ordinary Shares and "B" Ordinary Shares received a fixed cumulative net dividend of $0.16 per share per annum ("Ordinary Dividend") and a cumulative preferential dividend which, when added to the Ordinary Dividend, equalled the higher of 20% of the net profits (as defined in CentreSoft's Articles of Association) and the dividends declared on any other class of share capital of CentreSoft for the relevant financial year. The balance of any profits declared by the Board to be distributed by way of dividends for a financial year are to be distributed pro rata among the holders of the "B" Ordinary Shares, the "A" Ordinary Shares and the Ordinary Shares.

In connection with the acquisition of CentreSoft by the Company on November 26, 1997, the "A" Ordinary Shares, "B" Ordinary Shares and Ordinary Shares were exchanged for 781,608, 25,661 and 1,660,913 shares of the Company's common stock, respectively.

DIVIDENDS

In accordance with the terms of the Redeemable Preferred Stock, Convertible Preferred Stock, the "A" Ordinary shares, the "B" Ordinary shares and the Ordinary shares, CentreSoft declared dividends on September 30 and December 31, 1996 and March 31 and June 27, 1997 totaling as follows (amounts in thousands):

Redeemable Preferred Stock, $0.19 per share	$ 130
Convertible Preferred Stock, 12% per annum	21
"A" Ordinary Shares	6
"B" Ordinary Shares	4
Ordinary Shares	268
Participating "A" and "B" Ordinary Shares, $12.60 per share	841
	$ 1,270

In connection with the acquisition of CentreSoft by the Company on November 26, 1997, dividends will only be declared and paid on the Redeemable Preferred Stock, Convertible Preferred Stock, "A" Ordinary shares and the "B" Ordinary shares through the date of the Company's acquisition of CentreSoft due to the exchange of these securities for common stock of the Company.

4. INVENTORIES

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories at March 31, 1997 and 1996 reflect an adjustment to net realizable value of approximately $471,000 and $145,000, respectively. The provisions for net realizable value for the years ended March 31, 1997, 1996 and 1995 were approximately $234,000, $532,000 and $134,000, respectively. Inventories, net of reserves consisted of (amounts in thousands):

	March 31, 1997	March 31, 1996
Finished goods	$ 7,121	$ 2,099
Purchased parts and components	1,162	876
	$ 8,283	$ 2,975

Included in finished goods at March 31, 1997 and 1996 are expected inventory returns at a net realizable value of $837,000 and $427,000, respectively.

5. PROPERTY AND EQUIPMENT

Equipment, furniture and leasehold improvements are recorded at cost. Depreciation and amortization are provided using the straight-line method over the shorter of the estimated useful lives or the lease term generally ranging from three to ten years. Property and equipment, stated at cost, was as follows (amounts in thousands):

	March 31, 1997	March 31, 1996
Computer equipment	$ 9,230	$ 4,360
Office furniture and other equipment	3,204	1,338
Leasehold improvements	1,598	310
	14,032	6,008
Less accumulated depreciation and amortization	(8,042)	(2,682)
	$ 5,990	$ 3,326

Depreciation expense for the years ended March 31, 1997, 1996 and 1995 was $2,613,000, $1,362,000 and $658,000, respectively.

6. ACCRUED EXPENSES

Accrued expenses were as follows (amounts in thousands):

	March 31, 1997	March 31, 1996
Accrued royalties	$ 4,173	$ 3,104
Accrued selling and marketing costs	1,680	1,759
Deferred revenue	-	2,242
Dividends payable	1,144	-
Income taxes payable	1,189	-
Other	3,950	2,583
	$ 12,136	$ 9,688

7. OPERATIONS BY GEOGRAPHIC AREA

The following table summarizes the geographic operations of the Company (amounts in thousands):

	Year ended March 31,		
	1997	1996	1995
Net revenues:			
North America	$ 65,049	$ 47,176	$ 29,492
Europe	80,372	6,501	7,574
Japan	4,504	4,768	2,194
Australia and Pacific	4,719	2,948	1,409
Total net revenues	$ 154,644	$ 61,393	$ 40,669
Operating income (loss):			
North America	$ 2,306	$ (5,110)	$ (5,114)
Europe	7,467	2,547	77
Japan	2,022	3,814	1,655
Australia and Pacific	2,013	1,281	425
Total operating income (loss)	$ 13,808	$ 2,532	$ (2,957)

	At March 31, 1997	At March 31, 1996	At March 31 1995
Assets:			
United States	$ 81,833	$ 73,377	$ 68,226
Foreign	39,541	4,236	657
Total assets	$ 121,374	$ 77,613	$ 68,883

Operating income (loss) by geographic territory is reflected without any allocation for product development and general and administrative expenses to the geographic territories other than North America. These expenses are incurred primarily in North America.

8. SIGNIFICANT CUSTOMERS

The Company had no sales to any one customer in excess of 10% of total net revenues for the years ended March 31, 1997 and 1996. For the fiscal year ended March 31, 1995, the Company had sales to one customer which represented 14.9% of total net revenues.

9. INCOME TAXES

Domestic and foreign income (loss) before income taxes and details of the income tax provision (benefit) are as follows (amounts in thousands):

	Year ended March 31,		
	1997	1996	1995
Income (loss) before income taxes:			
Domestic	$ 5,896	$ 3,681	$ (3,096)
Foreign	8,145	558	1,731
	$ 14,041	$ 4,239	$ (1,365)
Income tax provision:			
Current:			
Federal	$ 383	$ 106	$ -
State	31	25	-
Foreign	1,236	78	155
Total current	1,650	209	155
Deferred:			
Federal	(2,961)	(1,369)	-
State	(1,244)	(131)	-
Total deferred	(4,205)	(1,500)	-
Add back benefit credited to additional paid-in capital:			
Tax benefit related to stock option exercises	736	-	-
Tax benefit related to utilization of pre-bankruptcy net operating loss carryforwards	6,634	-	-
	7,370	-	-
	$ 4,815	$ (1,291)	$ 155

The items accounting for the difference between income taxes computed at the U.S. federal statutory income tax rate and the income tax provision for each of the years are as follows:

	Year ended March 31,		
	1997	1996	1995
Federal income tax provision at statutory rate	35.0%	34.0%	(34.0%)
State taxes, net of federal benefit	3.4%	-	-
Benefit of net operating loss carryforward	-	(25.7%)	-
Nondeductible amortization	3.9%	10.3%	30.4%
Future (current) deductible reserves	-	(4.9%)	39.3%
Research and development credits	(8.4)%	(8.7%)	(41.9%)
Incremental effect of foreign tax rates	(4.1)%	(0.5%)	22.2%
Increase (reduction) of valuation allowance	4.0%	(35.4%)	-
Other	0.5%	0.4%	(4.5)%
	34.3%	(30.5%)	11.5%

The components of the net deferred tax asset and liability were as follows (amounts in thousands):

	March 31, 1997	March 31, 1996
Deferred asset:		
Allowance for bad debts	$ 272	$ 211
Allowance for sales returns	441	785
Miscellaneous	99	49
Tax credit carryforwards	2,553	1,450
Net operating loss carryforwards	10,447	13,310
Deferred tax asset	13,812	15,805
Valuation allowance	(8,107)	(14,305)
Net deferred tax asset	$ 5,705	$ 1,500

During the year ended March 31, 1996, the Company recognized a tax benefit of $1.5 million through a reduction in the Company's deferred tax asset valuation allowance. The reduction reflected the remaining portion of the Company's net operating loss carryforwards, the benefit from which could be recorded in the Company's provision for income taxes. In accordance with Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," issued by the American Institute of Certified Public Accountants, benefits from loss carryforwards arising prior to the Company's reorganization are recorded as additional paid-in capital. During the year ended March 31, 1997, $6.6 million of such benefits have been recognized through a reduction in the valuation allowance. The reductions in the valuation allowance during the years ended March 31, 1997 and 1996 were determined based on the Company's assessment of the realizability of its deferred tax assets, based on recent operating history, and the Company's expectation that operations will continue to generate taxable income, as well as other factors. Realization of the deferred tax assets is dependent upon the continued generation of sufficient taxable income prior to expiration of tax credits and loss carryforwards. Although realization is not assured, management believes it is more likely than not that the deferred tax asset of $5.7 million will be realized. The amount of deferred tax assets considered realizable, however, could be reduced in the future if estimates of future taxable income are reduced. The provision for Income taxes for the year ended March 31, 1995 represents foreign taxes withheld.

The Company's available net operating loss carryforward for federal tax reporting purposes approximates $28.3 million and is subject to certain limitations as defined under Section 382 of the Internal Revenue Code. The net operating loss carryforwards expire from 1999 to 2009. At March 31, 1997, the Company had a net operating loss carryforward for California tax reporting purposes of approximately $10.7 million. The California net operating loss carryforwards expire from 1998 to 2003.

10. BANK LINE OF CREDIT

The Company has a revolving line of credit ("Credit Facility") with a bank, which provides $4 million of revolving credit. The Credit Facility matures on June 30, 2000. Interest is at LIBOR plus 2.5%, however, if certain financial covenants are not met interest will be increased to LIBOR plus 3.5%. The Company was not in violation of any financial covenants and no amounts were outstanding on the line of credit as of March 31, 1997.

In addition, the Company has an overdraft facility with a bank, which provides $4 million of overdraft protection. The overdraft facility is payable on demand. As of March 31, 1997, the Company had drawn on this facility $1.6 million.

11. COMMITMENTS AND CONTINGENCIES

LEASE OBLIGATIONS

The Company leases its facilities under non-cancelable operating lease agreements. Total future minimum lease commitments as of March 31, 1997 are as follows (amounts in thousands):

Year ending March 31,	
1998	$ 2,873
1999	2,576
2000	2,671
2001	2,675
2002	2,675
Thereafter	15,250
	$ 28,720

Rent expense for the years ended March 31, 1997, 1996 and 1995 was approximately $2,279,000, $1,348,000 and $811,000, respectively.

EMPLOYMENT AGREEMENTS

As of March 31, 1997, the Company has entered into employment agreements with various personnel which have obligated the Company to make total minimum payments of $3,102,000 and $67,000 during the years ending March 31, 1998 and 1999, respectively.

LEGAL PROCEEDINGS

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

12. EMPLOYEE BENEFIT PLANS

STOCK OPTION PLAN

The Company has a stock option plan (the "Stock Option Plan") for the benefit of officers, employees, consultants and others. The Stock Option Plan permits the granting of non-qualified stock options, incentive stock options ("ISOs"), stock appreciation rights ("SARs"), restricted stock awards, deferred stock awards and other Common Stock-based awards. As of March 31, 1997 the total number of shares of Common Stock available for distribution under the Stock Option Plan is 6,066,667. The plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. There were 276,000 remaining shares available for grant under the Stock Option Plan as of March 31, 1997.

The stock option exercise price is determined at the discretion of the Board of Directors, and for ISOs, is not to be less than the fair market value at the date of grant, or in the case of non-qualified options, must exceed or be equal to 85% of fair market value at date of grant. Options typically become exercisable in equal installments over a period not to exceed five years and must be exercised within 10 years of date of grant. Historically, stock options have been granted with exercise prices equal to or greater than the fair market value at the date of grant.

Stock Option Plan activity was as follows (amounts in thousands, except weighted average exercise price amounts):

	1997		1996		1995	
	Shares (000)	Wtd Avg Ex Price	Shares (000)	Wtd Avg Ex Price	Shares (000)	Wtd Avg Ex Price
Outstanding at beginning of year	3,725	$11.37	1,190	$ 5.20	398	$ 2.98
Granted	1,997	11.28	2,805	13.61	1,073	5.61
Exercised	(313)	7.05	(50)	4.54	(59)	1.67
Forfeited	(181)	9.24	(220)	6.07	(222)	4.13
Expired	-	-	-	-	-	-
Outstanding at end of year	5,228	$11.69	3,725	$ 11.37	1,190	$ 5.20
Exercisable at end of year	3,292	$12.62	334	$ 4.55	176	$ 3.82

The range of exercise prices for options outstanding as of March 31, 1997 was $1.50 to $21.18. The range of exercise prices for options is wide due to increases in the Company's stock price over the period of the grants. For the year ended March 31, 1997, 1,277,000 options were granted at an exercise price equal to the fair market value on the date of grant, and 720,000 options were granted at an exercise price greater than fair market value on the date of grant.

