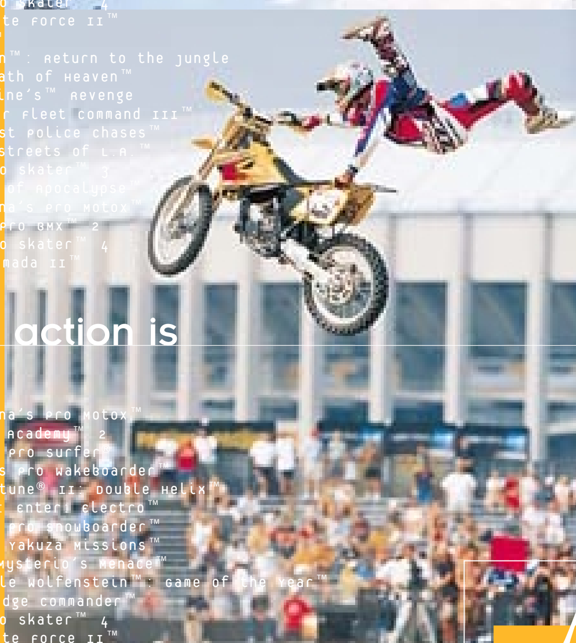
Medieval: Total War
Spider-Man™
Blade™ II
Street Hoops™
Bloody Roar™ 3
Stuart Little™ 2
Medieval: Total War™
X-Men™ Next Dimension™
Lost Kingdoms™
Mat Hoffman's Pro BMX™ 2
Bomberman™ Tournament
Bloody Roar™: Primal Fury
Cabela's Big Game Hunter™
Minority Report™
Kelly Slater's Pro Surfer
Mat Hoffman's Pro BMX™
Medieval: Total War
Spider-Man™: Mysterio's Menace™
Pinobee: Wings of Adventure™
Star Trek® Starfleet Command III
Rally Fusion™: Race of Champions™
Return to Castle Wolfenstein™
X-Men™ Mutant Academy™ 2
Star Trek® Elite Force II
Shaun Murray's Pro Wakeboarder™
Soldier of Fortune® II: Double Helix™
Spider-Man™ 2: Enter: Electro™
Shaun Palmer's Pro Snowboarder
Bomberman™ Tournament
Kelly Slater's Pro Surfer®
Star Trek®: Armada II™
Spider-Man™: Mysterio's Menace™
Return to Castle Wolfenstein™: Game of the Year™
Star Trek® Bridge Commander™
Tony Hawk's Pro Skater™ 4
Star Trek® Elite Force II™
Stuart Little™
Disney's Tarzan™: Return to the Jungle
Tenchu™ 3: Wrath of Heaven™
X-Men™ Wolverine's™ Revenge
Star Trek® Star Fleet Command III™
World's Scariest Police Chases™
True Crime™: Streets of L.A.™
Tony Hawk's Pro Skater™ 3
X-Men™: Reign of Apocalypse™
Travis Pastrana's Pro Motox™
Mat Hoffman's Pro BMX™ 2
Tony Hawk's Pro Skater™ 4
Star Trek®: Armada II™



where the action is

Travis Pastrana's Pro Motox™
X-Men™ Mutant Academy™ 2
Kelly Slater's Pro Surfer®
Shaun Murray's Pro Wakeboarder™
Soldier of Fortune® II: Double Helix™
Spider-Man™ 2: Enter: Electro™
Shaun Palmer's Pro Snowboarder™
Wreckless: The Yakuza Missions™
Spider-Man™: Mysterio's Menace™
Return to Castle Wolfenstein™: Game of the Year™
Star Trek® Bridge Commander™
Tony Hawk's Pro Skater™ 4
Star Trek® Elite Force II™
Stuart Little 2™
Disney's Tarzan™: Return to the Jungle
Tenchu™ 3: Wrath of Heaven
X-Men™ Wolverine's™ Revenge
Star Trek® Star Fleet Command III
X-Men™ Next Dimension™
Lost Kingdoms™
Mat Hoffman's Pro BMX™ 2
Bomberman™ Tournament
Minority Report™ II
XXX™
Blade™ II
Spider-Man™
Street Hoops™
Bloody Roar™ 3
Stuart Little™
Spider-Man™
Street Hoops™
Stuart Little 2™
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Rally Fusion™: Race of Champions™
Return to Castle Wolfenstein™
X-Men™ Mutant Academy™ 2
Tony Hawk's Pro Skater™ 3
X-Men™: Reign of Apocalypse™
Travis Pastrana's Pro Motox™
True Crime™: Streets of L.A.™
World's Scariest Police Chases™
Wreckless: The Yakuza Missions

Activision

'02

>> ANNUAL REPORT

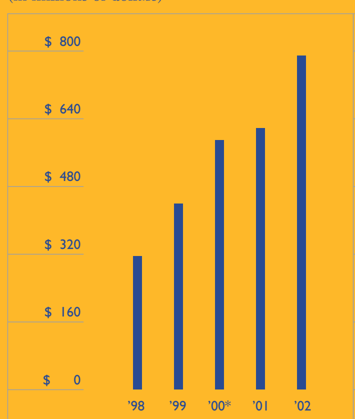
FINANCIAL HIGHLIGHTS
In thousands of dollars, except per share data

	2002	2001	2000	2000*	1999	1998
Net revenues	$786,434	$620,183	$572,205	$583,930	$436,526	$312,906
Operating income (loss)	80,574	39,807	(30,325)	39,867	26,667	9,218
Net earnings (loss)	52,238	20,507	(34,088)	19,817	14,891	4,970
Earnings per common share:						
Basic earnings (loss) per share	1.03	0.55	(0.92)	0.54	0.43	0.15
Diluted earnings (loss) per share	0.88	0.50	(0.92)	0.49	0.41	0.14

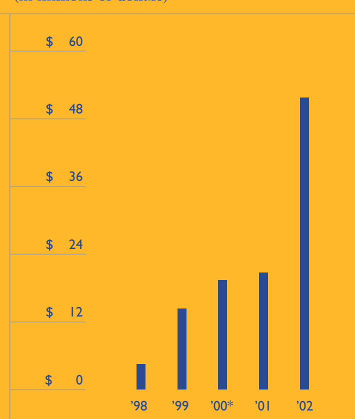
Fiscal Highlights**

#2 Independent U.S. Publisher
#1 Video Game Franchise — Tony Hawk
#1 Action Sports Market Share
#1 Nintendo Publisher — All Platforms

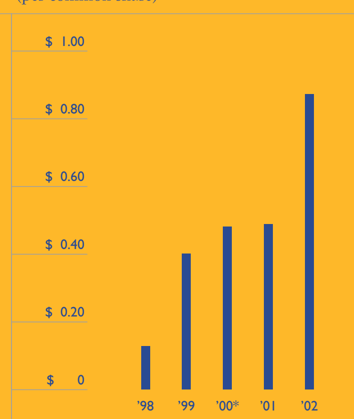
Net Revenues
(in millions of dollars)



Net Earnings
(in millions of dollars)



Diluted Earnings Per Share
(per common share)



*Excludes charges incurred in conjunction with the implementation of the company's strategic restructuring plan in the fourth quarter of fiscal 2000.

**Source: NPD Funworld

achieving record performance despite a market transition

To Our Shareholders:

Fiscal year 2002 was one of the best years in Activision's history. With a portfolio of some of the strongest franchises in interactive entertainment and a management team unified around a strategy designed to maximize the value of these brands, we were able to capitalize on the market opportunities in our industry and build shareholder value. This fiscal year, the company's stock price rose 84% as compared to a nominal return for the Nasdaq Composite Index during the same period.

Our operating results were outstanding. Our net revenues increased 27% and our earnings per share grew 76%. Over the past five years, we have grown our net revenues at an average annual rate of 33% and our net earnings at an average annual rate of more than 47%.

Along with posting strong growth, we significantly strengthened our business. During the year, our operating performance grew at a double-digit pace and our company-wide program to reduce costs enabled us to improve our operating margin 380 basis points. We finished the fiscal year with $279 million of cash, lower inventories and all time low days sales outstanding of 42 days. Today, we have one of the strongest balance sheets in our industry.

>>> Strategically Focused:

Our ongoing goal is to equip the company with the competitive resources required to provide superior returns to shareholders. During fiscal 2002, we completed three acquisitions strengthening our core product development capabilities. Each of these talented production teams has developed a game that has shipped in excess of one million units. These companies are comprised of more than 200 of the industry's most talented designers, artists and programmers and are a great addition to our other development studios.

The power of our operations, coupled with our prudent financial discipline and our ability to successfully leverage our brands across a mix of old and new generation console systems, drove our growth. Our solid progress spanned all facets of our business, both domestically and internationally.

>>> Another Year of Successful Performance:

Despite the uncertainty at the beginning of the fiscal year resulting from the impending launches of new hardware platforms, overall industry revenues increased year over year. Consistent with our historical performance, Activision outperformed the overall software market by a factor of more than two times. The company's revenues grew 27% over the prior year, as compared to the U.S. and European software market's growth of 12% and we ended the fiscal year as the #2 independent U.S. software publisher. Our success can be attributed to our careful planning and the solid performance of our games across the old and new generation console systems, the handheld platforms and the PC.

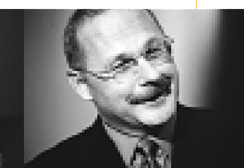
Our understanding of the hardware and software cycles enabled us to match the right brands with the appropriate hardware platforms to maximize our financial results. By aligning our broad portfolio of brands against the age-appropriate demographic for both old and new generation console systems, we were able to successfully manage the hardware transition better than most of our competitors.

Fiscal 2003 marks the beginning of what we expect will be a three-year growth phase for the industry driven by the new hardware platforms. According to NPD Funworld, at the end of June 2002, there was an installed base of 21.2 million new console and handheld systems in the U.S., more than three times the installed base of 6.6 million units for the same period in the previous generation of hardware.

Today video games are a well-established mass-market medium. Millions of new consumers enter the market each year, while many consumers who played video


Robert A. Kotick


Brian G. Kelly


Ronald Doornink

games in the 1980s and 1990s are still playing games. Console owners are now able to watch DVD movies, listen to CD music, connect to the Internet and play games with production values that rival big-budget feature films through one easy-to-use device. As microprocessors continue to be incorporated into a number of easy-access mass-market devices, the reach of interactive entertainment will continue to broaden.

With the tremendous market growth in video games there is even greater value in the brand franchises we control. Consumers find their way amid the proliferation of choices by first turning to the names they know and trust. Few interactive entertainment companies have the number of premier brands that Activision controls.

The vast majority of Activision's games are based on well-established consumer franchises. Recognized brands provide us with consistency and predictability in our financial results. The remainder of our portfolio is based on emerging brands that offer us growth and significant potential financial upside.

During fiscal 2002, we launched more than 50 products across multiple platforms. Our balanced portfolio includes action sports, super heroes, driving/racing, mass-market and enthusiast-targeted games. We continued our market leadership in action sports, with our Tony Hawk's Pro Skater™ franchise being cited as the single largest independent U.S. video game franchise for the fiscal year by NPD Funworld. The scope and breadth of our product line has been a key component to our success and we believe that the strength of our franchises, coupled with our cross-platform release strategy, will enable us to maintain our market leadership for years to come.

>>> Continuing as a Global Leader:
For more than 20 years, Activision has been revolutionizing video games. We were the first independent video game developer and publisher and introduced several of the brands that forged the industry's success. Today the momentum for growth is greater than ever before and Activision's worldwide market position has never been stronger. We have a product portfolio based on some of the world's most recognized brands, excellent product development capabilities and the financial flexibility to capitalize on the near-term opportunities afforded by the new console systems, as well as future opportunities presented by the advent of new technologies.

The spirit of our company will always reside in a refusal to settle for things as they are. Our culture is one of innovation, a continual search for finding better ways to serve our customers, strategic partners and shareholders. All that we accomplished reflects the imagination and intellectual and creative talents of the people who work here.

We remain steadfast in our commitment to operate a highly disciplined company that makes the necessary investments and takes selective creative risks while remaining focused on industry leading profitability. We are confident that we will continue to meet this responsibility and be tomorrow what we are today—one of the world's leading interactive entertainment companies.

Sincerely,

Robert A. Kotick
Chairman and Chief Executive Officer

Brian G. Kelly
Co-Chairman

Ronald Doornink
President, Activision, Inc. and Chief Executive Officer, Activision Publishing, Inc.

brands

leveraging our skills and product mix to expand our market position

>>> Leadership Through Great Brands:

Activision continues to bring great brands to all of the gaming platforms. The company's balanced product portfolio includes action sports, super heroes, driving/racing, mass-market and enthusiast-targeted games. Our product portfolio is based on globally recognized brands with broad consumer appeal. Recognized brands provide us with the financial stability and predictability important to our investors, while at the same time giving us the flexibility to investigate and develop new properties and original game concepts that can provide us with additional financial upside.

>>> Action Sports:

According to NPD Funworld, Activision is the #1 publisher of action sports games with a 63% market share. The company's action sports umbrella brand, Activision O_2, features some of the best-selling action sports franchises to date including Tony Hawk's Pro Skater™, Mat Hoffman's Pro BMX™ and Shaun Palmer's Pro Snowboarder™, as well as such highly anticipated games as Kelly Slater's Pro Surfer®, Shaun Murray's Pro Wakeboarder™ and Travis Pastrana's Pro MotoX™.

With four action sports games set to be released in fiscal 2003, Activision O_2 is poised to continue to be the brand of choice among both hardcore gamers and sports gaming enthusiasts.

>>> Super Heroes:

In longevity, awareness and reputation, few other entertainment brands can rival the success of Marvel Comics' Super Heroes™—Spider-Man™, the X-Men™ and Blade™. With a 59% market share as measured by NPD Funworld, Activision is the leader in the super heroes category and is set to further expand its market position through the success of Spider-Man™, which is based on Columbia Pictures/Marvel Entertainment's blockbuster feature film.

On April 16, 2002, Activision shipped more than one million units of the Spider-Man game to North American retail outlets, making it the largest one-day launch in the company's history. The high-flying, web-slinging title is the first game ever to ship on five platforms simultaneously and continues to top domestic and international retail sell-through charts.

Additionally, during the fiscal year, Activision signed an agreement with Marvel Entertainment to bring Marvel's "First Family," The Fantastic Four®, and "The Invincible" Iron Man® to the interactive arena. Both of these properties have entertained fans around the world in the form of comic books and other media for more than 35 years and are currently in development as theatrical films.

>>> Driving/Racing:

Earlier this year, Activision established its presence in the large and profitable driving genre with WRECKLESS: The Yakuza Missions™, a top-selling title for the Xbox™ video game system from Microsoft. Activision is continuing

capitalizing on explosive growth and emerging global opportunities

to broaden its reach in the genre with new titles that focus on mission-based driving and off-road racing—WRECKLESS: The Yakuza Missions for the PlayStation® 2 computer entertainment system; Rally Fusion™: Race of Champions™, a visually explosive, all action racing game set across 20 interactive environments and based on the infamous European rally race—Race of Champions; and True Crime™: Streets of L.A.™, which blends high-speed mission-based driving action with full impact martial arts action.

>>> **Mass Market:**

With sales of more than $786 million, Activision was the #2 independent U.S. game publisher during fiscal 2002. The company was one of only two U.S. publishers with worldwide revenues in excess of $500 million. As a result of its strong financial and market position, Activision has been able to bring some of the most recognized entertainment brands to audiences of all ages.

During fiscal 2002, Activision released a number of games based on broadly recognized entertainment properties including World's Scariest Police Chases™, Star Trek® Bridge Commander™, Star Trek®: Armada II™, and The Weakest Link™.

In fiscal 2003, the company will continue to excite the imagination of audiences around the world with a number of new games including Star Trek® Elite Force II™ and Star Trek® Starfleet Command III™, sequels to popular Star Trek games; Stuart Little 2™, which is based on Columbia Pictures' hit feature film; Minority Report™, which is based on Steven Spielberg's blockbuster sci-fi thriller; Disney's Tarzan™: Return to the Jungle, the action-adventure sequel to the wildly successful Tarzan Game Boy® Color game; and XXX™, based on this summer's action movie starring Vin Diesel of "The Fast and The Furious" fame.

>>> **Enthusiast Games:**

All of Activision's games are based on bringing innovative interactive entertainment experiences to audiences worldwide. The company's success relies on its ability to identify new market opportunities and establish franchises that stand for quality entertainment. During the fiscal year, Activision released id Software's Return to Castle Wolfenstein™, which has shipped more than one million units and topped retail sell-through charts during the holiday season in the U.S., U.K. and Germany.

