

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2000

OR

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

For the transition period from _____ to _____

Commission File Number 0-12699

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

95-4803544
(I.R.S. Employer Identification No.)

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

90405
(Zip Code)

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

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

The number of shares of the registrant's Common Stock outstanding as of November 9, 2000 was 24,431,582.

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ACTIVISION, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION.

Item I. Financial Statements.

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

	September 30, 2000 -----	March 31, 2000 -----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 25,204	\$ 49,985

Accounts receivable, net of allowances of \$31,945 and \$31,521 at September 30, 2000 and March 31, 2000, respectively	136,868	108,108
Inventories	47,242	40,453
Prepaid royalties and capitalized software costs	35,232	31,655
Deferred income taxes	14,619	14,159
Other current assets	18,000	17,815
	-----	-----

Total current assets	277,165	262,175
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Prepaid royalties and capitalized software costs	8,657	9,153
Property and equipment, net	11,419	10,815
Deferred income taxes	11,131	6,055
Goodwill, net	11,174	12,347
Other assets	9,981	9,192
	-----	-----

Total assets	\$ 329,527	\$ 309,737
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt	\$ 39,792	\$ 16,260
Accounts payable	44,484	38,284
Accrued expenses	57,646	49,404
	-----	-----

Total current liabilities	141,922	103,948
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Long-term debt, less current portion	7,657	13,778
Convertible subordinated notes	60,000	60,000
Other liabilities	27	2
	-----	-----

Total liabilities	209,606	177,728
	-----	-----

Commitments and contingencies

Shareholders' equity:

Preferred stock, \$.000001 par value, 5,000,000 shares authorized, no shares issued at September 30, 2000 and March 31, 2000	-	-
Common stock, \$.000001 par value, 50,000,000 shares authorized, 27,180,545 and 26,488,260 shares issued and 24,296,566 and 25,988,260 shares outstanding at September 30, 2000 and March 31, 2000, respectively	-	-
Additional paid-in capital	159,143	151,714
Retained earnings (deficit)	(9,234)	(8,361)
Accumulated other comprehensive loss	(9,739)	(6,066)
Less: Treasury stock, at cost, 2,883,979 shares and 500,000 shares at September 30, 2000 and March 31, 2000, respectively	(20,249)	(5,278)
	-----	-----

Total shareholders' equity	119,921	132,009
	-----	-----

Total liabilities and shareholders' equity	\$ 329,527	\$ 309,737
	=====	=====

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

	September 30,		September 30,	
	2000	1999	2000	1999
Net revenues	\$144,363	\$115,363	\$228,921	\$199,505
Costs and expenses:				
Cost of sales - product costs	64,351	66,284	107,984	119,823
Cost of sales - royalties and software amortization	24,819	11,610	38,465	21,480
Product development	11,107	5,819	18,531	10,342
Sales and marketing	23,909	18,194	41,779	33,443
General and administrative	10,641	9,931	19,124	16,992
Total costs and expenses	134,827	111,838	225,883	202,080
Income (loss) from operations	9,536	3,525	3,038	(2,575)
Interest expense, net	(2,683)	(1,838)	(4,406)	(2,997)
Income (loss) before income tax provision	6,853	1,687	(1,368)	(5,572)
Income tax provision (benefit)	2,547	624	(495)	(2,061)
Net income (loss)	\$ 4,306	\$ 1,063	\$ (873)	\$ (3,511)
Basic earnings per share:				
Net income (loss)	\$ 0.18	\$ 0.04	\$ (0.04)	\$ (0.15)
Weighted average common shares outstanding	23,835	24,502	24,388	24,103
Diluted earnings per share:				
Net income (loss)	\$ 0.17	\$ 0.04	\$ (0.04)	\$ (0.15)
Weighted average common shares outstanding	25,799	26,753	24,388	24,103

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

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

	For the six months ended September 30,	
	2000	1999
Cash flows from operating activities:		
Net loss	\$ (873)	\$ (3,511)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Deferred income taxes	(5,275)	(2,496)
Depreciation and amortization	2,964	3,435
Amortization of prepaid royalties and capitalized software costs	34,101	18,271
Expense related to common stock warrants	703	517
Tax benefit from exercise of stock options	1,445	2,370
Change in assets and liabilities (net of effects of purchases and acquisitions):		
Accounts receivable	(28,760)	(9,377)
Inventories	(6,789)	(6,593)
Other current assets	(185)	(2,985)
Other assets	(1,492)	(3,501)
Accounts payable	6,200	(6,591)
Accrued expenses	8,469	9,087
Other liabilities	24	-
Net cash provided by (used in) operating activities	10,532	(1,374)
Cash flows from investing activities:		
Cash used in purchase acquisitions (net of cash acquired)	-	(20,523)

Investment in prepaid royalties and capitalized software costs	(37,182)	(31,625)
Capital expenditures	(3,531)	(2,330)
Proceeds from disposal of property and equipment	1,394	-
	-----	-----
Net cash used in investing activities	(39,319)	(54,478)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock pursuant to employee stock option plans	5,124	13,288
Proceeds from issuance of common stock pursuant to employee stock purchase plan	327	419
Borrowing under line-of-credit agreements	234,296	51,815
Payment under line-of-credit agreements	(211,055)	(34,476)
Proceeds from term loan	-	25,000
Payment on term loan	(5,000)	-
Other notes payable, net	(458)	(4,844)
Cash paid to acquire line of credit and term loan	-	(3,355)
Purchase of treasury stock	(14,971)	-
	-----	-----
Net cash provided by financing activities	8,263	47,847
	-----	-----
Effect of exchange rate changes on cash	(4,257)	765
	-----	-----
Net decrease in cash and cash equivalents	(24,781)	(7,240)
	-----	-----
Cash and cash equivalents at beginning of period	49,985	33,037
	-----	-----
Cash and cash equivalents at end of period	\$ 25,204	\$ 25,797
	=====	=====

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

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ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the six months ended September 30, 2000
(Unaudited)
(In thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock	
	Shares	Amount			Shares	Amount
BALANCE, MARCH 31, 2000	26,488	\$ --	\$151,714	\$ (8,361)	(500)	\$ (5,278)
Components of comprehensive income (loss):						
Net loss	--	--	--	(873)	--	--
Foreign currency translation adjustment	--	--	--	--	--	--
Total comprehensive loss	--	--	--	--	--	--
Acquisition of treasury stock	--	--	--	--	(2,384)	(14,971)
Issuance of common stock pursuant to employee stock purchase plan	35	--	327	--	--	--
Issuance of common stock pursuant to employee stock option plans	658	--	5,124	--	--	--
Tax benefit attributable to employee stock option plans	--	--	1,445	--	--	--
Tax benefit derived from net operating loss carryforward utilization	--	--	533	--	--	--
	-----	-----	-----	-----	-----	-----
BALANCE, SEPTEMBER 30, 2000	27,181	\$ --	\$159,143	\$ (9,234)	(2,884)	\$ (20,249)

	Accumulated Other Comprehensive Income (Loss)		Shareholders' Equity
BALANCE, MARCH 31, 2000	\$ (6,066)	\$ 132,009	
Components of comprehensive income (loss):			
Net loss	--	(873)	
Foreign currency translation adjustment	(3,673)	(3,673)	
Total comprehensive loss		(4,546)	
Acquisition of treasury stock	--	(14,971)	
Issuance of common stock pursuant to employee stock purchase plan	--	327	
Issuance of common stock pursuant to employee stock option plans	--	5,124	
Tax benefit attributable to employee stock option plans	--	1,445	
Tax benefit derived from net operating loss carryforward utilization	--	533	
	-----	-----	
BALANCE, SEPTEMBER 30, 2000	\$ (9,739)	\$ 119,921	

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

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ACTIVISION INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the three and six months ended September 30, 2000
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Activision, Inc. (together with its subsidiaries, "Activision" or "the Company"). The information furnished is unaudited and reflects all adjustments that, in the opinion of management, are necessary to provide a fair statement of the results for the interim periods presented. The financial statements should be read in conjunction with the financial statements included in the Company's Annual Report on Form 10-K for the year ended March 31, 2000 as filed with the Securities and Exchange Commission (the "SEC").

Certain amounts in the consolidated financial statements have been reclassified to conform to the current period's presentation. These reclassifications had no impact on previously reported net income (loss), shareholders' equity or cash flows.

2. ORGANIZATIONAL STRUCTURE

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

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

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

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

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

3. PREPAID ROYALTIES AND CAPITALIZED SOFTWARE COSTS

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

The Company accounts for prepaid royalties relating to development agreements and capitalized software costs in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs

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ACTIVISION INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the three and six months ended September 30, 2000
(Unaudited)

of Computer Software to be Sold, Leased, or Otherwise Marketed." Software development costs and prepaid royalties are capitalized once technological feasibility is established. Technological feasibility is evaluated on a product-by-product basis. For products where proven game engine technology exists, this may occur early in the development cycle. Software development costs are expensed if and when they are deemed unrecoverable. Amounts related to software development, which are not capitalized, are charged immediately to product development expense.

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

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

As of September 30, 2000, prepaid royalties and unamortized capitalized software costs totaled \$36.7 million (including \$8.7 million classified as non-current) and \$7.2 million, respectively. As of March 31, 2000, prepaid royalties and unamortized capitalized software costs totaled \$29.2 million (including \$9.2 million classified as non-current) and \$11.6 million, respectively.

4. REVENUE RECOGNITION

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

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

5. INTEREST EXPENSE, NET

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

	Three months ended September 30,		Six months ended September 30,	
	2000	1999	2000	1999
Interest expense	\$ (2,913)	\$ (2,064)	\$ (5,103)	\$ (3,410)
Interest income	230	226	697	413
Net interest income (expense)	\$ (2,683)	\$ (1,838)	\$ (4,406)	\$ (2,997)

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ACTIVISION INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the three and six months ended September 30, 2000
(Unaudited)

6. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Six months ended September 30,	
	2000	1999
Non-cash investing and financing activities:		
Stock and warrants to acquire common stock issued in exchange for licensing rights	\$ -	\$ 3,113
Tax benefit derived from net operating loss carryforward utilization	533	-
Stock and options issued to effect business combination	-	5,971
Supplemental cash flow information:		
Cash paid for income taxes	\$ 2,723	\$ 788
Cash paid for interest	\$ 3,174	\$ 5,238

7. OPERATIONS BY REPORTABLE SEGMENTS AND GEOGRAPHIC AREA

The Company publishes, develops and distributes interactive entertainment and leisure products for a variety of game platforms, including PCs, the Sony PlayStation and PlayStation 2 console systems, the Nintendo 64 console system, the Nintendo Gameboy and the Sega Dreamcast console system. Based on its organizational structure, the Company operates in two reportable segments: publishing and distribution.

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

The Company's distribution segment, located in the United Kingdom, the Netherlands and Germany, distributes interactive entertainment software and

hardware and provides logistical services for a variety of publishers and manufacturers.

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

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

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

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ACTIVISION INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the three and six months ended September 30, 2000
(Unaudited)

Information on the reportable segments for the three and six months ended September 30, 2000 and 1999 is as follows:

	Three months ended September 30, 2000		
	Publishing	Distribution	Total
Total segment revenues	\$ 121,630	\$ 22,733	\$ 144,363
Revenue from sales between segments	(10,715)	10,715	-
Revenues from external customers	\$ 110,915	\$ 33,448	\$ 144,363
Operating income (loss)	\$ 10,461	\$ (925)	\$ 9,536

	Six months ended September 30, 2000		
	Publishing	Distribution	Total
Total segment revenues	\$ 182,629	\$ 46,292	\$ 228,921
Revenue from sales between segments	(16,576)	16,576	-
Revenues from external customers	\$ 166,053	\$ 62,868	\$ 228,921
Operating income (loss)	\$ 4,554	\$ (1,516)	\$ 3,038

	Three months ended September 30, 1999		
	Publishing	Distribution	Total
Total segment revenues	\$ 87,106	\$ 28,257	\$ 115,363
Revenue from sales between segments	(8,417)	8,417	-
Revenues from external customers	\$ 78,689	\$ 36,674	\$ 115,363
Operating income	\$ 3,406	\$ 119	\$ 3,525

	Six months ended September 30, 1999		
	Publishing	Distribution	Total

	-----	-----	-----
Total segment revenues	\$ 140,472	\$ 59,033	\$ 199,505
Revenue from sales between segments	(13,663)	13,663	-
Revenues from external customers	\$ 126,809	\$ 72,696	\$ 199,505
Operating loss	\$ (2,541)	\$ (34)	\$ (2,575)

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ACTIVISION INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the three and six months ended September 30, 2000
(Unaudited)

Geographic information for the three months and six months ended September 30, 2000 and 1999 is based on the location of the selling entity. Revenues from external customers by geographic region were as follows:

	Three months ended September 30,		Six months ended September 30,	
	2000	1999	2000	1999
United States	\$ 92,308	\$ 59,173	\$138,303	\$ 94,601
Europe	48,039	53,616	85,409	100,765
Other	4,016	2,574	5,209	4,139
Total	\$144,363	\$115,363	\$228,921	\$199,505

Revenues by platform were as follows:

	Three months ended September 30,		Six months ended September 30,	
	2000	1999	2000	1999
Console	\$115,159	\$ 82,721	\$161,804	\$134,772
PC	29,204	32,642	67,117	64,733
Total	\$144,363	\$115,363	\$228,921	\$199,505

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ACTIVISION INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the three and six months ended September 30, 2000
(Unaudited)

8. COMPUTATION OF EARNINGS PER SHARE

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

	Three months ended September 30,		Six months ended September 30,	
	2000	1999	2000	1999
NUMERATOR				
Numerator for basic and diluted earnings per share-income (loss) available to common shareholders	\$ 4,306	\$ 1,063	\$ (873)	\$ (3,511)
DENOMINATOR				
Denominator for basic earnings per share-weighted average common shares outstanding	23,835	24,502	24,388	24,103

Effect of dilutive securities:				
Employee stock options	1,891	1,983	-	-
Warrants	73	268	-	-
	-----	-----	-----	-----
Denominator for diluted earnings per share-weighted average common shares outstanding plus assumed conversions	25,799	26,753	24,388	24,103
	=====	=====	=====	=====
Basic earnings (loss) per share	\$ 0.18	\$ 0.04	\$ (0.04)	\$ (0.15)
	=====	=====	=====	=====
Diluted earnings (loss) per share	\$ 0.17	\$ 0.04	\$ (0.04)	\$ (0.15)
	=====	=====	=====	=====

Options to purchase 2.8 million and 14.9 million shares of common stock at exercise prices ranging from \$11.05 to \$23.04 and from \$0.75 to \$23.04, respectively, were outstanding for the three months and six months ended September 30, 2000, respectively, but were not included in the calculations of diluted earnings (loss) per share because their effect would be antidilutive. Options to purchase 113,745 and 10.6 million shares of common stock at exercise prices ranging from \$14.57 to \$23.04 and from \$0.51 to \$23.04, respectively, were outstanding for the three months and six months ended September 30, 1999, respectively, but were not included in the calculations of diluted earnings (loss) per share because their effect would be antidilutive. Shares issuable upon the conversion of convertible subordinated notes were not included in the calculations of diluted earnings (loss) per share because their effect would be antidilutive.

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ACTIVISION INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the three and six months ended September 30, 2000
(Unaudited)

9. COMMITMENTS

BANK LINES OF CREDIT AND OTHER DEBT

In June 1999, the Company obtained a \$125.0 million revolving credit facility and term loan (the "U.S. Facility") with a group of banks ("the lender"). The U.S. Facility provides the Company with the ability to borrow up to \$100.0 million and issue letters of credit up to \$80.0 million on a revolving basis against eligible accounts receivable and inventory. The \$25.0 million term loan portion of the U.S. Facility was used to acquire Expert Software, Inc. in June 1999 and to pay costs related to such acquisition and the securing of the U.S. Facility. The term loan has a three year term with principal amortization on a straight-line quarterly basis which began December 31, 1999 and a borrowing rate based on the banks' base rate (which is generally equivalent to the published prime rate) plus 2% or LIBOR plus 3%. The revolving portion of the U.S. Facility has a borrowing rate based on the banks' base rate plus 1.75% or LIBOR plus 2.75% (weighted average interest rate on outstanding borrowings of approximately 10.1% and 9.8% for the three months and six months ended September 30, 2000, respectively) and matures June 2002. The Company pays a commitment fee of 1/2% on the unused portion of the revolving line. The U.S. Facility is collateralized by substantially all of the assets of the Company and its U.S. subsidiaries. The U.S. Facility contains various covenants that limit the ability of the Company to incur additional indebtedness, pay dividends or make other distributions, create certain liens, sell assets, or enter into certain mergers or acquisitions. The Company is also required to maintain specified financial ratios related to net worth and fixed charges. The Company was in compliance with these covenants as of September 30, 2000. As of September 30, 2000, \$15.0 million was outstanding under the term loan portion of the U.S. Facility and \$25.3 million was outstanding under the revolving portion of the U.S. Facility. As of September 30, 2000, \$40.6 million of letters of credit were outstanding against the revolving portion of the U.S. Facility.

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

The Company has a revolving credit facility through its CD Contact subsidiary in the Netherlands (the "Netherlands Facility"). The Netherlands Facility permits revolving credit loans and letters of credit up to Netherlands Guilders ("NLG") 26 million (\$10.4 million), based upon eligible accounts receivable and inventory balances. The Netherlands Facility is due on demand, bears interest at a Eurocurrency rate plus 1.25% (weighted average interest rate of 5.5% as of September 30, 2000), is collateralized by GBP 3.0 million (\$4.4 million) letters of credit issued by the Company's CentreSoft subsidiary and matures August 2003. As of September 30, 2000, letters of credit outstanding under the Netherlands Facility were approximately NLG 278,000 (\$111,000) and borrowings outstanding were NLG 8.8 million (\$3.5 million).

The Company also has revolving credit facilities with its CentreSoft subsidiary located in the United Kingdom (the "UK Facility") and its NBG subsidiary located in Germany (the "German Facility"). The UK Facility provides for British Pounds ("GBP") 7.0 million (\$10.2 million) of revolving loans and GBP 3.0 million (\$4.4 million) of letters of credit, bears interest at LIBOR plus 2%, is collateralized by substantially all of the assets of the subsidiary and matures July 2001. The UK Facility also contains various covenants that require the subsidiary to maintain specified financial ratios related to, among others, fixed charges. The Company was in compliance with these covenants as of September 30, 2000. No borrowings were outstanding against the UK facility as of September 30, 2000. Letters of credit of GBP 3.0 million (\$4.4 million) were outstanding against the UK Facility as of September 30, 2000, issued on behalf of the Company's CD Contact subsidiary as described above. The German Facility provides for revolving loans up to Deutsche Mark ("DM") 4 million (\$1.8 million), bears interest at 5.9%, is collateralized by a cash deposit of approximately GBP 650,000 (\$951,000) made by the Company's CentreSoft subsidiary and has no expiration date. No borrowings were outstanding against the German Facility as of September 30, 2000.

ACTIVISION INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the three and six months ended September 30, 2000
(Unaudited)

DEVELOPER CONTRACTS

In the normal course of business, the Company enters into contractual arrangements with third parties for the development of products. Under these agreements, the Company commits to provide specified payments to a developer, contingent upon the developer's achievement of contractually specified milestones. Assuming all contractually specified milestones are achieved, the total future minimum contract commitment for contracts in place as of September 30, 2000 is approximately \$39.8 million and is scheduled to be distributed as follows (amounts in thousands):

Fiscal		

2001	\$	15,105
2002		9,199
2003		6,198
2004		3,000
2005		2,125
Thereafter		4,125

Total	\$	39,752
		=====

Additionally, under the terms of a production financing arrangement, the Company has a commitment to purchase three future PlayStation 2 titles from independent third party developers upon their completion for an estimated \$12.2 million in the aggregate. Failure by the developers to complete the project within the contractual time frame or specifications alleviates the

Company's commitment.