The following tables summarize information about options outstanding at March 31, 1997:

	Outstanding Options		
	Shares (000)	Remaining Weighted Avg Contractual Life (in years)	Wtd Avg Exercise Price
Range of exercise prices:			
$1.50 to $9.75	1,778	7.9	$ 6.53
$9.78 to $13.00	1,557	9.4	11.34
$13.13 to $21.18	1,893	8.3	16.69
Total	5,228	8.5	$11.69

	Exercisable Options	
	Shares (000)	Wtd Avg Exercise Price
Range of exercise prices:		
$1.50 to $9.75	879	$ 5.92
$9.78 to $13.00	789	10.34
$13.13 to $21.18	1,624	17.16
Total	3,292	$12.62

These options will expire if not exercised at specific dates ranging from January 2002 to March 2007. Prices for options exercised during the three year period ended March 31, 1997 ranged from $0.75 to $11.05.

EMPLOYEE STOCK PURCHASE PLAN

The Company has an employee stock purchase plan for all eligible employees (the "Purchase Plan"). Under the Purchase Plan, shares of the Company's common stock may be purchased at six-month intervals at 85% of the lower of the fair market value on the first or last day of each six-month period (the "Offering Period"). Employees may purchase shares having a value not exceeding 10% of their gross compensation during an Offering Period. During the Purchase Plan's first Offering Period ended March 31, 1997, employees purchased 19,000 shares at a price of $9.56 per share. As of March 31, 1997, 181,000 shares were reserved for future issuance under the Purchase Plan.

EMPLOYEE RETIREMENT PLAN

The Company has a retirement plan covering substantially all of its eligible employees. The retirement plan is qualified in accordance with Section 401(k) of the Internal Revenue Code. Under the plan, employees may defer up to 15% of their pre-tax salary, but not more than statutory limits. The Company contributes 5% of each dollar a participant contributes. The Company's matching contributions to the plan were $25,000 and $10,000 during the years ended March 31, 1997 and March 31, 1996; the Company made no matching contributions in the year ended March 31, 1995.

DIRECTOR WARRANT PLAN

The Director Warrant Plan provides for the automatic granting of warrants ("Director Warrants") to purchase 16,667 shares of the Common Stock to each director of the Company who is not an officer or employee of the Company or any of its subsidiaries. The total number of shares of Common Stock available for distribution under the Director Warrant Plan was 100,000. Director Warrants granted under the Director Warrant Plan vest 25% on the first anniversary of the date of grant, and 12.5% each six months thereafter. The Director Warrant Plan expired on December 19, 1996. The expiration had no effect on the outstanding Warrants.

Director Warrant activity was as follows (amounts in thousands, except weighted average exercise price amounts):

	1997		1996		1995	
	Shares (000)	Wtd Avg Ex Price	Shares (000)	Wtd Avg Ex Price	Shares (000)	Wtd Avg Ex Price
Outstanding at beginning of year	73	$4.43	50	$ 0.75	67	$ 0.94
Granted	-	-	60	7.50	-	-
Exercised	-	-	(17)	0.75	(8)	1.50
Forfeited	-	-	(20)	7.50	(9)	1.50
Expired	-	-	-	-	-	-
Outstanding at end of year	73	$4.43	73	$ 4.43	50	$ 0.75
Exercisable at end of year	73	$4.43	39	$ 2.47	38	$ 0.75

During the fiscal year ended March 31, 1997, 40,000 Director Warrants were granted to new directors outside of the Director Warrant Plan with an average exercise price of $12.85 and vesting consistent with other outstanding Director Warrants.

The range of exercise prices for director warrants outstanding as of March 31, 1997 was $0.75 to $8.50. The range of exercise prices for options is wide due to increases in the Company's stock price over the period of the grants. As of March 31, 1997, 33,000 of the outstanding and vested director warrants have a weighted average remaining contractual life of 4.8 years and a weighted average exercise price of $0.75, 20,000 of the outstanding and vested director warrants have a weighted average remaining contractual life of 7.8 years and a weighted average exercise price of $6.50 and 20,000 of the outstanding and vested director warrants have a weighted average remaining contractual life of 7.8 years and a weighted average exercise price of $8.50.

PRO FORMA INFORMATION

The Company has elected to follow APB Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for its employee stock options. Under APB No. 25, if the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized in the Company's financial statements.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123. This information is required to be determined as if the Company had accounted for its employee stock options (including shares issued under the Purchase Plan and Director Warrant Plan collectively called "options") granted during fiscal 1996 and 1997 under the fair value method of that statement. The fair value of options granted in the years ended March 31, 1997 and 1996 reported below has been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	Stock Option Plan		Purchase Plan		Director Warrant Plan	
	1997	1996	1997	1996	1997	1996
Expected life (in years)	2.2	3.7	0.5	-	-	2.0
Risk free interest rate	6.45%	6.45%	6.45%	-	-	6.45%
Volatility	.60	.60	.60	-	-	.60
Dividend yield	-	-	-	-	-	-

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options. The weighted average estimated fair value of Stock Option Plan shares granted during the years ended March 31, 1997 and 1996 was $4.04 and $3.74 per share, respectively. The weighted average estimated fair value of Employee Purchase Plan shares granted during the year ended March 31, 1997 was $2.89. The weighted average estimated fair value of Director Warrants granted during the year ended March 31, 1997 was $2.27.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (amounts in thousands except for earnings per share information):

	Year ended March 31,	
	1997	1996
Pro forma net income	$ 5,947	$ 2,302
Pro forma earnings per share	$ 0.33	$ 0.14

The effects on pro forma disclosures of applying SFAS No. 123 are not likely to be representative of the effects on pro forma disclosures of future years. Because SFAS No. 123 is applicable only to options granted during fiscal 1996 and 1997, the pro forma effect will not be fully reflected until the fiscal year ended March 31, 2000.

13. RELATED PARTY TRANSACTIONS

PROMISSORY NOTES RECEIVABLE

As of March 31, 1997, accounts receivable includes $177,000 in promissory notes receivable from Robert A. Kotick, a director, officer and shareholder of the Company. The promissory notes are dated December 28, 1994 and April 28, 1995, have maturity dates, as amended, of December 31, 1997 and bear interest at 9.0% per annum.

MERGER WITH INTERNATIONAL CONSUMER TECHNOLOGIES CORPORATION (ICT)

Effective January 1, 1995, ICT was merged with and into a wholly owned subsidiary of the Company, with ICT as the surviving corporation. ICT's sole asset at the time of the merger was 5,429,600 shares of the Company's Common Stock. As a result of the merger, the shares of the Company's Common Stock previously held by ICT were distributed to the shareholders of ICT in exchange for their shares of ICT common stock. No other assets or liabilities were acquired or assumed by the Company as a result of the merger.

14. SUBSEQUENT EVENTS

ACQUISITION OF TAKE US! MARKETING GMBH

On June 13, 1997, the Company completed its acquisition of Take Us! Marketing GmbH ("Take Us!") in exchange for $246,000 in cash and 10,000 shares of the Company's common stock with a value of $136,000. The acquisition of Take Us! will be accounted for by the purchase method of accounting. The purchase price of $382,000 exceeded the fair value of net assets acquired of $151,000 resulting in an intangible asset of approximately $231,000.

ACQUISITION OF RAVEN SOFTWARE CORPORATION

On August 26, 1997, the Company completed its acquisition of Raven Software Corporation ("Raven") in exchange for 1,040,000 shares of the Company's common stock. This transaction is being accounted for in accordance with the pooling of interests method of accounting. In addition, Raven is being accounted for as an immaterial pooling; accordingly, periods prior to April 1, 1997 were not restated retroactively for this transaction. However, weighted average shares outstanding and earnings per share data were retroactively restated for the effect of the Raven acquisition for all periods presented.

ACQUISITION OF NBG EDV HANDELS UND VERLAGS GMBH

On November 26, 1997, the Company completed its acquisition of NBG EDV Handels und Verlags GmbH ("NBG") in exchange for 281,206 shares of the Company's common stock. This transaction is being accounted for in accordance with the pooling of interests method of accounting. In addition, NBG is being accounted for as an immaterial pooling; accordingly, periods prior to October 1, 1997 will not be restated retroactively for this transaction. However, weighted average shares outstanding and earnings per share data were retroactively restated for the affect of the NBG acquisition for all periods presented.

SUBORDINATED CONVERTIBLE DEBT PRIVATE PLACEMENT

On December 22, 1997, the Company completed a private placement of $60 million in convertible subordinated notes ("Convertible Notes"). The Convertible Notes have a 6.75% stated annual interest rate, are due in January 2005 and are convertible at any time prior to maturity into shares of the Company's Common Stock at $18.875 per share. Net proceeds from the issuance of the Convertible Notes was approximately $57.9 million. The Company intends to use such net proceeds to repay outstanding balances under its bank lines of credit, if any, to fund product development, to acquire third party publishing and distribution rights, to expand the Company's direct sales and marketing capabilities and for general corporate purposes. In addition, the Company may, when and if the opportunity arises, use an unspecified portion of the net proceeds to acquire businesses, products or technologies that it believes are of strategic importance. Pending such uses, the Company intends to invest the net proceeds in short-term money market and other market rate, investment-grade instruments.

15. QUARTERLY FINANCIAL AND MARKET INFORMATION (UNAUDITED)

(Dollars in thousands, except per share data)	Quarter Ended June 30	Sept 30	Dec 31	Mar 31	Year Ended
Fiscal 1997:					
Net revenues	$ 7,021	$ 29,557	$ 60,480	$ 57,586	$154,644
Operating income (loss)	(4,226)	2,137	8,288	7,609	13,808
Net income (loss)	(2,631)	1,421	5,320	5,116	9,226
Net income (loss) per common share	(0.17)	0.07	0.29	0.27	0.50
Common stock price per share					
High	$ 15.00	$ 14.38	$ 14.00	$ 16.25	$ 16.25
Low	11.63	9.50	10.56	10.00	9.50
Fiscal 1996:					
Net revenues	$ 3,319	$ 18,848	$ 17,578	$ 21,648	61,393
Operating income (loss)	(6,014)	2,366	1,573	4,607	2,532
Net income (loss)	(5,528)	2,765	1,948	6,345	5,530
Net income (loss) per common share	(0.36)	0.17	0.12	0.39	0.34
Common stock price per share					
High	$ 7.125	$ 19.75	$ 18.50	$ 15.125	$ 19.75
Low	5.75	6.75	8.125	8.625	5.75

SCHEDULE II

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

Col. A	Col. B	Col. C	Col. D	Col. E
Description	Balance at Beginning of Period	Additions	Deductions (Describe)	Balance at End of Period
Year ended March 31, 1997:				
Allowance for sales returns, price protection and doubtful accounts	$ 7,005	$18,878	$18,209 (A)	$ 7,674
Inventory valuation	$ 145	$ 478	$ 152 (B)	$ 471
Deferred tax valuation allowance	$14,305	$ 436	$ 6,634	$ 8,107
Year ended March 31, 1996:				
Allowance for sales returns, price protection and doubtful accounts	$ 4,469	$12,402	$ 9,866 (A)	$ 7,005
Inventory valuation	$ 357	$ 532	$ 744 (B)	$ 145
Deferred tax valuation allowance	$16,500	$ (695)	$ 1,500	$14,305
Year ended March 31, 1995:				
Allowance for sales returns, price protection and doubtful accounts	$ 3,266	$ 3,795	$ 3,592 (A)	$ 4,469
Inventory valuation	$ 493	$ 134	$ 270 (B)	$ 357
Deferred tax valuation allowance	$15,531	$ 969	$ -	$16,500

(A) Actual write-offs uncollectible accounts receivable or sales returns and price protection.
(B) Actual write-offs of obsolete inventory, scrap and reduction in carrying value of certain portions of inventory.

Exhibit 99.2

ACTIVISION, INC.
SELECTED SUPPLEMENTAL CONSOLIDATED FINANCIAL DATA

The following table summarizes certain selected consolidated financial data, which should be read in conjunction with the Company's Supplemental Consolidated Financial Statements and Notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein. The selected consolidated financial data presented below as of and for each of the fiscal years in the five-year period ended March 31, 1997 are derived from the audited supplemental consolidated financial statements of the Company. The supplemental consolidated financial statements as of March 31, 1997 and 1996 and for each of the fiscal years in the three-year period ended March 31, 1997, and the reports thereon, are included elsewhere in this Form 8-K.