In the upcoming fiscal year, Activision will release a number of new and exciting games that span a broad spectrum of genres across multiple platforms. These titles include a console version of id Software's blockbuster action game Return to Castle Wolfenstein; Tenchu 3™: Wrath of Heaven, the first sequel to the popular Tenchu™ video game franchise; Street Hoops™, a gritty, "in your face" street-style basketball game that encompasses the look, speed, energy and attitude of blacktop competition; and Medieval: Total War™, the sequel to the highly acclaimed Shogun: Total War®.

development focus on products that will become franchise properties

>>> **Leadership Through Process:**

Activision's success depends on the company's ability to consistently develop high-quality, innovative games that appeal to consumers around the world. To ensure this consistency, we have implemented a disciplined methodology for the selection, development, production and quality assurance of our titles that is referred to as the "Greenlight Process." This unique five-step process focuses on ensuring quality and efficiency in our product development capabilities and is applied to products under development with both internal and external resources.

The "Greenlight Process" consists of in-depth reviews of each product at five key intervals: concept review, assessment, prototype, first playable and alpha. These steps focus on identifying any potential risks associated with the product, improving productivity, and controlling our capital outlays to ensure that the games fit our overall strategy and that poor performers are eliminated early in the process when the capital expenditures are low.

Our proprietary "Greenlight Process" has been at the core of Activision's success. This methodology, combined with our heritage of creativity, innovation and high standards, is moving us closer to being a $1 billion global leader.

Maintain Disciplined Product Development Process—Greenlight Process

Concept Review → YES / GO · NO / STOP → Assessment → YES / GO · NO / STOP → Prototype → YES / GO · NO / STOP → First Playable → YES / GO · NO / STOP → Alpha

Concept Review

Purpose:
Is the game concept valid and marketable?

Deliverables:
- Game concept/treatment
- Team identification
- Preliminary
  - Budget & schedule
  - Market analysis
  - Product P & L

Assessment

Purpose:
Does the game design prove the concept's validity, marketability, and technical feasibility?

Deliverables:
- Game design overview
- First on-screen view
- Recommended market positioning
- Updated
  - Budget & schedule
  - Product P & L

Prototype

Purpose:
Based on development of a prototype, should the game be approved for production?

Deliverables:
- Working prototype
- Preliminary marketing plan and creative strategy
- Final
  - Game design
  - Production budget & schedule
  - Product P & L

First Playable

Purpose:
Is production progressing according to budget, schedule, and quality?

Deliverables:
- First playable version of game
- Final marketing plan
- Packaged concept/advertising concept
- Revised
  - Production budget
  - Product P & L

Alpha

Purpose:
Is the game being completed in a timely manner consistent with creative and technical goals?

Deliverables:
- Alpha version of game
- Trade marketing plan summary
- Final packaging/rough TV boards
- Revised product P & L
- Consumer play test results

producing results that meet our financial objectives

>>> **Leadership Through Financial Discipline:**

Fiscal 2002 was not only a record year for Activision in terms of financial performance, but it was also a year in which we significantly strengthened our business. We finished the fiscal year with $279 million of cash, lower inventories and reduced our days sales outstanding to an all time low of 42 days.

We are pleased with the improvements we made to our balance sheet and we continue to focus on our margin expansion program. Operating margin, a critical measure of our business efficiency and profitability, was 6.4% at the end of fiscal 2001. As a result of our worldwide program to optimize our business model, in fiscal 2002 Activision increased its operating margin by more than 380 basis points to 10.2%. This increase is an indicator of the progress of our company-wide activities and we are optimistic about continuing to improve on this metric.

On June 7, 2002, we completed an offering of common stock that generated net proceeds of approximately $247 million. This new capital combined with $279 million of existing cash will enable us to take full advantage of our industry's impending three-year growth cycle. We intend to use our strengthened financial position to prudently acquire proven high-quality product development resources and long-term intellectual property rights. We believe that during past growth phases, independent companies that consolidated the most valuable assets and relationships gained the most strength during growth cycles.

Today, Activision's market position has never been better. We have one of the strongest balance sheets in our industry and the financial flexibility to capitalize on the opportunities afforded by the new console platforms. This financial flexibility, coupled with our superb management team, scale and exciting product slate should enable us to maintain our global leadership for years to come.

>>> **Financial Review**

SELECTED CONSOLIDATED FINANCIAL DATA

In thousands, except per share data

The following table summarizes certain selected consolidated financial data, which should be read in conjunction with our Consolidated Financial Statements and Notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein. The selected consolidated financial data presented below as of and for each of the fiscal years in the five-year period ended March 31, 2002 are derived from our audited consolidated financial statements. The Consolidated Balance Sheets as of March 31, 2002 and 2001 and the Consolidated Statements of Operations and Consolidated Statements of Cash Flows for each of the fiscal years in the three-year period ended March 31, 2002, and the reports thereon, are included elsewhere in this Annual Report.

		Restated[1]			
Fiscal years ended March 31,	**2002[2]**	**2001**	**2000**	**1999**	**1998**
Statement of Operations Data:					
Net revenues	$786,434	$620,183	$572,205	$436,526	$312,906
Cost of sales—product costs	435,725	324,907	319,422	260,041	176,188
Cost of sales—intellectual property licenses and software royalties and amortization	99,006	89,702	91,238	36,990	29,840
Income (loss) from operations	80,574	39,807	(30,325)	26,667	9,218
Income (loss) before income tax provision	83,120	32,544	(38,736)	23,636	8,106
Net income (loss)	52,238	20,507	(34,088)	14,891	4,970
Basic earnings (loss) per share	1.03	0.55	(0.92)	0.43	0.15
Diluted earnings (loss) per share	0.88	0.50	(0.92)	0.41	0.14
Basic weighted average common shares outstanding	50,651	37,298	37,037	34,292	33,057
Diluted weighted average common shares outstanding	59,455	41,100	37,037	35,898	34,364
Selected Operating Data:					
EBITDA[3]	86,791	46,075	15,541	33,155	14,564
Cash provided by (used in):					
Operating activities	111,792	81,565	2,883	(42,341)	(1,986)
Investing activities	(8,701)	(8,631)	(25,041)	(3,800)	(10,158)
Financing activities	50,402	2,547	42,028	7,220	62,862

		Restated[1]			
As of March 31,	**2002[2]**	**2001**	**2000**	**1999**	**1998**
Balance Sheet Data:					
Working capital	$333,199	$182,980	$158,225	$136,355	$115,782
Cash and cash equivalents	279,007	125,550	49,985	33,037	74,319
Goodwill	35,992	10,316	12,347	21,647	23,473
Total assets	556,887	359,957	309,737	283,345	229,366
Long-term debt	3,122	63,401	73,778	61,143	61,192
Shareholders' equity	430,091	181,306	132,009	127,190	97,475

(1) Consolidated financial information for fiscal years 2001–1998 has been restated for the effect of our three-for-two stock split effected in the form of a 50% stock dividend to shareholders of record as of November 6, 2001, paid November 20, 2001.

(2) Effective April 1, 2001, we adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangibles." SFAS No. 142 addresses financial accounting and reporting requirements for acquired goodwill and other intangible assets. Under SFAS No. 142, goodwill is deemed to have an indefinite useful life and should not be amortized but rather tested at least annually for impairment. In accordance with SFAS No. 142, we have not amortized goodwill during the year ended March 31, 2002.

(3) EBITDA represents income (loss) before interest, income taxes and depreciation and amortization on property and equipment and goodwill. We believe that EBITDA provides useful information regarding our ability to service our debt; however, EBITDA does not represent cash flow from operations as defined by generally accepted accounting principles and should not be considered as a substitute for net income (loss), as an indicator of our operating performance, or cash flow as a measure of liquidity.

Overview

We are a leading international publisher of interactive entertainment software products. We have built a company with a diverse portfolio of products that spans a wide range of categories and target markets and that is used on a variety of game hardware platforms and operating systems. We have created, licensed and acquired a group of highly recognizable brands which we market to a growing variety of consumer demographics.

Our products cover the action, adventure, action-sports, racing, role-playing, simulation and strategy game categories. Historically, we have offered our products in versions that operate on the Sony PlayStation ("PS1"), Sony PlayStation 2 ("PS2"), Nintendo 64 ("N64"), Nintendo GameCube ("GameCube") and Microsoft Xbox ("Xbox") console systems, Nintendo Game Boy Advance ("GBA") and Game Boy Color ("GBC") hand held devices, as well as on personal computers ("PC"). Driven partly by the enhanced capabilities of the next generation of platforms, we believe that in the next few years there will be significant growth in the market for interactive entertainment software and we plan to leverage our skills, experience and resources to extend our leading position in the industry.

Our publishing business involves the development, marketing and sale of products, either directly, by license or through our affiliate label program with third party publishers. In the United States, our 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. We conduct our international publishing activities through offices in the United Kingdom, Germany, France, Australia, Sweden, Canada and Japan. Our products are sold internationally on a direct to retail basis and through third party distribution and licensing arrangements and through our wholly-owned distribution subsidiaries located in the United Kingdom, the Netherlands and Germany. In addition to publishing, we maintain distribution operations in Europe that provide logistical and sales services to third party publishers of interactive entertainment software, our own publishing operations and manufacturers of interactive entertainment hardware.

Our profitability is directly affected by the mix of revenues from our publishing and distribution segments. Publishing operating margins are substantially higher than margins realized from our distribution segment. Operating margins in our distribution segment are also affected by the mix of hardware and software sales, with software producing higher margins than hardware.

Critical Accounting Policies

We have identified the policies below as critical to our business operations and the understanding of our financial results. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition. We recognize revenue from the sale of our products upon the transfer of title and risk of loss to our customers. We may permit product returns from or grant price protection to our customers on unsold merchandise under certain conditions. Price protection policies, when granted and applicable, allow customers a credit against amounts they owe us with respect to merchandise unsold by them. With respect to license agreements that provide customers the right to make multiple copies in exchange for guaranteed amounts, revenue is recognized upon delivery of such copies. Per copy royalties on sales that exceed the guarantee are recognized as earned. In addition, in order to recognize revenue for both product sales and licensing transactions, persuasive evidence of an arrangement must exist and collection of the related receivable must be probable. Revenue recognition also determines the timing of certain expenses, including cost of sales—intellectual property licenses and cost of sales—software royalties and amortization.

Allowances for Returns, Price Protection, Doubtful Accounts and Inventory Obsolescence. We may permit product returns from or grant price protection to our customers under certain conditions. The conditions our customers must meet to be granted the right to return products or price protection are, among other things, compliance with applicable payment terms, delivery to us of weekly inventory and sell-through reports, and consistent participation in the launches of our premium title releases. We may also consider other factors, including the facilitation of slow moving inventory and other market factors. Management must make estimates of potential future product returns and price protection related to current period product revenue. Revenue from product sales is recognized after deducting the estimated allowance for returns and price protection. We estimate the amount of future returns and price protection based upon historical experience, customer inventory levels, current economic trends and changes in the demand and acceptance of our products by the end consumer. Significant management judgments and estimates must be made and used in connection with establishing the allowance for returns and price protection in any accounting period. Material differences may result in the amount and timing of our revenue for any period if management made different judgments or utilized different estimates.

Similarly, management must make estimates of the uncollectibility of our accounts receivable. In estimating allowance for doubtful accounts, we analyze historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in our customers' payment terms and their economic condition. Any significant changes in any of these criteria would impact management's estimates in establishing our allowance for doubtful accounts.

We value inventory at the lower of cost or market. We regularly review inventory quantities on hand and in the retail channel and record a provision for excess or obsolete inventory based on the future expected demand for our products. Significant changes in demand for our products would impact management's estimates in establishing our inventory provision.

Software Development Costs. Software development costs include payments made to independent software developers under development agreements, as well as direct costs incurred for the internal development of products.

We account for software development costs in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." Software development costs are capitalized once technological feasibility of a product is established and such costs are determined to be recoverable. For products where proven game engine technology exists, this may occur early in the development cycle. Technological feasibility is evaluated on a product-by-product basis. Prior to a product's release, we expense, as part of product development costs, capitalized costs when we believe such amounts are not recoverable. Amounts related to software development which are not capitalized are charged immediately to product development expense.

We evaluate the future recoverability of capitalized amounts on a quarterly basis. The following criteria is 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 our budgeted amount.

Commencing upon product release, capitalized software development costs are amortized to cost of sales—software royalties and amortization based on the ratio of current revenues to total projected revenues, generally resulting in an amortization period of six months or less. For products that have been released in prior periods, we evaluate the future recoverability of capitalized amounts on a quarterly basis. The primary evaluation criterion is actual title performance.

Significant management judgment and estimates are utilized in the assessment of when technological feasibility is established, as well as in the ongoing assessment of the recoverability of capitalized costs.

Intellectual Property Licenses. Intellectual property license costs represent license fees paid to intellectual property rights holders for use of their trademarks or copyrights in the development of our products.

We evaluate the future recoverability of capitalized amounts on a quarterly basis. The recoverability of capitalized intellectual property license costs is evaluated based on the expected performance of the specific products in which the licensed trademark or copyright is used. The following criteria is used to evaluate expected product performance: 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 our budgeted amount.

Commencing upon the related product's release, capitalized intellectual property license costs are amortized to cost of sales—intellectual property licenses based on the ratio of current revenues to total projected revenues. For products that have been released, we evaluate the future recoverability of capitalized amounts on a quarterly basis. The primary evaluation criterion is actual title performance.

Significant management judgment and estimates are utilized in the assessment of the recoverability of capitalized costs.

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 and platform, as well as operating income (loss) by business segment:

Fiscal years ended March 31, (In thousands)	2002		2001		2000	
Net revenues	$786,434	100%	$620,183	100%	$572,205	100%
Costs and expenses:						
Cost of sales—product costs	435,725	56	324,907	52	319,422	56
Cost of sales—intellectual property licenses	40,114	5	39,838	6	49,174	9
Cost of sales—software royalties and amortization	58,892	7	49,864	8	42,064	7
Product development	40,960	5	41,396	8	26,275	5
Sales and marketing	86,161	11	85,378	14	87,303	15
General and administrative	44,008	6	37,491	6	36,674	6
Amortization of intangibles	—	—	1,502	—	41,618	7
Total costs and expenses	705,860	90	580,376	94	602,530	105
Income (loss) from operations	80,574	10	39,807	6	(30,325)	(5)
Interest income (expense), net	2,546	1	(7,263)	(1)	(8,411)	(2)
Income (loss) before income tax provision	83,120	11	32,544	5	(38,736)	(7)
Income tax provision (benefit)	30,882	4	12,037	2	(4,648)	(1)
Net income (loss)	$ 52,238	7%	$ 20,507	3%	$ (34,088)	(6%)
Net Revenues by Territory:						
United States	$404,905	51%	$352,893	57%	$282,847	49%
Europe	368,799	47	256,228	41	277,485	49
Other	12,730	2	11,062	2	11,873	2
Total net revenues	$786,434	100%	$620,183	100%	$572,205	100%
Segment/Platform Mix:						
Publishing:						
Console	$432,163	79%	$349,528	75%	$281,204	71%
PC	117,345	21	116,534	25	115,487	29
Total publishing net revenues	549,508	70	466,062	75	396,691	69
Distribution:						
Console	207,574	88	117,365	76	129,073	74
PC	29,352	12	36,756	24	46,441	26
Total distribution net revenues	236,926	30	154,121	25	175,514	31
Total net revenues	$786,434	100%	$620,183	100%	$572,205	100%
Operating Income (Loss) by Segment:						
Publishing	$ 68,675	9%	$ 35,687	5%	$ (35,049)	(6%)
Distribution	11,899	1	4,120	1	4,724	1
Total operating income (loss)	$ 80,574	10%	$ 39,807	6%	$ (30,325)	(5%)

Results of Operations—Fiscal Years Ended March 31, 2002 and 2001

Net income for fiscal year 2002 was $52.2 million or $0.88 per diluted share, as compared to $20.5 million or $0.50 per diluted share in fiscal year 2001.

Net Revenues. Net revenues for the year ended March 31, 2002 increased 27% from the prior fiscal year, from $620.2 million to $786.4 million. This increase was driven by the performance of both our publishing segment and our distribution segment.