LEGAL PROCEEDINGS

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

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

10. REPURCHASE PLAN

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

11. SHAREHOLDERS' RIGHTS PLAN

On April 18, 2000, the Company's Board of Directors approved a shareholders rights plan (the "Rights Plan"). Under the Rights Plan, each common stockholder at the close of business on April 19, 2000 will receive a dividend of one right for each share of common stock held. Each right represents the right to purchase one

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one-hundredth (1/100) of a share of the Company's Series A Junior Preferred Stock at an exercise price of \$40.00. Initially, the rights are represented by the Company's common stock certificates and are neither exercisable nor traded separately from the Company's common stock. The rights will only become exercisable if a person or group acquires 15% or more of the common stock of the Company, or announces or commences a tender or exchange offer which would result in the bidder's beneficial ownership of 15% or more of the Company's common stock.

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

The Company may redeem the rights for \$.01 per right at any time until the

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

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

12. NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

OVERVIEW

The Company is a leading international publisher, developer and distributor of interactive entertainment and leisure products. The Company currently focuses its publishing, development and distribution efforts on products designed for personal computers ("PCs") as well as the Sony PlayStation ("PSX") and PlayStation 2 ("PS2"), Sega Dreamcast ("Dreamcast") and Nintendo N64 ("N64") console systems and Nintendo Gameboy handheld game devices. The Company's products span a wide range of genres and target markets.

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

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

Per copy royalties on sales that exceed the guarantee are recognized as earned.

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

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

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

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

	Three months ended September 30,				Six months ended September 30,			
	(In thousands)				(In thousands)			
	2000		1999		2000		1999	
Net revenues	\$144,363	100.0%	\$115,363	100.0%	\$228,921	100.0%	\$199,505	100.0%
Costs and expenses:								
Cost of sales - product costs	64,351	44.6%	66,284	57.4%	107,984	47.2%	119,823	60.0%
Cost of sales - royalties and software amortization	24,819	17.2%	11,610	10.1%	38,465	16.8%	21,480	10.8%
Product development	11,107	7.7%	5,819	5.0%	18,531	8.1%	10,342	5.2%
Sales and marketing	23,909	16.5%	18,194	15.8%	41,779	18.3%	33,443	16.8%
General and administrative	10,641	7.4%	9,931	8.6%	19,124	8.3%	16,992	8.5%
Total costs and expenses	134,827	93.4%	111,838	96.9%	225,883	98.7%	202,080	101.3%
Income (loss) from operations	9,536	6.6%	3,525	3.1%	3,038	1.3%	(2,575)	(1.3%)
Interest expense, net	(2,683)	(1.9%)	(1,838)	(1.6%)	(4,406)	(1.9%)	(2,997)	(1.5%)
Income (loss) before income tax provision	6,853	4.7%	1,687	1.5%	(1,368)	(0.6%)	(5,572)	(2.8%)
Income tax provision (benefit)	2,547	1.7%	624	0.5%	(495)	(0.2%)	(2,061)	(1.0%)
Net income (loss)	\$ 4,306	3.0%	\$ 1,063	1.0%	\$ (873)	(0.4%)	\$ (3,511)	(1.8%)

NET REVENUES BY TERRITORY:								
United States	\$ 92,308	63.9%	\$ 59,173	51.3%	\$138,303	60.4%	\$ 94,601	47.4%
Europe	48,039	33.3%	53,616	46.5%	85,409	37.3%	100,765	50.5%
Other	4,016	2.8%	2,574	2.2%	5,209	2.3%	4,139	2.1%
Total net revenues	\$144,363	100.0%	\$115,363	100.0%	\$228,921	100.0%	\$199,505	100.0%
NET REVENUES BY CHANNEL:								
Retailer/Reseller	\$140,207	97.1%	\$108,322	93.9%	\$220,855	96.5%	\$187,680	94.1%
OEM, Licensing, on-line and other	4,156	2.9%	7,041	6.1%	8,066	3.5%	11,825	5.9%
Total net revenues	\$144,363	100.0%	\$115,363	100.0%	\$228,921	100.0%	\$199,505	100.0%
ACTIVITY/PLATFORM MIX:								
Publishing:								
Console	\$ 99,057	81.4%	\$ 61,890	71.1%	\$129,100	70.7%	\$ 93,405	66.5%
PC	22,573	18.6%	25,216	28.9%	53,529	29.3%	47,067	33.5%
Total publishing net revenues	121,630	84.3%	87,106	75.5%	182,629	79.8%	140,472	70.4%
Distribution:								
Console	16,102	70.8%	20,831	73.7%	32,704	70.6%	41,367	70.1%
PC	6,631	29.2%	7,426	26.3%	13,588	29.4%	17,666	29.9%
Total distribution net revenues	22,733	15.7%	28,257	24.5%	46,292	20.2%	59,033	29.6%
Total net revenues	\$144,363	100.0%	\$115,363	100.0%	\$228,921	100.0%	\$199,505	100.0%

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OPERATING INCOME (LOSS) BY SEGMENT:								
Publishing	\$ 10,461	109.7%	\$ 3,406	96.6%	\$ 4,554	149.9%	\$ (2,541)	98.7%
Distribution	(925)	(9.7%)	119	3.4%	(1,516)	(49.9%)	(34)	1.3%
Total operating income (loss)	\$ 9,536	100.0%	\$ 3,525	100.0%	\$ 3,038	100%	\$ (2,575)	100.0%

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RESULTS OF OPERATIONS - THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2000 AND 1999

NET REVENUES

Net revenues for the three months and six months ended September 30, 2000 increased 25% and 15%, respectively, over the same period last year, from \$115.4 million to \$144.4 million for the three month period and from \$199.5 million to \$228.9 million for the six month period. Publishing net revenues increased 40% and 30% for the three months and six months ended September 30, 2000, respectively, over the same period last year, from \$87.1 million to \$121.6 million for the three month period and from \$140.5 to \$182.6 for the six month period. These increases in publishing net revenues were partially offset by a decrease in net revenues from the Company's distribution business. Distribution net revenues for the three months and six months ended September 30, 2000 decreased 20% and 22%, respectively, from the same period last year, from \$28.3 million to \$22.7 million for the three month period and from \$59.0 million to \$46.3 million for the six month period.

The increase in publishing net revenues for the three months ended September 30, 2000 over the same period last year, was primarily driven by a 60% increase in publishing console net revenues, from \$61.9 million to \$99.1 million. This increase was attributable to several new launches during the second quarter of fiscal 2001, including Tony Hawk's Pro Skater 2 (PSX), Spiderman (PSX and Nintendo Color Gameboy), X-Men Mutant Academy (PSX), Tenchu II (PSX) and Star Trek Invasion (PSX). The launch of Tony Hawk's Pro Skater 2 for the PSX was one of the Company's largest launches in its history with over 1.0 million units shipped. This increase in publishing console net revenues for the quarter was slightly offset by a 10% decrease in publishing PC net revenues for the three months ended September 30, 2000 from the same period last year, from \$25.2 million to \$22.6 million. This decrease is primarily due to fewer PC titles

being released in the three months ended September 30, 2000, compared to the same period last year.

For the six months ended September 30, 2000, the increase in publishing net revenues was primarily driven by a 38% increase in publishing console net revenues over the same period last year, from \$93.4 million to \$129.1 million. This increase was primarily due to the new launches for the PSX and other console systems during the second quarter of fiscal 2001 as described above. Additionally, for the six months ended September 30, 2000, publishing PC net revenues increased 14% over the same period last year, from \$47.1 million to \$53.5 million. This increase was primarily attributable to several new PC launches in the first quarter of fiscal 2001 including Vampire: The Masquerade Redemption and Dark Reign 2, as well as continuing sales of Star Trek Armada, Soldier of Fortune and Quake 3 Arena. This increase in publishing PC net revenues for the quarter ended June 30, 2000 was slightly offset by the decrease in publishing PC net revenues in the quarter ended September 30, 2000 from the same period last year as described above.

The decrease in distribution net revenues for the three months ended September 30, 2000 from the same period last year mainly was attributable to the continued weakness in the European console market. The decrease in distribution net revenues for the six months ended September 30, 2000 from the same period last year mainly was attributable to the decrease in the number of PC titles released in fiscal 2001.

Domestic net revenues increased 56% and 46% for three months and six months ended September 30, 2000, respectively, over the same period last year, from \$59.2 million to \$92.3 million for the three month period and from \$94.6 million to \$138.3 million for the six month period. These increases were driven by the increases in the Company's publishing console net revenues and, to a lesser degree, its publishing PC net revenues.

International net revenues decreased 7% and 14% for the three months and six months ended September 30, 2000, respectively, over the same period last year, from \$56.2 million to \$52.1 million for the three month period and from \$104.9 million to \$90.6 million for the six month period. These decreases are due primarily to the decrease in net revenues from the Company's distribution business.

COSTS AND EXPENSES

Cost of sales - product costs represented 44.6% and 57.4% of net revenues for the three months ended September 30, 2000 and 1999, respectively. Cost of sales - product costs represented 47.2% and 60.0% of net revenues for the six months ended September 30, 2000 and 1999, respectively. These decreases in cost of sales - product costs as a percentage of net revenues for the three months and six months ended September 30, 2000 from the same period last year were due to product mix. During the second quarter of fiscal 2001, virtually all titles shipped were Activision titles. In the same period last year, the Company shipped a significant number of lower margin, third-party titles. Additionally, the decreases as percentage of net revenues are due to the overall increase in publishing net revenues versus distribution net revenues as a percentage of total net revenues. Publishing revenues generate a higher gross margin per unit compared to distribution revenues.

Cost of sales - royalty and software amortization expense represented 17.2% and 10.1% of net revenues for the three months ended September 30, 2000 and 1999, respectively. Cost of sales - royalty and software amortization expense represented 16.8% and 10.8% of net revenues for the six months ended September 30, 2000 and 1999, respectively. The increase in cost of sales - royalty and software amortization expense as a percentage of net revenues was primarily due to changes in the Company's product mix, with an increase in the number of branded products with higher royalty obligations as compared to the same periods in the prior fiscal year.

Product development expenses of \$11.1 million and \$5.8 million represented 7.7% and 5.0% of net revenues for the three months ended September 30, 2000 and 1999, respectively. Product development expenses of \$18.5 million and \$10.3 million represented 8.1% and 5.2% of net revenues for the six months ended September 30, 2000 and 1999, respectively. These increases in product development expenses as a percentage of net revenues were due to an increase in the number of titles

being developed during the three months and six months ended September 30, 2000 for current and next-generation platforms, including PS2.

Sales and marketing expenses for the three months ended September 30, 2000 and 1999 were \$23.9 million (16.5% of net revenues) and \$18.2 million (15.8% of net revenues), respectively. Sales and marketing expenses for the six months ended September 30, 2000 and 1999 were \$41.8 million (18.3% of net revenues) and \$33.4 million (16.8% of net revenues), respectively. The increase in the amount of sales and marketing and the increase as a percentage of net revenues were due to an increase in the number of titles released and the advertising necessary to promote these titles. These increases are also the result of an increase in Activision titles released during fiscal 2001. In fiscal 2000, the Company had a significant number of lower margin, third-party titles.

General and administrative expenses for the three months ended September 30, 2000 and 1999 were \$10.6 million (7.4% of net revenues) and \$9.9 million (8.6% of net revenues), respectively. General and administrative expenses for the six months ended September 30, 2000 and 1999 were \$19.1 million (8.3% of net revenues) and \$17.0 million (8.5% of net revenues), respectively. These changes in general and administrative expenses were due to an increase in headcount related expenses for worldwide administrative support, partially offset by a decrease in goodwill amortization. Goodwill amortization in fiscal 2001 decreased compared to fiscal 2000 due to the significant write-off in the fourth quarter of fiscal 2000 of goodwill relating to Expert as described in the Company's Annual Report on Form 10-K for the year ended March 31, 2000.

OPERATING INCOME (LOSS)

Operating income for the three months ended September 30, 2000 and 1999 was \$9.5 million and \$3.5 million, respectively. Operating income (loss) for the six months ended September 30, 2000 and 1999 was \$3.0 million and (\$2.6 million), respectively.

The increase in operating income for the three months ended September 30, 2000 over the same period last year was primarily due to an increase in publishing operating income from \$3.4 million to \$10.5 million, partially offset by a decline in distribution operating income from \$119,000 to an operating loss of (\$925,000). The increase in operating income for the six months ended September 30, 2000 over the same period last year was primarily due to an increase in publishing operating income, from an operating loss of (\$2.5 million) to operating income of \$4.6 million, partially offset by an increase in the distribution operating loss, from (\$34,000) to (\$1.5 million).

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Publishing operating income increases were primarily the result of increased net revenues and a change in the Company's product mix. In fiscal 2001, the Company shipped significantly more Activision titles. In the prior year, the Company shipped a significant number of lower margin, third-party titles. Distribution operating income decreases were primarily due to reduced net revenues from the continued weakness in the European console market and the decrease in the number of PC titles released during fiscal 2001 as previously discussed.

OTHER INCOME (EXPENSE)

Interest expense, net of interest income, increased to \$2.7 million and \$4.4 million for the three months and six months ended September 30, 2000, respectively, from \$1.8 million and \$3.0 million for the three months and six months ended September 30, 1999, respectively. These increases were due to increased working capital needs, which resulted in increased average borrowings associated with the Company's \$125 million term loan and revolving credit facility obtained in June 1999. The increases were also the result of higher interest rates experienced in fiscal 2001.

PROVISION FOR INCOME TAXES

The income tax provision (benefit) of \$2.5 million and (\$495,000) for the three months and six months ended September 30, 2000, respectively, reflect the Company's effective income tax rate of approximately 37%. The significant items generating the variance between the Company's effective rate and its statutory rate of 35% are state taxes and nondeductible goodwill amortization, partially offset by a decrease in the Company's deferred tax asset valuation allowance and research and development tax credits. The realization of deferred tax assets

primarily is dependent on the generation of future taxable income. Management believes that it is more likely than not that the Company will generate taxable income sufficient to realize the benefit of net deferred tax assets recognized.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents decreased \$24.8 million, from \$50.0 million at March 31, 2000 to \$25.2 million at September 30, 2000. The decrease in cash during the six months ended September 30, 2000 resulted from \$39.3 million of cash used in investing activities, partially offset by \$10.5 million provided by operating activities and \$8.3 million provided by financing activities. The cash provided by operating activities primarily was the result of changes in accounts payable, accrued liabilities, accounts receivable and inventories driven by a seasonal increase in working capital demands. The cash used in investing activities primarily is the result of the Company's continued investment in product development. Approximately \$37.2 million was utilized in connection with the acquisition of publishing or distribution rights to products being developed by third parties, the execution of new license agreements granting the Company long-term rights to intellectual property of third parties, as well as the capitalization of product development costs relating to internally developed products. The cash provided by financing activities is the result of approximately \$5.5 million of cash proceeds from the issuance of common stock pursuant to employee stock option plans and the employee stock purchase plan, as well as net increased borrowings of approximately \$23.2 million under the revolving portion of the U.S. Facility. These amounts were partially offset by \$15.0 million of cash used by the Company to purchase its common stock under its repurchase program and \$5.0 million of cash used to pay down its term loan.

In connection with the Company's purchases of Nintendo N64 software cartridges for distribution in North America and Europe, Nintendo requires the Company to provide irrevocable letters of credit prior to accepting purchase orders from the Company. Furthermore, Nintendo maintains a policy of not accepting returns of Nintendo N64 software cartridges. Because of these and other factors, the carrying of an inventory of Nintendo N64 software cartridges entails significant capital and risk. As of September 30, 2000, the Company had \$4.9 million of Nintendo N64 hardware and software cartridge inventory on hand, which represented approximately 10.3% of all inventory.

In December 1997, the Company completed the private placement of \$60.0 million principal amount of 6 3/4% convertible subordinated notes due 2005 (the "Notes"). The Notes are convertible, in whole or in part, at the option of the holder at any time after December 22, 1997 (the date of original issuance) and prior to the close of business on the business day immediately preceding the maturity date, unless previously redeemed or repurchased, into common stock, \$.000001 par value, of the Company, at a conversion price of \$18.875 per share, (equivalent to a

conversion rate of 52.9801 shares per \$1,000 principal amount of Notes), subject to adjustment in certain circumstances. The Notes are redeemable, in whole or in part, at the option of the Company at any time on or after January 10, 2001. If redemption occurs prior to December 31, 2003, the Company must pay a premium on such redeemed Notes.

In June 1999, the Company obtained a \$125.0 million revolving credit facility and term loan (the "U.S. Facility") with a group of banks ("the lender"). The U.S. Facility provides the Company with the ability to borrow up to \$100.0 million and issue letters of credit up to \$80.0 million on a revolving basis against eligible accounts receivable and inventory. The \$25.0 million term loan portion of the U.S. Facility was used to acquire Expert Software, Inc. in June 1999 and to pay costs related to such acquisition and the securing of the U.S. Facility. The term loan has a three year term with principal amortization on a straight-line quarterly basis which began December 31, 1999 and a borrowing rate based on the banks' base rate (which is generally equivalent to the published prime rate) plus 2% or LIBOR plus 3%. The revolving portion of the U.S. Facility has a borrowing rate based on the banks' base rate plus 1.75% or LIBOR plus 2.75% (weighted average interest rate on outstanding borrowings of approximately 10.1% and 9.8% for the three months and six months ended September 30, 2000, respectively) and matures June 2002. The Company pays a commitment fee of 1/2% on the unused portion of the revolving line. The U.S. Facility is collateralized by substantially all of the assets of the Company and its U.S. subsidiaries. The

U.S. Facility contains various covenants that limit the ability of the Company to incur additional indebtedness, pay dividends or make other distributions, create certain liens, sell assets, or enter into certain mergers or acquisitions. The Company is also required to maintain specified financial ratios related to net worth and fixed charges. The Company was in compliance with these covenants as of September 30, 2000. As of September 30, 2000, \$15.0 million was outstanding under the term loan portion of the U.S. Facility and \$25.3 million was outstanding under the revolving portion of the U.S. Facility. As of September 30, 2000, \$40.6 million of letters of credit were outstanding against the revolving portion of the U.S. Facility.

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

The Company has a revolving credit facility through its CD Contact subsidiary in the Netherlands (the "Netherlands Facility"). The Netherlands Facility permits revolving credit loans and letters of credit up to Netherlands Guilders ("NLG") 26 million (\$10.4 million), based upon eligible accounts receivable and inventory balances. The Netherlands Facility is due on demand, bears interest at a Eurocurrency rate plus 1.25% (weighted average interest rate of 5.5% as of September 30, 2000), is collateralized by GBP 3.0 million (\$4.4 million) letters of credit issued by the Company's CentreSoft subsidiary and matures August 2003. As of September 30, 2000, letters of credit outstanding under the Netherlands Facility were approximately NLG 278,000 (\$111,000) and borrowings outstanding were NLG 8.8 million (\$3.5 million).

The Company also has revolving credit facilities with its CentreSoft subsidiary located in the United Kingdom (the "UK Facility") and its NBG subsidiary located in Germany (the "German Facility"). The UK Facility provides for British Pounds ("GBP") 7.0 million (\$10.2 million) of revolving loans and GBP 3.0 million (\$4.4 million) of letters of credit, bears interest at LIBOR plus 2%, is collateralized by substantially all of the assets of the subsidiary and matures July 2001. The UK Facility also contains various covenants that require the subsidiary to maintain specified financial ratios related to, among others, fixed charges. The Company was in compliance with these covenants as of September 30, 2000. No borrowings were outstanding against the UK facility as of September 30, 2000. Letters of credit of GBP 3.0 million (\$4.4 million) were outstanding against the UK Facility as of September 30, 2000, issued on behalf of the Company's CD Contact subsidiary as described above. The German Facility provides for revolving loans up to Deutsche Mark ("DM") 4 million (\$1.8 million), bears interest at 5.9%, is collateralized by a cash deposit of approximately GBP 650,000 (\$951,000) made by the Company's CentreSoft subsidiary and has no expiration date. No borrowings were outstanding against the German Facility as of September 30, 2000.