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEARS ENDED MARCH 31,				
	1997	1996	1995	1994	1993
STATEMENT OF OPERATIONS DATA:					
Net revenues	$154,644	$61,393	$40,669	$26,604	$21,069
Gross profit	67,523	39,644	19,376	11,293	9,535
Operating income (loss)	13,808	2,532	(2,957)	(2,031)	(208)
Income (loss) before provision for income taxes	14,041	4,239	(1,365)	(1,853)	(217)
Net income (loss) from continuing operations	9,226	5,530	(1,520)	(1,987)	(279)
Loss from discontinued operations	-	-	-	-	(1,100)
Net income (loss)	9,226	5,530	(1,520)	(1,987)	(1,379)
Accumulated, unpaid preferred dividends	-	-	-	(3,296)	(3,163)
Net income (loss) per common share from continuing operations (1)	$0.50	$0.34	$(0.10)	$(0.78)	$(0.73)
Net income (loss) per common share (1)	0.50	0.34	(0.10)	(0.78)	(0.96)
Weighted average number of shares used in computing net income (loss) per common share (1)	18,051	16,271	15,265	6,753	4,733

	AS OF MARCH 31,				
	1997	1996	1995	1994	1993
BALANCE SHEET DATA:					
Cash and cash equivalents	$21,358	$ 25,288	$ 37,355	$ 38,093	$ 1,851
Working capital	51,838	40,227	40,648	41,218	5,261
Intangible assets	23,749	19,580	20,863	22,146	23,429
Total assets	119,754	77,613	68,833	68,677	34,580
Redeemable and convertible preferred stock (2)	1,500	-	-	-	25,200
Preferred shareholders' equity (3)	-	-	-	-	4,603
Shareholders' equity	81,980	62,999	62,704	63,985	(792)

(1) Reflects the Company's 1-for-3 reverse stock split effective October 20, 1993. Accordingly, previously reported net income (loss) per share and common share have been retroactively restated.
(2) Does not include accrued dividends of $3,163 as of March 31, 1993.
(3) Represents $5,000 of gross proceeds received from the sale of Series AA Preferred Stock, less offering expenses and the amount allocated to common stock warrants issued sold at the time.

Exhibit 99.3

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE FISCAL YEARS ENDED MARCH 31, 1997, 1996 AND 1995

THE FOLLOWING DISCUSSION AND ANALYSIS CONTAINS FORWARD LOOKING STATEMENTS REGARDING FUTURE EVENTS OR THE FUTURE FINANCIAL PERFORMANCE OF THE COMPANY THAT INVOLVE CERTAIN RISKS AND UNCERTAINTIES DISCUSSED BELOW IN THIS CURRENT REPORT ON FORM 8-K UNDER "RISK FACTORS." ACTUAL EVENTS OR THE ACTUAL FUTURE RESULTS OF THE COMPANY MAY DIFFER MATERIALLY FROM ANY FORWARD LOOKING STATEMENT DUE TO SUCH RISKS AND UNCERTAINTIES.

OVERVIEW

The Company is a leading international publisher, developer and distributor of interactive entertainment software. The Company currently focuses its publishing and development efforts on products designed for PCs and the Sony PlayStation console system. In selecting titles for acquisition or development, the Company pursues a balance between internally and externally developed titles, products based on proven technology and those based on newer technology, and PC and console products.

Activision distributes its products worldwide through its direct sales force and through third party distributors and licensees. In addition, in November 1997 the Company acquired CentreSoft and NBG and significantly increased its worldwide distribution capabilities. Financial information as of and for the year ended March 31, 1997 has been restated to reflect the CentreSoft acquisition as a pooling of interests.

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

Cost of goods sold related to console, PC and OEM net revenues represents the manufacturing and related costs of computer software and console games. Manufacturers of the Company's computer software are located worldwide and are readily available. Console CDs and cartridges are manufactured by the respective video game console manufacturers, Sony, Sega and Nintendo, who often require significant lead time to fulfill the Company's orders. Also included in cost of goods sold is the royalty expense related to amounts due developers, product owners and other royalty participants as a result of product sales. 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. Royalties and license fees prepaid in advance of a product's release are capitalized. Upon a product's release, prepaid royalties and license fees are charged to cost of goods sold based on the contractual royalty rate. Management evaluates the future realization of prepaid royalties quarterly and charges to cost of goods sold any amounts that management deems unlikely to be amortized at the contract royalty rate through product sales.

Product development costs are accounted for in accordance with accounting standards which provide for the capitalization of certain software development costs once technological feasibility is established. The capitalized costs are then amortized on a straight-line basis over the estimated product life or on the ratio of current revenues to total projected revenues, whichever is greater. The software development costs that have been capitalized to date have been immaterial.

As a result of the CentreSoft Management Buyout occurring in June 1996 and the commencement therefrom of CentreSoft's operations (See Note 3 to the Supplemental Consolidated Financial Statements contained in Exhibit 99.1 contained herein), results of operations for the fiscal year ended March 31, 1997 and the quarter ended June 30, 1997 versus the fiscal year ended March 31, 1996 and the quarter ended June 30, 1996, respectively, are not indicative of comparative combined results for the Company combined with CentreSoft for the two periods.

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

	YEARS ENDED MARCH 31, 1997					
	1997		1996		1995	
STATEMENT OF OPERATIONS DATA:						
Net revenues	$ 154,644	100.0%	$ 61,393	100.0%	$ 40,669	100.0%
Cost of goods sold	87,121	56.3	21,749	35.4	21,293	52.4
Gross profit	67,523	43.7	39,644	64.6	19,376	47.6
Operating expenses:						
Product development	18,195	11.8	17,505	28.5	7,274	17.9
Sales and marketing	26,297	17.0	13,920	22.7	10,410	25.6
General and administrative	7,718	5.0	4,404	7.2	3,366	8.3
Amortization of intangible assets	1,505	1.0	1,283	2.1	1,283	3.1
Total operating expenses	53,715	34.8	37,112	60.5	22,333	54.9
Operating income (loss)	13,808	8.9	2,532	4.1	(2,957)	(7.3)
Other income:						
Interest income, net	233	0.2	1,707	2.8	1,592	3.9
Income (loss) before income taxes	14,041	9.1	4,239	6.9	(1,365)	(3.4)
Income tax provision (benefit)	4,815	3.1	(1,291)	(2.1)	155	0.4
Net income (loss)	$ 9,226	6.0%	$ 5,530	9.0%	$ (1,520)	(3.7)%
NET REVENUES BY TERRITORY:						
North America	$ 64,184	41.5%	$ 47,033	76.6%	$ 29,492	72.5%
Europe	80,372	51.9	6,501	10.6	7,574	18.6
Japan	4,504	2.9	4,768	7.8	2,194	5.4
Australia and Pacific Rim	4,719	3.1	2,948	4.8	1,409	3.5
Latin America	865	0.6	143	0.2	-	-
Total net revenues	$ 154,644	100.0%	$ 61,393	100.0%	$ 40,669	100.0%
NET REVENUES BY PLATFORM:						
Console	$ 56,900	36.8%	$ 5,161	8.4%	$ 26,069	64.1%
PC	97,744	63.2	56,232	91.6	14,600	35.9
Total net revenues	$ 154,644	100.0%	$ 61,393	100.0%	$ 40,669	100.0%
NET REVENUES BY CHANNEL:						
Retailer/Reseller	$ 133,595	86.4%	$ 46,192	75.2%	$ 34,706	85.3%
OEM	13,935	9.0	10,728	17.5	2,637	6.5
Licensing, on-line and other	7,114	4.6	4,473	7.3	3,326	8.2
Total net revenues	$ 154,644	100.0%	$ 61,393	100.0%	$ 40,669	100.0%

RESULTS OF OPERATIONS - FISCAL YEARS ENDED MARCH 31, 1996 AND 1997

NET REVENUES

Net revenues for the fiscal year ended March 31, 1997 increased 151.8% from $61.4 million to $154.6 million from the same period last year. This increase was attributable to a 36.6% increase in net revenues in North America from $47.0 million to $64.2 million, a 1,136.9% increase in net revenues in Europe from $6.5 million to $80.4 million, and a 62.1% increase in net revenues in the Australia and Pacific Rim territory from $2.9 million to $4.7 million. The increase in net revenues in Europe was attributable to the CentreSoft acquisition. Console net revenues increased 994.2% over the prior year to $56.9 million as a result of the CentreSoft acquisition and the initial release of BLOOD OMEN: LEGACY OF KAIN (PlayStation), MECHWARRIOR 2 (PlayStation and Saturn), POWER MOVE PRO WRESTLING (PlayStation) and TIME COMMANDO (PlayStation). PC net revenues increased by 73.8% over the prior year to $97.7 million primarily as a result of the initial release of MECHWARRIOR 2: MERCENARIES (Windows 95), INTERSTATE '76 (Windows 95), TIME COMMANDO (Windows 95), and QUAKE MISSION PACK NO. 1: SCOURGE OF ARMAGON (MS-DOS/Windows 95) and QUAKE MISSION PACK NO. 2: DISSOLUTION OF ETERNITY (MS-DOS/Windows 95), continued sales of MECHWARRIOR 2 (Windows 95/Macintosh), and the CentreSoft acquisition. North America, Europe and Australia net revenues increased as a result of the increases in PC and console revenues. Retailer/Reseller net revenues increased 189.2% from $46.2 million to $133.6 million primarily as a result of the CentreSoft aquisition.

OEM net revenues increased 29.9% over the prior year to $13.9 million primarily due to revenues related to enhanced 3-D versions of MECHWARRIOR 2 (Windows 95) and MECHWARRIOR 2: MERCENARIES (Windows 95/D3D). OEM net revenues also included net revenues from INTERSTATE '76 (Windows 95), TIME COMMANDO (Windows 95) and DVD versions of SPYCRAFT (Windows 95) and MUPPET TREASURE ISLAND (Windows 95).

COST OF GOODS SOLD; GROSS PROFIT

Gross profit as a percentage of net revenues decreased to 43.7% for the fiscal year ended March 31, 1997, from 64.6% for fiscal 1996. The decrease in gross profit as a percentage of net revenues is due to the increase in the sales mix of console net revenues versus PC net revenues and the increase in net revenues derived from distribution arrangements as opposed to publishing arrangements. Future determination of gross profit as a percentage of net revenues will be driven primarily by the mix of new PC and console products released by the Company during the applicable period, the mix of revenues related to publishing arrangements versus distribution arrangements during the applicable period, as well as the mix of internal versus external product development, the latter in each case resulting in lower gross profit margins.

OPERATING EXPENSES

Product development expense for the year ended March 31, 1997 increased 4.0% from the same period last year from $17.5 million to $18.2 million while as a percentage of revenues, product development expense decreased from 28.5% to 11.8%. The increase in product development expense amount was due to the increased number of new products in development and the increased costs associated with the enhanced content and new technologies incorporated into such products. The impact of these increases, however, was partially offset by a decrease in the number of products in development that contain live action video, which generally have higher production costs. In addition, operating expenses as a percentage of net revenues decreased due in part to the change in mix of internally developed and externally developed products and increased revenues from distribution arrangements. The costs of internal product development are generally expensed as incurred prior to the product's release and are therefore reflected in operating expenses; the costs of acquired products are generally amortized against product unit sales or revenues following the release of the product and are identified as royalty expenses and are included in the cost of goods sold. During the 1997 fiscal year, products developed internally by Activision Studios accounted for a smaller portion of the overall number of new products released by the Company as compared to the 1996 fiscal year.

Sales and marketing expenses for year ended March 31, 1997 increased 89.2% from the same period last year, from $13.9 million to $26.3 million. As a percentage of net revenues, sales and marketing expenses decreased from 22.7% to 17.0%. The increase in sales and marketing expenses was due to increased marketing and promotional activities necessary to release new titles in an increasingly competitive environment and the Company's expansion of its European and Japanese sales and marketing infrastructures. The decrease in sales and marketing as a percentage of net revenues was the result of the CentreSoft acquisition, whereby distributed products have less associated sales and marketing expenses than published products.

General and administrative expenses for the year ended March 31, 1997 increased 75.0% from the same period last year, from $4.4 million to $7.7 million and decreased as a percentage of net revenues from 7.2% to 5.0%. The increase in general and administrative expenses amount was primarily due to the CentreSoft acquisition.

OTHER INCOME (EXPENSE)

Interest income, net decreased to $233,000 for the fiscal year ended March 31, 1997, from $1,707,000 for the fiscal year ended March 31, 1996, as a result of interest expense incurred on CentreSoft debt prior to its acquisition by the Company, as well as the result of lower average cash and cash equivalent balances.