Publishing net revenues for the year ended March 31, 2002 increased 18% from $466.1 million to $549.5 million. This increase primarily was due to publishing console net revenues increasing 24% from $349.5 million to $432.2 million. The increase in publishing console net revenues was attributable to the release in fiscal 2002 of several titles for next-generation platforms that sold very well in both the domestic and international marketplaces, as well as continuing strong worldwide sales for titles released on existing platforms. Such titles included *Tony Hawk's Pro Skater 3* for PS2, GameCube and PS1, *Tony Hawk's Pro Skater 2* for GBA, N64 and PS1, *Wreckless: The Yakuza Missions* for Xbox, as well as *Mat Hoffman's Pro BMX* for PS1, GBA and GBC. A significant portion of our revenues is derived from products based on a relatively small number of popular brands each year. In fiscal 2002, 50% of our worldwide net publishing revenues (35% of consolidated net revenues) was derived from two brands, one of which accounted for 44% and the other of which accounted for 6% of worldwide net publishing revenues (31% and 4%, respectively, of consolidated net revenues). In fiscal 2001, two brands accounted for 49% of our worldwide net publishing revenues (37% of consolidated net revenues), one of which accounted for 39% and the other of which accounted for 10% of worldwide net publishing revenues (29% and 8%, respectively, of consolidated net revenues). We expect that a limited number of popular brands will continue to produce a disproportionately large amount of our revenues. In fiscal 2002, 56% of publishing console net revenues were derived from sales of titles for next-generation platforms while 44% were derived from sales of titles for existing platforms. When new console platforms are announced or introduced into the market, consumers typically reduce their purchases of game console entertainment software products for current console platforms in anticipation of new platforms becoming available. We expect sales from existing generation platform titles to decline and sales from next-generation platform titles to increase as the installed base of next-generation platforms grows. Publishing PC net revenues for the year ended March 31, 2002 remained relatively consistent with the prior year, increasing from $116.5 million to $117.3 million. Our PC business was flat primarily due to the fact that, despite the successful launch of Return to Castle Wolfenstein for the PC in the third quarter of fiscal 2002, there was a lower number of premium PC titles released in the year ended March 31, 2002, as compared to the year ended March 31, 2001.

Distribution net revenues for the year ended March 31, 2002 increased 54% from the prior fiscal year, from $154.1 million to $236.9 million, primarily driven by an increase in our distribution console net revenues. Distribution console net revenues for the year ended March 31, 2002 increased 77% over the prior fiscal year, from $117.4 million to $207.6 million. We are the sole distributor of Sony products in the independent channel in the United Kingdom ("UK"). Accordingly, we benefited from the price reduction on PS2 hardware that was effective September 2001, as this resulted in both an increase in sales of PS2 hardware, as well as an increase in sales of PS2 software due to the corresponding larger installed hardware base. Additionally, in fiscal 2002, we began distributing Nintendo products within the UK. These items, along with the improved market conditions in Europe, have resulted in the continued improvements in our distribution business.

Domestic net revenues grew 15% from $352.9 million to $404.9 million. International net revenues increased by 43% from $267.3 million to $381.5 million. The increase in domestic net revenues is reflective of the improvements in our publishing segment as described above, and the increase in international net revenues is reflective of the improvements in our publishing and distribution segments as described above.

Costs and Expenses. Cost of sales—product costs represented 56% and 52% of consolidated net revenues for the year ended March 31, 2002 and 2001, respectively. The increase in cost of sales—product costs as a percentage of consolidated net revenues for the year ended March 31, 2002 was due to the increase in distribution net revenues as a percentage of total consolidated net revenues, as well as a change in the product mix of our publishing business. Distribution net revenues have a higher per unit cost as compared to publishing net revenues. The product mix of our publishing business for the year ended March 31, 2002 reflects a heavier concentration of console products and hand held devices. Console products generally have a higher manufacturing per unit cost than PCs. Hand held devices generally have the highest manufacturing per unit cost of all platforms.

Cost of sales—intellectual property licenses decreased as a percentage of publishing net revenues to 7% for the year ended March 31, 2002, from 9% for the year ended March 31, 2001. The decrease is reflective of the fact that in the year ended March 31, 2001, several of our top performing titles were products with high intellectual property royalty rates.

Cost of sales—software royalties and amortization remained flat at 11% of publishing net revenues for the years ended March 31, 2002 and 2001.

Product development expenses of $41.0 million and $41.4 million represented 7% and 9% of publishing net revenues for the year ended March 31, 2002 and 2001, respectively. The decrease in product development expenses as a percentage of publishing net revenue is reflective of the fact that during the year ended March 31, 2002, a higher proportion of product development expenditures were incurred subsequent to the establishment of technological feasibility as compared to the prior fiscal year in which more product development expenditures were incurred prior to the establishment of technological feasibility and were, accordingly, charged directly to product development expense. In addition, our "Greenlight Process" for the selection, development, production and quality assurance of our products has exercised rigorous control over product development expenditures.

Sales and marketing expenses of $86.2 million and $85.4 million represented 11% and 14% of consolidated net revenues for the year ended March 31, 2002 and 2001, respectively. This decrease as a percentage of consolidated net revenues reflects our ability to generate savings by building on the existing awareness of our branded products and sequel titles sold during fiscal 2002. It also reflects the savings we receive from the increased success of releasing a higher proportion of our branded products simultaneously on multiple platforms.

General and administrative expense for the year ended March 31, 2002 increased 17%, from $37.5 million to $44.0 million. As a percentage of consolidated net revenues, general and administrative expenses remained relatively constant at approximately 6%. The increase in the dollar amount of general and administrative expenses was due to an increase in worldwide administrative support needs and headcount related expenses.

Amortization of intangibles decreased from $1.5 million for the year ended March 31, 2001 to zero for the year ended March 31, 2002. Effective April 1, 2001, we adopted the provisions of SFAS No. 142, "Goodwill and Other Intangibles." SFAS No. 142 addresses financial accounting and reporting requirements for acquired goodwill and other intangible assets. Under SFAS No. 142, goodwill is deemed to have an indefinite useful life and should not be amortized but rather tested at least annually for impairment. As such, we did not record goodwill amortization for the year ended March 31, 2002.

Operating Income. Operating income for the year ended March 31, 2002 was $80.6 million, compared to $39.8 million in the prior fiscal year. The increase in operating income for the year ended March 31, 2002 over the prior fiscal year was primarily due to an increase in the success of our publishing business due to branding, cross platform releases and operating efficiencies obtained via the leveraging of our infrastructure and, to a lesser degree, an increase in our distribution business resulting from the growth of the next-generation hardware and software markets.

Interest Income (Expense), Net. Interest income (expense), net changed to $2.5 million of interest income for the year ended March 31, 2002, from $(7.3) million of interest expense for the year ended March 31, 2001. This change was due to our improved cash position resulting in higher investment income, the elimination of bank borrowings and the conversion and/or redemption of our $60.0 million convertible subordinated notes in the first quarter of fiscal 2002.

Provision for Income Taxes. The income tax provision of $30.9 million for the year ended March 31, 2002 reflects our effective income tax rate of approximately 37%. The significant items generating the variance between our effective rate and our statutory rate of 35% are state taxes and an increase in our deferred tax asset valuation allowance which is partially offset by research and development tax credits and the impact of foreign tax rate differentials. The realization of deferred tax assets is dependent on the generation of future taxable income. Management believes that it is more likely than not that we will generate sufficient taxable income to realize the benefit of net deferred tax assets recognized.

Results of Operations—Fiscal Years Ended March 31, 2001 and 2000

Net income (loss) for fiscal year 2001 was $20.5 million or $0.50 per diluted share, as compared to net loss of $(34.1) million or $(0.92) per diluted share in fiscal year 2000. The 2000 results were negatively impacted by a strategic restructuring charge totaling $70.2 million, approximately $61.8 million net of tax, or $(1.67) per diluted share.

Strategic Restructuring Plan. In the fourth quarter of fiscal 2000, we finalized a strategic restructuring plan to accelerate the development and sale of interactive entertainment products for the next-generation consoles and the Internet. Costs associated with this plan amounted to $70.2 million, approximately $61.8 million net of taxes, and were recorded in the consolidated statement of operations in the fourth quarter of fiscal year 2000 and classified as follows (amounts in millions):

Net revenues	$11.7
Cost of sales—intellectual property licenses and software royalties and amortization	11.9
Product development	4.2
General and administrative	5.2
Amortization of intangible assets	37.2
	$70.2

The component of the charge included in amortization of intangible assets represented a write-down of intangibles including goodwill, relating to Expert Software, Inc. ("Expert"), one of our value publishing subsidiaries, totaling $26.3 million. We consolidated Expert into our Head Games subsidiary, forming one integrated business unit, Activision Value Publishing, Inc. As part of this consolidation, we discontinued substantially all of Expert's product lines, terminated substantially all of Expert's employees and phased out the use of the Expert name. In addition, a $10.9 million write-down of goodwill relating to TDC, an OEM business unit, was recorded. During fiscal 2000, the OEM market went through radical changes due to price declines of PCs and hardware accessories. The sum of the undiscounted future cash flow of these assets was not sufficient to cover the carrying value of these assets and as such was written down to fair market value.

The component of the charge included in net revenues and general and administrative expense represents costs associated with the planned termination of a substantial number of our third party distributor relationships in connection with our realignment of our worldwide publishing business to leverage our existing sales and marketing organizations and improve the control and management of our products. These actions resulted in an increase in the allowance for sales returns of $11.7 million and the allowance for doubtful accounts of $3.4 million. The plan also included a severance charge of $1.2 million for employee redundancies.

The components of the $11.9 million charge included in cost of sales included the write-down of capitalized software costs and licensor warrants granted in connection with the development of software and the acquisition of licensing rights for intellectual property. The product lines to which these write-downs related, for example Heavy Gear, Interstate 82 and Battlezone, were strictly PC lines that appealed primarily to a smaller subset of gaming enthusiasts. Based upon the growth of the console market and the upcoming release of the next-generation console platforms, we determined not to exploit these titles going forward as we did not believe that they would have a viable future with the next-generation platforms. Of the $11.9 million charge, approximately $8.6 million was related to future releases of products and approximately $3.3 million was related to the cessation of certain existing product lines.

During fiscal 2001, we completed the restructuring initiatives associated with the fiscal 2000 restructuring plan without any significant adjustments.

Details of activity in the restructuring plan during fiscal 2001 were as follows (amounts in millions):

	Balance March 31, 2000	Adjustments	Activity	Balance March 31, 2001
Non-Cash Components:				
Goodwill	$37.2	$—	$(37.2)	$—
Software development costs and intellectual property licenses write-downs	16.1	—	(16.1)	—
Allowance for doubtful accounts	3.4	—	(3.4)	—
Allowance for sales returns	11.7	0.8	(12.5)	—
	68.4	0.8	(69.2)	—
Cash Components:				
Severance	1.2	—	(1.2)	—
Lease costs	0.6	—	(0.6)	—
	1.8	—	(1.8)	—
	$70.2	$0.8	$(71.0)	$—

Net Revenues. Net revenues for the year ended March 31, 2001 increased 8% from the prior fiscal year, from $572.2 million to $620.2 million. This increase was driven by the performance of our publishing segment, partially offset by declines experienced in our distribution segment.

Publishing net revenues for the year ended March 31, 2001 increased 17%, from $396.7 million to $466.1 million. This increase primarily was due to publishing console net revenues increasing 24% from $281.2 million to $349.5 million. The increase in publishing console net revenues was attributable to the release in fiscal 2001 of several titles that sold very well in the marketplace, including *Tony Hawk's Pro Skater 2* (PS1, Sega Dreamcast and GBC), *Spiderman* (PS1, N64 and GBC), *X-Men Mutant Academy* (PS1 and GBC), as well as continuing strong sales of the original *Tony Hawk's Pro Skater* (PS1 and N64). Publishing PC net revenues for the year ended March 31, 2001 remained relatively constant with the prior year, increasing from $115.5 million to $116.5 million.

For the year ended March 31, 2001, distribution net revenues decreased 12% from prior fiscal year, from $175.5 million to $154.1 million. The decrease was mainly attributable to the continued weakness in the European console market as a result of the transition to next-generation console systems. Based on previous new hardware launches, we expect that our distribution business will benefit in future periods from the introduction of PS2 and other next-generation consoles. In the fourth quarter of fiscal 2001, distribution had its best results in eight quarters, reflecting the accelerating opportunities from the introduction of new console systems.

Domestic net revenues grew 25%, from $282.8 million to $352.9 million. International net revenues decreased by 8% from $289.4 million to $267.3 million. The increase in domestic net revenues is reflective of the increases in our publishing segment as described above and the decrease in international net revenues is reflective of the declines in our distribution segment as described above.

Costs and Expenses. Cost of sales—product costs represented 52% and 56% of consolidated net revenues for the year ended March 31, 2001 and 2000, respectively. The decrease in cost of sales—product costs as a percentage of consolidated net revenues for the year ended March 31, 2001 was due to the decrease in distribution net revenues, partially offset by a higher publishing console net revenue mix. Distribution products have a higher per unit product cost than publishing products, and console products have a higher per unit product cost than PC products.

Cost of sales—intellectual property licenses and cost of sales—software royalties and amortization, combined, represented 19% and 23% of publishing net revenues for the year ended March 31, 2001 and 2000, respectively. The decrease in cost of sales—intellectual property licenses and cost of sales—software royalties and amortization, combined, as a percentage of publishing net revenues is reflective of the $11.9 million of write-offs recorded in the fourth quarter of fiscal 2000 relating to our restructuring plan as previously described.

Product development expenses of $41.4 million and $26.3 million represented 9% and 7% of publishing net revenues for the fiscal year ended March 31, 2001 and 2000, respectively. These increases in product development expenses in dollars and as a percentage of publishing net revenues reflect our investment in the development of products for next-generation console and hand held devices, including PS2, Xbox, GameCube and GBA. The increases are also reflective of the increase in the number of titles expected to be released in fiscal 2002, 52 titles, compared to fiscal 2001, 35 titles. Of the 52 titles expected to be released in fiscal 2002, 19 titles are for next-generation platforms, which have higher development costs than existing platform titles.

Sales and marketing expenses of $85.4 million and $87.3 million represented 14% and 15% of consolidated net revenues for the fiscal year ended March 31, 2001 and 2000, respectively. This decrease reflects our ability to generate savings by building on the existing awareness of our branded products and sequel titles sold during fiscal 2001.

General and administrative expenses for the year ended March 31, 2001 remained constant with the prior fiscal year, increasing 2% from $36.7 million to $37.5 million. As a percentage of consolidated net revenues, fiscal 2001 general and administrative expenses also remained relatively constant with the prior fiscal year at approximately 6%.

Amortization of intangibles decreased substantially from $41.6 million in fiscal 2000 to $1.5 million in fiscal 2001. This was due to the write-off in fiscal 2000 of goodwill acquired in purchase acquisitions in conjunction with our restructuring plan as previously described.

Operating Income (Loss). Operating income (loss) for the year ended March 31, 2001 was $39.8 million, compared to $(30.3) million in fiscal 2000. This increase in consolidated operating income is primarily the result of increased operating income in our publishing business.

Publishing operating income (loss) for the year ended March 31, 2001 increased to $35.7 million, compared to $(35.0) million in the prior fiscal year. The increase reflects the charges incurred in fiscal 2000 in conjunction with our restructuring plan as previously described, which predominantly impacted our publishing segment. Distribution operating income for the year ended March 31, 2001 remained flat at $4.1 million, compared to $4.7 million in the prior fiscal year.

Interest Income (Expense), Net. Interest income (expense), net decreased to $(7.3) million for the year ended March 31, 2001, from $(8.4) million for the year ended March 31, 2000. This decrease in interest expense was due to lower average borrowings on the revolving portion of our $125.0 million term loan and revolving credit facility (the "U.S. Facility") during fiscal 2001 when compared to prior fiscal year, as well as increased interest earned as a result of higher investable cash balances throughout the year.

Provision for Income Taxes. The income tax provision of $12.0 million for the fiscal year ended March 31, 2001 reflects our effective income tax rate of approximately 37%. The significant items generating the variance between our effective rate and our statutory rate of 35% are state taxes and nondeductible goodwill amortization, partially offset by a decrease in our 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 we will generate taxable income sufficient to realize the benefit of net deferred tax assets recognized.

Quarterly Operating Results

Our quarterly operating results have in the past varied significantly and will likely vary significantly in the future, depending on numerous factors, several of which are not under our control. See "Management's Discussion and Analysis of Financial Conditions and Results—Strategic Restructuring Plan." Our business also has experienced and is expected to continue to experience significant seasonality, in part due to consumer buying patterns. Net revenues typically are significantly higher during the fourth calendar quarter, primarily due to the increased demand for consumer software during the year-end holiday buying season. Accordingly, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

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

			Restated(1)					
Quarter ended	**March 31, 2002**	**Dec. 31, 2001**	**Sept. 30, 2001**	**June 30, 2001**	**March 31, 2001**	**Dec. 31, 2000**	**Sept. 30, 2000**	**June 30, 2000**
Net revenues	$164,912	$371,341	$139,604	$110,577	$126,789	$264,473	$144,363	$84,558
Operating income (loss)	16,862	61,801	3,144	(1,235)	2,015	34,754	9,536	(6,498)
Net income (loss)	10,884	39,110	2,215	29	875	20,505	4,306	(5,179)
Basic earnings (loss) per share	0.20	0.75	0.04	0.00	0.02	0.56	0.12	(0.14)
Diluted earnings (loss) per share	0.17	0.66	0.04	0.00	0.02	0.47	0.11	(0.14)

(1) Per share amounts have been restated to give effect to our three-for-two stock split effected in the form of a 50% stock dividend for shareholders of record as of November 6, 2001, paid November 20, 2001.