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In the normal course of business, the Company enters into contractual arrangements with third parties for the development of products. Under these agreements, the Company commits to provide specified payments to a developer, contingent upon the developer's achievement of contractually specified milestones. Assuming all contractually specified milestones are achieved, the total future minimum contract commitment for contracts in place as of September 30, 2000 is approximately \$39.8 million and is scheduled to be distributed as follows (amounts in thousands):

Fiscal		

2001	\$	15,105
2002		9,199
2003		6,198
2004		3,000
2005		2,125
Thereafter		4,125

Total \$ 39,752

Additionally, under the terms of a production financing arrangement, the Company has a commitment to purchase three future PlayStation 2 titles from independent third party developers upon their completion for an estimated \$12.2 million in the aggregate. Failure by the developers to complete the project within the contractual time frame or specifications alleviates the Company's commitment.

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

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

The Company believes that it has sufficient working capital (\$135.2 million at September 30, 2000), as well as proceeds available from the U.S. Facility, the UK Facility, the Netherlands Facility and the German Facility, to finance the Company's operational requirements for at least the next twelve months, including acquisitions of inventory and equipment, the funding of the development, production, marketing and sale of new products and the acquisition of intellectual property rights for future products from third parties.

FACTORS AFFECTING FUTURE PERFORMANCE

In connection with the Private Securities Litigation Reform Act of 1995 (the "Litigation Reform Act"), the Company has disclosed certain cautionary information to be used in connection with written materials (including this Quarterly Report on Form 10-Q) and oral statements made by or on behalf of its employees and representatives that may contain "forward-looking statements" within the meaning of the Litigation Reform Act. Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology. The listener or reader is cautioned that all forward-looking statements are necessarily speculative and there are numerous risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements. For a discussion that highlights some of the more important risks identified by management, but which should not be assumed to be the only factors that could affect future performance, see the Company's Annual Report on Form 10-K for the year ended March 31, 2000 which is incorporated herein by reference. The reader or listener is cautioned that the Company does not have a policy of updating or revising forward-looking statements and thus he or she should not

assume that silence by management over time means that actual events are bearing out as estimated in such forward-looking statements.

RECENTLY ISSUED ACCOUNTING STANDARDS

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

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS No. 133") is effective for all

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

INTEREST RATE RISK

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

As of September 30, 2000, the carrying value of the Company's variable rate debt was \$43.8 million, which includes the U.S. Facility (\$40.3 million) and the Netherlands Facility (\$3.5 million). A hypothetical 1% increase in the applicable interest rates of the Company's variable rate debt would increase annual interest expense by approximately \$438,000 as September 30, 2000.

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FOREIGN CURRENCY EXCHANGE RATE RISK

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

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PART II. - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its 2000 Annual Meeting of the Stockholders on September 28, 2000 in Beverly Hills, California. Two items were submitted to a vote of the stockholders: (1) the election of six directors to hold office for one year terms and until their respective successors are elected and have qualified and (2) the approval of an amendment to the Company's Employee Stock Purchase Plan to increase the number of shares of the Company's common stock reserved for issuance thereunder.

All six director nominees were recommended by the Board of Directors and all were elected. Set forth below are the results of the voting for each director.

	For -----	Withheld -----
Harold A. Brown	18,393,158	722,065
Barbara S. Isgur	19,090,923	694,100
Brian G. Kelly	19,096,995	688,028
Robert A. Kotick	19,097,618	687,905
Steven T. Mayer	19,091,329	693,694
Robert J. Morgado	19,017,782	767,241

The amendment to the Company's Employee Stock Purchase Plan was approved. Set forth below are the results of the voting.

For -----	Against -----	Abstain -----
19,043,546	696,591	44,886

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 2.1 Agreement and Plan of Merger dated as of June 9, 2000 among Activision, Inc., Activision Holdings, Inc. and ATVI Merger Sub, Inc. (incorporated by reference to Exhibit 2.4 of the Company's Form 8-K filed June 16, 2000).
 - 3.1 Amended and Restated Certificate of Incorporation of Activision Holdings, dated June 1, 2000 (incorporated by reference to Exhibit 2.5 of the Company's Form 8-K, filed on June 16, 2000).
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- 3.2 Amended and Restated Bylaws of Activision Holdings (incorporated by reference to Exhibit 2.6 of the Company's Form 8-K, filed on June 16, 2000).
 - 3.3 Certificate of Amendment of Amended and Restated Certificate of Incorporation of Activision Holdings dated as of June 9,

2000 (incorporated by reference to Exhibit 2.7 of the Company's Form 8-K, filed on June 16, 2000).

- 4.1 Rights agreement dated as of April 18, 2000, between the Company and Continental Stock Transfer & Trust Company, which includes as exhibits the form of Right Certificates as Exhibit A, the Summary of Rights to Purchase Series A Junior Preferred Stock as Exhibit B and the form of Certificate of Designation of Series A Junior Preferred Stock of the Company as Exhibit C, (incorporated by reference to the Company's Registration Statement on Form 8-A, Registration No. 001-15839, filed April 19, 2000).
- 10.1 Amended and restated employment agreement dated as of May 22, 2000 between the Company and Robert A. Kotick.
- 10.2 Stock option agreement dated May 22, 2000 between the Company and Robert A. Kotick.
- 10.3 Amended and restated employment agreement dated as of May 22, 2000 between the Company and Brian G. Kelly.
- 10.4 Stock option agreement dated May 22, 2000 between the Company and Brian G. Kelly.
- 27.1 Financial data schedule for the six months ended September 30, 2000.

(b) Reports on Form 8-K

The Company has filed no reports on Form 8-K during the quarterly period ended September 30, 2000.

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SIGNATURES

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

Date: November 13, 2000

ACTIVISION, INC.

/s/ William J. Chardavoine

Chief Financial Officer and Chief Accounting Officer

November 13, 2000

(William J. Chardavoine)

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AMENDED AND RESTATED EMPLOYMENT AGREEMENT

Amended and Restated Employment Agreement, dated as of May 22, 2000, by and between ACTIVISION, INC., a Delaware corporation with its principal offices at 3100 Ocean Park Boulevard, Santa Monica, CA 90405 (the "COMPANY"), and ROBERT A. KOTICK (the "EXECUTIVE").

RECITALS:

WHEREAS, the Board of Directors of the Company (the "BOARD") approved the execution and delivery of an Employment Agreement, dated as of January 12, 1999, by and between the Company and Executive at a meeting of the Board held on January 12, 1999 (the "EMPLOYMENT AGREEMENT"), pursuant to which, among other things, the Company granted Executive options to purchase 1,000,000 shares of common stock of the Company (the "INITIAL OPTIONS");

WHEREAS, on April 18, 2000, a "Change of Control" (as defined in Section 9(a) (i) of the Employment Agreement) occurred when Eastbourne Capital Management, L.L.C. acquired greater than 15% of the total outstanding voting stock of the Company (the "EASTBOURNE CHANGE OF CONTROL");

WHEREAS, in accordance with the Employment Agreement, upon the Eastbourne Change of Control, the Executive became entitled to certain payments and other benefits from the Company;

WHEREAS, the Board has determined that it is in the best interests of the Company and its stockholders to enter into this Amended and Restated Employment Agreement (this "Agreement") to provide, among other things, the Executive with certain payments and benefits that became due upon the Eastbourne Change of Control, to reflect certain waivers by the Executive of compensation and other benefits to which he became entitled as a result of the Eastbourne Change of Control, and to assure that the Company will have the continued dedication of the Executive by providing him with the additional compensation and benefit arrangements contained herein;

WHEREAS, the Compensation Committee of the Board approved the execution and delivery of this Agreement by the Company at a meeting of the Compensation Committee of the Board held on May 24, 2000; and

WHEREAS, the Company has entered into an Amended and Restated Employment Agreement (the "OTHER EXECUTIVE EMPLOYMENT AGREEMENT"), dated as of the date hereof, on substantially similar terms and conditions as contained herein, with Brian G. Kelly (the "OTHER EXECUTIVE").

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. POSITION AND DUTIES.

(a) The Company agrees to continue to employ the Executive, and the Executive agrees to continue to be employed, as Chairman and Chief Executive Officer of the Company, subject to the supervision of, and reporting only to, the Board. The Executive shall have such senior executive powers, duties, authorities and responsibilities as are consistent with Executive's position and title and as have historically been performed by Executive, including acting as co-chairman of any meeting of the Board, supervising financing, acquisitions and similar major strategic transactions and strategic planning for the Company consistent with his title and position, supervising the President and Chief Operating Officer of the Company and managing all non-operating activities of the Company, including corporate governance, organizational structure, acquisitions and financing, senior executive compensation, stock and stock option issuances and stock option plan management. At all times during the period of Executive's employment, the Executive shall, unless he otherwise elects, be nominated for election by the shareholders of the Company to the

Board.

(b) During the Employment Period (as defined in Section 2 below) and excluding any periods of vacation, the Executive agrees to devote such time, attention and efforts to the business and affairs of the Company as may be necessary to discharge the duties and responsibilities assigned to the Executive hereunder and to use the Executive's reasonable best efforts to perform faithfully and efficiently such duties and responsibilities.

(c) It shall not be a violation of this Agreement for the Executive to engage in any activity which is, in the good faith opinion of the Executive, not inconsistent with the Company's interests and prospects, including, without limitation, (a) serving on civic or charitable boards or committees; (b) serving as an officer or director of any Company that is not in a Competitive Business (as defined herein); (c) delivering lectures, fulfilling speaking engagements or teaching at educational institutions; (d) managing personal investments; and (e) attending conferences conducted by business organizations; provided, however, that such activity does not significantly interfere with the performance of Executive's duties and responsibilities hereunder. It is expressly understood and agreed that to the extent that any activity has been conducted by the Executive prior to the date of this Agreement, the continued conduct of such activity (or the conduct of an activity similar in nature and scope thereto) during the Employment Period shall be deemed not to interfere with the performance of the Executive's duties and responsibilities to the Company and shall not constitute a violation of this Agreement.

(d) Except for periodic travel assignments, the Executive shall not, without his consent, be required to perform services for the Company at any place other than the principal place of the Company's business which shall at all times, unless the Executive otherwise consents, be within a 20 mile radius of the Company's current principal place of business. Notwithstanding anything herein to the contrary, the Executive may, at his sole discretion and upon prior written notice to the Board, relocate

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at any time to New York City, New York in connection with the establishment by the Company of executive offices in such city.

2. EMPLOYMENT PERIOD. The employment of the Executive under the terms of this Agreement shall become effective on April 1, 2000 and terminate on March 31, 2006 (the "EMPLOYMENT PERIOD"). Notwithstanding anything contained herein to the contrary, the Executive's employment pursuant to the terms of this Agreement is subject to termination pursuant to Section 5 below.

3. COMPENSATION. The Executive shall receive the following compensation (the "Compensation") for his services hereunder:

(a) BASE SALARY. The Company shall pay to the Executive a base salary ("BASE SALARY") in respect of each fiscal year of the Company or portion thereof during the Employment Period. Commencing on April 1, 2000, the Base Salary for the Company's fiscal year ending March 31, 2001 shall be \$450,000. Thereafter, on April 1 of each year of the Employment Period, beginning on April 1, 2001, the Base Salary shall automatically increase to an amount equal to one hundred ten (110%) percent of the Base Salary for the Company's prior fiscal year. The Company may withhold from any amounts payable under this Agreement all applicable tax, Social Security and other legally required withholding pursuant to any law or regulation ("WITHHOLDING"). The Base Salary shall be paid in accordance with the customary payroll practices of the Company at regular intervals, but in no event less frequently than every month, as the Company may establish from time to time for senior executive employees of the Company. The Board shall conduct an annual performance appraisal and salary review on behalf of the Executive and may adjust the Base Salary for any succeeding fiscal year, but never below the Base Salary that would have been in effect during such succeeding fiscal year in accordance with this Section 3(a). Any period of less than a full fiscal year which the Base Salary is calculated shall be pro rata.

(b) ANNUAL BONUS. The Executive shall be entitled to receive an annual bonus for each fiscal year of the Company (the "ANNUAL BONUS"), beginning with the fiscal year ending March 31, 2001, based upon the Company achieving mutually agreed upon financial and business objectives for the fiscal year with respect to which the Annual Bonus accrues. Such financial and business objectives for each fiscal year shall be (i) agreed to by the Executive and the

Board not later than fifteen (15) days prior to the beginning of each fiscal year and shall be (ii) made in accordance with Section 11 of the Company's 1998 Incentive Plan. The Annual Bonus shall take of the form of, without limitation, cash, shares of common stock of the Company, Options (as defined herein) or loans, as the case may be. The Company shall pay each Annual Bonus to the Executive no later than thirty (30) days after the completion of the Company's audited consolidated financial statements by the Company's auditors for the subject fiscal year. Each Annual Bonus payment shall be subject to Withholding. Along with the payment of each Annual Bonus, the Company shall also deliver to the Executive a written statement setting forth the basis of its calculation of such Annual Bonus. The Executive and the Executive's representatives shall have the right, at the Executive's cost, to inspect the records of the

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Company with respect to the calculation of any such Annual Bonus, to make copies of said records utilizing the Company's facilities without charge, and to have free and full access thereto upon reasonable notice during the normal business hours of the Company. Any period of less than a full fiscal year which the Annual Bonus is calculated shall be pro rata. The Annual Bonus is intended to qualify as a Performance Award under Section 11 of the Company's 1998 Incentive Plan and shall be subject to the conditions and limitations of such section.

(c) PERFORMANCE BONUS. The Board, in its sole discretion, may award to the Executive a performance bonus at any time in such amount and in such form as the Board may determine, including, without limitation, in the form of cash, shares of common stock of the Company, Options or loans, as the case may be (the "PERFORMANCE BONUS"), after taking into consideration other compensation paid or payable to the Executive under this Agreement, as well as the financial and non-financial progress of the business of the Company and the contributions of the Executive toward that progress. Any Performance Bonus shall be subject to Withholding. Any period of less than a full fiscal year which the Performance Bonus is calculated shall be pro rata.

4. BENEFITS.

(a) MEDICAL, ETC. The Executive shall be entitled to such medical and other benefits, including hospitalization, disability, life and health insurance, to the extent offered by the Company, as are customarily made available to senior executive officers of the Company and upon the same terms. The Executive shall also be entitled to receive those benefits and privileges that the Company currently, and may at any time in the future, provide for its executive officers upon the same terms.

(b) EXPENSES. The Executive shall be reimbursed by the Company for all reasonable travel, entertainment, conference expenses, organization dues and other expenses incurred by the Executive in connection with the performance of Executive's services under this Agreement, subject to the Company's policies in effect from time to time with respect to such expenses, including the requirements with respect to reporting and documentation of such expenses.

(c) OFFICE AND SUPPORT STAFF. During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, including personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company at any time during the 90-day period immediately preceding the date of this Agreement, or, if more favorable to the Executive, as provided at any time after such date to Executive or other senior executive officers of the Company.

(d) VACATION. The Executive shall be entitled to four (4) weeks paid vacation each fiscal year during the Employment Period, in addition to regular paid holidays provided to all employees of the Company; provided that unused vacation time shall not be carried over to any subsequent year. Vacation time shall be taken as

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determined by the Executive in his reasonable and good faith discretion; provided that such time taken is mutually convenient to the Company and not disruptive to the Company's activities or the Executive's responsibilities.

(e) LIFE INSURANCE. The Company shall continue to maintain a renewable term insurance policy or policies for a period of ten (10) years commencing on the date hereof covering the life of the Executive in an amount of \$3,000,000 naming the Executive's estate or any other person designated by the Executive as beneficiary of such policy or policies. The Executive has the right to require the Company at any time to prepay all of the premiums associated with such policy or policies so as to ensure such policies remain in force for the full ten (10) year period.

5. TERMINATION. The employment by the Company of the Executive shall be terminated as provided in this Section 5:

(a) DEATH. Upon the Executive's death ("DEATH").

(b) DISABILITY.

(i) The Company or the Executive, upon not less than thirty (30) days written notice to the other party ("DISABILITY NOTICE"), may terminate the employment by the Company of the Executive if the Executive has been unable, by reason of physical or mental disability, to render, for 120 successive days or for shorter periods aggregating 210 days or more in any twelve month period, services of the character contemplated by this Agreement and will be unable to resume providing such services within a reasonable period of time by reason of such disability (such circumstances being referred to as "DISABILITY").

(ii) The determination of whether the Executive has become disabled within the meaning of this Section 5(b) shall be made (A) in the case of a termination of employment by the Company, by a medical doctor selected by the Company, or (B) in the case of a termination of employment by the Executive, by Executive's medical doctor. In the event the Company gives a notice of termination of employment under this Section 5(b), the Executive or his representative may at any time prior to the effective date of termination contest the termination and cause a determination of Disability to be made by Executive's medical doctor. In the event the Executive gives a notice of termination of employment under this Section 5(b), the Company may at any time prior to the effective date of termination contest the termination and cause a determination of Disability to be made by a medical doctor selected by the Company. In either case, if such medical doctors do not agree with regard to the determination of Disability, they shall mutually choose a third medical doctor to examine the Executive, and the Disability determination of such third medical doctor shall be binding upon both the Company and the Executive.

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(c) WITHOUT CAUSE. By the Company, for any reason other than Death, Cause or Disability, but only upon a vote of a majority of the entire Board at a meeting duly called and held at which Executive shall have the right to be present and be heard.

(d) CAUSE. By the Company, for Cause, but only upon a vote of a majority of the entire Board at a meeting duly called and held at which Executive shall have the right to be present and be heard. The term "Cause" means (i) any act of fraud or embezzlement in respect of the Company or its funds, properties or assets; or (ii) conviction of the Executive of a felony relating to his actions as an executive of the Company under the laws of the United States or any state thereof (provided that all rights of appeal have been exercised or have lapsed) unless such acts were committed in the reasonable, good faith belief that his actions were in the best interests of the Company and its stockholders and would not violate criminal law; or (iii) willful misconduct or gross negligence by the Executive in connection with the performance of his duties that has caused or is highly likely to cause severe harm to the Company; or (iv) intentional dishonesty by the Executive in the performance of his duties hereunder which has a material adverse effect on the Company.

(e) RESIGNATION. By the Executive, other than for Good Reason, as hereinafter defined ("RESIGNATION").

(f) GOOD REASON. By the Executive, for Good Reason. As used herein, the term "GOOD REASON" means that, without the Executive's prior written consent, there shall have occurred: (i) a reduction in the Executive's Base Salary other than the dollar amount of the Annual Bonus or the dollar amount of the Performance Bonus; (ii) a material reduction in the Executive's benefits;

(iii) the assignment to the Executive of any duties inconsistent with the Executive's position, duties, responsibilities, authority or status with the Company or a change in Executive's reporting responsibilities, titles or offices as in effect prior to such assignment or change; (iv) the Company's material breach or failure to perform, when due, any of its obligations under this Agreement, unless cured within 10 days after receipt of written notice by the Company from the Executive specifically identifying the manner in which the Executive believes the Company has materially breached such obligations; (v) any purported termination of Executive's employment which is not effected pursuant to a Notice of Termination satisfying the applicable requirements with respect to Section 6 of this Agreement; (vi) a determination by the Executive, made in good faith, that the Executive is not able to discharge his duties effectively by reason of directives from the Board, a Change of Control or similar circumstances; or (vii) a failure by the Company to renew this Agreement at the conclusion of the Employment Period on such terms and conditions as are similar to the terms and conditions contained herein.