PROVISION FOR INCOME TAXES

The Company's effective tax rate was 34.3% for the fiscal year ended March 31, 1997. During the fiscal year ended March 31, 1996, the Company recognized a tax benefit of $1.5 million due to a reduction in the Company's deferred tax asset valuation allowance. The reduction reflected the remaining portion of the Company's net operating loss carryforwards, the benefit from which could be recognized in the Company's provision for income taxes. During the fiscal year ended March 31, 1997, the Company recognized an additional $6.6 million reduction to the Company's deferred tax asset valuation allowance, relating to net operating loss carryforwards arising prior to the Company's reorganization, which were credited to additional paid-in capital in shareholders' equity and did not affect net income. The reductions in the valuation allowance during the years ended March 31, 1997 and 1996 resulted principally from the Company's assessment of the realizability of its deferred tax assets, based on recent operating history, as well as an assessment that operations will continue to generate taxable income. Realization of the deferred tax assets depends on the continued generation of sufficient taxable income prior to expiration of tax credits and loss carryforwards. Although realization is not assured, management believes it is more likely than not that the deferred tax asset of $5.7 million will be realized. The amount of deferred tax assets considered realizable, however, could be reduced in the future if estimates of future taxable income during the carryforward period are reduced. The provision for income taxes for the year ended March 31, 1995 represents foreign taxes withheld.

NET INCOME

For the reasons noted above, net income increased to $9.2 million for the year ended March 31, 1997, from $5.5 million for the year ended March 31, 1996.

RESULTS OF OPERATIONS - FISCAL YEARS ENDED MARCH 31, 1995 AND 1996

NET REVENUES

Net revenues for the fiscal year ended March 31, 1996 increased 51.0% from $40.7 million to $61.4 million from the same period in the prior year. This increase was attributable to a 59.3% increase in net revenues in North America from $29.5 million to $47.0 million, a 118.2% increase in net revenues in Japan from $2.2 million to $4.8 million, a 107.1% increase in net revenues in the Australia and Pacific Rim territory from $1.4 million to $2.9 million, and was partially offset by a 14.5% decrease in net revenues in Europe from $7.6 million to $6.5 million. The overall increase in net revenues for fiscal 1996 was primarily the result of an increase in the release of new PC titles. PC net revenues increased by 284.9% over the prior year as a result of the initial release of MECHWARRIOR 2 (MS-DOS and Windows 95), MECHWARRIOR 2 EXPANSION PACK: GHOST BEAR'S LEGACY (MS-DOS), ZORK NEMESIS (MS-DOS/Windows 95), SPYCRAFT: THE GREAT GAME (MS-DOS/Windows 95 and Macintosh), PITFALL: THE MAYAN ADVENTURE (Windows 95), EARTHWORM JIM (Windows 95) and five MIGHTY MORPHIN POWER RANGER titles (MS-DOS and Mac). The 80.1% decrease in console net revenues during the fiscal year was due to the Company's strategic change in its business emphasis from cartridge-based console systems to CD-based PC and console systems.

On-line, OEM, licensing and other revenues increased over the prior year due to the Company's increased commitment to generating additional OEM revenues and the availability of several additional titles for the OEM market. OEM and licensing revenues during the 1996 fiscal year primarily were derived from sales and licenses of MECHWARRIOR 2 (MS-DOS, Windows 95 and an enhanced 3-D ATI version), EARTHWORM JIM (Windows 95), PITFALL: THE MAYAN ADVENTURE (Windows 95) and SHANGHAI: GREAT MOMENTS (MS-DOS and Windows 95).

North America, Japan and Australia net revenues increased as a result of the increase in PC, OEM and licensing revenues discussed above. The decrease in Europe net revenues was attributable to a change from the publishing by the Company of its products under an exclusive guaranteed distribution agreement in fiscal 1995 to the publishing by the Company of its products directly to retailers and resellers in fiscal 1996, combined with the change of the Company's business emphasis from cartridge-based console systems to CD-based PC systems.

COST OF GOODS SOLD; GROSS PROFIT

Gross profit as a percentage of net revenues increased to 64.6% for the fiscal year ended March 31, 1996, from 47.6% for the fiscal year ended March 31, 1995, as a result of an increase in PC CD-based net revenues. Net revenues from CD-based PC products generally yield a higher gross profit margin than net revenues from console products as a result of the costs of goods sold attributable to such PC products. The increase in gross profit also was due to the increase in on-line, OEM, licensing and other revenues, which also yield higher gross profit margins.

OPERATING EXPENSES

Total operating expenses for the 1996 fiscal year increased 66.4% from $22.3 million to $37.1 million and increased as a percentage of net revenues from 54.9% to 60.5%. Product development expenses increased 139.7% from $7.3 million to $17.5 million and increased as a percentage of revenues from 17.9% to 28.5%. Product development expenses increased both in amount and as a percentage of net revenues due to the continued growth of the Company's product development departments, the increased number of products in product development, and the increased costs associated with enhanced production content and new technologies incorporated into such products.

Sales and marketing expenses increased 33.7% from $10.4 million to $13.9 million, but decreased as a percentage of net revenues from 25.6% to 22.7%. The increase in amount of sales and marketing expenses was the result of the marketing and promotional activity related to newly released titles, while the decrease in sales and marketing expenses as a percentage of revenues was due to the increase in net revenues.

General and administrative expenses increased 29.4% from $3.4 million to $4.4 million, but decreased as a percentage of net revenues from 8.3% to 7.2%. The increase in the amount of general and administrative expenses was due to an increase in headcount related expenses.

OTHER INCOME (EXPENSE)

Interest income increased to $1,707,000 for the fiscal year ended March 31, 1996, from $1,592,000 for the fiscal year ended March 31, 1995, as a result of higher yields earned on cash and cash equivalents.

NET INCOME (LOSS)

For the reasons noted above, net income increased to $5.5 million for the year ended March 31, 1996 from a net loss of $1.5 million for the year ended March 31, 1995.

QUARTERLY OPERATING RESULTS

The Company's quarterly operating results have in the past varied significantly and will likely in the future vary significantly depending on numerous factors, several of which are not under the Company's control. See "Risk Factors -- Fluctuations in Quarterly Results; Future Operating Results Uncertain; Seasonality." Accordingly, the Company believes that period-to-period comparisons of its operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

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

	Quarter Ended							
	June. 30, 1995	Sept. 30, 1995	Dec. 31, 1995	March 31, 1996	June 30, 1996	Sept. 30, 1996	Dec. 31, 1996	March 31, 1997
Net revenues	$3,319	$18,448	$17,578	$21,648	$ 7,021	$29,557	$60,480	$57,586
Gross profit	1,765	12,105	10,447	15,327	5,512	15,689	24,295	22,027
Operating income (loss)	(6,014)	2,366	1,573	4,607	(4,226)	2,137	8,288	7,609
Net income (loss)	(5,528)	2,765	1,948	6,345	(2,631)	1,421	5,320	5,116
Earnings (loss) per share	$(0.36)	$ 0.17	$ 0.12	$ 0.39	$ (0.17)	$ 0.07	$ 0.29	$ 0.27

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents decreased $3.9 million from $25.3 million at March 31, 1996 to $21.4 million at March 31, 1997. Approximately $4.8 million in cash and cash equivalents were used in operating activities during the year ended March 31,1997. Such operating uses of cash were primarily the result of increases in accounts receivable, inventories and prepaid software and license royalties. Such increases were offset partially by an increase in accounts payable.

In addition, approximately $8.1 million in cash and cash equivalents were used in investing activities. Capital expenditures totaled approximately $4.2 million. In addition, $3.9 million was used in the CentreSoft management buyout, which occurred in June 1996, prior to CentreSoft's acquisition by the Company.

Sources of cash from financing activities totaled $8.8 million for the year ended March 31, 1997 which included $2.2 million in proceeds from exercise of employee stock options and $1.6 million in borrowings on lines of credit.

In October 1997, the Company increased its revolving credit and letter of credit facility (the "Facility") with its bank (the "Bank") from $5.0 million to $12.5 million. The Facility provides the Company the ability to borrow funds and issue letters of credit against eligible domestic accounts receivable up to $12.5 million. The Facility expires in September 1998. In addition, in September 1997, the Company entered into a $2.0 million line of credit agreement (the "Asset Line") with the Bank; drawings under the Asset Line are structured with 36 month repayment terms and the Asset Line of credit expires in September 1998. Borrowings under the Asset Line totaled $1.4 million as of September 30, 1997 with an effective lease borrowing rate of 8.3%.

In June 1996, CentreSoft entered into a revolving credit facility (the "CentreSoft Facility") with its bank (the "CentreSoft Bank") for approximately $8 million. The CentreSoft Facility can be used for CentreSoft's working capital requirements. The CentreSoft Facility expires in June 2000. Borrowings under the CentreSoft Facility totalled $1.6 million as of March 31, 1997, with an effective borrowing rate of LIBOR + 3.5%.

The Company's principal source of liquidity was $21.4 million in 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. Management believes that the Company's existing cash, together with the net proceeds of the Convertible Notes, and the proceeds available from the Facility, Asset Line and the CentreSoft Facility, will be sufficient to meet the Company's operational requirements for the forseeable future.

In December 22, 1997, the Company completed a private placement of $60 million in convertible subordinated notes ("Convertible Notes"). The Convertible Notes have a 6.75% annual interest rate, are due in January 2005 and are convertible at any time prior to maturity into shares of the Company's Common Stock at $18.875 per share. Net proceeds from the issuance of the Convertible Notes was approximately $57.9 million. The Company intends to use such net proceeds to repay outstanding balances under its bank lines of credit, if any, to fund product development, to acquire third party publishing and distribution rights, to expand the Company's direct sales and marketing capabilities and for general corporate purposes. In addition, the Company may, when and if the opportunity arises, use an unspecified portion of the net proceeds to acquire businesses, products or technologies that it believes are of strategic importance. Pending such uses, the Company intends to invest the net proceeds in short-term money market and other market rate, investment-grade instruments.

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

Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share" is effective for financial statements issued for periods ending after December 15, 1997. SFAS No. 128 replaces Accounting Principles Board Opinion ("APB") No. 15 and simplifies the computation of earnings per share ("EPS") by replacing the presentation of primary EPS with a presentation of basic EPS. Basic EPS includes no dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution from securities that could share in the earnings of the Company, similar to fully diluted EPS under APB No. 15. The Statement requires dual presentation of basic and diluted EPS by entities with complex capital structures. The Company will adopt SFAS No. 128 for the financial statements for the quarter ended December 31, 1997. The Company has determined the following impact of the implementation of SFAS No. 128:

	Fiscal Year ended March 31,		
	1997	1996	1995
Earnings (loss) per share as reported	$ 0.50	$ 0.34	$ (0.10)
Pro forma basic earnings per share	0.52	0.36	(0.10)
Pro forma diluted earnings per share	0.50	0.34	(0.10)

SFAS No. 130, "Reporting Comprehensive Income" is effective for fiscal years beginning after December 15, 1997. SFAS No. 130 established standards for the reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. The Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company is evaluating the Statement's provisions to conclude how it will present comprehensive income it its financial statements, and has not yet determined the amounts to be disclosed. The Company will adopt SFAS No. 130 effective April 1, 1998.

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" is effective for financial statements for periods beginning after December 15, 1997. SFAS No. 131 establishes standards for the way that public business enterprises report financial and descriptive information about reportable operating segments in annual financial statements and interim financial reports issued to stockholders. SFAS No. 131 supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," but retains the requirement to report information about major customers. The Company is evaluating the new Statement's provisions to determine the additional disclosures required in its financial statements, if any. The Company will adopt SFAS No. 131 effect April 1, 1998.

RISK FACTORS

In connection with the Private Securities Litigation Reform Act of 1995 (the "Litigation Reform Act"), the Company is hereby disclosing certain cautionary information to be used in connection with written materials (including this Report on Form 8-K) and oral statements made by or on behalf of its employees and representatives that may contain "forward-looking statements" within the meaning of the Litigation Reform Act. Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology. The listener or reader is cautioned that all forward-looking statements are necessarily speculative and there are numerous risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements. The discussion below highlights some of the more important risks identified by management, but should not be assumed to be the only factors that could affect future performance. The reader or listener is cautioned that the Company does not have a policy of updating or revising forward-looking statements and thus he or she should not assume that silence by management over time means that actual events are bearing out as estimated in such forward-looking statements.

FLUCTUATIONS IN QUARTERLY RESULTS; FUTURE OPERATING RESULTS UNCERTAIN; SEASONALITY. The Company's quarterly operating results have varied significantly in the past and will likely vary significantly in the future depending on numerous factors, several of which are not under the Company's control. Such factors include, but are not limited to, demand for the Company's products and those of its competitors, the size and rate of growth of the interactive entertainment software market, development and promotional expenses relating to the introduction of new products, changes in computing platforms, product returns, the timing of orders from major customers, delays in shipment, the level of price competition, the timing of product introduction by the Company and its competitors, product life cycles, software defects and other product quality problems, the level of the Company's international revenues, and personnel changes. Products are generally shipped as orders are received, and consequently, the Company operates with little or no backlog. Net revenues in any quarter are, therefore, substantially dependent on orders booked and shipped in that quarter.