Liquidity and Capital Resources

Our cash and cash equivalents were $279.0 million at March 31, 2002, compared to $125.6 million at March 31, 2001. This $153.4 million increase in cash and cash equivalents for the year ended March 31, 2002 resulted from $111.8 million and $50.4 million provided by operating and financing activities, respectively, offset by $8.7 million utilized in investing activities. The principle components comprising cash flows from operating activities included favorable operating results, tax benefits from stock option and warrant exercises and reductions in inventory levels, partially offset by our continued investment in software development and intellectual property licenses. Approximately $77.0 million was utilized in fiscal 2002 in connection with the acquisition of publishing or distribution rights to products being developed by third parties, the execution of new license agreements granting us long-term rights to intellectual property of third parties, as well as the capitalization of product development costs relating to internally developed products. The cash used in investing activities primarily was the result of equipment purchases. The cash provided by financing activities primarily was the result of proceeds from the issuance of common stock pursuant to employee stock option and stock purchase plans and common stock warrants, offset by the accelerated repayment of our term loan.

In connection with our purchases of Nintendo 64, Nintendo GameCube and Game Boy hardware and software cartridges for distribution in North America and Europe, Nintendo requires us to provide either irrevocable or standby letters of credit prior to accepting purchase orders. Furthermore, Nintendo maintains a policy of not accepting returns of Nintendo 64, Nintendo GameCube or Game Boy hardware and software cartridges. Because of these and other factors, the carrying of an inventory of Nintendo 64, Nintendo GameCube and Game Boy hardware and software cartridges entails significant capital and risk. As of March 31, 2002, we had approximately $1.0 million of Nintendo 64 and Nintendo GameCube and $5.9 million of Game Boy hardware and software cartridge inventory on hand, which represented approximately 5% and 29%, respectively, of all inventory.

In December 1997, we completed the private placement of $60.0 million principal amount of 6¾% convertible subordinated notes due 2005 (the "Notes"). During the fiscal year ended March 31, 2002, we called for the redemption of the Notes. In connection with that call, holders converted to common stock approximately $58.7 million aggregate principal amount of their Notes, net of conversion costs. The remaining Notes were redeemed for cash.

In June 1999, we obtained a $100.0 million revolving credit facility and a $25.0 million term loan with a syndicate of banks (the "U.S. Facility"). The revolving portion of the U.S. Facility provided us with the ability to borrow up to $100.0 million, including issuing letters of credit up to $80 million, on a revolving basis against eligible accounts receivable and inventory. The term loan had a three-year term with principal amortization on a straight-line quarterly basis beginning December 31, 1999, a borrowing rate based on the banks' base rate (which is generally equivalent to the published prime rate) plus 2% or LIBOR plus 3% and was to expire June 2002. The revolving portion of the U.S. Facility had a borrowing rate based on the banks' base rate plus 1.75% or LIBOR plus 2.75%. In May 2001, we accelerated our repayment of the outstanding balance under the term loan portion of the U.S. Facility. In connection with the accelerated repayment, we amended the U.S. Facility (the "Amended and Restated U.S. Facility"). The Amended and Restated U.S. Facility eliminated the term loan, reduced the revolver to $78.0 million and reduced the interest rate to the banks' base rate plus 1.25% or LIBOR plus 2.25%. We pay a commitment fee of ¼% on the unused portion of the revolver. The Amended and Restated U.S. Facility contains various covenants that limit our ability to incur additional indebtedness, pay dividends or make other distributions, create certain liens, sell assets, or enter into certain mergers or acquisitions. We are also required to maintain specified financial ratios related to net worth and fixed charges. We were in compliance with these covenants as of March 31, 2002. As of March 31, 2002, there were no borrowings and $5.8 million of letters of credit outstanding under the Amended and Restated U.S. Facility. The Amended and Restated U.S. Facility is collateralized by substantially all of our assets and was scheduled to expire in June 2002. In June 2002, we obtained an extension of the maturity date for the Amended and Restated U.S. Facility to August 21, 2002.

We have a revolving credit facility through our CD Contact subsidiary in the Netherlands (the "Netherlands Facility"). The Netherlands Facility permits revolving credit loans and letters of credit up to Euro dollars ("EUR") 4.5 million ($3.9 million) as of March 31, 2002, based upon eligible accounts receivable and inventory balances. The Netherlands Facility is due on demand, bears interest at a Eurocurrency rate plus 1.5% and expires August 2003. There were no borrowings and no letters of credit outstanding under the Netherlands Facility as of March 31, 2002.

We also have revolving credit facilities with our CentreSoft subsidiary located in the United Kingdom (the "UK Facility") and our NBG subsidiary located in Germany (the "German Facility"). The UK Facility provides for British Pounds ("GBP") 7.0 million ($10.0 million) of revolving loans and GBP 1.5 million ($2.1 million) of letters of credit as of March 31, 2002. The UK Facility bears interest at LIBOR plus 2%, is collateralized by substantially all of the assets of the subsidiary and expires in October 2002. The UK Facility also contains various covenants that require the subsidiary to maintain specified financial ratios related to, among others, fixed charges. As of March 31, 2002, we were in compliance with these covenants. No borrowings were outstanding against the UK facility as of March 31, 2002. Letters of credit of GBP 1.5 million ($2.1 million) were outstanding against the UK Facility as of March 31, 2002. As of March 31, 2002, the German Facility provides for revolving loans up to EUR 2.5 million ($2.2 million), bears interest at a Eurocurrency rate plus 2.5%, is collateralized by a cash deposit of approximately GBP 650,000 ($926,000) made by our CentreSoft subsidiary and has no expiration date. There were no borrowings outstanding against the German Facility as of March 31, 2002.

In the normal course of business, we enter into contractual arrangements with third parties for the development of products, as well as for the rights to intellectual property ("IP"). Under these agreements, we commit to provide specified payments to a developer or IP holder, based upon contractual arrangements. Assuming all contractual provisions are met, the total future minimum contract commitment for contracts in place as of March 31, 2002 is approximately $63.7 million and is scheduled to be distributed as follows (amounts in thousands):

Year ending March 31,	
2003	$44,236
2004	11,785
2005	3,550
2006	1,675
2007	2,500
Total	$63,746

We have historically financed our acquisitions through the issuance of shares of common stock. During fiscal 2002, we separately completed the acquisition of three privately held interactive software development companies for common stock. We additionally acquired a fourth privately held interactive software development company in May 2002 for the issuance of a combination of cash and common stock. We will continue to evaluate potential acquisition candidates as to the benefit they bring to us and as to our ability to make such acquisitions.

On December 4, 2001, we filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission to register 7,500,000 shares of our common stock. On June 4, 2002, we issued the 7,500,000 shares of common stock in an underwritten public offering for proceeds, before issuance costs, of approximately $248.3 million. The proceeds from this offering will be used for general corporate purposes, including, among other things, additions to working capital and financing of capital expenditures, joint ventures and/or strategic acquisitions.

We believe that we have sufficient working capital ($333.2 million at March 31, 2002), as well as proceeds available from the Amended and Restated U.S. Facility, the UK Facility, the Netherlands Facility, the German Facility and our recent equity offering, to finance our 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.

Inflation

Our management currently believes that inflation has not had a material impact on continuing operations.

Recently Issued Accounting Standards

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued, which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," and the accounting and reporting provisions of Accounting Principles Board ("APB") No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. We believe the adoption of SFAS No. 144 will not have a material impact on our financial statements.

Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential loss arising from fluctuations in market rates and prices. Our market risk exposures primarily include fluctuations in interest rates and foreign currency exchange rates. Our market risk sensitive instruments are classified as "other than trading." Our 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. Our 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. We have had a number of variable rate and fixed rate debt obligations, denominated both in U.S. dollars and various foreign currencies as detailed in Note 11 of the Notes to Consolidated Financial Statements appearing elsewhere in this Annual Report. We manage interest rate risk by monitoring our ratio of fixed and variable rate debt obligations in view of changing market conditions. Additionally, in the future, we may consider the use of interest rate swap agreements to further manage potential interest rate risk.

As of March 31, 2001, the carrying value of our variable rate debt was approximately $10.3 million, which included the U.S. Facility ($8.5 million) and the Netherlands Facility ($1.8 million). As of March 31, 2001, we additionally had 6¾% convertible subordinated notes due 2005 (the "Notes") with a carrying value of $60.0 million. During the year ended March 31, 2002, our holdings of market risk sensitive instruments changed. During that year, we called for the redemption of the Notes. In connection with that call, holders converted to common stock approximately $58.7 million aggregate principal amount of their Notes, net of conversion costs. The remaining Notes were redeemed for cash. Additionally, in May 2001, we repaid in full the remaining $8.5 million balance of the term loan portion of the U.S. Facility. As such, as of March 31, 2002, we had no variable rate debt and no material fixed rate debt outstanding.

Foreign Currency Exchange Rate Risk. We transact business in many different foreign currencies and may be exposed to financial market risk resulting from fluctuations in foreign currency exchange rates, particularly GBP and EUR. The volatility of GBP and EUR (and all other applicable currencies) will be monitored frequently throughout the coming year. When appropriate, we enter into hedging transactions in order to mitigate our risk from foreign currency fluctuations. We will continue to use hedging programs in the future and may use 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. We do not hold or purchase any foreign currency contracts for trading purposes. As of March 31, 2002, assuming a change in currency rates of 10% of period end market rates, the potential gain or loss on outstanding hedging contracts would be approximately $300,000. However, any such gain or loss would in turn be offset by the potential gain or loss on the hedged receivable and/or payable.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
of Activision, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Activision, Inc. and its subsidiaries at March 31, 2002 and March 31, 2001, and the results of their operations and their cash flows for each of the two years in the period ended March 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Century City, California
May 6, 2002

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and Shareholders
Activision, Inc.:

We have audited the accompanying consolidated statements of operations, changes in shareholders' equity and cash flows of Activision, Inc. and subsidiaries for the year ended March 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Activision, Inc. and subsidiaries for the year ended March 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

KPMG LLP

Los Angeles, California
May 5, 2000,
except as to Note 6,
which is as of April 1, 2001,
and the first paragraph of Note 14,
which is as of November 6, 2001

CONSOLIDATED BALANCE SHEETS

In thousands, except share data

March 31,	2002	2001
Assets		
Current assets:		
Cash and cash equivalents	$279,007	$125,550
Accounts receivable, net of allowances of $42,019 and $28,461 at March 31, 2002 and 2001, respectively	76,733	73,802
Inventories	20,736	43,888
Software development	36,263	21,265
Intellectual property licenses	6,326	6,237
Deferred income taxes	22,608	14,292
Other current assets	15,200	13,196
Total current assets	456,873	298,230
Software development	3,254	2,154
Intellectual property licenses	10,899	12,549
Property and equipment, net	17,832	15,240
Deferred income taxes	28,795	13,759
Other assets	3,242	7,709
Goodwill	35,992	10,316
Total assets	$556,887	$359,957
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 168	$ 10,231
Accounts payable	64,410	60,980
Accrued expenses	59,096	44,039
Total current liabilities	123,674	115,250
Long-term debt, less current portion	3,122	3,401
Convertible subordinated notes	—	60,000
Total liabilities	126,796	178,651
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Preferred stock, $.000001 par value, 3,750,000 and 5,000,000 shares authorized, no shares issued at March 31, 2002 and 2001, respectively	—	—
Series A Junior Preferred stock, $.000001 par value, 1,250,000 and no shares authorized, no shares issued at March 31, 2002 and 2001, respectively	—	—
Common stock, $.000001 par value, 125,000,000 and 50,000,000 shares authorized, 61,034,263 and 45,249,683 shares issued and 56,705,504 and 40,923,714 shares outstanding at March 31, 2002 and 2001, respectively	—	—
Additional paid-in capital	397,528	200,786
Retained earnings	64,384	12,146
Accumulated other comprehensive loss	(11,498)	(11,377)
Less: Treasury stock, at cost, 4,328,759 and 4,325,969 shares at March 31, 2002 and 2001, respectively	(20,323)	(20,249)
Total shareholders' equity	430,091	181,306
Total liabilities and shareholders' equity	$556,887	$359,957

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

CONSOLIDATED STATEMENTS OF OPERATIONS

In thousands, except per share data

For the years ended March 31,	2002	2001	2000
Net revenues	$786,434	$620,183	$572,205
Costs and expenses:			
Cost of sales—product costs	435,725	324,907	319,422
Cost of sales—intellectual property licenses	40,114	39,838	49,174
Cost of sales—software royalties and amortization	58,892	49,864	42,064
Product development	40,960	41,396	26,275
Sales and marketing	86,161	85,378	87,303
General and administrative	44,008	37,491	36,674
Amortization of intangibles	—	1,502	41,618
Total costs and expenses	705,860	580,376	602,530
Income (loss) from operations	80,574	39,807	(30,325)
Interest income (expense), net	2,546	(7,263)	(8,411)
Income (loss) before income tax provision	83,120	32,544	(38,736)
Income tax provision (benefit)	30,882	12,037	(4,648)
Net income (loss)	$ 52,238	$ 20,507	$ (34,088)
Basic earnings (loss) per share	$ 1.03	$ 0.55	$ (0.92)
Weighted average common shares outstanding	50,651	37,298	37,037
Diluted earnings (loss) per share	$ 0.88	$ 0.50	$ (0.92)
Weighted average common shares outstanding—assuming dilution	59,455	41,100	37,037

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

For the years ended March 31,	2002	2001	2000
Cash flows from operating activities:			
Net income (loss)	$ 52,238	$ 20,507	$ (34,088)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Deferred income taxes	(23,352)	(6,597)	(4,311)
Depreciation and amortization	6,217	6,268	45,866
Amortization of capitalized software development costs and intellectual property licenses	62,456	68,925	78,714
Expense related to common stock warrants	1,133	1,406	5,769
Tax benefit of stock options and warrants exercised	48,513	11,832	3,017
Change in operating assets and liabilities (net of effects of acquisitions):			
Accounts receivable	(2,010)	30,027	9,900
Inventories	23,152	(5,283)	(7,342)
Software development and intellectual property licenses	(76,993)	(65,964)	(74,506)
Other assets	(1,753)	6,062	(6,307)
Accounts payable	3,357	21,361	(8,038)
Accrued expenses and other liabilities	18,834	(6,979)	(5,791)
Net cash provided by operating activities	111,792	81,565	2,883
Cash flows from investing activities:			
Cash used in purchase acquisitions (net of cash acquired)	—	—	(20,523)
Capital expenditures	(9,150)	(9,780)	(4,518)
Proceeds from disposal of property and equipment	639	1,149	—
Other	(190)	—	—
Net cash used in investing activities	(8,701)	(8,631)	(25,041)
Cash flows from financing activities:			
Proceeds from issuance of common stock to employees	59,836	32,538	22,480
Proceeds from issuance of common stock pursuant to warrants	1,044	1,050	—
Borrowing under line-of-credit agreements	—	577,590	361,161
Payment under line-of-credit agreements	—	(581,618)	(355,156)
Payment on term loan	(8,550)	(11,450)	(1,645)
Proceeds from term loan	—	—	25,000
Notes payable, net	(1,792)	(592)	(6,457)
Cash paid to secure line of credit and term loan	—	—	(3,355)
Redemption of convertible subordinated notes	(62)	—	—
Purchase of treasury stock	(74)	(14,971)	—
Net cash provided by financing activities	50,402	2,547	42,028
Effect of exchange rate changes on cash	(36)	84	(2,922)
Net increase in cash and cash equivalents	153,457	75,565	16,948
Cash and cash equivalents at beginning of period	125,550	49,985	33,037
Cash and cash equivalents at end of period	$279,007	$ 125,550	$ 49,985