6. NOTICE AND DATE OF TERMINATION. Any termination of the Executive's employment under Section 5, other than by reason of Death, shall be communicated by written Notice of Termination from the terminating party to the other party hereto. For purposes of this Agreement, a "NOTICE OF TERMINATION" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set

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forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. The effective date of any termination of the Executive's employment (the "DATE OF TERMINATION") shall be:

(a) if the Executive's employment is terminated by Death, the date of the Executive's death;

(b) if the Executive's employment is terminated by the Company Without Cause or by the Executive for Good Reason, 30 days after Notice of Termination is given;

(c) if the Executive's employment is terminated by reason of Disability, (i) 30 days after the Disability Notice or (ii) upon a final determination, pursuant to Section 5(b)(ii) above, as the case may be, whichever is later; provided that the Executive shall not have returned to the full-time performance of his duties during such period; and

(d) if the Executive's employment is terminated on account of Cause or Resignation, the date specified in the Notice of Termination, which shall be no less than ten (10) nor more than 30 days after such Notice of Termination is given.

7. COMPENSATION UPON TERMINATION. The Executive shall be entitled to the following Compensation from the Company upon termination of employment pursuant to Section 5 in full discharge of the Company's obligations (each a "TERMINATION COMPENSATION"):

(a) COMPENSATION UPON DEATH. In the event of termination of the Executive's employment upon Death, the Executive's heirs, successors or legal representatives shall be entitled to receive: (i) the Base Salary through the Date of Termination; (ii) any unpaid Annual Bonus and Performance Bonus for any prior fiscal year; (iii) pro rata Annual Bonus for the current fiscal year; (iv) an amount equal to 300% of the dollar amount of the Base Salary paid or payable to the Executive hereunder for the Company's most recent fiscal year immediately prior to the Executive's date of death; (v) reimbursement due to Executive pursuant to Section 4(b); (vi) the Executive's then current spouse and minor children, if any, shall receive the same level of health/medical insurance or coverage that was provided to Executive immediately prior to the Executive's death for a two year period, with the cost of such continued insurance or coverage being borne by the Company. All such payments shall be in addition to any payments the Executive's widow, beneficiaries or estate may be entitled to receive pursuant to any pension or employee benefit plan or life insurance policy maintained by the Company. In addition, all options granted to the Executive to purchase shares of common stock of the Company, whether granted pursuant to this Agreement or granted at any time prior hereto or hereafter, then held by the Executive shall, to the extent not already vested and

exercisable, immediately vest and become exercisable until the later of the fifth anniversary of the Date of Termination or May 22, 2010.

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(b) COMPENSATION UPON DISABILITY. In the event of termination of the Executive's employment for Disability, the Executive shall be entitled to receive: (i) the Base Salary through the Date of Termination; (ii) any unpaid Annual Bonus and Performance Bonus for any prior fiscal year; (iii) the pro rata portion of the Annual Bonus and Performance Bonus for the fiscal year in which the Date of Termination occurs; (iv) reimbursement due to Executive pursuant to Section 4(b); (v) an amount equal to three hundred (300%) percent of the average Base Salary paid or payable to the Executive hereunder for the Company's three most recent fiscal years immediately prior to the Executive's disability termination less the amount, if any, of any payments received by the Executive from any Company-funded disability insurance plan, payable in installments at least as frequent as monthly, subject to Withholding for the longer of two (2) years or the balance of the Employment Period; and (vi) the Executive and his then current spouse and minor children, if any, shall receive the same level of health/medical insurance or coverage provided immediately prior to such disability termination for the longer of two (2) years or the balance of the Employment Period, with the cost of such continued insurance or coverage being borne by the Company. In addition, all options granted to the Executive to purchase shares of common stock of the Company, whether granted pursuant to this Agreement or granted at any time prior hereto or hereafter, then held by the Executive shall, to the extent not already vested and exercisable, immediately vest and become exercisable until the later of the fifth anniversary of the Date of Termination or May 22, 2010.

(c) COMPENSATION UPON RESIGNATION OR TERMINATION FOR CAUSE. In the event of termination of the Executive's employment upon Resignation or termination for Cause, the Executive shall be entitled to receive the (i) Base Salary through the Date of Termination; (ii) any unpaid Annual Bonus and Performance Bonus for any prior fiscal year; and (iii) reimbursement due to Executive pursuant to Section 4(b).

(d) COMPENSATION UPON TERMINATION BY EXECUTIVE FOR GOOD REASON OR BY THE COMPANY WITHOUT CAUSE. In the event the Executive's employment is terminated by the Executive for Good Reason or by the Company Without Cause, then the Executive shall be entitled to receive: (i) the Base Salary through the Date of Termination; (ii) any unpaid Annual Bonus and Performance Bonus for any prior fiscal year; (iii) the pro rata portion of the Annual Bonus and Performance Bonus for the fiscal year in which the Date of Termination occurs; (iv) reimbursement due to Executive pursuant to Section 4(b); (v) an amount equal to the greater of (A) the dollar amount equal to the Base Salary, Annual Bonus and Performance Bonus paid or payable to the Executive hereunder for the Company's most recent fiscal year immediately prior to the Executive's termination multiplied by three, and (B) the dollar amount payable to Executive hereunder for the remaining term of this Agreement had the Executive's employment not been terminated (the "Amount Payable"); and (vi) the Executive and his then current spouse and minor children, if any, shall receive the same level of health/medical insurance or coverage provided immediately prior to such termination for the longer of two (2) years or the balance of the Employment Period, with the cost of such continued insurance or coverage being borne by the Company; provided, however, that the Company shall not be required to provide any such coverage after such time as Executive becomes entitled to receive

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(without regard to any individual waivers of coverage or other similar arrangements) comparable health/medical benefits of the same type from another employer or recipient of Executive's services. For purposes of computing the Amount Payable, for each fiscal year during the remainder of the Employment Period, (A) Base Salary shall be determined in accordance with the terms of Section 3(a) of this Agreement and (B) the Annual Bonus and Performance Bonus for each fiscal year of the remaining Employment Period shall be deemed to be equal to the product of (1) the Base Salary that would have been in effect during such fiscal year and (2) a fraction, the numerator of which is the total of the Annual Bonus and Performance Bonus that was paid to the Executive for the Company's two fiscal years preceding Executive's termination, and the denominator of which is the Base Salary that was paid to Executive for the

Company's two fiscal years preceding Executive's termination. In addition, all outstanding loans extended by the Company to Executive shall be forgiven and all options granted to the Executive to purchase shares of common stock of the Company, whether granted pursuant to this Agreement or granted at any time hereafter, then held by the Executive shall immediately vest and become exercisable until the later of the fifth anniversary of the Date of Termination or May 22, 2010.

(e) The Executive shall not be required to mitigate the amount of any payment provided for in this Section 7 or in Section 10(c) by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Section 7 or in Section 10(c) be reduced by any compensation earned by him as the result of employment by another employer or by retirement benefits after the Date of Termination, or otherwise, except as specifically provided in this Section 7 or in Section 10(c).

(f) All amounts to be paid to the Executive hereunder shall be paid to the Executive in a lump sum no later than ten days following the Date of Termination.

8. ADVISORY AGREEMENT. In the event of termination of Executive's employment other than upon Death, Disability or termination for Cause, and other than termination by Executive upon Resignation (other than a Resignation following a Change of Control) ("ADVISORY TERMINATION"), the Company and Executive shall enter into a consulting agreement (the "CONSULTING AGREEMENT") pursuant to which the Company shall retain Executive as a consultant of the Company for a period of four years following the Advisory Termination. The Consulting Agreement shall provide for, among other things, (i) payment of fees to the Executive in an amount equal to 80% of the Executive's Base Salary in effect during the Company's most recent fiscal year preceding an Advisory Termination, (ii) that Executive shall continue to receive those benefits described in Section 4 herein (other than those benefits described in Section 4(e)), (iii) that Executive shall not be restricted from engaging (including, without limitation, as an officer, director, shareholder, owner, partner, joint venturer, member or in a managerial capacity, or as an employee, independent contractor, consultant, advisor or sales representative) in such activities as the Executive deems appropriate to engage in during the term of the Consulting Agreement, provided that such activities are not directly competitive with the activities of the Company, and (iv) that Executive shall not be required to provide services under the Consulting Agreement in excess of 20 hours per month and such

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services shall be provided at such times and places as is to be mutually determined by the Company and the Executive.

9. STOCK OPTIONS.

(a) EXISTING OPTIONS. Any and all options granted to the Executive to purchase shares of common stock of the Company prior to the date hereof, whether pursuant to the Employment Agreement or otherwise, (i) vested and became exercisable in full on April 18, 2000 and shall be exercisable until April 18, 2010, and (ii) shall be transferable in whole or in part, at any time and from time to time, to the Executive's spouse or children, or to a trust created by the Executive for the benefit of the Executive or his immediate family or to a corporation or other entity controlled by the Executive and in which the Executive or members of his immediate family have all of the economic interests, without regard to Executive's continued employment with the Company and without regard to any inconsistent provisions of the agreements pursuant to which such options were granted.

(b) NEW OPTIONS. In addition to the compensation described in Section 3 hereof, the Company, as of May 22, 2000, entered into a Stock Option Agreement with the Executive granting the Executive options (the "OPTIONS") to purchase 1,000,000 shares of common stock of the Company at the market price on the close of business on May 22, 2000.

(c) OUTSTANDING OPTIONS. For purposes of this Agreement, the term "OUTSTANDING OPTIONS" with reference to a particular date shall mean the Options and all other options to purchase Common Stock held by the Executive as at such date, whether or not such options are then vested and exercisable.

10. CHANGE OF CONTROL. In the event that the Executive is an employee of the Company at the moment immediately prior to a Change of Control (as defined herein), the Executive shall be entitled to receive all benefits described in this Section 10.

(a) For purposes of this Agreement, a "CHANGE OF CONTROL" shall be deemed to occur upon the occurrence of any of the following events:

(i) any "person" or "group" (as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT") and the rules and regulations promulgated thereunder) is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 25% of the total outstanding voting stock of the Company;

(ii) the individuals who constitute the Board as of the date of this Agreement (the "INCUMBENT BOARD") cease to constitute a majority of the Board, for any reason(s) other than (A) the voluntary resignation of one or more Board members; (B) the removal of one or more directors by the Company's shareholders for good cause; provided, however (1) that if the nomination or election of any new director of the Company was approved by a majority of the Incumbent Board, such new director shall be

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deemed a member of the Incumbent Board and (2) that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened "ELECTION CONTEST" (as described in Rule 14a-11 promulgated under the Securities Exchange Act of 1934, as amended) or as a result of a solicitation of proxies or consents by or on behalf of any "person" or "group" identified in clause (a)(i) above; or

(iii) the Company consolidates with, or merges with or into another person or entity or conveys, transfers, leases or otherwise disposes of all or substantially all of its assets to any person or entity, or any person or entity consolidates with or merges with or into the Company; provided, however that any such transaction shall not constitute a Change of Control if the shareholders of the Company immediately before such transaction own, directly or indirectly, immediately following such transaction in excess of sixty-five percent (65%) of the combined voting power of the outstanding voting securities of the corporation or other person or entity resulting from such transaction in substantially the same proportion as their ownership of the voting securities of the Company immediately before such transaction.

(iv) For purposes of this subsection, the term "AFFILIATE" means, with respect to any individual or a corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or political subdivision thereof) or other entity of any kind (each a "PERSON"), any other Person that directly or indirectly controls or is controlled by or under common control with such Person. For the purposes of this definition, "CONTROL," when used with respect to any Person, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; and the terms of "AFFILIATED," "CONTROLLING" and "CONTROLLED" have meanings correlative to the foregoing.

(b) In the event that the Executive is an employee of the Company at the moment immediately prior to a Change of Control:

(i) the Company shall pay ("CHANGE OF CONTROL COMPENSATION") to the Executive additional compensation in the form of cash equal to, on the date of a Change of Control and with respect to all Outstanding Options as of the date of the Change of Control (whether or not all such Outstanding Options have vested or are exercisable on such date), the product of (x) the number of shares of common stock of the Company underlying each of the Outstanding Options and (y) the amount, if any, that the exercise price of any Outstanding Options (as adjusted pursuant to Section 10(b)(iv)) (the "EXERCISE PRICE") or the Closing Share Value (as defined below), whichever is less, exceeds the Initial Share Value (as defined below);

(ii) with respect to each Outstanding Option as of the date of the Change of Control, in the event that the Closing Share Value is greater than

the Exercise Price of any such Outstanding Option (as adjusted pursuant to Section

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10(b)(iv)), then the Executive shall have the right, separately with respect to each of the Outstanding Options, to either (A) retain the Outstanding Options, (B) exercise the Outstanding Options, or (C) forfeit the Outstanding Options and receive, in exchange therefor, a cash payment equal to the number of shares of common stock of the Company underlying the Outstanding Options multiplied by the amount that the Closing Share Value exceeds the Exercise Price of the Outstanding Options (as adjusted pursuant to Section 10(b)(iv));

(iii) upon the occurrence of a Change of Control, all then Outstanding Options shall immediately vest and become exercisable for a period of ten (10) years commencing on the Date of Termination without regard to Executive's continued employment with the Company pursuant to this Agreement and without regard to the terms of any option agreement or option certificate applicable to any Outstanding Options;

(iv) upon the occurrence of a Change of Control, the Exercise Price of all of the then Outstanding Options shall be adjusted ("REPRICING") to equal the lower of (i) the weighted average exercise price on the date hereof of all Outstanding Options on the date hereof, (ii) the weighted average exercise price of all Outstanding Options immediately prior to the date of the Change of Control, (iii) the weighted average exercise price on the date hereof of all options to acquire shares of common stock of the Company held by the Other Executive (the "OTHER EXECUTIVE OUTSTANDING OPTIONS") on the date hereof, or (iv) the weighted average exercise price of all of the Other Executive Outstanding Options immediately prior to the date of the Change of Control (the lesser of such amounts being referred to as the "WEIGHTED AVERAGE EP"); provided, however, that any Outstanding Options with an Exercise Price less than the Weighted Average EP shall not be subject to Repricing in accordance with the terms of this Section 10(b)(iv) and shall continue to have the Exercise Price in effect on the date hereof or immediately prior to the date of the Change of Control, as the case may be, for such Outstanding Options; and

(v) any and all payments payable to Executive relating to the Outstanding Options in accordance with this Section 10 ("OPTION PAYMENTS") shall be computed based on the Exercise Price (as adjusted pursuant to Section 10(b)(iv))

(c) In the event that the Executive's employment is terminated by the Executive upon Resignation during the six month period following the three month anniversary of the effective date of the Change of Control, or by the Executive for Good Reason, or by the Company Without Cause, at any time during the nine month period following the effective date of the Change of Control, the Executive shall receive, in addition to the amounts payable pursuant to Section 7(c), (i) the pro rata portion of the Annual Bonus and Performance Bonus for the fiscal year in which the Change of Control occurs, computed through the Date of Termination; (ii) an amount equal to the greater of (A) the dollar amount equal to the Base Salary, Annual Bonus and Performance Bonus paid or payable to the Executive hereunder for the Company's most recent fiscal year immediately prior to the Executive's termination multiplied by five, and (B) the Amount

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Payable; and (iii) the Executive and his then current spouse and minor children, if any, shall receive the same level of health/medical insurance or coverage provided immediately prior to such Change of Control for the longer of two (2) years or the balance of the Employment Period, with the cost of such continued insurance or coverage being borne by the Company; provided, however, that the Company shall in not be required to provide any such coverage after such time as Executive becomes entitled to receive (without regard to any individual waivers of coverage or other similar arrangements) comparable health/medical benefits of the same type from another employer or recipient of Executive's services. In addition, all outstanding loans extended by the Company to Executive shall be forgiven. All amounts to be paid to the Executive pursuant to this Section (c) shall be paid to the Executive not later than ten days following the Date of Termination.

(d) If in the opinion of tax counsel selected by the Executive and reasonably acceptable to the Company, the Executive has or will receive any compensation or recognize any income (whether or not pursuant to this Agreement or any plan or other arrangement of the Company and whether or not the Executive's employment with the Company has terminated) which constitute an "excess parachute payment" within the meaning of Section 280G(b)(1) of the Internal Revenue Code of 1986, as amended (the "Code") (or for which a tax is otherwise payable under Section 4999 of the Code), then the Company shall pay the Executive an additional amount (the "ADDITIONAL AMOUNT") equal to the sum of (i) all taxes payable by the Executive under Section 4999 of the Code with respect to (A) all such excess parachute payments (or otherwise) and (B) the Additional Amount, plus (ii) all federal, state and local income taxes payable by Executive with respect to the Additional Amount. The amounts payable pursuant to this Section 10(d) shall be paid by the Company to the Executive concurrently with the payment of such compensation or recognition of income giving rise to the Company's obligations under this Section 10(d).

(e) For purposes of this subsection:

(i) "INITIAL SHARE VALUE" shall mean the average of the Closing Prices of the shares of common stock of the Company for the period commencing on the 180th day prior to the date of the Change of Control and ending on the 150th day prior to the date of the Change of Control;

(ii) "CLOSING SHARE VALUE" shall mean the Closing Price of the shares of common stock of the Company on the date of the Change of Control; and

(iii) the "CLOSING PRICE" of a share of common stock of the Company on any date shall mean the last sale price, regular way, or, in case no such sale takes place on such date, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the such shares are listed or admitted to trading or, if such shares are not listed or admitted to trading on any national securities exchange, the last quoted price, or if not so quoted, the

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average of the highest bid and lowest ask prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System or, if such system is no longer used, the principal other automated quotation system that may then be in use or, if such shares are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making market in the shares as such person is selected from time to time by the Board or, if there are no professional market makers making a market in the shares, then the value as determined in good faith judgement of the Board.

11. FAVORED NATIONS. If the Other Executive shall receive a Benefit (as defined herein) pursuant to the provisions of the Other Executive's Employment Agreement or otherwise, which is in excess of a Benefit, if any, received by the Executive pursuant to the provisions of this Agreement or otherwise (such date, if any, that the Other Executive or the Executive receives a Benefit, a "BENEFIT DATE"), the Company shall provide to the Executive a cash payment in an amount that is equivalent to the value of the Benefit received by the Other Executive less the value of the Benefit, if any, received by the Executive at a Benefit Date ("FAVORED PAYMENT").

(a) For purposes of computing a Favored Payment, the Executive and the Board shall endeavor to mutually determine, in good faith, the dollar value of a Favored Payment. If the Executive and the Board do not determine the dollar value of a Favored Payment within 30 days of a Benefit Date, the dollar value of the Favored Payment shall be determined by independent public accountants mutually acceptable to the Company and the Executive, which determination shall be conclusive and binding.

(b) For purposes of this Agreement, a "BENEFIT" shall be deemed to include any payment or other benefit which is received by the Executive or the Other Executive or granted to the Executive or the Other Executive, as the case may be, pursuant to the terms of this Agreement or the Other Executive Employment Agreement or otherwise, including, without limitation, the Repricing of either of the Outstanding Options or the Other Executive Outstanding Options, other than:

(i) a Benefit which the Compensation Committee of the Board or the Board, as the case may be, shall specifically determine at the time the Benefit is approved by the Compensation Committee or the Board, as the case may be, to not be a Benefit for purposes of this Agreement; or

(ii) a Favored Payment.

12. ADVANCES. The Company may, upon written consent of the Board, make an advance to the Executive against any compensation or other amounts to be paid by the Company to the Executive (an "ADVANCE"). Any amounts due under this Agreement to the Executive shall, at the election of the Company, be offset by any then outstanding Advances. In the event of Executive's termination of employment, Executive agrees that the Company shall have the right to offset the amount of any and all outstanding Advance(s) against any compensation or any other amounts due to the Executive from

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the Company, and that any remaining balance of the Advance(s) shall be repaid by the Executive within ninety (90) days after the termination of Executive's employment by the Company.