The Company's expenses are based in part on the Company's product development and marketing budgets. Product development and marketing costs generally are expensed as incurred, which is often long before a product ever is released. In addition, a large portion of the Company's expenses are fixed. 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 its operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

The Company's business has experienced and is expected to continue to experience significant seasonality, in part due to consumer buying patterns. Net revenues and net income typically are significantly higher during the fourth calendar quarter, due primarily to the increased demand for consumer software during the year-end holiday buying season. Net revenues and net income in other quarters are generally lower and vary significantly as a result of new product introductions and other factors. For example, the Company's net revenues in its last six quarters were $57.6 million for the quarter ended March 31, 1997, $60.5 million for the quarter ended December 31, 1996, $29.6 million for the quarter ended September 30, 1996, $7.0 million for the quarter ended June 30, 1996, $21.6 million for the quarter ended March 31, 1996 and $17.6 million for the quarter ended December 31, 1995. The Company's net income (loss) for the last six quarters were $5.1 million for the quarter ended March 31, 1997, $5.3 million for the quarter ended December 31, 1996, $1.4 million for the quarter ended September 30, 1996, $(2.6 million) for the quarter ended June 30, 1996, $6.3 million for the quarter ended March 31, 1996 and $1.9 million for the quarter ended December 31, 1995. The Company expects its net revenue and operating results to continue to reflect significant seasonality.

DEPENDENCE ON NEW PRODUCT DEVELOPMENT; PRODUCT DELAYS. The Company's future success depends on the timely introduction of successful new products to replace declining revenues from older products. If, for any reason, revenues from new products were to fail to replace declining revenues from older products, the Company's business, operating results and financial condition would be materially and adversely affected. In addition, the Company believes that the competitive factors in the interactive entertainment software marketplace create the need for higher quality, distinctive products that incorporate increasingly sophisticated effects and the need to support product releases with increased marketing, resulting in higher development, acquisition and marketing costs. The lack of market acceptance or significant delay in the introduction of, or the presence of a defect in, one or more products could have a material adverse effect on the Company's business, operating results and financial condition, particularly in view of the seasonality of the Company's business. Further, because a large portion of a product's revenue generally is associated with initial shipments, the delay of a product introduction expected near the end of a fiscal quarter may have a material adverse effect on operating results for that quarter.

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

RELIANCE ON THIRD PARTY DEVELOPERS AND INDEPENDENT CONTRACTORS. The percentage of products published by the Company that are developed by independent third party developers has increased over the last several fiscal years. From time to time, the Company also utilizes independent contractors for certain aspects of internal product development and production. The Company has less control over the scheduling and the quality of work by third party developers and independent contractors than that of its own employees. A delay in the work performed by third party developers and independent contractors or poor quality of such work may result in product delays. Although the Company intends to continue to rely in part on products that are developed primarily by its own employees, the Company's ability to grow its business and its future operating results will depend, in significant

part, on the Company's continued ability to maintain relationships with skilled third party developers and independent contractors. There can be no assurance that the Company will be able to maintain such relationships.

UNCERTAINTY OF MARKET ACCEPTANCE; SHORT PRODUCT LIFE CYCLES. The market for entertainment systems and software has been characterized by shifts in consumer preferences and short product life cycles. Consumer preferences for entertainment software products are difficult to predict and few entertainment software products achieve sustained market acceptance. There can be no assurance that new products introduced by the Company will achieve any significant degree of market acceptance, that such acceptance will be sustained for any significant period, or that product life cycles will be sufficient to permit the Company to recoup development, marketing and other associated costs. In addition, if market acceptance is not achieved, the Company could be forced to accept substantial product returns to maintain its relationships with retailers and its access to distribution channels. Failure of new products to achieve or sustain market acceptance or product returns in excess of the Company's expectations would have a material adverse effect on the Company's business, operating results and financial condition.

PRODUCT CONCENTRATION; DEPENDENCE ON HIT PRODUCTS. A key aspect of the Company's strategy is to focus its development and acquisition efforts on selected, high quality entertainment software products. The Company derives a significant portion of its revenues from a relatively small number of high quality entertainment software products released each year, and many of these products have substantial production or acquisition costs and marketing budgets. During fiscal 1996 and 1997, one title accounted for approximately 49% and 13%, respectively, of the Company's consolidated net revenues. In addition, during fiscal 1997, one other title accounted for approximately 9% of the Company's consolidated net revenues. The Company anticipates that a limited number of products will continue to produce a disproportionate amount of revenues. Due to this dependence on a limited number of products, the failure of one or more of the Company's principal new releases to achieve anticipated results may have a material adverse effect on the Company's business, operating results and financial condition.

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

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

The Company's competitors range from small companies with limited resources to large companies with substantially greater financial, technical and marketing resources than those of the Company. The Company's competitors currently include Electronic Arts, Lucas Arts, Microsoft, Sega, Nintendo, Sony, CUC, GT Interactive, Broderbund, Midway, Interplay, Virgin and Eidos, among many others.

As competition increases, significant price competition, increased production costs and reduced profit margins may result. Prolonged price competition or reduced demand would have a material adverse effect on the Company's business, operating results and financial condition. There can be no assurance that the Company will be able to compete successfully against current or future competitors or that competitive pressures faced by the Company will not have a material adverse effect on its business, operating results and financial condition.

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

DEPENDENCE ON DISTRIBUTORS; RISK OF CUSTOMER BUSINESS FAILURE; PRODUCT RETURNS. Certain mass market retailers have established exclusive buying relationships under which such retailers will buy consumer software only

from one intermediary. In such instances, the price or other terms on which the Company sells to such retailers may be adversely affected by the terms imposed by such intermediary, or the Company may be unable to sell to such retailers on terms which the Company deems acceptable. The loss of, or significant reduction in sales attributable to, any of the Company's principal distributors or retailers could materially adversely affect the Company's business, operating results and financial condition.

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

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

CHANGES IN TECHNOLOGY AND INDUSTRY STANDARDS. The consumer software industry is undergoing rapid changes, including evolving industry standards, frequent new platform introductions and changes in consumer requirements and preferences. The introduction of new technologies, including operating systems such as Microsoft's Windows 95, technologies that support multi-player games, and new media formats such as on-line delivery and digital video disks ("DVD"), could render the Company's previously released products obsolete or unmarketable. The development cycle for products utilizing new operating systems, microprocessors or formats may be significantly longer than the Company's current development cycle for products on existing operating systems, microprocessors and formats and may require the Company to invest resources in products that may not become profitable. There can be no assurance that the mix of the Company's future product offerings will keep pace with technological changes or satisfy evolving consumer preferences, or that the Company will be successful in developing and marketing products for any future operating system or format. Failure to develop and introduce new products and product enhancements in a timely fashion could result in significant product returns and inventory obsolescence and could have a material adverse effect on the Company's business, operating results and financial condition.

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

Policing unauthorized use of the Company's products is difficult, and while the Company is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to be a persistent problem. In selling its products, the Company relies primarily on "shrink wrap" licenses that are not signed by licensees and, therefore, may be unenforceable under the laws of certain jurisdictions. Further, the Company enters into transactions in countries where intellectual property laws are not well developed or are poorly enforced. Legal protections of the Company's rights may be ineffective in such countries.

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

RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS; CURRENCY FLUCTUATIONS. International sales and licensing accounted for 28%, 23% and 58% of the Company's total revenues in the fiscal years 1995, 1996 and 1997, respectively. The Company intends to continue to expand its direct and indirect sales, marketing and localization activities worldwide. Such expansion will require significant management time and attention and financial resources in order to develop adequate international sales and support channels. There can be no assurance, however, that the Company will be able to maintain or increase international market demand for its products. International sales are subject to inherent risks, including the impact of possible recessionary environments in economies outside the United States, the costs of transferring and localizing products for foreign markets, longer receivable collection periods and greater difficulty in accounts receivable collection, unexpected changes in regulatory requirements, difficulties and costs of staffing and managing foreign operations, and political and economic instability. There can be no assurance that the Company will be able to sustain or increase international revenues or that the foregoing factors will not have a material adverse effect on the Company's future international revenues and, consequently, on the Company's business, operating results and financial condition. The Company currently does not engage in currency hedging activities. Although exposure to currency fluctuations to date has been insignificant, there can be no assurance that fluctuations in currency exchange rates in the future will not have a material adverse impact on revenues from international sales and licensing and thus the Company's business, operating results and financial condition.

RISK OF SOFTWARE DEFECTS. Software products such as those offered by the Company frequently contain errors or defects. Despite extensive product testing, in the past the Company has released products with defects and has discovered software errors in certain of its product offerings after their introduction. In particular, the PC hardware environment is characterized by a wide variety of non-standard peripherals (such as sound cards and graphics cards) and configurations that make pre-release testing for programming or compatibility errors very difficult and time-consuming. There can be no assurance that, despite testing by the Company, errors will not be found in new products or releases after commencement of commercial shipments, resulting in a loss of or delay in market acceptance, which could have a material adverse effect on the Company's business, operating results and financial condition.

RISK ASSOCIATED WITH ACQUISITIONS. The Company intends to integrate the operations of its recently acquired CentreSoft and NBG subsidiaries with its previously existing European operations. This process, as well as the process of managing two significant new operations, will require substantial management time and effort and could divert the attention of management from other matters. In addition, there is a risk of loss of key employees, customers and vendors of the newly acquired operations as well as existing operations as this process is implemented. There is no assurance that the Company will be successful in integrating these operations or that, if the operations are combined, there will not be adverse effects on its business.

Consistent with its strategy to enhance distribution and product development capabilities, the Company intends to continue to pursue acquisitions of companies and intellectual propertly rights and other assets that can be acquired on acceptable terms and which the Company believes can be operated or exploited profitably. Some of these acquisitions could be material in size and scope. While the Company will continually be searching for appropriate acquisition opportunities, there can be no assurance that the Company will be successful in identifying suitable acquisitions. If any potential acquisition opportunities are identified, there can be no assurance that the Company will consummate such acquisitions or if any such acquisition does occur, that it will be successful in enhancing the Company's business or be accretive to the Company's earnings. As the entertainment software business continues to consolidate, the Company faces significant competition in seeking acquisitions and may in the future face increased competition for acquisition opportunities, which may inhibit its ability to complete suitable transactions. Future acquisitions could also divert substantial management time, could result in short term reductions in earnings or special transaction or other charges and may be difficult to integrate with existing operations or assets.

The Company may, in the future, issue additional shares of Common Stock in connection with one or more acquisitions, which may dilute its shareholders, including investors in the offering. Additionally, with respect to most of its future acquisitions, the Company's shareholders may not have an opportunity to review the financial statements of the entity being acquired or to vote on such acquisitions.

RISK OF CENTRESOFT VENDOR DEFECTIONS; VENDOR CONCENTRATION. The Company's recently acquired CentreSoft subsidiary performs software distribution services in the United Kingdom and, via export, in other European territories for a variety of entertainment software publishers, many of which are competitors of the Company. These services are generally performed under limited term contracts some of which provide for cancellation in the event of a change of control. While the Company expects to use reasonable efforts to retain these vendors, there can be no assurance that the Company will be successful in this regard. The cancellation or non-renewal of one or more of these contracts could have a material adverse effect on the Company's business, operating results and financial condition. Three of CentreSoft's vendors accounted for 17%, 6% and 5%, respectively, of CentreSoft's net revenues in fiscal year 1997.