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In thousands

For the years ended March 31, 2002, 2001 and 2000	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Loss	Shareholders' Equity
Balance, March 31, 1999	35,706	$—	$109,251	$ 25,727	(750)	$ (5,278)	$ (2,510)	$127,190
Components of comprehensive income:								
Net loss for the year	—	—	—	(34,088)	—	—	—	(34,088)
Foreign currency translation adjustment	—	—	—	—	—	—	(3,556)	(3,556)
Total comprehensive loss								(37,644)
Issuance of common stock and common stock warrants	—	—	8,529	—	—	—	—	8,529
Issuance of common stock and common stock options to employees	3,605	—	22,480	—	—	—	—	22,480
Tax benefit attributable to employee stock options and common stock warrants	—	—	3,017	—	—	—	—	3,017
Tax benefit derived from net operating loss carryforward utilization	—	—	1,266	—	—	—	—	1,266
Issuance of common stock to effect business combinations	421	—	7,171	—	—	—	—	7,171
Balance, March 31, 2000	39,732	—	151,714	(8,361)	(750)	(5,278)	(6,066)	132,009
Components of comprehensive income:								
Net income for the year	—	—	—	20,507	—	—	—	20,507
Foreign currency translation adjustment	—	—	—	—	—	—	(5,311)	(5,311)
Total comprehensive income								15,196
Issuance of common stock and common stock warrants	150	—	1,050	—	—	—	—	1,050
Issuance of common stock and common stock options to employees	5,368	—	32,538	—	—	—	—	32,538
Tax benefit attributable to employee stock options and common stock warrants	—	—	11,832	—	—	—	—	11,832
Tax benefit derived from net operating loss carryforward utilization	—	—	3,652	—	—	—	—	3,652
Purchase of treasury shares	—	—	—	—	(3,576)	(14,971)	—	(14,971)
Balance, March 31, 2001	45,250	—	200,786	12,146	(4,326)	(20,249)	(11,377)	181,306
Components of comprehensive income:								
Net income for the year	—	—	—	52,238	—	—	—	52,238
Foreign currency translation adjustment	—	—	—	—	—	—	(121)	(121)
Total comprehensive income								52,117
Issuance of common stock and common stock warrants	1,037	—	1,044	—	—	—	—	1,044
Issuance of common stock and common stock options to employees	8,773	—	63,053	—	—	—	—	63,053
Tax benefit attributable to employee stock options and common stock warrants	—	—	48,513	—	—	—	—	48,513
Issuance of common stock pursuant to conversion of convertible subordinated notes	4,763	—	58,651	—	—	—	—	58,651
Issuance of common stock to effect business combinations	1,211	—	25,481	—	—	—	—	25,481
Purchase of treasury shares	—	—	—	—	(3)	(74)	—	(74)
Balance, March 31, 2002	61,034	$—	$397,528	$ 64,384	(4,329)	$(20,323)	$(11,498)	$430,091

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

1. Summary of Significant Accounting Policies

Business. Activision, Inc. ("Activision" or "we") is a leading international publisher of interactive entertainment software products. We have a diverse portfolio of products that spans a wide range of categories and target markets and that is used on a variety of game hardware platforms and operating systems. We have created, licensed and acquired a group of recognizable brands which we market to a growing variety of consumer demographics.

Our products cover the action, adventure, action-sports, racing, role-playing, simulation and strategy game categories. Historically, we have offered our products in versions that operate on the Sony PlayStation ("PS1"), Sony PlayStation 2 ("PS2"), Nintendo 64 ("N64"), Nintendo GameCube ("GameCube") and Microsoft Xbox ("Xbox") console systems, Nintendo Game Boy hand held devices, as well as on personal computers ("PC"). Our target audiences range from game enthusiasts and children to mass-market consumers and "value priced" buyers.

Our publishing business involves the development, marketing and sale of products, either directly, by license or through our affiliate label program with third party publishers. In addition to publishing, we maintain distribution operations in Europe that provide logistical and sales services to third party publishers of interactive entertainment software, our own publishing operations and manufacturers of interactive entertainment hardware.

We maintain operations in the U.S., Canada, the United Kingdom, France, Germany, Japan, Australia, Sweden, Belgium and the Netherlands. In fiscal year 2002, international operations contributed approximately 49% of net revenues.

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

Basis of Presentation. The consolidated financial statements have been restated for the effect of our three-for-two stock split effected in the form of a 50% stock dividend to shareholders of record as of November 6, 2001, paid November 20, 2001.

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

Our cash and cash equivalents were comprised of the following at March 31, 2002 and 2001 (amounts in thousands):

March 31,	2002	2001
Cash	$ 61,310	$ 63,018
Money market funds	217,697	62,532
	$279,007	$125,550

Concentration of Credit Risk. Financial instruments which potentially subject us to concentration of credit risk consist principally of temporary cash investments and accounts receivable. We place our temporary cash investments with financial institutions. At various times during the fiscal years ended March 31, 2002 and 2001, we had deposits in excess of the Federal Deposit Insurance Corporation ("FDIC") limit at these financial institutions.

Our customer base includes retail outlets and distributors, including consumer electronics and computer specialty stores, discount chains, video rental stores and toy stores in the United States and countries worldwide. We perform ongoing credit evaluations of our customers and maintain allowances for potential credit losses. We generally do not require collateral or other security from our customers. As of and for the year ended March 31, 2002, we had one customer that accounted for 14% of our consolidated net revenues and 22% of our consolidated accounts receivable, net. This customer was a customer of both our publishing and distribution businesses. As of and for the year ended March 31, 2001, our publishing business had one customer that accounted for 10% of our consolidated net revenues and 9% of our consolidated accounts receivable, net. For the year ended March 31, 2000, no single customer accounted for 10% or more of consolidated net revenues.

Financial Instruments. The estimated fair values of financial instruments have been determined using available market information and valuation methodologies described below. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein may not be indicative of the amounts that we could realize in a current market exchange. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short-term nature.

The carrying amounts of our variable rate debt approximate fair value because the interest rates are based on floating rates identified by reference to market rates. The fair value of our fixed rate debt is based on quoted market prices, where available, or discounted future cash flows based on our current incremental borrowing rates for similar types of borrowing arrangements as of the balance sheet date. The carrying amount of our long-term debt and convertible subordinated notes of $13.6 million and $60.0 million, respectively, approximated fair value as of March 31, 2001. As of March 31, 2002, we had no variable rate debt and no material fixed rate debt outstanding.

Effective July 1, 2000, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS 133." SFAS No. 133 and 138 require that all derivatives, including foreign exchange contracts, be recognized in the balance sheet at their fair value.

We utilize forward contracts in order to reduce financial market risks. These instruments are used to hedge foreign currency exposures of underlying assets, liabilities, or certain forecasted foreign currency denominated transactions. Our accounting policies for these instruments are based on whether they meet the criteria for designation as hedging transactions. Changes in fair value of derivatives that are designated as cash flow hedges, are highly effective, and qualify as hedging instruments, are recorded in other comprehensive income until the underlying hedged item is recognized in earnings. Any ineffective portion of a derivative change in fair value is immediately recognized in earnings. Changes in fair value of derivatives that do not qualify as hedging instruments are recorded in earnings. The fair value of foreign currency contracts is estimated based on the spot rate of the various hedged currencies as of the end of the period. As of March 31, 2002, the fair value of our foreign exchange contracts was immaterial.

Equity Investments. From time to time, we may make a capital investment and hold a minority interest in a third party developer in connection with entertainment software products to be developed by such developer for us. We account for those capital investments in which we have a 20% or greater ownership interest or over which we have the ability to exercise significant influence using the equity method. For those investments in which we hold less than a 20% ownership interest or over which we do not have the ability to exercise significant influence, we account for our investment using the cost method.

Software Development Costs and Intellectual Property Licenses. Software development costs include payments made to independent software developers under development agreements as well as direct costs incurred for the internal development of products.

We account for software development costs in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." Software development costs are capitalized once technological feasibility of a product is established and such costs are determined to be recoverable. For products where proven game engine technology exists, this may occur early in the development cycle. Technological feasibility is evaluated on a product-by-product basis. Prior to a product's release, we expense, as part of product development costs, capitalized costs when we believe such amounts are not recoverable. Amounts related to software development which are not capitalized are charged immediately to product development expense.

We evaluate the future recoverability of capitalized amounts on a quarterly basis. The following criteria is 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 our budgeted amount.

Commencing upon product release, capitalized software development costs are amortized to cost of sales—software royalties and amortization based on the ratio of current revenues to total projected revenues, generally resulting in an amortization period of six months or less. For products that have been released in prior periods, we evaluate the future recoverability of capitalized amounts on a quarterly basis. The primary evaluation criterion is actual title performance.

Intellectual property license costs represent license fees paid to intellectual property rights holders for use of their trademarks or copyrights in the development of our products.

We evaluate the future recoverability of capitalized intellectual property licenses on a quarterly basis. The recoverability of capitalized intellectual property license costs is evaluated based on the expected performance of the specific products in which the licensed trademark or copyright is used. The following criteria is used to evaluate expected product performance: 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 our budgeted amount.

Commencing upon the related product's release, capitalized intellectual property license costs are amortized to cost of sales—intellectual property licenses based on the ratio of current revenues to total projected revenues. For products that have been released, we evaluate the future recoverability of capitalized amounts on a quarterly basis. The primary evaluation criterion is actual title performance.

As of March 31, 2002, capitalized software development costs included $16.0 million of internally generated software development costs and $23.5 million of payments made to independent software developers. As of March 31, 2001, capitalized software development costs included $3.9 million of internally generated software development costs and $19.5 million of payments made to independent software developers. Capitalized intellectual property licenses were $17.2 million and $18.8 million as of March 31, 2002 and 2001, respectively. Amortization of capitalized software development costs and intellectual property licenses was $62.5 million, $68.9 million and $78.7 million for the year ended March 31, 2002, 2001 and 2000, respectively.

Inventories. Inventories are valued at the lower of cost (first-in, first-out) or market.

Property and Equipment. Property and equipment are recorded at cost. Depreciation and amortization are provided using the straight-line method over the shorter of the estimated useful lives or the lease term: buildings, 25 to 33 years; computer equipment, office furniture and other equipment, 3 to 5 years; leasehold improvements, through the life of the lease. When assets are retired or disposed of, the cost and accumulated depreciation thereon are removed and any resultant gains or losses are recognized in current operations.

Revenue Recognition. We recognize revenue from the sale of our products upon the transfer of title and risk of loss to our customers. We may permit product returns from or grant price protection to our customers on unsold merchandise under certain conditions. Price protection policies, when granted and applicable, allow customers a credit against amounts they owe us with respect to merchandise unsold by them. With respect to license agreements that provide customers the right to make multiple copies in exchange for guaranteed amounts, revenue is recognized upon delivery of such copies. Per copy royalties on sales that exceed the guarantee are recognized as earned. In addition, in order to recognize revenue for both product sales and licensing transactions, persuasive evidence of an arrangement must exist and collection of the related receivable must be probable.

Revenue from product sales is reflected after deducting the estimated allowance for returns and price protection. Management must make estimates of potential future product returns and price protection related to current period product revenue. We estimate the amount of future returns and price protection based upon historical experience, customer inventory levels, current economic trends and changes in the demand and acceptance of our products by the end consumer.

Shipping and Handling. Shipping and handling costs, which consist primarily of packaging and transportation charges incurred to move finished goods to customers, are included in cost of sales—product costs.

Advertising Expenses. We expense advertising as incurred. Advertising expenses for the year ended March 31, 2002, 2001 and 2000 were approximately $18.9 million, $16.5 million and $18.6 million, respectively, and are included in sales and marketing expense in the consolidated statements of operations.

Goodwill. Effective April 1, 2001, we adopted the provisions of SFAS No. 142, "Goodwill and Other Intangibles." SFAS No. 142 addresses financial accounting and reporting requirements for acquired goodwill and other intangible assets. Under SFAS No. 142, goodwill is deemed to have an indefinite useful life and should not be amortized but rather tested at least annually for impairment. An impairment loss should be recognized if the carrying amount of goodwill is not recoverable and its carrying amount exceeds its fair value. In accordance with SFAS No. 142, we have not amortized goodwill during the year ended March 31, 2002.

Interest Income (Expense), net. Interest income (expense), net is comprised of the following (amounts in thousands):

March 31,	2002	2001	2000
Interest expense	$(1,188)	$(9,399)	$(9,375)
Interest income	3,734	2,136	964
Interest income (expense), net	$ 2,546	$(7,263)	$(8,411)

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

Foreign Currency Translation. The functional currencies of our foreign subsidiaries are their local currencies. All assets and liabilities of our foreign subsidiaries are translated into U.S. dollars at the exchange rate in effect at the end of the period, and revenue and expenses are translated at weighted average exchange rates during the period. The resulting translation adjustments are reflected as a component of shareholders' equity.

Accumulated Other Comprehensive Income (Loss). Comprehensive income (loss) includes net income (loss), foreign currency translation adjustments, and the effective portion of gains or losses on cash flow hedges that are currently presented as a component of shareholders' equity. For the years ended March 31, 2002 and 2001, the accumulated other comprehensive loss balance primarily consisted of foreign currency translation adjustments.

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

Earnings Per Common Share. Basic earnings per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding for all periods. Diluted earnings per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding, increased by common stock equivalents. Common stock equivalents are calculated using the treasury stock method and represent incremental shares issuable upon exercise of our outstanding options and warrants and, if applicable in the period, conversion of our convertible debt. However, potential common shares are not included in the denominator of the diluted earnings per share calculation when inclusion of such shares would be anti-dilutive, such as in a period in which a net loss is recorded.

Stock-Based Compensation. Under SFAS No. 123, "Accounting for Stock-Based Compensation," compensation expense is recorded for the issuance of stock options and other stock-based compensation based on the fair value of the stock options and other stock-based compensation on the date of grant or measurement date. Alternatively, SFAS No. 123 allows companies to continue to account for the issuance of stock options and other stock-based compensation in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Under APB No. 25, compensation expense is recorded for the issuance of stock options and other stock-based compensation based on the intrinsic value of the stock options and other stock-based compensation on the date of grant or measurement date. Under the intrinsic value method, compensation expense is recorded on the date of grant or measurement date only if the current market price of the underlying stock exceeds the stock option or other stock-based compensation exercise price. We have elected to continue to account for stock options and other stock-based compensation in accordance with APB No. 25. In accordance with SFAS No. 123, we provide pro forma net income and pro forma earnings (loss) per share disclosures for employee stock option and other stock-based compensation grants as if the fair value method as prescribed by SFAS No. 123 had been applied.

Stock warrants are granted to non-employees in connection with the development of software and acquisition of licensing rights for intellectual property. In accordance with the Financial Accounting Standards Board's Emerging Issues Task Force ("EITF") No. 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring or in Connection With Selling Goods or Services," the fair value of stock warrants granted is determined as of the measurement date and is capitalized, expensed and amortized consistent with our policies relating to software development and intellectual property license costs.

Related Parties. As of March 31, 2002 and 2001, we had $3.1 million and $4.3 million, respectively, of loans due from employees. The loans bear interest at 6.75% and are primarily due from Activision executives.

In August 2001, we elected to our Board of Directors an individual who is a partner in a law firm that has provided legal services to Activision for more than ten years. We paid approximately $600,000 in fiscal 2002 during the period in which the individual served upon our Board of Directors for legal services rendered by the law firm. Total payments made to this law firm represent less than 1% of that firm's revenue.

Recently Issued Accounting Standards. In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued, which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," and the accounting and reporting provisions of APB No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. We believe the adoption of SFAS No. 144 will not have a material impact on our consolidated financial statements.

Reclassifications. Certain amounts in the consolidated financial statements have been reclassified to conform with the current year's presentation. These reclassifications had no effect on net income (loss), shareholders' equity or net increase in cash and cash equivalents.

2. Acquisitions

Fiscal 2002 Transactions

During the year ended March 31, 2002, we separately completed the acquisition of three privately held interactive software development companies. We accounted for those acquisitions in accordance with SFAS No. 141, "Business Combinations." SFAS No. 141 was issued on July 20, 2001 and addresses financial accounting and reporting for business combinations, requiring that the purchase method be used to account and report for all business combinations. These acquisitions further enable us to implement our multi-platform development strategy by bolstering our internal product development capabilities for the next-generation console systems and personal computers and strengthen our position in the first person action, action and action-sports genres.

Acquisition of Treyarch. Effective October 1, 2001, we acquired all of the outstanding ownership interests of Treyarch Invention, LLC ("Treyarch"), a privately held interactive software development company, in exchange for 818,961 shares of our common stock. Treyarch is a console software developer with a focus on action and action-sports video games. The purchase price of the transaction, including the forgiveness of a note receivable and acquisition costs, was valued at approximately $15.6 million with approximately $14.5 million of the purchase price being assigned to goodwill. This goodwill has been included in the publishing segment of our business and is non-deductible for tax purposes. The results of operations of Treyarch are included in our consolidated statement of operations beginning October 1, 2001.