13. NON-COMPETITION AND NON-SOLICITATION.

(a) NON-COMPETITION PROHIBITED ACTIVITIES. During the term of his employment hereunder and for two (2) years thereafter (the "NON-COMPETITION PERIOD"), the Executive shall not engage (including, without limitation, as an officer, director, shareholder, owner, partner, joint venturer, member or in a managerial capacity, or as an employee, independent contractor, consultant, advisor or sales representative) in any Competitive Business (as hereinafter defined) in the Territory (as hereinafter defined). For purposes of determining whether the Executive is permitted to be a shareholder of a corporation engaged in a Competitive Business, the Executive's ownership of less than 5% of the issued and outstanding securities of a company whose securities are publicly-traded in any U.S. or non-U.S. securities exchanges or quotation system shall be permitted.

(b) NON-SOLICITATION PROHIBITED ACTIVITIES. During the Non-Competition Period and in the Territory, the Executive covenants and agrees that he shall not solicit, directly or indirectly, any person who is, at that time, or who was at any time within three (3) months prior to that time, an employee of the Company for the purpose or with the intent of enticing such employee away from or out of the employ of the Company.

(c) As used herein, the term "COMPETITIVE BUSINESS" shall mean any business engaged in publishing and distributing video games and entertainment software for personal computers.

(d) As used herein, the term "TERRITORY" shall mean:

(i) The following counties in the State of California: Alameda, Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Fresno, Glenn, Humboldt, Imperial, Inyo, Kern, Kings, Lake, Lassen, Los Angeles, Madera, Marin, Mariposa, Mendocino, Merced, Modoc, Mono, Monterey, Napa, Nevada, Orange, Placer, Plumas, Riverside, Sacramento, San Benito, San Bernardino, San Diego, San Francisco, San Joaquin, San Luis Obispo, San Mateo, Santa Barbara, Santa Cruz, Shasta, Sierra, Siskiyou, Solano, Sonoma, Stanislaus, Sutter, Tehama, Trinity, Tulare, Tuolumne, Ventura, Yolo, and Yuba;

(ii) Each and every county or other political or geographical subdivision in the balance of the United States of America and the dependent territories of the United States of America; and

(iii) Each and every county or other political or geographical subdivision in the world.

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(e) The foregoing prohibitions in subsections (a) and (b) shall bind the Executive only so long as the Company pays him the Termination Compensation

pursuant to Section 7 or the Change of Control Compensation pursuant to Section 10 during the Non-Competition Period and otherwise complies with its obligations hereunder.

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14. CONFIDENTIAL INFORMATION. The Executive has executed or, if not previously executed, agrees to execute and be bound by the terms and conditions of the Company's Employee Proprietary Information Agreement ("PROPRIETARY INFORMATION AGREEMENT"), attached hereto as Appendix A.

15. UNENFORCEABILITY. If any of the rights or restrictions contained or provided for in this Agreement shall be deemed by a court of competent jurisdiction to be unenforceable by reason of the extent, duration or geographical scope, the parties hereto contemplate that the court shall reduce such extent, duration, geographical scope and enforce this Agreement in its reduced form for all purposes in the manner contemplated hereby. Should any of the provisions of this Agreement require judicial interpretation, it is agreed that the court interpreting or construing this Agreement shall not apply a presumption that any provision shall be more strictly construed against one party by reason of the rule of construction that a document is to be construed more strictly against the party who itself or through its agents prepared the same, it being agreed that both parties and their respective agents have participated in the preparation of this Agreement.

16. INJUNCTIVE RELIEF. The Executive agrees that the restrictions and covenants contained in Section 13 and in the Proprietary Information Agreement are necessary for the protection of the Company and any breach thereof will cause the Company irreparable damages for which there is no adequate remedy at law. The Executive further agrees that, in the event of a breach by the Executive of any of Executive's obligations thereunder, the Company shall have the absolute right, in addition to any other remedy that might be available to it, to obtain from any court having jurisdiction, such equitable relief as might be appropriate, including temporary, interlocutory, preliminary and permanent decrees or injunctions enjoining any further breach of such provisions.

17. INDEMNIFICATION AND ATTORNEYS' FEES. Subject to applicable laws, during the Employment Period and thereafter, the Company shall indemnify, hold harmless and defend the Executive from all damages, claims, losses, and costs and expenses (including reasonable attorney's fees) arising out of, in connection with, or relating to all acts or omissions taken or not taken by him in good faith while performing services for the Company, and shall further promptly reimburse the Executive for all expenses (including attorney's fees) incurred in enforcing the benefits of this Agreement. The Company shall use its best efforts to continue to maintain an insurance policy covering the officers and directors of the Company against claims and/or lawsuits, at least as favorable as such policy that is currently in effect, and shall cause the Executive to be covered under such policy upon the same terms and conditions as other similarly situated officers and directors during the Employment Period and for a period of at least six (6) years thereafter.

18. WAIVER. Executive hereby waives any and all rights to payment (whether the Executive is entitled to a cash payment or other payment arising on account of the Initial Options), and hereby agrees that this Agreement satisfies any and all obligations that are due to Executive, pursuant to the Employment Agreement that became due to the Executive by virtue of the Eastbourne Change of Control, provided, however, that such

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waiver shall not apply to payments or other benefits that may hereafter become due to Executive upon a Change of Control pursuant to the terms and conditions contained herein.

19. MISCELLANEOUS.

(a) SEVERABILITY. If any provision of this Agreement is determined to be invalid or unenforceable, it shall not affect the validity or enforceability of any of the other remaining provisions hereof.

(b) NOTICES. For purposes of this Agreement, notices and all other

communications provided for herein shall be in writing and shall be deemed to have been duly given when (i) delivered personally; (ii) sent by facsimile or other similar electronic device and confirmed; (iii) delivered by courier or overnight express; or (iv) three business days after being sent by registered or certified mail, postage prepaid, addressed as follows:

If to the Company:

Activision, Inc.
3100 Ocean Park Boulevard
Santa Monica, CA 90405
Attention: General Counsel

with a copy to:

Robinson Silverman Pearce Aronsohn & Berman, LLP
1290 Avenue of the Americas
New York, NY 10104
Attention: Kenneth L. Henderson, Esq.

If to the Executive:

Robert A. Kotick
1101 Cove Way
Beverly Hills, CA 90210

or to such other address as a party may furnish to the other party in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

(c) WAIVER. No waiver by either party hereto of any breach of any provision of this Agreement shall be deemed a waiver of any preceding or succeeding breach of such provision or any other provision herein contained.

(d) GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of California, without giving effect to the conflict of law principles thereof; provided, however, that Section 13 of this

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Agreement shall be governed by, and construed in accordance with, the laws of the state in which the Executive has his principal office.

(e) ENTIRE AGREEMENT. This Agreement sets forth the entire agreement of the parties hereto with respect to the subject matter hereof, and is intended to supersede all prior employment negotiations, understandings and agreements. No provision of this Agreement may be waived or changed, except by a writing signed by the party to be charged with such waiver or change.

(f) SUCCESSORS: BINDING AGREEMENT. Neither of the parties hereto shall have the right to assign this Agreement or any rights or obligations hereunder without the prior written consent of the other party; provided, however, that this Agreement shall inure to the benefit of and be binding upon the successors and assigns of the Company upon any sale of all or substantially all of the Company's assets, or upon any merger or consolidation of the Company with or into any other corporation, all as though such successors and assigns of the Company and their respective successors and assigns were the Company. Insofar as the Executive is concerned this Agreement, being personal, cannot be assigned.

(g) COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be an original, but together shall constitute one and the same instrument.

(h) HEADINGS. The headings and captions set forth in this Agreement are for ease of reference only and shall not be deemed to constitute a part of the agreement formed hereby or be relevant to the interpretation of any provisions of this Agreement.

(i) SATURDAYS, SUNDAYS AND HOLIDAYS. Whenever any determination is to be made or action to be taken on a date specified in this Agreement, if such date shall fall upon a Saturday, Sunday or a legal holiday in the State of

California, the date for such determination or action shall be extended to the first business day immediately thereafter.

[SIGNATURE PAGES BEGIN ON THE FOLLOWING PAGE]

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

ACTIVISION, INC.

By: /s/ BRIAN G. KELLY

Name: Brian G. Kelly
Title: Co-Chairman

/s/ ROBERT A. KOTICK

Robert A. Kotick

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STOCK OPTION AGREEMENT

STOCK OPTION AGREEMENT (the "AGREEMENT") is made and entered into as of the 22nd day of May, 2000, by and between ACTIVISION, INC., a Delaware corporation (the "COMPANY") and Robert A. Kotick (the "Optionee").

WHEREAS, the Company and the Optionee have entered into that certain Amended and Restated Employment Agreement dated as of the date hereof (the "EMPLOYMENT AGREEMENT").

WHEREAS, the Company considers it desirable and in its best interests that Optionee be granted the option to purchase an aggregate of One Million (1,000,000) shares of Common Stock of the Company, par value \$.000001 per share (the "COMMON SHARES"), in accordance with the Employment Agreement and upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, for good and valuable consideration paid by the Optionee to the Company, the adequacy of which is hereby acknowledged, and the mutual covenants hereinafter set forth, the parties agree as follows:

1. GRANT OF OPTION. The Company hereby grants to the Optionee the right and option (hereinafter the "OPTION") to purchase all or any part of an aggregate of One Million (1,000,000) Common Shares (subject to adjustment as provided in Paragraph 6 hereof), on the terms and conditions set forth herein.

2. PURCHASE PRICE. The purchase price of the Common Shares covered by the Option shall be \$6.125 per share (subject to adjustment as provided in Paragraph 6 hereof and Section 10(b)(iv) of the Employment Agreement) (the "PURCHASE PRICE").

3. TERM OF THE OPTION. The Option shall vest and be exercisable as follows: (i) the Option shall be exercisable as to 250,000 shares at any time after the date hereof and prior to the Expiration Date (as defined in Section 16), (ii) the Option shall be exercisable as to the remaining 750,000 shares, pro rata on a monthly basis, commencing on the 22nd day of June, 2000 and thereafter on the 22nd day of each month for a period of three years through May 22, 2003 and (iii) the Option shall be exercisable as set forth in Sections 7(b) and 16(c).

4. METHOD OF EXERCISING OPTION.

(a) The Optionee may exercise the Option in whole or in part (to the extent that it is exercisable in accordance with its terms) by giving written notice to the Company, specifying therein the number of Common Shares which the Optionee then elects to purchase or with respect to which the Option is being exercised, and the method by which the

Optionee intends to pay for the Common Shares. The date on which the notice is given to the Company is hereinafter referred to as the "DATE OF EXERCISE."

(b) As soon as practicable after receipt by the Company of such notice and of payment in full of the Purchase Price of all the Common Shares with respect to which the Option has been exercised, a certificate or certificates representing such Common Shares shall be issued in the name of the Optionee and shall be delivered to the Optionee.

(c) The Optionee may pay the Purchase Price in one of the following manners:

(i) CASH EXERCISE; EXCHANGE OF SHARES. The Optionee shall deliver the Purchase Price (A) in immediately available funds or (B) by surrendering to the Company certificate(s) representing a number of shares of common stock of the Company with a value equal to Purchase Price, where the value of such shares of common stock is equal to the average of the closing sale prices of such common stock for the five (5) trading days immediately prior to (but not including) the Date of Exercise.

(ii) Cashless Exercise. The Optionee shall surrender this Option to the Company, in which event the Company shall issue to the Optionee the number of Common Shares determined as follows:

$$X = (Y * (A - B)) / B$$

where:

X = the number of Common Shares to be issued to the Optionee;

Y = the number of Common Shares with respect to which this Option is being exercised;

A = the average of the closing sale prices of the common stock of the Company for the five (5) trading days immediately prior to (but not including) the Date of Exercise;

B = the Purchase Price.

(d) For purposes of Rule 144 promulgated under the Securities Act, it is intended, understood and acknowledged that the Common Shares issued in a cashless exercise transaction shall be deemed to have been acquired by the Optionee, and the holding period for the Common Shares shall be deemed to have been commenced, on the date hereof.

5. AVAILABILITY OF SHARES. The Company, during the term of this Option, at all times shall keep available the number of shares of common stock required to satisfy the

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Option. The Company shall utilize its best efforts to comply with the requirements of each regulatory commission or agency having jurisdiction in order to issue and sell the Common Shares to satisfy the Option. Such compliance will be a condition precedent to the right to exercise the Option. The inability of the Company to effect such compliance with any such regulatory commission or agency which counsel for the Company deems necessary for the lawful issuance and sale of the Common Shares to satisfy this Option shall relieve the Company from any liability for failure to issue and sell the Common Shares to satisfy the Option for such period of time as such compliance is not effectuated.

6. ADJUSTMENTS.

(a) STOCK SPLITS AND COMBINATIONS. If prior to the exercise of any option granted hereunder the Company shall have effected one or more stock split-ups, stock dividends, or other increases or reductions of the number of shares of its common stock outstanding without receiving compensation therefor in money, services or property, the number of Common Shares subject to the option hereby granted shall (a) if a net increase shall have been effected in the number of outstanding shares of the Company's Common Shares, be proportionately increased and the cash consideration payable per Common Share shall be proportionately reduced; and (b) if a net reduction shall have been effected in the number of outstanding shares of the Company's Common Shares, be proportionately reduced and the cash consideration payable per Common Share be proportionately increased.

(b) RECLASSIFICATION, EXCHANGE OR SUBSTITUTION. Except as set forth in Section 7 below, if the Common Shares issuable upon exercise of this Option shall be changed into the same or different number of shares of any other class or classes of shares, whether by capital reorganization, reclassification, exchange or otherwise (other than pursuant to a subdivision or combination of shares as provided for in clause (a) above), the holder of this Option shall on its exercise be entitled to purchase, in lieu of the Common Shares which the Optionee would have become entitled to purchase but for such change, a number of shares of such other class or classes of stock equivalent to the number of Common Shares that would have been subject to purchase by the Optionee on exercise of this Option immediately before such change.

7. CHANGE OF CONTROL. In the event that the Optionee is an employee of the Company at the moment immediately prior to a Change of Control (as defined herein), the Optionee shall be entitled to receive all benefits described in

this Section 7.

(a) For purposes of this Agreement, a "CHANGE OF CONTROL" shall be deemed to occur upon the occurrence of any of the following events:

(i) any "person" or "group" (as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules and regulations promulgated thereunder), other than any "person" or "group"

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with which the Optionee is an Affiliate, is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 25% of the total outstanding voting stock of the Company;

(ii) the individuals who constitute the Board as of the date of this Agreement (the "INCUMBENT BOARD") cease to constitute a majority of the Board, for any reason(s) other than (A) the voluntary resignation of one more Board members; (B) the removal of one or more directors by the Company's shareholders for good cause; provided, however (1) that if the nomination or election of any new director of the Company was approved by a majority of the Incumbent Board, such new director shall be deemed a member of the Incumbent Board and (2) that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened "Election Contest" (as described in Rule 14a-11 promulgated under the Securities Exchange Act of 1934, as amended) or as a result of a solicitation of proxies or consents by or on behalf of any "person" or "group" identified in clause (a)(i) above; or

(iii) the Company consolidates with, or merges with or into another person or entity or conveys, transfers, leases or otherwise disposes of all or substantially all of its assets to any person or entity, or any person or entity consolidates with or merges with or into the Company; provided, however that (A) the Optionee is not an Affiliate of such person or entity and (B) any such transaction shall not constitute a Change of Control if the shareholders of the Company immediately before such transaction own, directly or indirectly, immediately following such transaction in excess of sixty-five percent (65%) of the combined voting power of the outstanding voting securities of the corporation or other person or entity resulting from such transaction in substantially the same proportion as their ownership of the voting securities of the Company immediately before such transaction.

(iv) For purposes of this subsection, the term "AFFILIATE" means, with respect to any individual or a corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or political subdivision thereof) or other entity of any kind (each a "PERSON"), any other Person that directly or indirectly controls or is controlled by or under common control with such Person. For the purposes of this definition, "CONTROL," when used with respect to any Person, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; and the terms of "AFFILIATED," "CONTROLLING" and "CONTROLLED" have meanings correlative to the foregoing.

(b) Upon the occurrence of a Change of Control, this Option, to the extent not previously exercised, shall immediately vest and become exercisable in full for a period of ten (10) years commencing on the date of the Change of Control without regard to Sections 16(b), (c) or (d).

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8. NOTICE OF ADJUSTMENTS. The Company shall give notice of each adjustment or readjustment of the Purchase Price or the number of Common Shares or other securities issuable upon exercise of this Option to the Optionee at the Optionee address as shown on the Company's books.

9. NO CHANGE. The form of this Option need not be changed because of any adjustment in the Purchase Price or in the number of Common Shares purchasable

upon its exercise. An Option issued after any adjustment upon any partial exercise or in replacement may continue to express the same Purchase Price and the same number of Common Shares (appropriately reduced in the case of partial exercise) and such Purchase Price and number of Common Shares shall be considered to have been so changed as of the close of business on the date of adjustment.

10. REPLACEMENT. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Option and, in the case of loss, theft or destruction, on delivery of any indemnity agreement or bond reasonably satisfactory in form and amount to the Company, or in the case of mutilation, surrender and cancellation of this Option, the Company at its expense will execute and deliver, in lieu of this Option, a new Option of like tenor.

11. RESTRICTIONS. The holder of this Option, by acceptance hereof, represents, warrants and covenants as follows:

(a) This Option and the right to purchase the Common Shares is personal to the holder and shall not be transferred to any other person, other than by will or the laws of descent and distribution. Notwithstanding the foregoing, the Optionee may, at any time and from time to time, transfer all or any part of his rights under this Option and the right to purchase the Common Shares to his spouse or children, or to a trust created by the Optionee for the benefit of the Optionee or his immediate family or to a corporation or other entity controlled by the Optionee and in which the Optionee or members of his immediate family have all of the economic interests.

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

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

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

12. NO RIGHTS AS OPTIONEE. Nothing contained herein shall be construed to confer upon the Optionee any right to be continued in the employ of the Company or as a director of the Company or derogate from any right of the Company to retire, request the resignation of, or discharge the Optionee at any time, with or without cause. The Optionee shall not, by virtue hereof, be entitled to any rights of a stockholder in the Company, either at law or in equity, and the rights of the Optionee are limited to those expressed herein and are not enforceable against the Company except to the extent set forth herein.

13. SHAREHOLDER'S RIGHTS. Except for transfers pursuant to Section 11(a) above or in the event of the Optionee's death as provided in Section 16 below, this Option is non-transferable by the Optionee. On any attempt to transfer or otherwise dispose of this Option other than pursuant to the terms hereof, this Option shall immediately become null and void. The Optionee shall have no rights as a shareholder with respect to the Common Shares until payment of the Option price and delivery to the Optionee of the Common Shares as provided herein.

14. WITHHOLDING. In the event that the Optionee elects to exercise this

Option or any part thereof, and if the Company shall be required to withhold any amounts by reason of any federal, state or local tax laws, rules or regulations in respect of the issuance of Common Shares to the Optionee pursuant to the Option, the Company shall be entitled to deduct and withhold such amounts from any payments to be made to the Optionee. In any event, the Optionee shall make available to the Company promptly when requested by the Company sufficient funds to meet the requirements of such withholding; and the Company shall be entitled to take and authorize such steps as it may deem advisable in order to have such funds available to the Company out of any funds or property due or to become due to the Optionee. Notwithstanding the foregoing, the Optionee may request the Company not to withhold any or

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all of the amounts otherwise required to be withheld; provided that the Executive provides the Company with sufficient documentation as may be required by federal, state or local tax laws, rules or regulations supporting his request that such amount is not required to be withheld, in which case the Company may, in its reasonable discretion, reduce such withholding amounts to the extent permitted by applicable laws, rules and regulations.

15. REGISTRATION RIGHTS. The Company hereby covenants and agrees to promptly file, no later than 60 days from the date hereof, a registration statement on Form S-8 (the "REGISTRATION STATEMENT") with the Securities and Exchange Commission with respect to the Common Shares, including a reoffer prospectus, to the extent required.