Exhibit 99.4

ACTIVISION, INC. AND SUBSIDIARIES
Supplemental Condensed Consolidated Balance Sheets

(in thousands except share data)

	June 30, 1997 (Unaudited)	March 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,894	$ 21,358
Accounts receivable, net of allowances of $6,194 and $7,674 respectively	32,836	46,633
Inventories, net	8,888	8,283
Prepaid software and license royalties	8,211	6,559
Other assets	2,928	1,222
Deferred income taxes	4,612	1,493
Total current assets	73,369	85,548
Property and equipment, net	8,251	5,990
Deferred Income Taxes	4,665	4,212
Other assets	267	255
Excess purchase price over identifiable assets acquired, net	23,911	23,749
Total assets	$ 110,463	$ 119,754
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable to bank	$ -	$ 1,600
Current portion of loan stock debentures	683	683
Accounts payable	17,336	19,291
Accrued expenses	10,861	12,136
Total current liabilities	28,880	33,710
Loan stock debentures	2,533	2,533
Other liabilities	28	31
Total liabilities	31,441	36,274
Commitments and contingencies		
Redeemable preferred stock	1,286	1,286
Convertible preferred stock	214	214
Shareholders' equity:		
Common stock, $.000001 par value, 50,000,000 shares authorized, 18,307,921 and 17,113,077 shares issued and 17,807,921 and 16,613,077 outstanding , respectively	-	-
Additional paid-in capital	80,600	78,752
Retained earnings	2,149	8,664
Cumulative foreign currency translation	51	(158)
Less: Treasury stock, cost of 500,000 shares	(5,278)	(5,278)
Total shareholders' equity	77,522	81,980
Total liabilities and shareholders' equity	$ 110,463	$ 119,754

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

ACTIVISION, INC. AND SUBSIDIARIES
Supplemental Condensed Consolidated Statements of Operations
For the quarters ended June 30,

(in thousands except loss per share data)

(Unaudited)

	1997	1996
Net revenues	$ 26,514	$ 7,021
Cost of goods sold	20,276	1,509
Gross profit	6,238	5,512
Operating expenses:		
Product development	6,368	4,547
Sales and marketing	6,019	3,641
General and administrative	2,128	1,229
Amortization of intangible assets	375	321
Total operating expenses	14,890	9,738
Operating loss	(8,652)	(4,226)
Other income (expense):		
Interest, net	(32)	312
Loss before income tax benefit	(8,684)	(3,914)
Income tax benefit	(3,270)	(1,283)
Net loss	$ (5,414)	$ (2,631)
Net loss per common share	$ (0.30)	$ (0.17)
Number of shares used in computing net loss per common share	18,011	15,133

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

ACTIVISION, INC. AND SUBSIDIARIES
Supplemental Condensed Consolidated Statements of Cash Flows
For the quarters ended June 30,

(in thousands)

Increase (Decrease) in Cash

(UNAUDITED)

	1997	1996
Cash flows from operating activities:		
Net loss	$ (5,414)	$ (2,631)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred income taxes	(3,571)	(1,257)
Depreciation and amortization	1,189	762
Change in assets and liabilities:		
Accounts receivable	13,797	6,183
Inventories	(605)	(464)
Prepaid software and license royalties	(1,652)	(1,964)
Other current assets	(1,706)	(453)
Other assets	(12)	1
Accounts payable	(1,955)	(1,650)
Accrued liabilities	(1,275)	(277)
Other liabilities	(3)	-
Net cash used in operating activities	$ (1,207)	$ (1,750)
Cash flows from investing activities:		
Purchase acquisition	(246)	-
Capital expenditures	(3,055)	(1,089)
Adjustment for effect of poolings on prior periods	(782)	-
Other	(161)	-
Net cash used in investing activities	(4,244)	(1,089)
Cash flows from financing activities:		
Repayments of notes payable to bank	(1,600)	-
Proceeds from issuance and exercise of common stock options and warrants	1,414	332
Dividends paid	(36)	-
Net cash provided by financing activities	(222)	332
Effect of exchange rate changes on cash	209	33
Net decrease in cash and cash equivalents	(5,464)	(2,474)
Cash and cash equivalents at beginning of period	21,358	25,288
Cash and cash equivalents at end of period	$ 15,894	$ 22,814
NON-CASH INVESTING ACTIVITIES:		
Stock issued in exchange for licensing rights	-	$ 822
Stock issued in purchase acquisition	$ 136	-

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

ACTIVISION, INC.
Notes to Supplemental Condensed Consolidated Financial Statements

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying supplemental 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, 1997 and the Company's supplemental financial statements contained in Exhibit 99.1 herein.

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):

	June 30, 1997	March 31, 1997
Finished goods	$ 7,448	$ 7,121
Purchased parts and components	1,440	1,162
	$ 8,888	$ 8,283

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE QUARTERS ENDED JUNE 30, 1997 AND 1996

THE FOLLOWING DISCUSSION AND ANALYSIS CONTAINS FORWARD LOOKING STATEMENTS REGARDING FUTURE EVENTS OR THE FUTURE FINANCIAL PERFORMANCE OF THE COMPANY THAT INVOLVE CERTAIN RISKS AND UNCERTAINTIES DISCUSSED IN EXHIBIT 99.3 "SUPPLEMENTAL MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" - "RISK FACTORS" CONTAINED IN THIS CURRENT REPORT ON FORM 8-K. ACTUAL EVENTS OR THE ACTUAL FUTURE RESULTS OF THE COMPANY MAY DIFFER MATERIALLY FROM ANY FORWARD LOOKING STATEMENT DUE TO SUCH RISKS AND UNCERTAINTIES.

IN ADDITION, AN OVERVIEW OF THE COMPANY AND ITS OPERATIONS ALSO IS DISCUSSED IN EXHIBIT 99.3 "SUPPLEMENTAL MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" CONTAINED IN THIS CURRENT REPORT ON FORM 8-K.

The following table sets forth certain consolidated supplemental statements of operations data for the periods indicated and sets forth a break down of net revenues by territory, platform and channel:

	QUARTERS ENDED JUNE 30,			
	1997		1996	
	AMOUNT	AS A % OF NET REVENUES	AMOUNT	AS A % OF NET REVENUES
STATEMENT OF OPERATIONS DATA:				
Net revenues	$ 26,514	100.0%	$ 7,021	100.0%
Cost of goods sold	20,276	76.5	1,509	21.5
Gross profit	6,238	23.5	5,512	78.5
Operating expenses:				
Product development	6,368	24.0	4,547	64.8
Sales and marketing	6,019	22.7	3,641	51.9
General and administrative	2,128	8.0	1,229	17.5
Amortization of intangible assets	375	1.4	321	4.6
Total operating expenses	14,890	56.1	9,738	138.8
Operating income (loss)	(8,652)	(32.6)	(4,226)	(60.2)
Other income:				
Interest income	(32)	(0.1)	312	4.4
Income (loss) before income taxes	(8,684)	(32.7)	(3,914)	(55.8)
Income tax provision (benefit)	(3,270)	(12.3)	(1,283)	(18.3)
Net income (loss)	$ (5,414)	(20.4)%	$ (2,631)	(37.5)%
NET REVENUES BY TERRITORY:				
North America	$ 4,975	18.8%	$ 5,473	78.0%
Europe	20,322	76.6	723	10.3
Japan	174	0.7	284	4.0
Australia and Pacific Rim	765	2.9	470	6.7
Latin America	278	1.0	71	1.0
Total net revenues	$ 26,514	100.0%	$ 7,021	100.0%
NET REVENUES BY PLATFORM:				
Console	$ 10,705	40.4%	$ 53	0.8%
PC	15,809	59.6	6,968	99.2
Total net revenues	$ 26,514	100.0%	$ 7,021	100.0%
NET REVENUES BY CHANNEL:				
Retailer/Reseller	$ 21,541	81.3%	$ 2,614	37.2%
OEM	3,771	14.2	3,455	49.2
Licensing, on-line and other	1,202	4.5	952	13.6
Total net revenues	$ 26,514	100.0%	$ 7,021	100.0%

RESULTS OF OPERATIONS

NET REVENUES

Net revenues for the quarter ended June 30, 1997 increased 278.6% from $7.0 million to $26.5 million from the same period last year. Significant product releases for the retailer/reseller channel during the quarter ended June 30, 1997 included TWINSEN'S ODYSSEY (Windows 95) and Mercenaries (Windows 95-3DFX version). The increase in net revenues was primarily due to a 2800.0% increase in net revenues in Europe from $723,000 to $20.3 million. Such increase was related to the acquisition of CentreSoft. North America net revenues decreased 9.1% from $5.5 million to 5.0 million. Such decrease was attributable to an increase in the provision for sales returns and mark-downs related to a slow-down in retail sell-through of recently released PC and Sony Playstation titles. Net revenues from distribution arrangements in 1997 were $18.2 million or 69.6% of net revenues; net revenues from distribution arrangements were not material in 1996. OEM net revenues increased 8.6% from $3.5 million to $3.8 million, while licensing, on-line and other net revenues increased 20.0% from $1.0 million to $1.2 million.

COST OF GOODS SOLD; GROSS PROFIT

For the quarter ended June 30, 1997, gross profit as a percentage of net revenues was 23.5% compared to 78.5% for the quarter ended June 30, 1996. The decrease in gross profit as a percentage of net revenues is due to the increase in the sales mix of console net revenues versus PC net revenues and the increase in net revenues derived from distribution arrangements as opposed to publishing arrangements. Future determination of gross profit as a percentage of net revenues will be driven primarily by the mix of new PC and console products released by the Company during the applicable period, the mix of revenues related to publishing arrangements versus distribution arrangements during the applicable period, as well as the mix of internal versus external product development, the latter in each case resulting in lower gross profit margins.

OPERATING EXPENSES

Product development expenses for the quarter ended June 30, 1997 increased 42.2% from $4.5 million to $6.4 million. This increase was due to an overall increase in production costs associated with 3-D programming and console programming technology and artwork, generally higher average development costs for products, an increase in the number of products to be localized for foreign territories and an increase in the overall number of products in development. Sales and marketing expenses increased 66.7% from the same period last year, from $3.6 million to $6.0 million, but decreased as a percentage of net revenues from 51.9% to 22.7%. The decrease in sales and marketing as a percentage of net revenues was the result of the CentreSoft acquisition, whereby distributed products have less associated sales and marketing expenses than published products. General and administrative expenses increased 75.0% from the same period last year from $1.2 million to $2.1 million as a result of the CentreSoft acquisition and in increase in head-count related expenses but decreased as a percentage of net revenues from 17.5% to 8.0% as a result of the increase in net revenues.

OTHER INCOME (EXPENSE)

Interest income (expense) was $(32,000) and $312,000 for the quarters ended June 30, 1997 and 1996, respectively. Interest expense for the quarter ended June 30, 1997 was due to CentreSoft debt outstanding during the period, which was subsequently exchanged for Common Stock of the Company as a result of the CentreSoft acquisition. In addition, the decrease in interest income was also attributable to a decrease in cash and cash equivalents during the current fiscal quarter as compared to the same period in the prior year.

INCOME TAX BENEFIT

The income tax benefit of $3.3 million and $1.3 million for the quarters ended June 30, 1997 and June 30, 1996, respectively, reflects the Company's expected effective income tax rate for the fiscal years ended March 31, 1998 and March 31, 1997.

NET LOSS

For the reasons noted above, there was an increase in the net loss recorded for the quarter ended June 30, 1997 as compared to the net loss for the quarter ended June 30, 1996. Net loss for the quarter ended June 30, 1997 was $5.4 million compared to a net loss of $2.6 million for the same period of the prior fiscal year.

QUARTERLY OPERATING RESULTS

The Company's quarterly operating results have in the past varied significantly and will likely in the future vary significantly depending on numerous factors, several of which are not under the Company's control. See "Risk Factors -- Fluctuations in Quarterly Results; Future Operating Results Uncertain; Seasonality" contained in Exhibit 99.3 of this Current Report on Form 8-K. Accordingly, the Company believes that period-to-period comparisons of its operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

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

	Quarter ended							
	Sept. 30, 1995	Dec. 31, 1995	March 31, 1996	June 30, 1996	Sept. 30, 1996	Dec. 31, 1996	March 31, 1997	June 30, 1997
Net revenues	$18,848	$17,578	$21,648	$ 7,021	$29,557	$60,480	$57,586	$26,514
Gross profit	12,105	10,447	15,327	5,512	15,689	24,295	22,027	6,238
Operating income (loss)	2,366	1,573	4,607	(4,226)	2,137	8,288	7,609	(8,652)
Net income (loss)	2,765	1,948	6,345	(2,631)	1,421	5,320	5,116	(5,414)
Earnings (loss) per share	$0.17	$0.12	$0.39	$(0.17)	$0.07	$0.29	$0.27	$(0.30)

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents decreased $5.5 million from $21.4 million at March 31, 1997 to $15.9 million at June 30, 1997. Approximately $1.2 million in cash and cash equivalents were used in operating activities during the three month period from March 31, 1997 to June 30, 1997. Such operating uses of cash were primarily the result of decreases in accounts payable and accrued expenses offset by a decrease in accounts receivable.

In addition, approximately $4.2 million in cash and cash equivalents were used in investing activities. Capital expenditures totaled approximately $3.1 million, which was primarily comprised of costs related to the Company moving its Los Angeles office to a new facility in Santa Monica, California.

Uses of cash in financing activities totaled $0.2 million for the three months ended June 30, 1997 which included $1.4 million in proceeds from exercise of employee stock options and $1.6 million in repayments of notes under the CentreSoft bank lines.

