



FISCAL 2005 SECOND QUARTER FINANCIAL RESULTS

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- Q2 Diluted E.P.S. Grew to \$0.17 From a Loss Per Share of \$0.08 Last Year -
- Net Revenues for Six Month Period Rise 89%-
- Company Increases FY 2005 Outlook-

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Santa Monica, CA - October 26, 2004 - Activision, Inc. (Nasdaq: ATVI) today announced financial results for the second fiscal quarter ended September 30, 2004.

Net revenues were \$310.6 million, an increase of \$193.1 million or 164%, as compared to net revenues of \$117.5 million reported for the second quarter last fiscal year. Net income for the second fiscal quarter was \$25.5 million, as compared with a net loss for the second fiscal quarter last year of \$10.1 million. Earnings per diluted share were \$0.17, as compared with a loss per share of \$0.08 reported for the same period last year.

Net revenues for the six-month period ended September 30, 2004, were \$521.9 million, an increase of \$245.7 million or 89%, as compared to net revenues of \$276.2 million reported for the six-month period of last fiscal year. Net income for the six-month period was \$37.5 million, or earnings per diluted share of \$0.24, as compared with net loss of \$5.9 million, or a loss per share of \$0.04, reported for the same period last year.

Robert A. Kotick, Chairman and CEO of Activision, stated, "In addition to delivering record net revenues and earnings for the quarter, we also significantly increased our market position in North America and Europe. As of this date, five of our games have shipped more than one million units each and three of those titles have achieved multi-million-unit status. Our focus on big propositions is yielding tremendous results worldwide. As we look to the future, we will continue to leverage our increasing portfolio of franchises as we expand and strengthen our competitive position."

Kotick continued, "We are very excited about future growth opportunities that will result from the Nintendo® DS, PlayStation® Portable, wireless gaming, in-game advertising and the next-generation of console hardware. These emerging opportunities combined with the ever increasing installed base of console hardware and our strong portfolio of brands should enable us to continue growing our revenues, earnings and operating margin as we have over the past several years."

Business Highlights

Activision's second quarter results were driven by strong worldwide sales of **Spider-Man 2™**, which was the company's best-selling title for the quarter, and newly released games across all platforms including **Doom 3™**, **Rome: Total War™** and **Call of Duty: United Offensive™** for the PC, **X-Men™ Legends** and **DreamWorks' Shark Tale** for the PlayStation® 2 computer entertainment system, Xbox® video game system from Microsoft and Nintendo® Game Cube™ and **DreamWorks' Shark Tale** for the Nintendo Game Boy® Advance and PC. The company's catalogue titles **Shrek 2™**, **Tony Hawk's Underground** and **True Crime: Streets of L.A.™** also performed well.

The company strengthened its market position worldwide resulting in a number of unprecedented rankings. Activision was the #1 PC publisher in North America for the month of August, according to NPD Techworld; the #1 publisher overall in the U.K. for the months of July and August, according to Chart Track; and the #1 publisher overall in Germany and the #2 publisher overall in France for the month of August, according to Media Control and GfK respectively.

Other highlights include:

- On October 21, Activision confirmed that based on strong consumer response to its action role playing game **X-Men Legends**, the company is developing a sequel based on the ever-popular Marvel franchise with Raven Software.
- According to NPD, **Doom 3** is the #1 best-selling PC game in North America year to date.
- On October 18, Activision announced that the company is launching a groundbreaking test with Nielsen Entertainment using its newly released **Tony Hawk's Underground 2** game to determine how long and how often players interact with brands. The Chrysler Group will be the first advertiser to take part in the test, which will measure consumer interaction with the Jeep® brand.
- Additionally on October 18, Activision and Nielsen Entertainment announced the results of a new study that examined the ability of game players to recall brand name products that were integrated within the video game experience. Among the study's key findings were: brands with which gamers must actively interact substantially impact consumer awareness and recall; and that highly integrated ads tend to enhance a gamer's interest in purchasing the advertised products.
- On October 13, Activision confirmed that the company is in development on new games based on **Spider-Man 2** and **Tony Hawk's Underground 2** which are expected to be launch titles for SCEA'S PlayStation® Portable Entertainment Platform.
- On September 22, Activision announced that the company's first title for the Nintendo® DS video game platform will be a new video game based on **Spider-Man 2**. which is currently the #1 best-selling movie game of 2004

according to NPD Funworld.