16. TERMINATION OF OPTION. Except as otherwise stated herein, including Section 7(b), the Option, to the extent not theretofore exercised, shall terminate upon the first of the following dates to occur (the "EXPIRATION DATE"):

(a) In the event of the Optionee's death or Disability (as defined in the Employment Agreement), this Option, to the extent exercisable at the Date of Termination (as defined in the Employment Agreement), in the case of death, may be exercised by the estate of the Optionee or any person who acquired the Option by bequest or inheritance, or, in the case of Disability, may be exercised by the Optionee or his legal representative, in accordance with the terms of this Option, at any time prior to twelve (12) months following such death or Disability, as the case may be, after which the Option shall terminate and shall no longer be exercisable;

(b) In the event of the termination of the Optionee's employment for Cause and by the Optionee upon a Resignation (each as defined in the Employment Agreement), this Option and all rights granted hereunder shall be forfeited and deemed canceled and no longer exercisable on and after the 30th day following the date of such termination of employment, unless the Board determines otherwise; and

(c) In the event that the Executive's employment is terminated by the Company Without Cause or by the Executive for Good Reason (each as defined in the Employment Agreement), this Option and all rights granted hereunder shall, upon the Date of Termination (as defined in the Employment Agreement), immediately vest and become exercisable (if not already vested and exercisable), and may be exercised by the Optionee in whole or in part at any time or from time to time prior to the later of the fifth anniversary of the Date of Termination or May 22, 2010, after which time the Option shall terminate and shall no longer be exercisable; or

(d) May 22, 2010, the tenth anniversary of this Agreement.

17. VALIDITY AND CONSTRUCTION. This Option shall be governed by and construed and enforced in accordance with the laws of the State of Delaware. Such construction is vested in the board and its construction shall be final and conclusive.

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18. AMENDMENT: The Board of Directors of the Company may, with the consent of the Optionee, at any time or from time to time amend the terms of this Option.

19. NOTICES. Any notice which either party hereto may be required or permitted to give to the other shall be in writing, and may be delivered personally or by mail, postage prepaid, or overnight courier, addressed as follows: if to the Company, at its office at 3100 Ocean Park Boulevard, Santa Monica, California 90405, or at such other address as the Company by notice to the Optionee may designate in writing from time to time; and if to the Optionee, at the address shown below his signature on this Option Certificate, or at such other address as the Optionee by notice to the Company may designate in writing from time to time. Notices shall be effective upon receipt.

20. SUCCESSORS AND ASSIGNS. This Agreement shall inure to the benefit of and be binding upon the parties hereto and to the extent not prohibited herein, their respective heirs, successor, assigns and representatives. Nothing in this Agreement, expressed or implied, is intended to confer on any person other than the parties hereto and as provided above, their respective heirs, successors, assigns and representatives any rights, remedies, obligations or liabilities.

[SIGNATURE PAGES BEGIN ON FOLLOWING PAGE]

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

ACTIVISION, INC.

By: /s/ BRIAN G. KELLY

Name: Brian G. Kelly
Title: Co-Chairman

ACCEPTED:

/s/ ROBERT A. KOTICK

Robert A. Kotick

1101 COVE WAY

Address

BEVERLY HILLS, CA 90210

City, State, Zip Code

Social Security Number: -----

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AMENDED AND RESTATED EMPLOYMENT AGREEMENT

Amended and Restated Employment Agreement, dated as of May 22, 2000, by and between ACTIVISION, INC., a Delaware corporation with its principal offices at 3100 Ocean Park Boulevard, Santa Monica, CA 90405 (the "COMPANY"), and BRIAN G. KELLY (the "EXECUTIVE").

RECITALS:

WHEREAS, the Board of Directors of the Company (the "BOARD") approved the execution and delivery of an Employment Agreement, dated as of January 12, 1999, by and between the Company and Executive at a meeting of the Board held on January 12, 1999 (the "EMPLOYMENT AGREEMENT"), pursuant to which, among other things, the Company granted Executive options to purchase 1,000,000 shares of common stock of the Company (the "INITIAL OPTIONS");

WHEREAS, on April 18, 2000, a "Change of Control" (as defined in Section 9(a) (i) of the Employment Agreement) occurred when Eastbourne Capital Management, L.L.C. acquired greater than 15% of the total outstanding voting stock of the Company (the "EASTBOURNE CHANGE OF CONTROL");

WHEREAS, in accordance with the Employment Agreement, upon the Eastbourne Change of Control, the Executive became entitled to certain payments and other benefits from the Company;

WHEREAS, the Board has determined that it is in the best interests of the Company and its stockholders to enter into this Amended and Restated Employment Agreement (this "Agreement") to provide, among other things, the Executive with certain payments and benefits that became due upon the Eastbourne Change of Control, to reflect certain waivers by the Executive of compensation and other benefits to which he became entitled as a result of the Eastbourne Change of Control, and to assure that the Company will have the continued dedication of the Executive by providing him with the additional compensation and benefit arrangements contained herein;

WHEREAS, the Compensation Committee of the Board approved the execution and delivery of this Agreement by the Company at a meeting of the Compensation Committee of the Board held on May 24, 2000; and

WHEREAS, the Company has entered into an Amended and Restated Employment Agreement (the "OTHER EXECUTIVE EMPLOYMENT AGREEMENT"), dated as of the date hereof, on substantially similar terms and conditions as contained herein, with Robert A. Kotick (the "OTHER EXECUTIVE").

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. POSITION AND DUTIES.

(a) The Company agrees to continue to employ the Executive, and the Executive agrees to continue to be employed, as Co-Chairman of the Company, subject to the supervision of, and reporting only to, the Board. The Executive shall have such senior executive powers, duties, authorities and responsibilities as are consistent with Executive's position and title and as have historically been performed by Executive, including acting as co-chairman of any meeting of the Board, supervising financing, acquisitions and similar major strategic transactions and strategic planning for the Company consistent with his title and position, supervising the President and Chief Operating Officer of the Company and managing all non-operating activities of the Company, including corporate governance, organizational structure, acquisitions and financing, senior executive compensation, stock and stock option issuances and stock option plan management. At all times during the period of Executive's employment, the Executive shall, unless he otherwise elects, be nominated for election by the shareholders of the Company to the Board.

(b) During the Employment Period (as defined in Section 2 below) and excluding any periods of vacation, the Executive agrees to devote such time, attention and efforts to the business and affairs of the Company as may be necessary to discharge the duties and responsibilities assigned to the Executive hereunder and to use the Executive's reasonable best efforts to perform faithfully and efficiently such duties and responsibilities.

(c) It shall not be a violation of this Agreement for the Executive to engage in any activity which is, in the good faith opinion of the Executive, not inconsistent with the Company's interests and prospects, including, without limitation, (a) serving on civic or charitable boards or committees; (b) serving as an officer or director of any Company that is not in a Competitive Business (as defined herein); (c) delivering lectures, fulfilling speaking engagements or teaching at educational institutions; (d) managing personal investments; and (e) attending conferences conducted by business organizations; provided, however, that such activity does not significantly interfere with the performance of Executive's duties and responsibilities hereunder. It is expressly understood and agreed that to the extent that any activity has been conducted by the Executive prior to the date of this Agreement, the continued conduct of such activity (or the conduct of an activity similar in nature and scope thereto) during the Employment Period shall be deemed not to interfere with the performance of the Executive's duties and responsibilities to the Company and shall not constitute a violation of this Agreement.

(d) Except for periodic travel assignments, the Executive shall not, without his consent, be required to perform services for the Company at any place other than the principal place of the Company's business which shall at all times, unless the Executive otherwise consents, be within a 20 mile radius of the Company's current principal place of business or in the Company's executive offices in New York City, New York.

2. EMPLOYMENT PERIOD. The employment of the Executive under the terms of this Agreement shall become effective on April 1, 2000 and terminate on March 31, 2006 (the

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"Employment Period"). Notwithstanding anything contained herein to the contrary, the Executive's employment pursuant to the terms of this Agreement is subject to termination pursuant to Section 5 below.

3. COMPENSATION. The Executive shall receive the following compensation (the Compensation") for his services hereunder:

(a) BASE SALARY. The Company shall pay to the Executive a base salary ("BASE SALARY") in respect of each fiscal year of the Company or portion thereof during the Employment Period. Commencing on April 1, 2000, the Base Salary for the Company's fiscal year ending March 31, 2001 shall be \$450,000. Thereafter, on April 1 of each year of the Employment Period, beginning on April 1, 2001, the Base Salary shall automatically increase to an amount equal to one hundred ten (110%) percent of the Base Salary for the Company's prior fiscal year. The Company may withhold from any amounts payable under this Agreement all applicable tax, Social Security and other legally required withholding pursuant to any law or regulation ("WITHHOLDING"). The Base Salary shall be paid in accordance with the customary payroll practices of the Company at regular intervals, but in no event less frequently than every month, as the Company may establish from time to time for senior executive employees of the Company. The Board shall conduct an annual performance appraisal and salary review on behalf of the Executive and may adjust the Base Salary for any succeeding fiscal year, but never below the Base Salary that would have been in effect during such succeeding fiscal year in accordance with this Section 3(a). Any period of less than a full fiscal year which the Base Salary is calculated shall be pro rata.

(b) ANNUAL BONUS. The Executive shall be entitled to receive an annual bonus for each fiscal year of the Company (the "ANNUAL BONUS"), beginning with the fiscal year ending March 31, 2001, based upon the Company achieving mutually agreed upon financial and business objectives for the fiscal year with respect to which the Annual Bonus accrues. Such financial and business objectives for each fiscal year shall be (i) agreed to by the Executive and the Board not later than fifteen (15) days prior to the beginning of each fiscal year and shall be (ii) made in accordance with Section 11 of the Company's 1998 Incentive Plan. The Annual Bonus shall take the form of, without limitation,

cash, shares of common stock of the Company, Options (as defined herein) or loans, as the case may be. The Company shall pay each Annual Bonus to the Executive no later than thirty (30) days after the completion of the Company's audited consolidated financial statements by the Company's auditors for the subject fiscal year. Each Annual Bonus payment shall be subject to Withholding. Along with the payment of each Annual Bonus, the Company shall also deliver to the Executive a written statement setting forth the basis of its calculation of such Annual Bonus. The Executive and the Executive's representatives shall have the right, at the Executive's cost, to inspect the records of the Company with respect to the calculation of any such Annual Bonus, to make copies of said records utilizing the Company's facilities without charge, and to have free and full access thereto upon reasonable notice during the normal business hours of the Company. Any period of less than a full fiscal year which the Annual Bonus is calculated shall be pro rata. The Annual Bonus is intended to qualify as a Performance Award under Section 11 of the Company's 1998 Incentive Plan and shall be subject to the conditions and limitations of such section.

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(c) PERFORMANCE BONUS. The Board, in its sole discretion, may award to the Executive a performance bonus at any time in such amount and in such form as the Board may determine, including, without limitation, in the form of cash, shares of common stock of the Company, Options or loans, as the case may be (the "PERFORMANCE BONUS"), after taking into consideration other compensation paid or payable to the Executive under this Agreement, as well as the financial and non-financial progress of the business of the Company and the contributions of the Executive toward that progress. Any Performance Bonus shall be subject to Withholding. Any period of less than a full fiscal year which the Performance Bonus is calculated shall be pro rata.

4. BENEFITS.

(a) MEDICAL, ETC. The Executive shall be entitled to such medical and other benefits, including hospitalization, disability, life and health insurance, to the extent offered by the Company, as are customarily made available to senior executive officers of the Company and upon the same terms. The Executive shall also be entitled to receive those benefits and privileges that the Company currently, and may at any time in the future, provide for its executive officers upon the same terms.

(b) EXPENSES. The Executive shall be reimbursed by the Company for all reasonable travel, entertainment, conference expenses, organization dues and other expenses incurred by the Executive in connection with the performance of Executive's services under this Agreement, subject to the Company's policies in effect from time to time with respect to such expenses, including the requirements with respect to reporting and documentation of such expenses.

(c) OFFICE AND SUPPORT STAFF. During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, including personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company at any time during the 90-day period immediately preceding the date of this Agreement, or, if more favorable to the Executive, as provided at any time after such date to Executive or other senior executive officers of the Company.

(d) VACATION. The Executive shall be entitled to four (4) weeks paid vacation each fiscal year during the Employment Period, in addition to regular paid holidays provided to all employees of the Company; provided that unused vacation time shall not be carried over to any subsequent year. Vacation time shall be taken as determined by the Executive in his reasonable and good faith discretion; provided that such time taken is mutually convenient to the Company and not disruptive to the Company's activities or the Executive's responsibilities.

(e) LIFE INSURANCE. The Company shall continue to maintain a renewable term insurance policy or policies for a period of ten (10) years commencing on the date hereof covering the life of the Executive in an amount of \$3,000,000 naming the Executive's estate or any other person designated by the Executive as beneficiary of such policy or policies. The Executive has

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the right to require the Company at any time to prepay all of the premiums associated with such policy or policies so as to ensure such policies remain in force for the full ten (10) year period.

5. TERMINATION. The employment by the Company of the Executive shall be terminated as provided in this Section 5:

(a) DEATH. Upon the Executive's death ("DEATH").

(b) DISABILITY.

(i) The Company or the Executive, upon not less than thirty (30) days written notice to the other party ("DISABILITY NOTICE"), may terminate the employment by the Company of the Executive if the Executive has been unable, by reason of physical or mental disability, to render, for 120 successive days or for shorter periods aggregating 210 days or more in any twelve month period, services of the character contemplated by this Agreement and will be unable to resume providing such services within a reasonable period of time by reason of such disability (such circumstances being referred to as "DISABILITY").

(ii) The determination of whether the Executive has become disabled within the meaning of this Section 5(b) shall be made (A) in the case of a termination of employment by the Company, by a medical doctor selected by the Company, or (B) in the case of a termination of employment by the Executive, by Executive's medical doctor. In the event the Company gives a notice of termination of employment under this Section 5(b), the Executive or his representative may at any time prior to the effective date of termination contest the termination and cause a determination of Disability to be made by Executive's medical doctor. In the event the Executive gives a notice of termination of employment under this Section 5(b), the Company may at any time prior to the effective date of termination contest the termination and cause a determination of Disability to be made by a medical doctor selected by the Company. In either case, if such medical doctors do not agree with regard to the determination of Disability, they shall mutually choose a third medical doctor to examine the Executive, and the Disability determination of such third medical doctor shall be binding upon both the Company and the Executive.

(c) WITHOUT CAUSE. By the Company, for any reason other than Death, Cause or Disability, but only upon a vote of a majority of the entire Board at a meeting duly called and held at which Executive shall have the right to be present and be heard.

(d) CAUSE. By the Company, for Cause, but only upon a vote of a majority of the entire Board at a meeting duly called and held at which Executive shall have the right to be present and be heard. 'The term "Cause" means (i) any act of fraud or embezzlement in respect of the Company or its funds, properties or assets; or (ii) conviction of the Executive of a felony relating to his actions as an executive of the Company under the laws of the United States or any state thereof (provided that all rights of appeal have been exercised or have lapsed) unless such acts were committed in the reasonable, good faith belief that his actions were in the best interests of the Company and its stockholders and would not violate criminal law; or (iii) willful misconduct or gross negligence by the Executive in connection with the performance of his duties

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that has caused or is highly likely to cause severe harm to the Company; or (iv) intentional dishonesty by the Executive in the performance of his duties hereunder which has a material adverse effect on the Company.

(e) RESIGNATION. By the Executive, other than for Good Reason, as hereinafter defined ("RESIGNATION").

(f) GOOD REASON. By the Executive, for Good Reason. As used herein, the term "GOOD REASON" means that, without the Executive's prior written consent, there shall have occurred: (i) a reduction in the Executive's Base Salary other than the dollar amount of the Annual Bonus or the dollar amount of the Performance Bonus; (ii) a material reduction in the Executive's benefits; (iii) the assignment to the Executive of any duties inconsistent with the Executive's position, duties, responsibilities, authority or status with the Company or a change in Executive's reporting responsibilities, titles or offices

as in effect prior to such assignment or change; (iv) the Company's material breach or failure to perform, when due, any of its obligations under this Agreement, unless cured within 10 days after receipt of written notice by the Company from the Executive specifically identifying the manner in which the Executive believes the Company has materially breached such obligations; (v) any purported termination of Executive's employment which is not effected pursuant to a Notice of Termination satisfying the applicable requirements with respect to Section 6 of this Agreement; (vi) a determination by the Executive, made in good faith, that the Executive is not able to discharge his duties effectively by reason of directives from the Board, a Change of Control or similar circumstances; or (vii) a failure by the Company to renew this Agreement at the conclusion of the Employment Period on such terms and conditions as are similar to the terms and conditions contained herein.

6. NOTICE AND DATE OF TERMINATION. Any termination of the Executive's employment under Section 5, other than by reason of Death, shall be communicated by written Notice of Termination from the terminating party to the other party hereto. For purposes of this Agreement, a "NOTICE OF TERMINATION" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. The effective date of any termination of the Executive's employment (the "DATE OF TERMINATION") shall be:

(a) if the Executive's employment is terminated by Death, the date of the Executive's death;

(b) if the Executive's employment is terminated by the Company Without Cause or by the Executive for Good Reason, 30 days after Notice of Termination is given;

(c) if the Executive's employment is terminated by reason of Disability, (i) 30 days after the Disability Notice or (ii) upon a final determination, pursuant to Section 5(b)(ii) above, as the case may be, whichever is later; provided that the Executive shall not have returned to the full-time performance of his duties during such period; and

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(d) if the Executive's employment is terminated on account of Cause or Resignation, the date specified in the Notice of Termination, which shall be no less than ten (10) nor more than 30 days after such Notice of Termination is given.

7. COMPENSATION UPON TERMINATION. The Executive shall be entitled to the following Compensation from the Company upon termination of employment pursuant to Section 5 in full discharge of the Company's obligations (each a "TERMINATION COMPENSATION"):

(a) COMPENSATION UPON DEATH. In the event of termination of the Executive's employment upon Death, the Executive's heirs, successors or legal representatives shall be entitled to receive: (i) the Base Salary through the Date of Termination; (ii) any unpaid Annual Bonus and Performance Bonus for any prior fiscal year; (iii) pro rata Annual Bonus for the current fiscal year; (iv) an amount equal to 300% of the dollar amount of the Base Salary paid or payable to the Executive hereunder for the Company's most recent fiscal year immediately prior to the Executive's date of death; (v) reimbursement due to Executive pursuant to Section 4(b); (vi) the Executive's then current spouse and minor children, if any, shall receive the same level of health/medical insurance or coverage that was provided to Executive immediately prior to the Executive's death for a two year period, with the cost of such continued insurance or coverage being borne by the Company. All such payments shall be in addition to any payments the Executive's widow, beneficiaries or estate may be entitled to receive pursuant to any pension or employee benefit plan or life insurance policy maintained by the Company. In addition, all options granted to the Executive to purchase shares of common stock of the Company, whether granted pursuant to this Agreement or granted at any time prior hereto or hereafter, then held by the Executive shall, to the extent not already vested and exercisable, immediately vest and become exercisable until the later of the fifth anniversary of the Date of Termination or May 22, 2010.

(b) COMPENSATION UPON DISABILITY. In the event of termination of the

Executive's employment for Disability, the Executive shall be entitled to receive: (i) the Base Salary through the Date of Termination; (ii) any unpaid Annual Bonus and Performance Bonus for any prior fiscal year; (iii) the pro rata portion of the Annual Bonus and Performance Bonus for the fiscal year in which the Date of Termination occurs; (iv) reimbursement due to Executive pursuant to Section 4(b); (v) an amount equal to three hundred (300%) percent of the average Base Salary paid or payable to the Executive hereunder for the Company's three most recent fiscal years immediately prior to the Executive's disability termination less the amount, if any, of any payments received by the Executive from any Company-funded disability insurance plan, payable in installments at least as frequent as monthly, subject to Withholding for the longer of two (2) years or the balance of the Employment Period; and (vi) the Executive and his then current spouse and minor children, if any, shall receive the same level of health/medical insurance or coverage provided immediately prior to such disability termination for the longer of two (2) years or the balance of the Employment Period, with the cost of such continued insurance or coverage being borne by the Company. In addition, all options granted to the Executive to purchase shares of common stock of the Company, whether granted pursuant to this Agreement or granted at any time prior hereto or hereafter, then held by the Executive shall, to the extent not already vested and

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exercisable, immediately vest and become exercisable until the later of the fifth anniversary of the Date of Termination or May 22, 2010.