Additional shares of our common stock also may be issued to Treyarch's equity holders and employees over the course of several years, depending on the satisfaction of certain product performance requirements and other criteria. This contingent consideration will be recorded as an additional element of the purchase price for Treyarch when those contingencies are resolved.

Acquisition of Gray Matter. On December 30, 1999, we acquired a 40% interest in the outstanding capital stock of Gray Matter Interactive Studios, Inc., formerly known as Video Games West ("Gray Matter"), a privately held software development company, as well as an option to purchase the remaining 60% of outstanding capital stock. Gray Matter was the developer for our first person action PC product, *Return to Castle Wolfenstein*. Effective January 9, 2002, we exercised our option to acquire the remaining 60% of outstanding capital stock of Gray Matter in exchange for 133,690 shares of our common stock. The purchase price of the transaction, including acquisition costs, was valued at approximately $3.6 million with a significant portion of the purchase price being assigned to goodwill. This goodwill has been included in the publishing segment of our business and is non-deductible for tax purposes. The results of operations of Gray Matter are included in our consolidated statement of operations beginning January 9, 2002.

Acquisition of Shaba. On March 27, 2002, we acquired all of the outstanding ownership interests of Shaba Games, LLC ("Shaba"), a privately held interactive software development company, in exchange for 258,621 shares of our common stock. Shaba is a console software developer with a focus on action and action-sports video games. The purchase price of the transaction, including acquisition costs, was valued at approximately $7.4 million with approximately $6.2 million of the purchase price being assigned to goodwill. This goodwill has been included in the publishing segment of our business and is non-deductible for tax purposes. The results of operations of Shaba are included in our consolidated statement of operations beginning March 27, 2002.

Additional shares of our common stock also may be issued to Shaba's equity holders and employees over the course of several years, depending on the satisfaction of certain product performance requirements and other criteria. This contingent consideration will be recorded as an additional element of the purchase price for Shaba when those contingencies are resolved.

A significant portion of the purchase price for each of these acquisitions was assigned to goodwill as the primary asset we acquired in each transaction was an assembled workforce with proven technical and design talent with a history of high quality product creation. Pro forma consolidated statements of operations reflecting these acquisitions are not shown, as they would not differ materially from reported results.

Fiscal 2000 Transactions

Acquisition of Neversoft. On September 30, 1999, we acquired Neversoft, a privately held console software developer, in exchange for 1,048,253 shares of our common stock. The acquisition was accounted for as a pooling of interests. Accordingly, in fiscal 2000, we restated the consolidated financial statements for all periods prior to the closing of the transaction.

The following table represents the results of operations of the previously separate companies for the period before the combination was consummated which are included in fiscal year 2000 combined net income (loss) (amounts in thousands).

Fiscal Year 2000	Activision Six Months Ended Sept. 30, 1999	Neversoft Six Months Ended Sept. 30, 1999	Total Six Months Ended Sept. 30, 1999
Revenues	$199,505	$ —	$199,505
Net income (loss)	$ (3,028)	$(484)	$ (3,512)

Acquisition of Elsinore Multimedia. On June 29, 1999, we acquired Elsinore Multimedia, Inc. ("Elsinore"), a privately held interactive software development company, in exchange for 306,672 shares of our common stock.

The acquisition was accounted for using the purchase method of accounting. Accordingly, the results of operations of Elsinore have been included in our consolidated financial statements from the date of acquisition. The aggregate purchase price has been allocated to the assets and liabilities acquired, consisting mostly of goodwill of $3.0 million. Pro forma statements of operations reflecting the acquisition of Elsinore are not shown, as they would not differ materially from reported results.

Acquisition of Expert Software. On June 22, 1999, we acquired all of the outstanding capital stock of Expert Software, Inc. ("Expert"), a publicly held developer and publisher of value-line interactive leisure products, for approximately $24.7 million. The aggregate purchase price of approximately $24.7 million consisted of

$20.3 million in cash payable to the former shareholders of Expert, the valuation of employee stock options in the amount of $3.3 million, and other acquisition costs.

The acquisition was accounted for using the purchase method of accounting. Accordingly, the results of operations of Expert have been included in our consolidated financial statements from the date of acquisition.

The aggregate purchase price was allocated to the fair values of the assets and liabilities acquired as follows (amounts in thousands):

Tangible assets	$ 4,743
Existing products	1,123
Goodwill	28,335
Liabilities	(9,532)
	$24,669

However, as more fully described in Note 3, in the fourth quarter of fiscal 2000, we implemented a strategic restructuring plan to accelerate the development of games for the next-generation consoles and the Internet. In conjunction with that plan, we consolidated Expert and our Head Games subsidiary, forming one integrated business unit, Activision Value Publishing, Inc., in the value software category. As part of this consolidation, we discontinued substantially all of Expert's product lines and terminated substantially all of Expert's employees. In addition, we phased out the use of the Expert name. As a result of these initiatives, in fiscal 2000 we incurred a nonrecurring charge of $26.3 million resulting from the write-down of intangibles acquired, including goodwill.

3. Strategic Restructuring Plan

In the fourth quarter of fiscal 2000, we finalized a strategic restructuring plan to accelerate the development and sale of interactive entertainment products for the next-generation consoles and the Internet. Costs associated with this plan amounted to $70.2 million, approximately $61.8 million net of taxes, and were recorded in the consolidated statement of operations in the fourth quarter of fiscal year 2000 and classified as follows (amounts in millions):

Net revenues	$11.7
Cost of sales—intellectual property licenses and software royalties and amortization	11.9
Product development	4.2
General and administrative	5.2
Amortization of intangible assets	37.2
	$70.2

The component of the charge included in amortization of intangible assets represented a write-down of intangibles including goodwill, relating to Expert Software, Inc. ("Expert"), one of our value publishing subsidiaries, totaling $26.3 million. We consolidated Expert into our Head Games subsidiary, forming one integrated business unit, Activision Value Publishing, Inc. As part of this consolidation, we discontinued substantially all of Expert's product lines, terminated substantially all of Expert's employees and phased out the use of the Expert name. In addition, a $10.9 million write-down of goodwill relating to TDC, an OEM business unit, was recorded. In fiscal 2000, the OEM market went through radical changes due to price declines of PCs and hardware accessories. The sum of the undiscounted future cash flow of these assets was not sufficient to cover the carrying value of these assets and as such was written down to fair market value.

The component of the charge included in net revenues and general and administrative expense represents costs associated with the planned termination of a substantial number of our third party distributor relationships in connection with our realignment of our worldwide publishing business to leverage our existing sales and marketing organizations and improve the control and management of our products. These actions resulted in an increase in the allowance for sales returns of $11.7 million and the allowance for doubtful accounts of $3.4 million. The plan also included a severance charge of $1.2 million for employee redundancies.

The components of the $11.9 million charge included in cost of sales included the write-down of capitalized software costs and licensor warrants granted in connection with the development of software and the acquisition of licensing rights for intellectual property. The product lines to which these write-downs related, for example Heavy Gear, Interstate 82 and Battlezone, were strictly PC lines that appealed primarily to a smaller subset of gaming enthusiasts. Based upon the growth of the console market and the upcoming release of the next-generation console platforms, we determined not to exploit these titles going forward as we did not believe that they would have a viable future with the next-generation platforms. Of the $11.9 million charge, approximately $8.6 million was related to future releases of products and approximately $3.3 million was related to the cessation of certain existing product lines.

During fiscal 2001, we completed the restructuring initiatives associated with the fiscal 2000 restructuring plan without any significant adjustments.

Details of activity in the restructuring plan during fiscal 2001 were as follows (amounts in millions):

	Balance March 31, 2000	Adjustments	Activity	Balance March 31, 2001
Non-Cash Components:				
Goodwill	$37.2	$—	$(37.2)	$—
Software development costs and intellectual property licenses write-downs	16.1	—	(16.1)	—
Allowance for doubtful accounts	3.4	—	(3.4)	—
Allowance for sales returns	11.7	0.8	(12.5)	—
	68.4	0.8	(69.2)	—
Cash Components:				
Severance	1.2	—	(1.2)	—
Lease costs	0.6	—	(0.6)	—
	1.8	—	(1.8)	—
	$70.2	$0.8	$(71.0)	$—

4. Inventories

Our inventories consist of the following (amounts in thousands):

March 31,	2002	2001
Purchased parts and components	$ 892	$ 1,885
Finished goods	19,844	42,003
	$ 20,736	$ 43,888

5. Property and Equipment, Net

Property and equipment, net was comprised of the following (amounts in thousands):

March 31,	2002	2001
Land	$ 214	$ 214
Buildings	4,236	4,004
Computer equipment	27,618	21,512
Office furniture and other equipment	6,884	5,585
Leasehold improvements	3,740	3,713
Total cost of property and equipment	42,692	35,028
Less accumulated depreciation	(24,860)	(19,788)
Property and equipment, net	$ 17,832	$ 15,240

Depreciation expense for the year ended March 31, 2002, 2001 and 2000 was $6.2 million, $4.8 million and $4.2 million, respectively.

6. Goodwill

We adopted SFAS No. 142 effective April 1, 2001. The following table reconciles net income (loss) and earnings per share as reported for the year ended March 31, 2002, 2001 and 2000 to net income (loss) and earnings per share as adjusted to exclude goodwill amortization (amounts in thousands, except per share data).

Year ended March 31,	2002	2001	2000
Reported net income (loss)	$52,238	$ 20,507	$(34,088)
Add back: Goodwill amortization	—	1,502	4,465
Adjusted net income (loss)	$52,238	$ 22,009	$(29,623)
Basic earnings per share:			
Reported net income (loss)	$ 1.03	$ 0.55	$ (0.92)
Goodwill amortization	—	0.04	0.12
Adjusted net income (loss)	$ 1.03	$ 0.59	$ (0.80)

Year ended March 31,	2002	2001	2000
Diluted earnings per share:			
Reported net income (loss)	$0.88	$0.50	$(0.92)
Goodwill amortization	—	0.04	0.12
Adjusted net income (loss)	$0.88	$0.54	$(0.80)

As discussed in Note 3, in the year ended March 31, 2000, we additionally recorded a charge relating to the impairment of goodwill of $37.2 million.

The changes in the carrying amount of goodwill for the year ended March 31, 2002 are as follows (amounts in thousands):

	Publishing	Distribution	Total
Balance as of March 31, 2001	$ 5,941	$4,375	$10,316
Goodwill acquired during the year	25,685	—	25,685
Effect of foreign currency exchange rates	—	(9)	(9)
Balance as of March 31, 2002	$31,626	$4,366	$35,992

7. Accrued Expenses

Accrued expenses were comprised of the following (amounts in thousands):

March 31,	2002	2001
Accrued royalties payable	$13,824	$14,764
Affiliate label payable	2,472	733
Accrued selling and marketing costs	9,169	4,603
Income tax payable	3,055	859
Accrued bonus and vacation pay	13,863	11,958
Other	16,713	11,122
Total	$59,096	$44,039

8. Operations by Reportable Segments and Geographic Area

Based upon our organizational structure, we operate two business segments: (i) publishing of interactive entertainment software and (ii) distribution of interactive entertainment software and hardware products.

Publishing refers to the development, marketing and sale of products, either directly, by license or through our affiliate label program with third party publishers. In the United States, our 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. We conduct our international publishing activities through offices in the United Kingdom, Germany, France, Australia, Sweden, Canada and Japan. Our products are sold internationally on a direct to retail basis and through third party distribution and licensing arrangements and through our wholly-owned distribution subsidiaries located in the United Kingdom, the Netherlands and Germany.

Distribution refers to our operations in the United Kingdom, the Netherlands and Germany that provide logistical and sales services to third party publishers of interactive entertainment software, our own publishing operations and manufacturers of interactive entertainment hardware.

Resources are allocated to each of these segments using information on their respective net revenues and operating profits before interest and taxes. The segments are not evaluated based on assets or depreciation.

The accounting policies of these segments are the same as those described in the Summary of Significant Accounting Policies. Transactions between segments are eliminated in consolidation.

Information on the reportable segments for the three years ended March 31, 2002 is as follows (amounts in thousands):

Year ended March 31, 2002	Publishing	Distribution	Total
Total segment revenues	$549,508	$236,926	$786,434
Revenue from sales between segments	(50,632)	50,632	—
Revenues from external customers	$498,876	$287,558	$786,434
Operating income	$ 68,675	$ 11,899	$ 80,574
Goodwill	$ 31,626	$ 4,366	$ 35,992
Total assets	$455,432	$101,455	$556,887

Year ended March 31, 2001	Publishing	Distribution	Total
Total segment revenues	$466,062	$154,121	$620,183
Revenue from sales between segments	(39,331)	39,331	—
Revenues from external customers	$426,731	$193,452	$620,183
Operating income	$ 35,687	$ 4,120	$ 39,807
Goodwill	$ 5,941	$ 4,375	$ 10,316
Total assets	$271,488	$ 88,469	$359,957

Year ended March 31, 2000	Publishing	Distribution	Total
Total segment revenues	$396,691	$175,514	$572,205
Revenue from sales between segments	(40,255)	40,255	—
Revenues from external customers	$356,436	$215,769	$572,205
Operating income (loss)	$(35,049)	$ 4,724	$(30,325)
Goodwill	$ 7,147	$ 5,200	$ 12,347
Total assets	$230,961	$ 78,776	$309,737

Geographic information for the three years ended March 31, 2002 is based on the location of the selling entity. Revenues from external customers by geographic region were as follows (amounts in thousands):

Year ended March 31,	2002	2001	2000
United States	$404,905	$352,893	$282,847
Europe	368,799	256,228	277,485
Other	12,730	11,062	11,873
Total	$786,434	$620,183	$572,205

Revenues by platform were as follows (amounts in thousands):

Year ended March 31,	2002	2001	2000
Console	$639,737	$466,893	$410,277
PC	146,697	153,290	161,928
Total	$786,434	$620,183	$572,205

9. Computation of Earnings (Loss) Per Share

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

Year ended March 31,	2002	2001	2000
Numerator			
Numerator for basic and diluted earnings per share— income (loss) available to common shareholders	$ 52,238	$ 20,507	$(34,088)
Denominator			
Denominator for basic earnings (loss) per share— weighted average common shares outstanding	50,651	37,298	37,037
Effect of dilutive securities:			
Employee stock options and stock purchase plan	8,288	3,531	—
Warrants to purchase common stock	516	271	—
Potential dilutive common shares	8,804	3,802	—
Denominator for diluted earnings (loss) per share—weighted average common shares outstanding plus assumed conversions	59,455	41,100	37,037
Basic earnings (loss) per share	$ 1.03	$ 0.55	$ (0.92)
Diluted earnings (loss) per share	$ 0.88	$ 0.50	$ (0.92)

Outstanding stock options of 105,301, 3,508,262 and 3,833,096 for the year ended March 31, 2002, 2001 and 2000, respectively, were not included in the calculation of diluted earnings (loss) per share because their effect would be antidilutive. Convertible subordinated notes were also not included in the calculations of diluted earnings per share, for the years applicable, because their effect would be antidilutive.

On December 4, 2001, we filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission to register 7,500,000 shares of our common stock. On June 4, 2002, we issued the 7,500,000 shares of common stock in an underwritten public offering for proceeds, before issuance costs, of approximately $248.3 million.

10. Income Taxes

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

Year ended March 31,	2002	2001	2000
Income (loss) before income taxes:			
Domestic	$ 67,553	$24,276	$(37,115)
Foreign	15,567	8,268	(1,621)
	$ 83,120	$32,544	$(38,736)
Income tax expense (benefit):			
Current:			
Federal	$ 648	$ 394	$ (383)
State	20	112	337
Foreign	5,053	4,351	2,610
Total current	5,721	4,857	2,564
Deferred:			
Federal	(18,751)	(5,610)	(10,047)
State	(4,555)	(1,761)	(1,448)
Foreign	(46)	(479)	—
Total deferred	(23,352)	(7,850)	(11,495)
Add back benefit credited to additional paid-in capital:			
Tax benefit related to stock option and warrant exercises	48,513	11,378	3,017
Tax benefit related to utilization of pre-bankruptcy net operating loss carryforwards	—	3,652	1,266
	48,513	15,030	4,283
Income tax provision (benefit)	$ 30,882	$12,037	$ (4,648)

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

Year ended March 31,	2002	2001	2000
Federal income tax provision (benefit) at statutory rate	35.0%	35.0%	(34.0%)
State taxes, net of federal benefit	3.5	3.3	(4.5)
Nondeductible amortization	—	1.3	18.6
Research and development credits	(1.8)	(5.7)	(8.6)
Incremental (decremental) effect of foreign tax rates	(1.8)	0.5	2.8
Increase of valuation allowance	2.4	4.0	13.8
Rate changes	—	(1.5)	—
Other	(0.1)	0.1	(0.1)
	37.2%	37.0%	(12.0%)

Deferred income taxes reflect the net tax effects of temporary differences between the amounts of assets and liabilities for accounting purposes and the amounts used for income tax purposes. The components of the net deferred tax asset and liability are as follows (amounts in thousands):

March 31,	2002	2001
Deferred asset:		
Allowance for doubtful accounts	$ 542	$ 716
Allowance for sales returns	10,670	3,900
Inventory reserve	971	992
Vacation and bonus reserve	2,316	1,663
Amortization and depreciation	4,129	6,816
Tax credit carryforwards	17,193	14,224
Net operating loss carryforwards	55,127	12,362
Other	2,925	1,813
Deferred asset	93,873	42,486
Valuation allowance	(30,479)	(9,895)
Net deferred asset	$ 63,394	$ 32,591

March 31,	2002	2001
Deferred liability:		
Capitalized research expenses	$ 9,105	$ 3,087
State taxes	2,886	1,453
Deferred liability	11,991	4,540
Net deferred asset	$ 51,403	$ 28,051

In accordance with Statement of Position ("SOP") 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," issued by the AICPA, benefits from loss carryforwards arising prior to our reorganization are recorded as additional paid-in capital. During the year ended March 31, 2001, $3.7 million was recorded as additional paid-in capital.