In October 1997, the Company increased its revolving credit and letter of credit facility (the "Facility") with its bank (the "Bank") from $5.0 million to $12.5 million. The Facility provides the Company the ability to borrow funds and issue letters of credit against eligible domestic accounts receivable up to $12.5 million. The Facility expires in September 1998. The Facility is due on demand and repayment may be required at the discretion of the Bank. In addition, in September 1997, the Company entered into a $2.0 million line of credit agreement (the "Asset Line") with the Bank; drawings under the Asset Line are structured with 36 month repayment terms and the Asset Line of credit expires in September 1998. Thee were no borrowings under the Asset Line as of June 30, 1997.

In June 1996, CentreSoft entered into a revolving credit facility (the "CentreSoft Facility") with its bank (the "CentreSoft Bank") for approximately $8 million. The CentreSoft Facility can be used for CentreSoft's working capital requirements. The CentreSoft Facility expires in June 2000. There were no borrowings under the CentreSoft Facility as of June 30, 1997.

On December 22, 1997, the Company completed a private placement of $60 million in convertible subordinated notes ("Convertible Notes"). The Convertible Notes have a 6.75% annual interest rate, are due in January 2005 and are convertible at any time prior to maturity into shares of the Company's Common Stock at $18.875 per share. Net proceeds from the issuance of the Convertible Notes was approximately $57.9 million. The Company intends to use such net proceeds to repay outstanding balances under its bank lines of credit, if any, to fund product development, to acquire third party publishing and distribution rights, to expand the Company's direct sales and marketing capabilities and for general corporate purposes. In addition, the Company may, when and if the opportunity arises, use an unspecified portion of the net proceeds to acquire businesses, products or technologies that it believes are of strategic importance. Pending such uses, the Company intends to invest the net proceeds in short-term money market and other market rate, investment-grade instruments.

As of June 30, 1997, the Company's current principal source of liquidity was $15.9 million in 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. Management believes that the Company's existing cash, together with the net proceeds from the Convertible Notes and the proceeds available from the Facility, Asset Line and the CentreSoft Facility, will be sufficient to meet the Company's operational requirements for the forseeable future.

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

Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share" is effective for financial statements issued for periods ending after December 15, 1997. SFAS No. 128 replaces Accounting Principles Board Opinion ("APB") No. 15 and simplifies the computation of earnings per share ("EPS") by replacing the presentation of primary EPS with a presentation of basic EPS. Basic EPS includes no dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution from securities that could share in the earnings of the Company, similar to fully diluted EPS under APB No. 15. The Statement requires dual presentation of basic and diluted EPS by entities with complex capital structures. The Company will adopt SFAS No. 128 for the financial statements for the quarter ended December 31, 1997. The Company has determined the following impact of the implementation of SFAS No. 128:

	Quarter ended June 30,	
	1997	1996
Earnings (loss) per share as reported	$ (0.30)	$ (0.17)
Pro forma basic earnings per share	(0.30)	(0.17)
Pro forma diluted earnings per share	(0.30)	(0.17)

SFAS No. 130, "Reporting Comprehensive Income" is effective for fiscal years beginning after December 15, 1997. SFAS No. 130 established standards for the reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. The Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company is evaluating the Statement's provisions to conclude how it will present comprehensive income it its financial statements, and has not yet determined the amounts to be disclosed. The Company will adopt SFAS No. 130 effective April 1, 1998.

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" is effective for financial statements for periods beginning after December 15, 1997. SFAS No. 131 establishes standards for the way that public business enterprises report financial and descriptive information about reportable operating segments in annual financial statements and interim financial reports issued to stockholders. SFAS No. 131 supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," but retains the requirement to report information about major customers. The Company is evaluating the new Statement's provisions to determine the additional disclosures required in its financial statements, if any. The Company will adopt SFAS No. 131 effective April 1, 1998.

ACTIVISION, INC. AND SUBSIDIARIES
Supplemental Condensed Consolidated Balance Sheets
(in thousands except share data)

	September 30, 1997 (Unaudited)	March 31, 1997
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 10,286	$ 21,358
Accounts receivable, net of allowances of $7,153 and $7,674 respectively	50,835	46,633
qInventories, net	11,330	8,283
Prepaid software and license royalties	8,444	6,559
Other current assets	2,632	1,222
Deferred income taxes	4,279	1,493
Total current assets	$ 87,806	$ 85,548
Property and equipment, net	10,526	5,990
Deferred income taxes	4,665	4,212
Other assets	246	255
Excess purchase price over identifiable assets acquired, net	23,199	23,749
Total assets	$ 126,442	$ 119,754
LIABILITIES		
Current liabilities:		
Current portion of note payable to bank	$ 627	$ 1,600
Current portion of subordinated loan stock debentures	1,367	683
Accounts payable	25,838	19,291
Accrued expenses	12,603	12,136
Total current liabilities	40,435	33,710
Note payable to bank	959	-
Subordinated loan stock debentures	1,849	2,533
Other liabilities	329	31
Total liabilities	43,572	36,274
Commitments and contingencies		
Redeemable preferred stock	1,286	1,286
Convertible preferred stock	214	214
Shareholders' equity:		
Common stock, $.000001 par value, 50,000,000 shares authorized, 18,558,123 and 17,113,077 shares issued and 18,058,123 and 16,613,077 outstanding, respectively	-	-
Additional paid-in capital	83,101	78,752
Retained earnings	3,942	8,664
Cumulative foreign currency translation	(395)	(158)
Less: Treasury stock, cost of 500,000 shares	(5,278)	(5,278)
Total shareholders' equity	81,370	81,980
Total liabilities and shareholders' equity	$ 126,442	$ 119,754

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

ACTIVISION, INC. AND SUBSIDIARIES
Supplemental Condensed Consolidated Statements of Operations

(in thousands except income (loss) per share data)

(Unaudited)

	Quarter ended September 30,		Six months ended September 30,	
	1997	1996	1997	1996
Net revenues	$ 53,015	$ 29,557	$ 79,529	$ 36,578
Cost of goods sold	29,735	13,868	50,011	15,377
Gross profit	23,280	15,689	29,518	21,201
Operating expenses:				
Product development	7,550	4,607	13,918	9,154
Sales and marketing	9,541	6,291	15,560	9,933
General and administrative	2,702	2,264	4,830	3,492
Amortization of intangible assets	380	390	755	711
Total operating expenses	20,173	13,552	35,063	23,290
Operating income (loss)	3,107	2,137	(5,545)	(2,089)
Other income:				
Interest, net	(112)	(3)	(145)	309
Other	-	6	-	6
Income (loss) before income tax provision (benefit)	2,995	2,140	(5,690)	(1,774)
Income tax provision (benefit)	1,158	719	(2,113)	(564)
Net income (loss)	$ 1,837	$ 1,421	$ (3,577)	$ (1,210)
Net income (loss) per share	$ 0.09	$ 0.07	$ (0.18)	$ (0.08)
Number of shares used in computing net income (loss) per share	18,917	18,391	18,121	16,399

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

ACTIVISION, INC. AND SUBSIDIARIES
Supplemental Condensed Consolidated Statements of Cash Flows
For the six months ended September 30,

(in thousands)

Increase (Decrease) in Cash

(UNAUDITED)

	1997	1996
Cash flows from operating activities:		
Net loss	$ (3,577)	$ (1,210)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred income taxes	(2,718)	(582)
Depreciation and amortization	2,265	1,824
Change in assets and liabilities:		
Accounts receivable	(4,338)	(3,064)
Inventories	(3,109)	(1,643)
Prepaid software and license royalties	(1,454)	(2,768)
Prepaid expenses and other current assets	(1,410)	(300)
Other assets	9	3
Accounts payable	6,737	2,943
Accrued liabilities	1,741	(3,623)
Other liabilities	189	(10)
Net cash used in operating activities	(5,665)	(8,430)
Cash flows from investing activities:		
Capital expenditures	(5,909)	(1,846)
Purchase of Take Us! Marketing & Consulting GmbH	(246)	-
Cash paid for CentreSoft	-	(3,878)
Adjustment for effect of pooling on prior periods	(782)	-
Net cash used in investing activities	(6,937)	(5,724)
Cash flows from financing activities:		
Proceeds from issuance of common stock	-	4,984
Proceeds from issuance and exercise of common stock options and warrants	2,721	707
Proceeds from employee stock purchase plan	230	-
Proceeds from note payable to bank, net of payments	(12)	486
Dividends paid	(1,223)	(49)
Other	51	-
Net cash provided by financing activities	1,767	6,128
Effect of exchange rate changes on cash	(237)	86
Net decrease in cash and cash equivalents	(11,072)	(7,940)
Cash and cash equivalents at beginning of period	21,358	25,288
Cash and cash equivalents at end of period	$ 10,286	$ 17,348
Non-cash investing activities:		
Stock issued in exchange for licensing rights	$ 431	$ 822
Tax benefit derived from stock option exercises	521	-
Stock issued in purchase of Take Us! Marketing & Consulting GmbH	136	-
Supplemental cash flow information:		
Cash paid for income taxes	$ 585	$ -
Cash paid for interest	304	263

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

ACTIVISION, INC. AND SUBSIDIARIES
NOTES TO SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying supplemental 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, 1997 and the supplemental consolidated financial statements contained in Exhibit 99.1 herein.

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, net comprise (amounts in thousands):

	September 30, 1997	March 31, 1997
Finished goods	$ 9,421	$ 7,121
Purchased parts and components	1,909	1,162
	$ 11,330	$ 8,283

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE QUARTERS AND SIX MONTHS ENDED SEPTEMBER 30, 1997 AND 1996

THE FOLLOWING DISCUSSION AND ANALYSIS CONTAINS FORWARD LOOKING STATEMENTS REGARDING FUTURE EVENTS OR THE FUTURE FINANCIAL PERFORMANCE OF THE COMPANY THAT INVOLVE CERTAIN RISKS AND UNCERTAINTIES DISCUSSED IN EXHIBIT 99.3 "SUPPLEMENTAL MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" - "RISK FACTORS" CONTAINED IN THIS CURRENT REPORT ON FORM 8-K. ACTUAL EVENTS OR THE ACTUAL FUTURE RESULTS OF THE COMPANY MAY DIFFER MATERIALLY FROM ANY FORWARD LOOKING STATEMENT DUE TO SUCH RISKS AND UNCERTAINTIES.

IN ADDITION, AN OVERVIEW OF THE COMPANY AND ITS OPERATIONS ALSO IS DISCUSSED IN EXHIBIT 99.3 "SUPPLEMENTAL MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" CONTAINED IN THIS CURRENT REPORT ON FORM 8-K.

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

	Quarter Ended September 30,				Six Months Ended September 30,			
	1997		1996		1997		1996	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
STATEMENTS OF OPERATIONS DATA:								
Net revenues	$53,015	100.0%	$29,557	100.0%	$79,529	100.0%	$36,578	100.0%
Cost of goods sold	29,735	56.1%	13,868	46.9%	50,011	62.9%	15,377	42.0%
Gross profit	23,280	43.9%	15,689	53.1%	29,518	37.1%	21,201	58.0%
Operating expenses:								
Product development	$ 7,550	14.2%	$ 4,607	15.6%	$13,918	17.5%	$ 9,154	25.0%
Sales and marketing	9,541	18.0%	6,291	21.3%	15,560	19.6%	9,933	27.2%
General and administrative	2,702	5.1%	2,264	7.1%	4,830	6.1%	3,492	9.5%
Amortization of intangible assets	380	0.7%	390	1.3%	755	0.9%	711	1.9%
Total operating expenses	20,173	38.0%	13,552	45.9%	35.063	44.1%	23,290	63.1%
Operating income (loss)	3,107	5.9%	2,137	7.2%	(5,545)	(7.0%)	(2,089)	(5.7%)
Interest income (expense), net	(112)	(0.2%)	3	0.0%	(145)	(0.2%)	315	0.9%
Income before income tax provision (benefit)	2,995	5.6%	2,140	7.2%	(5,690)	-7.2%	(1,774)	-4.8%
Income tax provision (benefit)	1,158	2.2%	719	2.4%	(2,113)	(2.7%)	(564)	(1.5%)
Net income (loss)	$ 1,837	3.5%	$ 1,421	4.8%	$(3,577)	(4.5%)	$(1,210)	(3.3%)
NET REVENUES BY TERRITORY:								
North America	$ 20,164	38.0%	$14,688	49.7%	$25,139	31.6%	$20,161	55.1%
Europe	28,915	54.5%	12,398	41.9%	49,237	61.9%	13,121	35.9%
Japan	421	0.8%	967	3.3%	595	0.7%	1,251	3.4%
Australia and Pacific Rim	2,634	5.0%	1,267	4.3%	3,399	4.3%	1,737	4.7%
Latin America	881	1.7%	237	0.8%	1,159	1.5%	308	0.9%
NET REVENUES BY PLATFORM:	$ 53,015	100.0%	$ 29,557	100.0%	$79,529	100.0%	$36,578	100.0%
Console	$ 16,035	30.2%	$ 2,270	7.7%	$ 26,740	33.6%	$ 2,323	6.4%
PC	36,980	69.8%	27,287	92.3%	52,789	66.4%	34,255	93.6%
NET REVENUES BY CHANNEL:	$ 53,015	100.0%	$ 29,557	100.0%	$79,529	100.0%	$36,578	100.0%
Retailer/Reseller	$ 45,707	86.2%	$26,544	82.6%	$67,248	84.6%	$28,843	78.9%
OEM	3,579	6.8%	2,799	14.6%	7,350	9.2%	6,292	17.2%
Licensing, on-line and other	3,729	7.0%	529	2.8%	4,931	6.2%	1,443	3.9%
	$ 53,015	100.0%	$ 29,557	100.0%	$79,529	100.0%	$36,578	100.0%

RESULTS OF OPERATIONS

NET REVENUES

Net revenues for the quarter ended September 30, 1997 increased 79.1% from the same period last year, from $29.6 million to $53.0 million. This increase was attributable to a 37.4% increase in net revenues in North America from $14.7 million to $20.2 million, a 133.1% increase in net revenues in Europe from $12.4 million to $28.9 million, and a 100.0% increase in net revenues in the Australian and Pacific Rim territories from $1.3 million to $2.6 million.