(c) COMPENSATION UPON RESIGNATION OR TERMINATION FOR CAUSE. In the event of termination of the Executive's employment upon Resignation or termination for Cause, the Executive shall be entitled to receive the (i) Base Salary through the Date of Termination; (ii) any unpaid Annual Bonus and Performance Bonus for any prior fiscal year; and (iii) reimbursement due to Executive pursuant to Section 4(b).

(d) COMPENSATION UPON TERMINATION BY EXECUTIVE FOR GOOD REASON OR BY THE COMPANY WITHOUT CAUSE. In the event the Executive's employment is terminated by the Executive for Good Reason or by the Company Without Cause, then the Executive shall be entitled to receive: (i) the Base Salary through the Date of Termination; (ii) any unpaid Annual Bonus and Performance Bonus for any prior fiscal year; (iii) the pro rata portion of the Annual Bonus and Performance Bonus for the fiscal year in which the Date of Termination occurs; (iv) reimbursement due to Executive pursuant to Section 4(b); (v) an amount equal to the greater of (A) the dollar amount equal to the Base Salary, Annual Bonus and Performance Bonus paid or payable to the Executive hereunder for the Company's most recent fiscal year immediately prior to the Executive's termination multiplied by three, and (B) the dollar amount payable to Executive hereunder for the remaining term of this Agreement had the Executive's employment not been terminated (the "Amount Payable"); and (vi) the Executive and his then current spouse and minor children, if any, shall receive the same level of health/medical insurance or coverage provided immediately prior to such termination for the longer of two (2) years or the balance of the Employment Period, with the cost of such continued insurance or coverage being borne by the Company; provided, however, that the Company shall not be required to provide any such coverage after such time as Executive becomes entitled to receive (without regard to any individual waivers of coverage or other similar arrangements) comparable health/medical benefits of the same type from another employer or recipient of Executive's services. For purposes of computing the Amount Payable, for each fiscal year during the remainder of the Employment Period, (A) Base Salary shall be determined in accordance with the terms of Section 3(a) of this Agreement and (B) the Annual Bonus and Performance Bonus for each fiscal year of the remaining Employment Period shall be deemed to be equal to the product of (1) the Base Salary that would have been in effect during such fiscal year and (2) a fraction, the numerator of which is the total of the Annual Bonus and Performance Bonus that was paid to the Executive for the Company's two fiscal years preceding Executive's termination, and the denominator of which is the Base Salary that was paid to Executive for the Company's two fiscal years preceding Executive's termination. In addition, all outstanding loans extended by the Company to Executive shall be forgiven and all options granted to the Executive to purchase shares of common stock of the Company, whether granted pursuant to this Agreement or granted at any time hereafter, then held by the Executive shall immediately vest and become exercisable until the later of the fifth anniversary of the Date of Termination or May 22, 2010.

(e) The Executive shall not be required to mitigate the amount of any payment provided for in this Section 7 or in Section 10(c) by seeking other employment or otherwise, nor

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shall the amount of any payment or benefit provided for in this Section 7 or in Section 10(c) be reduced by any compensation earned by him as the result of employment by another employer or by retirement benefits after the Date of Termination, or otherwise, except as specifically provided in this Section 7 or in Section 10(c).

(f) All amounts to be paid to the Executive hereunder shall be paid to the Executive in a lump sum no later than ten days following the Date of Termination.

8. ADVISORY AGREEMENT. In the event of termination of Executive's employment other than upon Death, Disability or termination for Cause, and other than termination by Executive upon Resignation (other than a Resignation following a Change of Control) ("ADVISORY TERMINATION"), the Company and Executive shall enter into a consulting agreement (the "CONSULTING AGREEMENT") pursuant to which the Company shall retain Executive as a consultant of the Company for a period of four years following the Advisory Termination. The Consulting Agreement shall provide for, among other things, (i) payment of fees to the Executive in an amount equal to 80% of the Executive's Base Salary in effect during the Company's most recent fiscal year preceding an Advisory Termination, (ii) that Executive shall continue to receive those benefits described in Section 4 herein (other than those benefits described in Section 4(e)), (iii) that Executive shall not be restricted from engaging (including, without limitation, as an officer, director, shareholder, owner, partner, joint venturer, member or in a managerial capacity, or as an employee, independent contractor, consultant, advisor or sales representative) in such activities as the Executive deems appropriate to engage in during the term of the Consulting Agreement, provided that such activities are not directly competitive with the activities of the Company, and (iv) that Executive shall not be required to provide services under the Consulting Agreement in excess of 20 hours per month and such services shall be provided at such times and places as is to be mutually determined by the Company and the Executive.

9. STOCK OPTIONS.

(a) EXISTING OPTIONS. Any and all options granted to the Executive to purchase shares of common stock of the Company prior to the date hereof, whether pursuant to the Employment Agreement or otherwise, (i) vested and became exercisable in full on April 18, 2000 and shall be exercisable until April 18, 2010, and (ii) shall be transferable in whole or in part, at any time and from time to time, to the Executive's spouse or children, or to a trust created by the Executive for the benefit of the Executive or his immediate family or to a corporation or other entity controlled by the Executive and in which the Executive or members of his immediate family have all of the economic interests, without regard to Executive's continued employment with the Company and without regard to any inconsistent provisions of the agreements pursuant to which such options were granted.

(b) NEW OPTIONS. In addition to the compensation described in Section 3 hereof, the Company, as of May 22, 2000, entered into a Stock Option Agreement with the Executive granting the Executive options (the "OPTIONS") to purchase 1,000,000 shares of common stock of the Company at the market price on the close of business on May 22, 2000.

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(c) OUTSTANDING OPTIONS. For purposes of this Agreement, the term "OUTSTANDING OPTIONS" with reference to a particular date shall mean the Options and all other options to purchase Common Stock held by the Executive as at such date, whether or not such options are then vested and exercisable.

10. CHANGE OF CONTROL. In the event that the Executive is an employee of the Company at the moment immediately prior to a Change of Control (as defined herein), the Executive shall be entitled to receive all benefits described in this Section 10.

(a) For purposes of this Agreement, a "CHANGE OF CONTROL" shall be deemed to occur upon the occurrence of any of the following events:

(i) any "person" or "group" (as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT") and the rules and regulations promulgated thereunder) is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 25% of the total outstanding voting stock of the Company;

(ii) the individuals who constitute the Board as of the date of this Agreement (the "INCUMBENT BOARD") cease to constitute a majority of the Board, for any reason(s) other than (A) the voluntary resignation of one or more Board members; (B) the removal of one or more directors by the Company's shareholders for good cause; provided, however (1) that if the nomination or election of any new director of the Company was approved by a majority of the Incumbent Board, such new director shall be deemed a member of the Incumbent Board and (2) that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened "ELECTION CONTEST" (as described in Rule 14a-11 promulgated under the Securities Exchange Act of 1934, as amended) or as a result of a solicitation of proxies or consents by or on behalf of any "person" or "group" identified in clause (a)(i) above; or

(iii) the Company consolidates with, or merges with or into another person or entity or conveys, transfers, leases or otherwise disposes of all or substantially all of its assets to any person or entity, or any person or entity consolidates with or merges with or into the Company; provided, however that any such transaction shall not constitute a Change of Control if the shareholders of the Company immediately before such transaction own, directly or indirectly, immediately following such transaction in excess of sixty-five percent (65%) of the combined voting power of the outstanding voting securities of the corporation or other person or entity resulting from such transaction in substantially the same proportion as their ownership of the voting securities of the Company immediately before such transaction.

(iv) For purposes of this subsection, the term "AFFILIATE" means, with respect to any individual or a corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or political subdivision thereof) or other entity of any kind (each a "PERSON"), any other Person that directly or indirectly controls or is controlled by or under common control with such

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Person. For the purposes of this definition, "CONTROL," when used with respect to any Person, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; and the terms of "AFFILIATED," "CONTROLLING" and "CONTROLLED" have meanings correlative to the foregoing.

(b) In the event that the Executive is an employee of the Company at the moment immediately prior to a Change of Control:

(i) the Company shall pay ("CHANGE OF CONTROL COMPENSATION") to the Executive additional compensation in the form of cash equal to, on the date of a Change of Control and with respect to all Outstanding Options as of the date of the Change of Control (whether or not all such Outstanding Options have vested or are exercisable on such date), the product of (x) the number of shares of common stock of the Company underlying each of the Outstanding Options and (y) the amount, if any, that the exercise price of any Outstanding Options (as adjusted pursuant to Section 10(b)(iv)) (the "EXERCISE PRICE") or the Closing Share Value (as defined below), whichever is less, exceeds the Initial Share Value (as defined below);

(ii) with respect to each Outstanding Option as of the date of the Change of Control, in the event that the Closing Share Value is greater than the Exercise Price of any such Outstanding Option (as adjusted pursuant to Section 10(b)(iv)), then the Executive shall have the right, separately with respect to each of the Outstanding Options, to either (A) retain the Outstanding

Options, (B) exercise the Outstanding Options, or (C) forfeit the Outstanding Options and receive, in exchange therefor, a cash payment equal to the number of shares of common stock of the Company underlying the Outstanding Options multiplied by the amount that the Closing Share Value exceeds the Exercise Price of the Outstanding Options (as adjusted pursuant to Section 10(b)(iv));

(iii) upon the occurrence of a Change of Control, all then Outstanding Options shall immediately vest and become exercisable for a period of ten (10) years commencing on the Date of Termination without regard to Executive's continued employment with the Company pursuant to this Agreement and without regard to the terms of any option agreement or option certificate applicable to any Outstanding Options;

(iv) upon the occurrence of a Change of Control, the Exercise Price of all of the then Outstanding Options shall be adjusted ("REPRICING") to equal the lower of (i) the weighted average exercise price on the date hereof of all Outstanding Options on the date hereof, (ii) the weighted average exercise price of all Outstanding Options immediately prior to the date of the Change of Control, (iii) the weighted average exercise price on the date hereof of all options to acquire shares of common stock of the Company held by the Other Executive (the "OTHER EXECUTIVE OUTSTANDING OPTIONS") on the date hereof, or (iv) the weighted average exercise price of all of the Other Executive Outstanding Options immediately prior to the date of the Change of Control (the lesser of such amounts being referred to as the "WEIGHTED AVERAGE EP"); provided, however, that any Outstanding Options with an Exercise Price less than the Weighted Average EP

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shall not be subject to Repricing in accordance with the terms of this Section 10(b)(iv) and shall continue to have the Exercise Price in effect on the date hereof or immediately prior to the date of the Change of Control, as the case may be, for such Outstanding Options; and

(v) any and all payments payable to Executive relating to the Outstanding Options in accordance with this Section 10 ("OPTION PAYMENTS") shall be computed based on the Exercise Price (as adjusted pursuant to Section 10(b)(iv))

(c) In the event that the Executive's employment is terminated by the Executive upon Resignation during the six month period following the three month anniversary of the effective date of the Change of Control, or by the Executive for Good Reason, or by the Company Without Cause, at any time during the nine month period following the effective date of the Change of Control, the Executive shall receive, in addition to the amounts payable pursuant to Section 7(c), (i) the pro rata portion of the Annual Bonus and Performance Bonus for the fiscal year in which the Change of Control occurs, computed through the Date of Termination; (ii) an amount equal to the greater of (A) the dollar amount equal to the Base Salary, Annual Bonus and Performance Bonus paid or payable to the Executive hereunder for the Company's most recent fiscal year immediately prior to the Executive's termination multiplied by five, and (B) the Amount Payable; and (iii) the Executive and his then current spouse and minor children, if any, shall receive the same level of health/medical insurance or coverage provided immediately prior to such Change of Control for the longer of two (2) years or the balance of the Employment Period, with the cost of such continued insurance or coverage being borne by the Company; provided, however, that the Company shall in not be required to provide any such coverage after such time as Executive becomes entitled to receive (without regard to any individual waivers of coverage or other similar arrangements) comparable health/medical benefits of the same type from another employer or recipient of Executive's services. In addition, all outstanding loans extended by the Company to Executive shall be forgiven. All amounts to be paid to the Executive pursuant to this Section (c) shall be paid to the Executive not later than ten days following the Date of Termination.

(d) If in the opinion of tax counsel selected by the Executive and reasonably acceptable to the Company, the Executive has or will receive any compensation or recognize any income (whether or not pursuant to this Agreement or any plan or other arrangement of the Company and whether or not the Executive's employment with the Company has terminated) which constitute an "excess parachute payment" within the meaning of Section 280G(b)(1) of the Internal Revenue Code of 1986, as amended (the "Code") (or for which a tax is otherwise payable under Section 4999 of the Code), then the Company shall pay

the Executive an additional amount (the "ADDITIONAL AMOUNT") equal to the sum of (i) all taxes payable by the Executive under Section 4999 of the Code with respect to (A) all such excess parachute payments (or otherwise) and (B) the Additional Amount, plus (ii) all federal, state and local income taxes payable by Executive with respect to the Additional Amount. The amounts payable pursuant to this Section 10(d) shall be paid by the Company to the Executive concurrently with the payment of such compensation or recognition of income giving rise to the Company's obligations under this Section 10(d).

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(e) For purposes of this subsection:

(i) "INITIAL SHARE VALUE" shall mean the average of the Closing Prices of the shares of common stock of the Company for the period commencing on the 180th day prior to the date of the Change of Control and ending on the 150th day prior to the date of the Change of Control;

(ii) "CLOSING SHARE VALUE" shall mean the Closing Price of the shares of common stock of the Company on the date of the Change of Control; and

(iii) the "CLOSING PRICE" of a share of common stock of the Company on any date shall mean the last sale price, regular way, or, in case no such sale takes place on such date, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the such shares are listed or admitted to trading or, if such shares are not listed or admitted to trading on any national securities exchange, the last quoted price, or if not so quoted, the average of the highest bid and lowest ask prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System or, if such system is no longer used, the principal other automated quotation system that may then be in use or, if such shares are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making market in the shares as such person is selected from time to time by the Board or, if there are no professional market makers making a market in the shares, then the value as determined in good faith judgement of the Board.

11. FAVORED NATIONS. If the Other Executive shall receive a Benefit (as defined herein) pursuant to the provisions of the Other Executive's Employment Agreement or otherwise, which is in excess of a Benefit, if any, received by the Executive pursuant to the provisions of this Agreement or otherwise (such date, if any, that the Other Executive or the Executive receives a Benefit, a "BENEFIT DATE"), the Company shall provide to the Executive a cash payment in an amount that is equivalent to the value of the Benefit received by the Other Executive less the value of the Benefit, if any, received by the Executive at a Benefit Date ("FAVORED PAYMENT").

(a) For purposes of computing a Favored Payment, the Executive and the Board shall endeavor to mutually determine, in good faith, the dollar value of a Favored Payment. If the Executive and the Board do not determine the dollar value of a Favored Payment within 30 days of a Benefit Date, the dollar value of the Favored Payment shall be determined by independent public accountants mutually acceptable to the Company and the Executive, which determination shall be conclusive and binding.

(b) For purposes of this Agreement, a "BENEFIT" shall be deemed to include any payment or other benefit which is received by the Executive or the Other Executive or granted to the Executive or the Other Executive, as the case may be, pursuant to the terms of this Agreement or the Other Executive Employment Agreement or otherwise, including, without limitation, the

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Repricing of either of the Outstanding Options or the Other Executive Outstanding Options, other than:

(i) a Benefit which the Compensation Committee of the Board or the Board, as the case may be, shall specifically determine at the time the Benefit is approved by the Compensation Committee or the Board, as the case may

be, to not be a Benefit for purposes of this Agreement; or

(ii) a Favored Payment.

12. ADVANCES. The Company may, upon written consent of the Board, make an advance to the Executive against any compensation or other amounts to be paid by the Company to the Executive (an "ADVANCE"). Any amounts due under this Agreement to the Executive shall, at the election of the Company, be offset by any then outstanding Advances. In the event of Executive's termination of employment, Executive agrees that the Company shall have the right to offset the amount of any and all outstanding Advance(s) against any compensation or any other amounts due to the Executive from the Company, and that any remaining balance of the Advance(s) shall be repaid by the Executive within ninety (90) days after the termination of Executive's employment by the Company.

13. NON-COMPETITION AND NON-SOLICITATION.

(a) NON-COMPETITION PROHIBITED ACTIVITIES. During the term of his employment hereunder and for two (2) years thereafter (the "NON-COMPETITION PERIOD"), the Executive shall not engage (including, without limitation, as an officer, director, shareholder, owner, partner, joint venturer, member or in a managerial capacity, or as an employee, independent contractor, consultant, advisor or sales representative) in any Competitive Business (as hereinafter defined) in the Territory (as hereinafter defined). For purposes of determining whether the Executive is permitted to be a shareholder of a corporation engaged in a Competitive Business, the Executive's ownership of less than 5% of the issued and outstanding securities of a company whose securities are publicly-traded in any U.S. or non-U.S. securities exchanges or quotation system shall be permitted.

(b) NON-SOLICITATION PROHIBITED ACTIVITIES. During the Non-Competition Period and in the Territory, the Executive covenants and agrees that he shall not solicit, directly or indirectly, any person who is, at that time, or who was at any time within three (3) months prior to that time, an employee of the Company for the purpose or with the intent of enticing such employee away from or out of the employ of the Company.

(c) As used herein, the term "COMPETITIVE BUSINESS" shall mean any business engaged in publishing and distributing video games and entertainment software for personal computers.

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(d) As used herein, the term "TERRITORY" shall mean:

(i) The following counties in the State of California: Alameda, Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Fresno, Glenn, Humboldt, Imperial, Inyo, Kern, Kings, Lake, Lassen, Los Angeles, Madera, Marin, Mariposa, Mendocino, Merced, Modoc, Mono, Monterey, Napa, Nevada, Orange, Placer, Plumas, Riverside, Sacramento, San Benito, San Bernardino, San Diego, San Francisco, San Joaquin, San Luis Obispo, San Mateo, Santa Barbara, Santa Cruz, Shasta, Sierra, Siskiyou, Solano, Sonoma, Stanislaus, Sutter, Tehama, Trinity, Tulare, Tuolumne, Ventura, Yolo, and Yuba;

(ii) Each and every county or other political or geographical subdivision in the balance of the United States of America and the dependent territories of the United States of America; and

(iii) Each and every county or other political or geographical subdivision in the world.

(e) The foregoing prohibitions in subsections (a) and (b) shall bind the Executive only so long as the Company pays him the Termination Compensation pursuant to Section 7 or the Change of Control Compensation pursuant to Section 10 during the Non-Competition Period and otherwise complies with its obligations hereunder.

14. CONFIDENTIAL INFORMATION. The Executive has executed or, if not previously executed, agrees to execute and be bound by the terms and conditions of the Company's Employee Proprietary Information Agreement ("PROPRIETARY INFORMATION AGREEMENT"), attached hereto as Appendix A.

15. UNENFORCEABILITY. 'If any of the rights or restrictions contained or

provided for in this Agreement shall be deemed by a court of competent jurisdiction to be unenforceable by reason of the extent, duration or geographical scope, the parties hereto contemplate that the court shall reduce such extent, duration, geographical scope and enforce this Agreement in its reduced form for all purposes in the manner contemplated hereby. Should any of the provisions of this Agreement require judicial interpretation, it is agreed that the court interpreting or construing this Agreement shall not apply a presumption that any provision shall be more strictly construed against one party by reason of the rule of construction that a document is to be construed more strictly against the party who itself or through its agents prepared the same, it being agreed that both parties and their respective agents have participated in the preparation of this Agreement.