As of March 31, 2002, our available federal net operating loss carryforward of $130.3 million is subject to certain limitations as defined under Section 382 of the Internal Revenue Code. The net operating loss carryforwards expire between 2006 and 2022. We have various state net operating loss carryforwards which are not subject to limitations under Section 382 of the Internal Revenue Code. We have tax credit carryforwards of $11.2 million and $6.1 million for federal and state purposes, respectively, which expire between 2006 and 2022.

At March 31, 2002, our deferred income tax asset for tax credit carryforwards and net operating loss carryforwards was reduced by a valuation allowance of $30.5 million as compared to $9.9 million in the prior fiscal year. Realization of the deferred tax assets is dependent upon the continued generation of sufficient taxable income prior to expiration of tax credits and loss carryforwards. Although realization is not assured, management believes it is more likely than not that the net carrying value of the deferred tax asset will be realized.

Cumulative undistributed earnings of foreign subsidiaries for which no deferred taxes have been provided approximated $34.0 million at March 31, 2002. Deferred income taxes on these earnings have not been provided as these amounts are considered to be permanent in duration.

11. Long-Term Debt

Bank Lines of Credit and Other Debt. Our long-term debt consists of the following (amounts in thousands):

March 31,	2002	2001
U.S. Facility	$ —	$ 8,432
The Netherlands Facility	—	1,759
Mortgage notes payable and other	3,290	3,441
	3,290	13,632
Less current portion	(168)	(10,231)
Long-term debt, less current portion	$ 3,122	$ 3,401

In June 1999, we obtained a $100.0 million revolving credit facility and a $25.0 million term loan with a syndicate of banks (the "U.S. Facility"). The revolving portion of the U.S. Facility provided us with the ability to borrow up to $100.0 million, including issuing letters of credit up to $80 million, on a revolving basis against eligible accounts receivable and inventory. The term loan had a three-year term with principal amortization on a straight-line quarterly basis beginning December 31, 1999, a borrowing rate based on the banks' base rate (which is generally equivalent to the published prime rate) plus 2% or LIBOR plus 3% and was to expire June 2002. The revolving portion of the U.S. Facility had a borrowing rate based on the banks' base rate plus 1.75% or LIBOR plus 2.75%. In May 2001, we accelerated our repayment of the outstanding balance under the term loan portion of the U.S. Facility. In connection with the accelerated repayment, we amended the U.S. Facility (the "Amended and Restated U.S. Facility"). The Amended and Restated U.S. Facility eliminated the term loan, reduced the revolver to $78.0 million and reduced the interest rate to the banks' base rate plus 1.25% or LIBOR plus 2.25%. We pay a commitment fee of ¼% on the unused portion of the revolver. The Amended and Restated U.S. Facility is collateralized by substantially all of our assets and was scheduled to expire in June 2002. However, in June 2002, we obtained an extension of the expiration date to August 21, 2002.

The original U.S. Facility had a weighted average interest rate of approximately 9.70% for the year ended March 31, 2001. During the year ended March 31, 2002, we did not borrow against the Amended and Restated U.S. Facility. The Amended and Restated U.S. Facility contains various covenants that limit our ability to incur additional indebtedness, pay dividends or make other distributions, create certain liens, sell assets, or enter into certain mergers or acquisitions. We are also required to maintain specified financial ratios related to net worth and fixed charges. As of March 31, 2002 and 2001, we were in compliance with these covenants. As of March 31, 2002, there were no borrowings outstanding and $5.8 million of letters of credit outstanding against the revolving portion of the Amended and Restated U.S. Facility. As of March 31, 2001, approximately $8.5 million was outstanding under the term loan portion of the original U.S. Facility. As of March 31, 2001, there were no borrowings outstanding and $18.2 million of letters of credit outstanding against the revolving portion of the original U.S. Facility.

We have a revolving credit facility through our CD Contact subsidiary in the Netherlands (the "Netherlands Facility"). The Netherlands Facility permitted revolving credit loans and letters of credit up to Euro dollars ("EUR") 4.5 million ($3.9 million) and Netherlands Guilders ("NLG") 26 million ($10.4 million) as of March 31, 2002 and 2001, respectively, based upon eligible accounts receivable and inventory balances. The Netherlands Facility is due on demand, bears interest at a Eurocurrency rate plus 1.50% and expires August 2003. As of March 31, 2002, there were no borrowings and no letters of credit outstanding under the Netherlands Facility. As of March 31, 2001, there were $1.8 million of borrowings and no letters of credit outstanding under the Netherlands Facility.

We also have revolving credit facilities with our CentreSoft subsidiary located in the United Kingdom (the "UK Facility") and our NBG subsidiary located in Germany (the "German Facility"). The UK Facility provided for British Pounds ("GBP") 7.0 million ($10.0 million) of revolving loans and GBP 1.5 million ($2.1 million) of letters of credit as of March 31, 2002 and GBP 7.0 million ($10.0 million) of revolving loans and GBP 3.0 million ($4.3 million) of letters of credit as of March 31, 2001. The UK Facility bears interest at LIBOR plus 2%, is collateralized by substantially all of the assets of the subsidiary and expires in October 2002. The UK Facility also contains various covenants that require the subsidiary to maintain specified financial ratios related to, among others, fixed charges. As of March 31, 2002 and 2001, we were in compliance with these covenants. No borrowings were outstanding against the UK Facility at March 31, 2002 or 2001. Letters of credit of GBP 1.5 million ($2.1 million) and GBP 3.0 million ($4.3 million) were outstanding against the UK Facility at March 31, 2002 and 2001, respectively. The German Facility provided for revolving loans up to EUR 2.5 million ($2.2 million) and Deutsche Marks ("DM") 4.0 million ($1.8 million) as of March 31, 2002 and 2001, respectively, bears interest at a Eurocurrency rate plus 2.5%, is collateralized by a cash deposit of approximately GBP 650,000 ($926,000) made by our CentreSoft subsidiary and has no expiration date. No borrowings were outstanding against the German Facility as of March 31, 2002 and 2001.

Mortgage notes payable relate to the land, office and warehouse facilities of our German and Netherlands subsidiaries. The notes bear interest at 5.45% and 5.35%, respectively, and are collateralized by the related assets. The Netherlands mortgage note payable is due in quarterly installments of EUR 11,300 ($9,900) and matures January 2019. The German mortgage note payable is due in bi-annual installments of EUR 74,100 ($64,500) beginning June 2002 and matures December 2019.

Annual maturities of long-term debt are as follows (amounts in thousands):

Year ending March 31,	
2003	$ 168
2004	168
2005	168
2006	168
2007	168
Thereafter	2,450
Total	$3,290

Private Placement of Convertible Subordinated Notes. In December 1997, we completed the private placement of $60.0 million principal amount of 6¾% convertible subordinated notes due 2005 (the "Notes"). The Notes were 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 our common stock at a conversion price of $12.583 per share, post split, subject to adjustment in certain circumstances. During the year ended March 31, 2002, we called for the redemption of the Notes. In connection with that call, holders converted to common stock approximately $58.7 million aggregate principal amount of their Notes, net of conversion costs. The remaining Notes were redeemed for cash.

12. Commitments and Contingencies

Developer and Intellectual Property Contracts. In the normal course of business, we enter into contractual arrangements with third parties for the development of products, as well as for the rights to intellectual property ("IP"). Under these agreements, we commit to provide specified payments to a developer, or IP holder, based upon contractual arrangements. Assuming all contractual provisions are met, the total future minimum contract commitment for contracts in place as of March 31, 2002 is approximately $63.7 million, which is scheduled to be paid as follows (amounts in thousands):

Year ending March 31,	
2003	$44,236
2004	11,785
2005	3,550
2006	1,675
2007	2,500
	$63,746

Lease Obligations. We lease certain of our facilities under non-cancelable operating lease agreements. Total future minimum lease commitments as of March 31, 2002 are as follows (amounts in thousands):

Year ending March 31,	
2003	$ 5,277
2004	4,901
2005	4,174
2006	3,290
2007	3,073
Thereafter	4,072
Total	$24,787

Facilities rent expense for the years ended March 31, 2002, 2001 and 2000 was approximately $5.3 million, $4.7 million and $4.4 million, respectively.

Legal Proceedings. We are party to routine claims and suits brought against us 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 our business, financial condition, results of operations or liquidity.

13. Stock Compensation and Employee Benefit Plans

Stock Options. We sponsor five stock option plans for the benefit of officers, employees, consultants and others.

On February 28, 1992, the shareholders of Activision approved the Activision 1991 Stock Option and Stock Award Plan, as amended, (the "1991 Plan") which permits the granting of "Awards" in the form of non-qualified stock options, incentive stock options ("ISOs"), stock appreciation rights ("SARs"), restricted stock awards, deferred stock awards and other common stock-based awards. The total number of shares of common stock available for distribution under the 1991 Plan is 11,350,000. The 1991 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. There were no shares remaining available for grant under the 1991 Plan as of March 31, 2002.

On September 23, 1998, the shareholders of Activision approved the Activision 1998 Incentive Plan, as amended (the "1998 Plan"). The 1998 Plan permits the granting of "Awards" in the form of non-qualified stock options, ISOs, SARs, restricted stock awards, deferred stock awards and other common stock-based awards to directors, officers, employees, consultants and others. The total number of shares of common stock available for distribution under the 1998 Plan is 4,500,000. The 1998 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. There were approximately 21,000 shares remaining available for grant under the 1998 Plan as of March 31, 2002.

On April 26, 1999, the Board of Directors approved the Activision 1999 Incentive Plan, as amended (the "1999 Plan"). The 1999 Plan permits the granting of "Awards" in the form of non-qualified stock options, ISOs, SARs, restricted stock awards, deferred share awards and other common stock-based awards to directors, officers, employees, consultants and others. The total number of shares of common stock available for distribution under the 1999 Plan is 7,500,000. The 1999 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. As of March 31, 2002, there were no shares remaining available for grant under the 1999 Plan.

On August 23, 2001, the shareholders of Activision approved the Activision 2001 Incentive Plan, as amended (the "2001 Plan"). The 2001 Plan permits the granting of "Awards" in the form of non-qualified stock options, ISOs, SARs, restricted stock awards, deferred stock awards and other common stock-based awards to directors, officers, employees, consultants and others. The total number of shares of common stock available for distribution under the 2001 Plan is 2,250,000. The 2001 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. There were approximately 694,000 shares remaining available for grant under the 2001 Plan as of March 31, 2002.

On April 4, 2002, the Board of Directors approved the Activision 2002 Incentive Plan (the "2002 Plan"). The 2002 Plan permits the granting of "Awards" in the form of non-qualified stock options, ISOs, SARs, restricted stock awards, deferred share awards and other common stock-based awards to officers (other than executive officers), employees, consultants, advisors and others. The total number of shares of common stock available for distribution under the 2002 Plan is 2,350,000. The 2002 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares.

The exercise price for Awards issued under the 1991 Plan, 1998 Plan, 1999 Plan, 2001 Plan and 2002 Plan (collectively, the "Plans") is determined at the discretion of the Board of Directors (or the Compensation Committee of the Board of Directors, which administers the Plans), and for ISOs, is not to be less than the fair market value of our common stock at the date of grant, or in the case of non-qualified options, must exceed or be equal to 85% of the fair market value at the date of grant. Options typically become exercisable in installments over a period not to exceed five years and must be exercised within 10 years of the date of grant. However, certain options granted to executives vest immediately. Historically, stock options have been granted with exercise prices equal to or greater than the fair market value at the date of grant.

In connection with prior employment agreements between Activision and Robert A. Kotick, Activision's Chairman and Chief Executive Officer, and Brian G. Kelly, Activision's Co-Chairman, Mr. Kotick and Mr. Kelly were granted options to purchase common stock. The Board of Directors approved the granting of these options. Relating to such grants, as of March 31, 2002, 4,142,300 and 3,267,300 shares with weighted average exercise prices of $6.31 and $6.90 were outstanding and exercisable, respectively.

We additionally have approximately 390,000 options outstanding to employees as of March 31, 2002, with a weighted average exercise price of $13.92. The Board of Directors approved the granting of these options. Such options have terms similar to those options granted under the Plans.

We also issued stock options in conjunction with acquisition transactions. For the year ended March 31, 2002, 12,000 options with a weighted average exercise price of $6.67 were outstanding relating to options issued in conjunction with acquisitions completed in fiscal 1999 and 1998. The Board of Directors approved the granting of these options. None of these shares were exercisable as of March 31, 2002.

Director Warrants. The Director Warrant Plan, which expired on December 19, 1996, provided for the automatic granting of warrants ("Director Warrants") to purchase 25,000 shares of common stock to each director of Activision who was not an officer or employee of Activision or any of its subsidiaries. Director Warrants granted under the Director Warrant Plan vest 25% on the first anniversary of the date of grant, and 12.5% each six months thereafter. The expiration of the Plan had no effect on the outstanding Director Warrants. As of March 31, 2002, there were no shares of common stock available for distribution nor were there any warrants outstanding under the Director Warrant Plan.

During the fiscal year ended March 31, 1997, we issued warrants to purchase 60,000 shares of our common stock, at exercise prices ranging from $7.87 to $9.25 to two of our outside directors in connection with their election to the Board. Such warrants have vesting terms identical to the Directors Warrants and expire within 10 years. Relating to such warrants, as of March 31, 2002, 30,000 shares with a weighted average exercise price of $9.02 were outstanding and exercisable.

Employee Stock Purchase Plan. We have an employee stock purchase plan for all eligible employees (the "Purchase Plan"). Under the Purchase Plan, shares of our common stock may be purchased at six-month intervals at 85% of the lower of the fair market value on the first or last day of each six-month period (the "Offering Period"). Employees may purchase shares having a value not exceeding 10% of their gross compensation during an Offering Period. Employees purchased approximately 44,900 and 51,900 shares at a price of $13.64 and $6.31 per share during the Purchase Plan's offering period ended September 30, 2001 and 2000, respectively, and approximately 48,000 and 65,900 shares at a price of $14.23 and $7.86 per share during the Purchase Plan's offering period ended March 31, 2002 and 2001, respectively.

Activity of Employee and Director Options and Warrants. Activity of all employee and director options and warrants during the last three fiscal years was as follows (amounts in thousands, except weighted average exercise price amounts):

	2002		2001		2000	
	Shares	Wtd. Avg. Ex. Price	Shares	Wtd. Avg. Ex. Price	Shares	Wtd. Avg. Ex. Price
Outstanding at beginning of year	17,916	$ 6.45	15,498	$7.38	14,924	$7.03
Granted	4,109	16.30	10,151	4.61	5,651	7.68
Exercised	(8,681)	6.74	(5,250)	6.04	(3,497)	6.10
Forfeited	(481)	7.35	(2,483)	6.49	(1,580)	7.94
Outstanding at end of year	12,863	$ 9.37	17,916	$6.45	15,498	$7.38
Exercisable at end of year	6,334	$ 8.25	9,816	$6.66	7,073	$6.83

For the year ended March 31, 2002, 4,108,900 options with a weighted average exercise price of $16.30 were granted at an exercise price equal to the fair market value on the date of grant.

For the year ended March 31, 2001, 6,513,000 options with a weighted average exercise price of $4.79 were granted at an exercise price equal to the fair market value on the date of grant and 3,637,500 options with a weighted average exercise price of $4.29 were granted at an exercise price greater than fair market value on the date of grant.