Net revenues for the six months ended September 30, 1997 increased 117.2% from the same period last year, from $36.6 million to $79.5 million. This increase was attributable to a 24.9% increase in net revenues in North America from $20.1 million to $25.1 million, a 275.6% increase in net revenues in Europe from $13.1 million to $49.2 million and a 100.0% increase in net revenues in the Australian and Pacific Rim territories from $1.7 million to $3.4 million.

The overall increase in net revenues and the increases in net revenues for the quarter and six month periods were due to the initial release of HEXEN II (Windows 95), DARK REIGN: THE FUTURE OF WAR (Windows 95), CAR & DRIVER'S GRAND TOUR RACING 1998 (Playstation) and TWINSEN'S ODYSSEY (Windows 95). In addition, net revenues increased due to the acquisition of CentreSoft which began operations in June 1996. The overall increase in net revenues was partially offset by an increase in the provision for sales returns and mark-downs for the North American territory during the quarter ended June 30, 1997, which was required as a result of a slow down in retail sell-through of then recently released PC and Playstation titles.

COST OF GOODS SOLD; GROSS PROFIT

For the quarter ended September 30, 1997, gross profit as a percentage of net revenues was 43.9% compared to 53.1% for the quarter ended September 30, 1996. The decrease in gross profit as a percentage of net revenues is due to the increase in the sales mix of console net revenues from 7.7% of total net revenues in the prior the prior fiscal quarter to 30.2% of total net revenues in the current fiscal quarter. For the six months ended September 30, 1997, gross profit as a percentage of net revenues was 37.1% versus 58.0% for the six months ended September 30, 1996. The decrease in gross profit as a percentage of net revenues is due to the increase in the sales mix of console net revenues from 6.4% of total net revenues in the prior six month period to 33.6% in the current six month period along with an increase in net revenues from distribution arrangements as opposed to publishing arrangements which resulted from the CentreSoft acquisition. Future determination of gross profit as a percentage of net revenues will be driven primarily by the mix of new PC and console products released by the Company during the applicable period, the mix of revenues related to publishing arrangements versus distribution arrangements during the applicable period, as well as the mix of internal versus external product development, the latter in each case resulting in lower gross profit margins.

OPERATING EXPENSES

Product development expenses for the quarter ended September 30, 1997 increased 65.2% from the same period last year, from $4.6 million to $7.6 million. As a percentage of net revenues, product development expenses for the quarter decreased from 15.6% to 14.2%. Product development expenses for the six months ended September 30, 1997 increased 51.1% from the same period last year, from $9.2 million to $13.9 million. As a percentage of net revenues, product development expense for the six month period decreased slightly from 25.0% to 17.5%. The increases for the quarter and six month periods in actual product development expenses was due to an increase in the number of products in development, the acquisition of Raven Software Corp., and the increase in costs associated with enhanced content and new technologies incorporated into the Company's recent products. In addition, the increase was partly attributable to an increase in the number of products being localized for foreign territories; in September 1997, the product DARK REIGN: THE FUTURE OF WAR was simultaneously released in four localized versions including English, French, German and Spanish.

Sales and marketing expenses for the quarter ended September 30, 1997 increased 50.8% from the same period last year, from $6.3 million to $9.5 million. As a percentage of net revenues, sales and marketing expenses for the quarter decreased from 21.3% to 18.0%. Sales and marketing expenses for the six months ended September 30, 1997 increased 57.6% from the same period last year, from $9.9 million to $15.6 million. As a percentage of net revenues, sales and marketing expenses for the six month period decreased from 27.2% to 19.6%. The increases for the quarter and six month periods in actual sales and marketing expenses was due to the increase in net revenues along with an increase in the number of products to be released during the current fiscal year. The decrease for the quarter and six month periods in sales and marketing expenses as a percentage of net revenues, however, is due to the operating expense leverage gained as a result of an increased revenue base.

General and administrative expenses for the quarter ended September 30, 1997 increased 17.4% from the same period last year, from $2.3 million to $2.7 million, but decreased as a percentage of net revenues from 7.7% to 5.1%. General and administrative expenses for the six months ended September 30, 1997 increased 37.1% from the same period last year, from $3.5 million to $4.8 million, but decreased as a percentage of net revenues from 9.5% to 6.1%. The period over period increase in actual general and administrative expenses for both the quarter and six month periods was due to an increase in head count related expenses, the expansion of facilities both in North America and internationally, and the implementation of new management information systems.

INCOME TAX PROVISION (BENEFIT)

The income tax provision (benefit) of approximately $1.2 million and ($2.1 million) for the quarter and six months ended September 30, 1997, respectively, reflects the Company's expected effective income tax rate for the fiscal year ending March 31, 1998.

NET INCOME (LOSS)

For the reasons noted above, net income increased to $1.8 million for the quarter ended September 30, 1997, from a net income of $1.4 million for the same period in the prior fiscal year. For the six months ended September 30, 1997, net loss increased to $3.6 million from a net loss of $1.2 million for the same period in the prior fiscal year.

QUARTERLY OPERATING RESULTS

The Company's quarterly operating results have in the past varied significantly and will likely in the future vary significantly depending on numerous factors, several of which are not under the Company's control. See "Risk Factors -- Fluctuations in Quarterly Results; Future Operating Results Uncertain; Seasonality." Accordingly, the

Company believes that period-to-period comparisons of its operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

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

	Quarter Ended							
	Dec. 31, 1995	March 30, 1996	June 30, 1996	Sept. 30, 1996	Dec. 31, 1996	March 31, 1997	June 30, 1997	Sept. 30, 1997
Net revenues	$17,578	$21,648	$ 7,021	$29,557	$60,480	$57,586	$26,514	$53,015
Gross profit	10,447	15,327	5,512	15,689	24,295	22,027	6,238	23,280
Operating income (loss)	1,573	4,607	(4,226)	2,137	8,288	7,609	(8,652)	3,107
Net income (loss)	1,948	6,345	(2,631)	1,421	5,320	5,116	(5,414)	1,837
Earnings (loss) per share	$0.12	$0.39	$(0.17)	$0.07	$0.29	$0.27	$(0.30)	$0.09

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents decreased $11.1 million, from $21.4 million at March 31, 1997 to $10.3 million at September 30, 1997. Approximately $5.7 million in cash and cash equivalents were used in operating activities during the six month period from March 31, 1997 to September 30, 1997. Such operating uses of cash were primarily the result of increases in accounts receivable and inventories.

In addition, approximately $6.9 million in cash and cash equivalents were used in investing activities. Capital expenditures totaled approximately $5.9 million, which primarily were comprised of costs related to the Company moving its Los Angeles office to a new facility in Santa Monica, California.

Sources of cash from financing activities totaled $1.8 million for the six months ended September 30, 1997, which included $2.7 million in proceeds from exercise of employee stock options and $1.2 million in dividends paid.

In October 1997, the Company increased its revolving credit and letter of credit facility (the "Facility") with its bank (the "Bank") from $5.0 million to $12.5 million. The Facility provides the Company with the ability to borrow funds and issue letters of credit against eligible domestic accounts receivable up to $12.5 million. The Facility expires in September 1998. In addition, in September 1997, the Company entered into a $2.0 million line of credit agreement (the "Asset Line") with the Bank which is secured by various fixed assets of the Company; drawings under the Asset Line are structured with 36 month repayment terms and the Asset Line expires in September 1998. Borrowings under the Asset Line totaled $1.4 million as of September 30, 1997, with an effective lease borrowing rate of 8.3%.

In June 1996, CentreSoft entered into a revolving credit facility (the "CentreSoft Facility") with its bank (the "CentreSoft Bank") for approximately $8 million. The CentreSoft Facility can be used for CentreSoft's working capital requirements. The CentreSoft Facility expires in June 2000. Borrowings under the CentreSoft Facility totalled $1.6 million as of March 31, 1997, with an effective borrowing rate of LIBOR + 3.5%.

On December 22, 1997, the Company completed a private placement of $60 million in convertible subordinated notes ("Convertible Notes"). The Convertible Notes have a 6.75% annual interest rate, are due in January 2005 and are convertible at any time prior to maturity into shares of the Company's Common Stock at $18.875 per share. Net proceeds from the issuance of the Convertible Notes was approximately $57.9 million. The Company intends to use such net proceeds to repay outstanding balances under its bank lines of credit, if any, to fund product development, to acquire third party publishing and distribution rights, to expand the Company's direct sales and marketing capabilities and for general corporate purposes. In addition, the Company may, when and if the opportunity arises, use an unspecified portion of the net proceeds to acquire businesses, products or technologies that it believes are of strategic importance. Pending such uses, the Company intends to invest the net proceeds in short-term money market and other market rate, investment-grade instruments.

As of September 30, 1997 the Company's current principal source of liquidity was $10.3 million in 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. Management believes that the Company's existing cash, together with the proceeds available from the Convertible Notes, Facility, the Asset Line and the CentreSoft Facility, will be sufficient to meet the Company's operational requirements for the forseeable future.

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

Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share," is effective for financial statements issued for periods ending after December 15, 1997. SFAS No. 128 replaces Accounting Principles Board Opinion ("APB") No. 15 and simplifies the computation of earnings per share ("EPS") by replacing the presentation of primary EPS with a presentation of basic EPS. Basic EPS includes no dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution from securities that could share in the earnings of the Company, similar to fully diluted EPS under APB No. 15. The Statement requires dual presentation of basic and diluted EPS by entities with complex capital structures. The Company will adopt SFAS No. 128 for the financial statements for the year ended March 31, 1998.

	Quarter ended Sept. 30,		Six Months ended Sept. 30,	
	1997	1996	1997	1996
Earnings (loss) per share as reported	$ 0.09	$ 0.07	$ (0.18)	$ (0.08)
Pro forma basic earnings per share	0.10	0.08	(0.18)	(0.08)
Pro forma diluted earnings per share	0.09	0.07	(0.18)	(0.08)

SFAS No. 130, "Reporting Comprehensive Income" is effective for fiscal years beginning after December 15, 1997. SFAS No. 130 established standards for the reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. The Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company is evaluating the Statement's provisions to conclude how it will present comprehensive income it its financial statements, and has not yet determined the amounts to be disclosed. The Company will adopt SFAS No. 130 effective April 1, 1998.

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" is effective for financial statements for periods beginning after December 15, 1997. SFAS No. 131 establishes standards for the way that public business enterprises report financial and descriptive information about reportable operating segments in annual financial statements and interim financial reports issued to stockholders. SFAS No. 131 supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," but retains the requirement to report information about major customers. The Company is evaluating the new Statement's provisions to determine the additional disclosures required in its financial statements, if any. The Company will adopt SFAS No. 131 effective April 1, 1998.

The AICPA recently issued statement of Position 97-2, "Software Revenue Recognition," effective for transactions entered into in fiscal years beginning after December 15, 1997. While the Company is still evaluating the impact of this statement, it believes that it is in substantial compliance with the provisions thereof.