16. INJUNCTIVE RELIEF. The Executive agrees that the restrictions and covenants contained in Section 13 and in the Proprietary Information Agreement are necessary for the protection of the Company and any breach thereof will cause the Company irreparable damages for which there is no adequate remedy at law. The Executive further agrees that, in the event of a breach by the Executive of any of Executive's obligations thereunder, the Company shall have the absolute right, in addition to any other remedy that might be available to it, to obtain from any court having jurisdiction, such equitable relief as might be appropriate, including temporary,

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interlocutory, preliminary and permanent decrees or injunctions enjoining any further breach of such provisions.

17. INDEMNIFICATION AND ATTORNEYS' FEES. Subject to applicable laws, during the Employment Period and thereafter, the Company shall indemnify, hold harmless and defend the Executive from all damages, claims, losses, and costs and expenses (including reasonable attorney's fees) arising out of, in connection with, or relating to all acts or omissions taken or not taken by him in good faith while performing services for the Company, and shall further promptly reimburse the Executive for all expenses (including attorney's fees) incurred in enforcing the benefits of this Agreement. The Company shall use its best efforts to continue to maintain an insurance policy covering the officers and directors of the Company against claims and/or lawsuits at least as favorable as such policy that is currently in effect, and shall cause the Executive to be covered under such policy upon the same terms and conditions as other similarly situated officers and directors during the Employment Period and for a period of at least six (6) years thereafter.

18. WAIVER. Executive hereby waives any and all rights to payment (whether the Executive is entitled to a cash payment or other payment arising on account of the Initial Options), and hereby agrees that this Agreement satisfies any and all obligations that are due to Executive, pursuant to the Employment Agreement that became due to the Executive by virtue of the Eastbourne Change of Control, provided, however, that such waiver shall not apply to payments or other benefits that may hereafter become due to Executive upon a Change of Control pursuant to the terms and conditions contained herein.

19. MISCELLANEOUS.

(a) SEVERABILITY. If any provision of this Agreement is determined to be invalid or unenforceable, it shall not affect the validity or enforceability of any of the other remaining provisions hereof.

(b) NOTICES. For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when (i) delivered personally; (ii) sent by facsimile or other similar electronic device and confirmed; (iii) delivered by courier or overnight express; or (iv) three business days after being sent by registered or certified mail, postage prepaid, addressed as follows:

If to the Company:

Activision, Inc.
3100 Ocean Park Boulevard
Santa Monica, CA 90405
Attention: General Counsel

with a copy to:

Robinson Silverman Pearce Aronsohn & Berman, LLP
1290 Avenue of the Americas
New York, NY 10104
Attention: Kenneth L. Henderson, Esq.

If to the Executive:

Brian G. Kelly
785 Fifth Avenue, Apt. 3E
New York, NY 10022

or to such other address as a party may furnish to the other party in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

(c) WAIVER. No waiver by either party hereto of any breach of any provision of this Agreement shall be deemed a waiver of any preceding or succeeding breach of such provision or any other provision herein contained.

(d) GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of California, without giving effect to the conflict of law principles thereof; provided, however, that Section 13 of this Agreement shall be governed by, and construed in accordance with, the laws of the state in which the Executive has his principal office.

(e) ENTIRE AGREEMENT. This Agreement sets forth the entire agreement of the parties hereto with respect to the subject matter hereof, and is intended to supersede all prior employment negotiations, understandings and agreements. No provision of this Agreement may be waived or changed, except by a writing signed by the party to be charged with such waiver or change.

(f) SUCCESSORS: BINDING AGREEMENT. Neither of the parties hereto shall have the right to assign this Agreement or any rights or obligations hereunder without the prior written consent of the other party; provided, however, that this Agreement shall inure to the benefit or and be binding upon the successors and assigns of the Company upon any sale of all or substantially all of the Company's assets, or upon any merger or consolidation of the Company with or into any other corporation, all as though such successors and assigns of the Company and their respective successors and assigns were the Company. Insofar as the Executive is concerned this Agreement, being personal, cannot be assigned.

(g) COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be an original, but together shall constitute one and the same instrument.

(h) HEADINGS. The headings and captions set forth in this Agreement are for ease of reference only and shall not be deemed to constitute a part of the agreement formed hereby or be relevant to the interpretation of any provisions of this Agreement.

(i) SATURDAYS, SUNDAYS AND HOLIDAYS. Whenever any determination is to be made or action to be taken on a date specified in this Agreement, if such date shall fall upon a Saturday, Sunday or a legal holiday in the State of California, the date for such determination or action shall be extended to the first business day immediately thereafter.

[SIGNATURE PAGES BEGIN ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

ACTIVISION, INC.

By: /s/ ROBERT A. KOTICK

Name: Robert A. Kotick
Title: Chairman

/s/ BRIAN G. KELLY

Brian G. Kelly

STOCK OPTION AGREEMENT

STOCK OPTION AGREEMENT (the "AGREEMENT") is made and entered into as of the 22nd day of May, 2000, by and between ACTIVISION, INC., a Delaware corporation (the "Company") and Brian G. Kelly (the "OPTIONEE").

WHEREAS, the Company and the Optionee have entered into that certain Amended and Restated Employment Agreement dated as of the date hereof (the "EMPLOYMENT AGREEMENT").

WHEREAS, the Company considers it desirable and in its best interests that Optionee be granted the option to purchase an aggregate of One Million (1,000,000) shares of Common Stock of the Company, par value \$.000001 per share (the "Common Shares"), in accordance with the Employment Agreement and upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, for good and valuable consideration paid by the Optionee to the Company, the adequacy of which is hereby acknowledged, and the mutual covenants hereinafter set forth, the parties agree as follows:

1. GRANT OF OPTION. The Company hereby grants to the Optionee the right and option (hereinafter the "Option") to purchase all or any part of an aggregate of One Million (1,000,000) Common Shares (subject to adjustment as provided in Paragraph 6 hereof), on the terms and conditions set forth herein.

2. PURCHASE PRICE. The purchase price of the Common Shares covered by the Option shall be \$6.125 per share (subject to adjustment as provided in Paragraph 6 hereof and Section 10(b)(iv) of the Employment Agreement) (the "PURCHASE PRICE").

3. TERM OF THE OPTION. The Option shall vest and be exercisable as follows: (i) the Option shall be exercisable as to 250,000 shares at any time after the date hereof and prior to the Expiration Date (as defined in Section 16), (ii) the Option shall be exercisable as to the remaining 750,000 shares, pro rata on a monthly basis, commencing on the 22nd day of June, 2000 and thereafter on the 22nd day of each month for a period of three years through May 22, 2003 and (iii) the Option shall be exercisable as set forth in Sections 7(b) and 16(c).

4. METHOD OF EXERCISING OPTION.

(a) The Optionee may exercise the Option in whole or in part (to the extent that it is exercisable in accordance with its terms) by giving written notice to the Company, specifying therein the number of Common Shares which the Optionee then elects to purchase or with respect to which the Option is being exercised, and the method by which the Optionee intends to pay for the Common Shares. The date on which the notice is given to the Company is hereinafter referred to as the "DATE OF EXERCISE."

(b) As soon as practicable after receipt by the Company of such notice and of payment in full of the Purchase Price of all the Common Shares with respect to which the

Option has been exercised, a certificate or certificates representing such Common Shares shall be issued in the name of the Optionee and shall be delivered to the Optionee.

(c) The Optionee may pay the Purchase Price in one of the following manners:

(i) CASH EXERCISE; EXCHANGE OF SHARES. The Optionee shall deliver the Purchase Price (A) in immediately available funds or (B) by surrendering to the Company certificate(s) representing a number of shares of common stock of the Company with a value equal to Purchase Price, where the value of such shares of common stock is equal to the average of the closing sale prices of such common stock for the five (5) trading days immediately prior to

(but not including) the Date of Exercise.

(ii) CASHLESS EXERCISE. The Optionee shall surrender this Option to the Company, in which event the Company shall issue to the Optionee the number of Common Shares determined as follows:

$$X = (Y * (A - B)) / B$$

where:

X = the number of Common Shares to be issued to the Optionee;

Y = the number of Common Shares with respect to which this Option is being exercised;

A = the average of the closing sale prices of the common stock of the Company for the five (5) trading days immediately prior to (but not including) the Date of Exercise;

B = the Purchase Price.

(d) For purposes of Rule 144 promulgated under the Securities Act, it is intended, understood and acknowledged that the Common Shares issued in a cashless exercise transaction shall be deemed to have been acquired by the Optionee, and the holding period for the Common Shares shall be deemed to have been commenced, on the date hereof.

5. AVAILABILITY OF SHARES. The Company, during the term of this Option, at all times shall keep available the number of shares of common stock required to satisfy the Option. The Company shall utilize its best efforts to comply with the requirements of each regulatory commission or agency having jurisdiction in order to issue and sell the Common Shares to satisfy the Option. Such compliance will be a condition precedent to the right to exercise the Option. The inability of the Company to effect such compliance with any such regulatory commission or agency which counsel for the Company deems necessary for the lawful issuance and sale of the Common Shares to satisfy this Option shall relieve the Company from any liability for failure to issue and sell the Common Shares to satisfy the Option for such period of time as such compliance is not effectuated.

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6. ADJUSTMENTS.

(a) STOCK SPLITS AND COMBINATIONS. If prior to the exercise of any option granted hereunder the Company shall have effected one or more stock split-ups, stock dividends, or other increases or reductions of the number of shares of its common stock outstanding without receiving compensation therefor in money, services or property, the number of Common Shares subject to the option hereby granted shall (a) if a net increase shall have been effected in the number of outstanding shares of the Company's Common Shares, be proportionately increased and the cash consideration payable per Common Share shall be proportionately reduced; and (b) if a net reduction shall have been effected in the number of outstanding shares of the Company's Common Shares, be proportionately reduced and the cash consideration payable per Common Share be proportionately increased.

(b) RECLASSIFICATION, EXCHANGE OR SUBSTITUTION. Except as set forth in Section 7 below, if the Common Shares issuable upon exercise of this Option shall be changed into the same or different number of shares of any other class or classes of shares, whether by capital reorganization, reclassification, exchange or otherwise (other than pursuant to a subdivision or combination of shares as provided for in clause (a) above), the holder of this Option shall on its exercise be entitled to purchase, in lieu of the Common Shares which the Optionee would have become entitled to purchase but for such change, a number of shares of such other class or classes of stock equivalent to the number of Common Shares that would have been subject to purchase by the Optionee on exercise of this Option immediately before such change.

7. CHANGE OF CONTROL. In the event that the Optionee is an employee of the Company at the moment immediately prior to a Change of Control (as defined herein), the Optionee shall be entitled to receive all benefits described in this Section 7.

(a) For purposes of this Agreement, a "Change of Control" shall be deemed to occur upon the occurrence of any of the following events:

(i) any "person" or "group" (as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules and regulations promulgated thereunder), other than any "person" or "group" with which the Optionee is an Affiliate, is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 25% of the total outstanding voting stock of the Company;

(ii) the individuals who constitute the Board as of the date of this Agreement (the "INCUMBENT BOARD") cease to constitute a majority of the Board, for any reason(s) other than (A) the voluntary resignation of one more Board members; (B) the removal of one or more directors by the Company's shareholders for good cause; provided, however (1) that if the nomination or election of any new director of the Company was approved by a majority of the Incumbent Board, such new director shall be deemed a member of the Incumbent Board and (2) that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened "Election Contest"

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(as described in Rule 14a-11 promulgated under the Securities Exchange Act of 1934, as amended) or as a result of a solicitation of proxies or consents by or on behalf of any "person" or "group" identified in clause (a)(i) above; or

(iii) the Company consolidates with, or merges with or into another person or entity or conveys, transfers, leases or otherwise disposes of all or substantially all of its assets to any person or entity, or any person or entity consolidates with or merges with or into the Company; provided, however that (A) the Optionee is not an Affiliate of such person or entity and (B) any such transaction shall not constitute a Change of Control if the shareholders of the Company immediately before such transaction own, directly or indirectly, immediately following such transaction in excess of sixty-five percent (65%) of the combined voting power of the outstanding voting securities of the corporation or other person or entity resulting from such transaction in substantially the same proportion as their ownership of the voting securities of the Company immediately before such transaction.

(iv) For purposes of this subsection, the term "AFFILIATE" means, with respect to any individual or a corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or political subdivision thereof) or other entity of any kind (each a "PERSON"), any other Person that directly or indirectly controls or is controlled by or under common control with such Person. For the purposes of this definition, "CONTROL," when used with respect to any Person, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; and the terms of "AFFILIATED," "CONTROLLING" and "CONTROLLED" have meanings correlative to the foregoing.

(b) Upon the occurrence of a Change of Control, this Option, to the extent not previously exercised, shall immediately vest and become exercisable in full for a period of ten (10) years commencing on the date of the Change of Control without regard to Sections 16(b), (c) or (d).

8. NOTICE OF ADJUSTMENTS. The Company shall give notice of each adjustment or readjustment of the Purchase Price or the number of Common Shares or other securities issuable upon exercise of this Option to the Optionee at the Optionee address as shown on the Company's books.

9. NO CHANGE. The form of this Option need not be changed because of any adjustment in the Purchase Price or in the number of Common Shares purchasable upon its exercise. An Option issued after any adjustment upon any partial exercise or in replacement may continue to express the same Purchase Price and the same number of Common Shares (appropriately reduced in the case of partial exercise) and such Purchase Price and number of Common Shares shall be considered to have been so changed as of the close of business on the date of adjustment.

10. REPLACEMENT. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Option and, in the case of loss, theft

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or destruction, on delivery of any indemnity agreement or bond reasonably satisfactory in form and amount to the Company, or in the case of mutilation, surrender and cancellation of this Option, the Company at its expense will execute and deliver, in lieu of this Option, a new Option of like tenor.

11. RESTRICTIONS. The holder of this Option, by acceptance hereof, represents, warrants and covenants as follows:

(a) This Option and the right to purchase the Common Shares is personal to the holder and shall not be transferred to any other person, other than by will or the laws of descent and distribution. Notwithstanding the foregoing, the Optionee may, at any time and from time to time, transfer all or any part of his rights under this Option and the right to purchase the Common Shares to his spouse or children, or to a trust created by the Optionee for the benefit of the Optionee or his immediate family or to a corporation or other entity controlled by the Optionee and in which the Optionee or members of his immediate family have all of the economic interests.

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

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

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

12. NO RIGHTS AS OPTIONEE. Nothing contained herein shall be construed to confer upon the Optionee any right to be continued in the employ of the Company or as a director of the Company or derogate from any right of the Company to retire, request the

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resignation of, or discharge the Optionee at any time, with or without cause. The Optionee shall not, by virtue hereof, be entitled to any rights of a stockholder in the Company, either at law or in equity, and the rights of the Optionee are limited to those expressed herein and are not enforceable against the Company except to the extent set forth herein.

13. SHAREHOLDER'S RIGHTS. Except for transfers pursuant to Section 11(a) above or in the event of the Optionee's death as provided in Section 16 below, this Option is non-transferable by the Optionee. On any attempt to transfer or otherwise dispose of this Option other than pursuant to the terms hereof, this Option shall immediately become null and void. The Optionee shall have no rights as a shareholder with respect to the Common Shares until payment of the Option price and delivery to the Optionee of the Common Shares as provided herein.

14. WITHHOLDING. In the event that the Optionee elects to exercise this Option or any part thereof, and if the Company shall be required to withhold any amounts by reason of any federal, state or local tax laws, rules or regulations in respect of the issuance of Common Shares to the Optionee pursuant to the Option, the Company shall be entitled to deduct and withhold such amounts from any payments to be made to the Optionee. In any event, the Optionee shall make available to the Company promptly when requested by the Company sufficient funds to meet the requirements of such withholding; and the Company shall be entitled to take and authorize such steps as it may deem advisable in order to have such funds available to the Company out of any funds or property due or to become due to the Optionee. Notwithstanding the foregoing, the Optionee may request the Company not to withhold any or all of the amounts otherwise required to be withheld; provided that the Executive provides the Company with sufficient documentation as may be required by federal, state or local tax laws, rules or regulations supporting his request that such amount is not required to be withheld, in which case the Company may, in its reasonable discretion, reduce such withholding amounts to the extent permitted by applicable laws, rules and regulations.

15. REGISTRATION RIGHTS. The Company hereby covenants and agrees to promptly file, no later than 60 days from the date hereof, a registration statement on Form S-8 (the "Registration Statement") with the Securities and Exchange Commission with respect to the Common Shares, including a reoffer prospectus, to the extent required.

16. TERMINATION OF OPTION. Except as otherwise stated herein, including Section 7(b), the Option, to the extent not theretofore exercised, shall terminate upon the first of the following dates to occur (the "Expiration Date"):

(a) In the event of the Optionee's death or Disability (as defined in the Employment Agreement), this Option, to the extent exercisable at the Date of Termination (as defined in the Employment Agreement), in the case of death, may be exercised by the estate of the Optionee or any person who acquired the Option by bequest or inheritance, or, in the case of Disability, may be exercised by the Optionee or his legal representative, in accordance with the terms of this Option, at any time prior to twelve (12) months following such death or Disability, as the case may be, after which the Option shall terminate and shall no longer be exercisable;

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(b) In the event of the termination of the Optionee's employment for Cause and by the Optionee upon a Resignation (each as defined in the Employment Agreement), this Option and all rights granted hereunder shall be forfeited and deemed canceled and no longer exercisable on and after the 30th day following the date of such termination of employment, unless the Board determines otherwise; and

(c) In the event that the Executive's employment is terminated by the Company Without Cause or by the Executive for Good Reason (each as defined in the Employment Agreement), this Option and all rights granted hereunder shall, upon the Date of Termination (as defined in the Employment Agreement), immediately vest and become exercisable (if not already vested and exercisable), and may be exercised by the Optionee in whole or in part at any time or from time to time prior to the later of the fifth anniversary of the Date of Termination or May 22, 2010, after which time the Option shall terminate and shall no longer be exercisable; or

(d) May 22, 2010, the tenth anniversary of this Agreement.

17. VALIDITY AND CONSTRUCTION. This Option shall be governed by and construed and enforced in accordance with the laws of the State of Delaware. Such construction is vested in the board and its construction shall be final and conclusive.

18. AMENDMENT: The Board of Directors of the Company may, with the consent of the Optionee, at any time or from time to time amend the terms of this Option.

19. NOTICES. Any notice which either party hereto may be required or permitted to give to the other shall be in writing, and may be delivered personally or by mail, postage prepaid, or overnight courier, addressed as

follows: if to the Company, at its office at 3100 Ocean Park Boulevard, Santa Monica, California 90405, or at such other address as the Company by notice to the Optionee may designate in writing from time to time; and if to the Optionee, at the address shown below his signature on this Option Certificate, or at such other address as the Optionee by notice to the Company may designate in writing from time to time. Notices shall be effective upon receipt.

20. SUCCESSORS AND ASSIGNS. This Agreement shall inure to the benefit of and be binding upon the parties hereto and to the extent not prohibited herein, their respective heirs, successor, assigns and representatives. Nothing in this Agreement, expressed or implied, is intended to confer on any person other than the parties hereto and as provided above, their respective heirs, successors, assigns and representatives any rights, remedies, obligations or liabilities.

[SIGNATURE PAGES BEGIN ON FOLLOWING PAGE]

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

ACTIVISION, INC.

By: /s/ ROBERT A. KOTICK

Name: Robert A. Kotick
Title: Chairman

ACCEPTED:

/s/ BRIAN G. KELLY

Brian G. Kelly

785 FIFTH AVENUE, APT. 3E

Address

NEW YORK, NY 10022

City, State, Zip Code

Social Security Number: _____

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