For the year ended March 31, 2000, 3,751,500 options with a weighted average exercise price of $8.59 were granted at an exercise price equal to the fair market value on the date of grant and 1,057,500 options with a weighted average exercise price of $7.14 were granted at an exercise price greater than fair market value on the date of grant. Additionally, in conjunction with the acquisition of Expert, 841,500 options with a weighted average exercise price of $4.32 were granted at an exercise price less than market value on the date of grant. Options granted to Expert were outside any of the Plans.

The following tables summarize information about all employee and director stock options and warrants outstanding as of March 31, 2002 (share amounts in thousands):

	Outstanding Options			Exercisable Options	
	Shares	Remaining Wtd. Avg. Contractual Life (in years)	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price
Range of exercise prices:					
$ 3.17 to $ 4.08	1,812	8.06	$ 4.04	328	$ 3.99
$ 4.09 to $ 6.83	1,692	7.07	5.73	887	6.40
$ 6.88 to $ 7.00	3,074	7.05	6.99	2,915	7.00
$ 7.04 to $ 8.91	1,380	6.65	7.65	608	7.37
$ 8.92 to $11.29	1,331	6.23	9.70	630	10.14
$11.50 to $13.92	1,612	8.90	13.73	499	13.89
$14.12 to $16.67	1,394	8.26	15.99	467	15.12
$16.81 to $28.60	565	9.68	24.74	—	—
$28.61 to $28.61	1	9.97	28.61	—	—
$31.29 to $31.29	2	9.95	31.29	—	—
	12,863	7.55	$ 9.37	6,334	$ 8.25

Pro Forma Information. Pro forma information regarding net income (loss) and earnings (loss) per share is required by SFAS No. 123. This information is required to be determined as if we had accounted for our employee stock options (including shares issued under the Purchase Plan and Director Warrant Plan and other employee option grants, collectively called "options") granted during fiscal 2002, 2001 and 2000 under the fair value method. The fair value of options granted in the years ended March 31, 2002, 2001 and 2000 reported below has been estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions:

	Option Plans and Other Employee Options			Purchase Plan			Director Warrant Plan		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
Expected life (in years)	2	2	3	0.5	0.5	0.5	2	2	3
Risk-free interest rate	3.24%	4.09%	6.15%	2.16%	4.09%	6.15%	3.24%	4.09%	6.15%
Volatility	70%	70%	67%	70%	70%	67%	70%	70%	67%
Dividend yield	—	—	—	—	—	—	—	—	—

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because our options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of our options. For options granted during fiscal 2002, the per share weighted average fair value of options with exercise prices equal to market value on date of grant was $6.86. For options granted during fiscal 2001, the per share weighted average fair value of options with exercise prices equal to market value on date of grant and exercise prices greater than market value were $2.08, and $0.89, respectively. For options granted during fiscal 2000, the per share weighted average fair value of options with exercise prices equal to market value on date of grant, exercise prices greater than market value and exercise prices less than market value were $3.94, $1.76 and $5.33, respectively. The per share weighted average estimated fair value of Employee Stock Purchase Plan shares granted during the year ended March 31, 2002, 2001 and 2000 were $4.41, $2.32 and $2.23, respectively.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Had we determined compensation cost based on the fair value of the stock options at their date of grant as prescribed by SFAS No. 123, our net income (loss) and earnings (loss) per share would have been reported as the pro forma amounts as below (amounts in thousands except for per share information):

Year ended March 31,	2002	2001	2000
Net income (loss)			
As reported	$52,238	$20,507	$(34,088)
Pro forma	39,616	11,531	(45,355)
Basic earnings (loss) per share			
As reported	1.03	0.55	(0.92)
Pro forma	0.78	0.31	(1.22)
Diluted earnings (loss) per share			
As reported	0.88	0.50	(0.92)
Pro forma	0.67	0.28	(1.22)

The effects on pro forma disclosures of applying SFAS No. 123 are not likely to be representative of the effects on pro forma disclosures of future years.

Non-Employee Warrants. In prior years, we have granted stock warrants to third parties in connection with the development of software and the acquisition of licensing rights for intellectual property. The warrants generally vest upon grant and are exercisable over the term of the warrant. The exercise price of third party warrants is generally greater than or equal to the fair market value of our common stock at the date of grant. No non-employee warrants were granted during the years ended March 31, 2002 or 2001. As of March 31, 2002, 777,000 third party warrants to purchase common stock were outstanding with a weighted average exercise price of $17.58 per share. As of March 31, 2001, 1,974,000 third party warrants to purchase common stock were outstanding with a weighted average exercise price of $7.26 per share.

During the fiscal year ended March 31, 2000, we granted warrants to a third party to purchase 150,000 shares of our common stock at an exercise price of $7.75 per share in connection with, and as partial consideration for, a license agreement that allows us to utilize the third party's name in conjunction with certain Activision products. The warrants vested upon grant, have a seven-year term and become exercisable ratably in annual installments over the warrant term. The fair value of the warrants was determined using the Black-Scholes pricing model, assuming a risk-free rate of 4.77%, a volatility factor of 66% and expected term as noted above. The weighted average estimated fair value of third party warrants granted during the year ended March 31, 2000 was $5.26 per share. As of March 31, 2000, 2,370,000 third party warrants to purchase common stock were outstanding with a weighted average exercise price of $7.35 per share.

In accordance with EITF 96-18, we measure the fair value of the securities on the measurement date. The fair value of each warrant is capitalized and amortized to expense when the related product is released and the related revenue is recognized. During fiscal year 2002, 2001 and 2000, $1.1 million, $1.4 million and $5.8 million, respectively, was amortized and included in royalty expense relating to warrants.

Employee Retirement Plan. We have a retirement plan covering substantially all of our eligible employees. The retirement plan is qualified in accordance with Section 401(k) of the Internal Revenue Code. Under the plan, employees may defer up to 15% of their pre-tax salary, but not more than statutory limits. We contribute 5% of each dollar contributed by a participant. Our matching contributions to the plan were $82,000, $62,000 and $46,000 during the year ended March 31, 2002, 2001 and 2000, respectively.

14. Shareholders' Equity

Stock Split. In October 2001, the Board of Directors approved a three-for-two stock split effected in the form of a 50% stock dividend. The stock split was paid at the close of business on November 20, 2001 to shareholders of record as of November 6, 2001. The consolidated financial statements, including all share and per share data, have been restated to give effect to the stock split.

Repurchase Plan. As of May 9, 2000, the Board of Directors authorized the purchase of up to $15.0 million of our common stock as well as our convertible subordinated notes. The shares and notes could be purchased from time to time through the open market or in privately negotiated transactions. During the year ended March 31, 2001, we repurchased 3.6 million shares of our common stock for approximately $15.0 million. We financed the purchase of such shares with available cash.

Shareholders' Rights Plan. On April 18, 2000, our Board of Directors approved a shareholders' rights plan (the "Rights Plan"). Under the Rights Plan, each common shareholder at the close of business on April 19, 2000, received a dividend of one right for each share of common stock held. Each right represents the right to purchase one one-hundredth (1/100) of a share of our Series A Junior Preferred stock at an exercise price of $40.00. Initially, the rights are represented by our common stock certificates and are neither exercisable nor traded separately from our common stock. The rights will only become exercisable if a person or group acquires 15% or more of the common stock of Activision, or announces or commences a tender or exchange offer which would result in the bidder's beneficial ownership of 15% or more of our common stock.

In the event that any person or group acquires 15% or more of our 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 Activision having a value equal to two times the then current exercise price of the right. If we are acquired in a merger or other business combination transaction after a person has acquired 15% or more of our 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 Activision, the Rights Plan "grandfathers" their current level of ownership, so long as they do not purchase additional shares in excess of certain limitations.

We 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 our common stock. At any time after a person has acquired 15% or more (but before any person has acquired more than 50%) of our common stock, we 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.

15. Supplemental Cash Flow Information

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

Years ended March 31,	2002	2001	2000
Non-cash investing and financing activities:			
Issuance of stock, options and warrants in exchange for licensing rights and other services	$ 3,217	$ —	$ 8,529
Tax benefit derived from net operating loss carryforward utilization	—	3,652	1,266
Common stock issued to effect business combinations	25,481	—	7,171
Conversion of Notes to common stock, net of conversion costs	58,651	—	—
Supplemental cash flow information:			
Cash paid for income taxes	$ 3,041	$6,753	$ 6,333
Cash paid (received) for interest	$ (2,942)	$5,720	$10,519

16. Quarterly Financial and Market Information—Restated (Unaudited)

	Quarter Ended				
(Amounts in thousands, except per share data)	June 30	Sept. 30	Dec. 31	Mar. 31	Year Ended
Fiscal 2002:					
Net revenues	$110,577	$139,604	$371,341	$164,912	$786,434
Operating income (loss)	(1,235)	3,144	61,801	16,862	80,574
Net income	29	2,215	39,110	10,884	52,238
Basic earnings per share	0.00	0.04	0.75	0.20	1.03
Diluted earnings per share	0.00	0.04	0.66	0.17	0.88
Common stock price per share					
High	27.43	27.00	28.72	32.75	32.75
Low	13.92	15.07	16.35	22.77	13.92
Fiscal 2001:					
Net revenues	$ 84,558	$144,363	$264,473	$126,789	$620,183
Operating income (loss)	(6,498)	9,536	34,754	2,015	39,807
Net income (loss)	(5,179)	4,306	20,505	875	20,507
Basic earnings (loss) per share	(0.14)	0.12	0.56	0.02	0.55
Diluted earnings (loss) per share	(0.14)	0.11	0.47	0.02	0.50
Common stock price per share					
High	8.10	10.42	10.17	16.83	16.83
Low	3.58	4.21	6.88	9.08	3.58

Per share amounts have been restated to give effect to our three-for-two stock split effected in the form of a 50% stock dividend for shareholders of record as of November 6, 2001, paid November 20, 2001.

17. Subsequent Events—Unaudited

On December 4, 2001, we filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission to register 7,500,000 shares of our common stock. On June 4, 2002, we issued the 7,500,000 shares of common stock in an underwritten public offering for proceeds, before issuance costs, of approximately $248.3 million. The proceeds from this offering will be used for general corporate purposes, including, among other things, additions to working capital and financing of capital expenditures, joint ventures and/or strategic acquisitions.

On May 20, 2002, we acquired all of the outstanding capital of Z-Axis Ltd. ("Z-Axis"), a privately held interactive software development company, in exchange for $12.5 million in cash and 249,190 shares of our common stock. Additional shares of our common stock also may be issued to Z-Axis' equity holders and employees over the course of several years, depending on the satisfaction of certain product performance requirements and other criteria. Z-Axis is a console software developer with a focus on action and action-sports video games.

On May 10, 2002, we acquired 30% of the outstanding capital stock of Infinity Ward, Inc. ("Infinity Ward"), as well as an option to purchase the remaining 70% of the outstanding capital stock of Infinity Ward. Infinity Ward is a privately held interactive software development company with a focus on first person action games for personal computers.

On July 22, 2002, the Board of Directors approved the Activision, Inc. 2002 Executive Incentive Plan (the "2002 Executive Plan"). The 2002 Executive Plan permits the granting of "Awards" in the form of non-qualified stock options, ISOs, SARs, restricted stock awards, deferred stock awards, performance-based awards and other common stock-based awards to directors, officers, employees, consultants, advisors and others. The total number of shares of common stock available for distribution under the 2002 Executive Plan is 2,500,000. The purpose of the 2002 Executive Plan is to supplement the 2002 Plan permitting the grant of Awards to directors and executive officers who are ineligible under the 2002 Plan as well as any other employees, consultants, advisors and others. The 2002 Executive Plan generally prohibits us from reducing the exercise prices of stock options after they are issued. Although it became effective on July 22, 2002 without shareholder approval, the Board is submitting the 2002 Executive Plan to the shareholders for their approval at the 2002 Annual Meeting.

On July 22, 2002, the Board of Directors approved the 2002 Employee Stock Purchase Plan (the "2002 ESPP") and the reservation of 500,000 shares of our common stock for issuance thereunder, subject to shareholder approval. Under the 2002 ESPP, with certain limitations, shares of our common stock may be purchased by eligible employees at six-month intervals at 85% of the lower of the fair market value on the first day of the offering period or 85% of the fair market value on the date of purchase. In general, employees may purchase shares using amounts (up to 15%) of their compensation that is withheld by us, subject to an aggregate annual limitation of $25,000 per calendar year. The 2002 ESPP will be put before our shareholders for approval in connection with our 2002 Annual Meeting.

MARKET FOR REGISTRANT'S COMMON EQUITY
and Related Stockholder Matters

Our common stock is quoted on the Nasdaq National Market® under the symbol "ATVI."

The following table sets forth for the periods indicated the high and low reported sale prices for our common stock. As of June 18, 2002, there were approximately 3,200 holders of record of our common stock.

	High	Low
Fiscal 2001		
First Quarter ended June 30, 2000	$ 8.10	$ 3.58
Second Quarter ended September 30, 2000	10.42	4.21
Third Quarter ended December 31, 2000	10.17	6.88
Fourth Quarter ended March 31, 2001	16.83	9.08
Fiscal 2002		
First Quarter ended June 30, 2001	$27.43	$13.92
Second Quarter ended September 30, 2001	27.00	15.07
Third Quarter ended December 31, 2001	28.72	16.35
Fourth Quarter ended March 31, 2002	32.75	22.77

On June 18, 2002, the last reported sales price of our common stock was $29.59.

Dividends

We paid no cash dividends in 2002 or 2001 and we do not intend to pay any cash dividends at any time in the foreseeable future. We expect that earnings will be retained for the continued growth and development of the business. In addition, our bank credit facility currently prohibits us from paying cash dividends on our common stock. Future dividends, if any, will depend upon our earnings, financial condition, cash requirements, future prospects and other factors deemed relevant by our Board of Directors.

Stock Split

In October 2001, the Board of Directors approved a three-for-two stock split effected in the form of a 50% stock dividend. The stock split was paid at the close of business on November 20, 2001 to shareholders of record as of November 6, 2001. All share and per share data included in this Annual Report has been restated as if the stock split had occurred as of the earliest period presented.

CORPORATE INFORMATION

Officers

Robert A. Kotick
Chairman and Chief Executive Officer

Brian G. Kelly
Co-Chairman

Ronald Doornink
President, Activision, Inc. and Chief Executive Officer, Activision Publishing, Inc.

William J. Chardavoyne
Executive Vice President and Chief Financial Officer

Lawrence Goldberg
Executive Vice President, Worldwide Studios

Daniel J. Hammett
President, Activision Value Publishing and Executive Vice President, Activision, Inc.

Michael J. Rowe
Executive Vice President, Human Resources

Richard A. Steele
President, Activision Distribution and Executive Vice President, International Distribution

Kathy P. Vrabeck
Executive Vice President, Global Publishing and Brand Management

George L. Rose
Senior Vice President, Business and Legal Affairs, General Counsel and Secretary

Board of Directors

Robert A. Kotick
Chairman and Chief Executive Officer

Brian G. Kelly
Co-Chairman

Kenneth L. Henderson
Partner, Bryan Cave Robinson Silverman

Barbara S. Isgur
Former Senior Vice President, Stratagem

Steven T. Mayer
Former Chairman, Digital F/X, Inc.

Robert J. Morgado
Chairman, Maroley Media Group

Transfer Agent

Continental Stock Transfer
& Trust Company
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Century City, California

Bank

US Bank
Los Angeles, California

Corporate Counsel

Bryan Cave Robinson Silverman
New York, New York

Corporate Headquarters

Activision, Inc.
3100 Ocean Park Boulevard
Santa Monica, California 90405
(310) 255-2000

Offices

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Eagan, Minnesota
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Madison, Wisconsin
New York, New York
Ontario, Canada
Santa Monica, California
Sausalito, California
Woodland Hills, California

Berkshire, United Kingdom
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Burglengenfeld, Germany
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Stockholm, Sweden
Sydney, Australia
Tokyo, Japan
Venlo, The Netherlands

Forward-Looking Statements

The statements contained in this report that are not historical facts are "forward-looking statements." The company cautions readers of this report that a number of important factors could cause Activision's actual future results to differ materially from those expressed in any such forward-looking statements. These important factors, and other factors that could affect Activision, are described in the company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002, which was filed with the United States Securities and Exchange Commission. Readers of this Annual Report are referred to such filings.

World Wide Web Site

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Annual Meeting

September 19, 2002
The Peninsula Hotel
9882 South Santa Monica Blvd.
Beverly Hills, California 90212

Annual Report on Form 10-K

The company's Annual Report on Form 10-K for the year ended March 31, 2002 is available to shareholders via our website and without charge upon request from our corporate offices.

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