Company Outlook

Activision also increased its outlook for fiscal 2005. For the full fiscal year, the company expects net revenues of \$1.15 billion, an increase of \$50 million, and earnings per diluted share of \$0.75. The company's previous fiscal year outlook was \$1.10 billion in net revenues and earnings per diluted share of \$0.69.

For the third quarter, the company expects net revenues of \$500 million and earnings per diluted share of \$0.49 as compared to its previous outlook of \$515 million in net revenues and earnings per diluted share of \$0.52. The change in Activision's third quarter outlook was based on over performance of its titles in the second quarter, which the company expects will result in a lower likelihood of reorders during the third quarter, and the movement of Doom 3 for the Xbox into the fourth quarter. For the fourth quarter, Activision expects net revenues of \$128 million and earnings per diluted share of \$0.01, as compared with its previous outlook of net revenues of \$120 million and earnings per diluted share of \$0.01.

Kotick continued, "We are on track to deliver another record year of net revenues and operating margin. Our net revenues exceeded \$1 billion for the trailing 12 month period. We ended the quarter with more than \$600 million in cash and short term investments. For the trailing 12 months, free cash flow was \$122 million and return on invested capital was 42%."

Looking ahead to the third quarter, Activision's slate will be driven by **Tony Hawk's Underground 2** and **Lemony Snicket's A Series of Unfortunate Events™** for the PlayStation 2 computer entertainment system, Xbox video game system, Nintendo GameCube, Nintendo Game Boy Advance and the PC; **Call of Duty: Finest Hour™** for the PlayStation 2 computer entertainment system, Xbox video game system and Nintendo GameCube; **Vampire: The Masquerade®-Bloodlines™** and **Shrek 2: Team Action** for the PC; **Spider-Man 2** for the Nintendo DS and **Shrek 2™: Beg for Mercy!** for the Nintendo Game Boy Advance.

Non-GAAP Financial Measures

The company's press release includes the non-GAAP financial measures of "free cash flow" and "return on invested capital." A reconciliation of these non-GAAP financial measures to the most comparable GAAP financial measure appears at the end of this press release.

Conference Call

Today at 4:30 p.m. EDT, Activision's management will host a conference call and Webcast to discuss its second quarter fiscal year 2005 results and outlook. The company welcomes all members of the financial and media communities to visit the "Investor Relations" area of www.activision.com to listen to the conference call via live Webcast or to listen to the call live by dialing into (913) 981-4903 in the U.S.

About Activision

Headquartered in Santa Monica, California, Activision, Inc. is a leading worldwide developer, publisher and distributor of interactive entertainment and leisure products. Founded in 1979, Activision posted net revenues of \$948 million for the fiscal year ended March 31, 2004.

Activision maintains operations in the U.S., Canada, the United Kingdom, France, Germany, Italy, Japan, Australia, Scandinavia and the Netherlands. More information about Activision and its products can be found on the company's World Wide Web site, which is located at www.activision.com.

Note: The statements made in this press release that are not historical facts are "forward looking" statements. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties. The company cautions readers of this press release that a number of important factors could cause Activision's actual future results to differ materially from those expressed in any such forward-looking statements.

Such factors include, without limitation, product delays, retail acceptance of our products, industry competition, rapid changes in technology and industry standards, protection of proprietary rights, maintenance of relationships with key personnel, vendors and third-party developers, international economic and political conditions, integration of recently acquired subsidiaries and identification of suitable future acquisition opportunities.

These important factors and other factors that potentially could affect the company's financial results are described in our filings with the Securities and Exchange Commission, including the company's most recent Annual Report on Form 10 K and Quarterly Reports on Form 10-Q. Readers of this press release are referred to such filings. The company may change its intention, belief or expectation, at any time and without notice, based upon any changes in such factors, in the company's assumptions or otherwise. The company undertakes no obligation to release publicly any revisions to its forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

[Q2 2005 Financial Tables \(PDF\)](#)

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