

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1996

O R

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

For the transition period from _____ to _____

Commission File Number 0-12699

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

DELAWARE 94-

2606438

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

11601 WILSHIRE BLVD., LOS ANGELES, CA 90025
(Address of principal executive offices) (Zip Code)

(310) 473-9200
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court: Yes ☒ No ☐

The number of shares of the registrant's Common Stock outstanding as of August 8, 1996 was 13,875,765.

ACTIVISION, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ACTIVISION, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

(in thousands except share data)

	June 30, 1996 ----- (Unaudited)	March 31, 1996 -----
ASSETS		
Current assets:		
Cash and cash equivalents	\$22,814	\$25,288
Accounts receivable, net of allowances of \$6,220 and \$7,005 respectively	13,726	19,909
Inventories, net	3,439	2,975
Prepaid software and license royalties	5,566	3,652
Other assets	1,636	1,183
Deferred income taxes	2,757	1,500
	-----	-----
Total current assets	49,938	54,507
Property and equipment, net	3,974	3,326
Prepaid software and license royalties	872	-
Other assets	198	200
Excess purchase price over identifiable assets acquired, net	19,260	19,580
	-----	-----
Total assets	\$74,242 =====	\$77,613 =====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$2,942	\$4,592
Accrued expenses	9,416	9,688
	-----	-----
Total current liabilities	12,358	14,280
Other liabilities	329	334
	-----	-----
Total liabilities	12,687	14,614
	-----	-----
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$.000001 par value, 100,000,000 shares authorized, 14,373,965 and 14,250,180 shares issued and 13,873,965 and 13,750,180 outstanding , respectively	-	-
Additional paid-in capital	69,058	67,904
Retained earnings (accumulated deficit)	(1,923)	708
Cumulative foreign currency translation	(302)	(335)
Less: Treasury stock, cost of 500,000 shares	(5,278)	(5,278)
	-----	-----
Total shareholders' equity	61,555	62,999
	-----	-----
Total liabilities and shareholders' equity	\$74,242 =====	\$77,613 =====

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

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

(in thousands except loss per share data)

(Unaudited)

	1996	1995
	----	----
Net revenues	\$7,021	\$3,319
Cost of goods sold	1,509	1,554
	-----	-----
Gross profit	5,512	1,765
	-----	-----
Operating expenses:		
Product development	4,547	4,579
Sales and marketing	3,641	1,893
General and administrative	1,229	986
Amortization of intangible assets	321	321
	-----	-----
Total operating expenses	9,738	7,779
	-----	-----
Operating loss	(4,226)	(6,014)
Other income:		
Interest, net	312	525
	-----	-----
Loss before income tax provision (benefit)	(3,914)	(5,489)
Income tax provision (benefit)	(1,283)	39
	-----	-----
Net loss	\$(2,631)	\$(5,528)
	=====	=====
Net loss per common share	\$ (0.19)	\$ (0.39)
	=====	=====
Number of shares used in computing net loss per common share	13,812	14,184
	=====	=====

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

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

(in thousands)

Increase (Decrease) in Cash

(UNAUDITED)

	1996	1995
	-----	-----
Net cash used in operating activities	\$(1,750)	\$(3,069)
	-----	-----
Cash flows from investing activities:		

Capital expenditures	(1,089)	(638)
	-----	-----
Net cash used in investing activities	(1,089)	(638)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance and exercise of common stock options and warrants	332	-
	-----	-----
Net cash provided by financing activities	332	-
	-----	-----
Effect of exchange rate changes on cash	33	(15)
	-----	-----
Net decrease in cash and cash equivalents	(2,474)	(3,722)
	-----	-----
Cash and cash equivalents at beginning of period	25,288	37,355
	-----	-----
Cash and cash equivalents at end of period	\$22,814	\$33,633
	=====	=====
Non-cash investing activities:		
Stock issued in exchange for licensing rights	\$822	-
	=====	=====

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

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of Activision, Inc. and its subsidiaries. The information furnished is unaudited and reflects all adjustments which, in the opinion of management, are necessary to provide a fair statement of the results for the interim periods presented. The financial statements should be read in conjunction with the financial statements included in the Company's Annual Report on Form 10-K for the year ended March 31, 1996.

Certain amounts in the condensed consolidated financial statements have been reclassified to conform with the current period's presentation. These reclassifications had no impact on previously reported working capital or results of operations.

2. INVENTORIES

Inventories comprise (amounts in thousands):

	June 30, 1996	March 31, 1996
Finished goods	\$2,491	\$2,099
Purchased parts and components	948	876
	-----	-----
	\$3,439	\$2,975
	=====	=====

3. SOFTWARE DEVELOPMENT COSTS

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

4. AMORTIZATION OF INTANGIBLE ASSETS

Effective April 1, 1992, the Disc Company, Inc. ("TDC"), a Delaware corporation and a wholly-owned subsidiary of International Consumer Technologies Corporation, was merged with and into the Company, with the Company as the surviving corporation. The excess of the purchase price over the estimated fair values of the net assets acquired was recorded as an intangible asset in the amount of \$24,417,000. This intangible asset is being amortized on a straight-line basis over a 20 year period. Amortization was approximately \$305,000 for each of the quarters ended June 30, 1996 and 1995. The Company systematically evaluates current and expected cash flow from operations on a non-discounted basis for the purpose of assessing the recoverability of recorded intangible assets. Some of the factors considered in this evaluation include operating results, business plans, budgets and economic projections. Should such factors indicate that recoverability might be impaired, the Company would appropriately adjust the recorded amount of the intangible asset and/or the period over which the recorded intangible asset is amortized.

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

THIS QUARTERLY REPORT ON FORM 10-Q, INCLUDING ITEM 2 ("MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS") CONTAINS FORWARD LOOKING STATEMENTS REGARDING FUTURE EVENTS OR THE FUTURE FINANCIAL PERFORMANCE OF THE COMPANY THAT INVOLVE CERTAIN RISKS AND UNCERTAINTIES DISCUSSED IN THE COMPANY'S ANNUAL REPORT ON FORM 10-K UNDER "CERTAIN CAUTIONARY INFORMATION" ON PAGES 4 TO 8 OF SUCH REPORT. ACTUAL EVENTS OR THE ACTUAL FUTURE RESULTS OF THE COMPANY MAY DIFFER MATERIALLY FROM ANY FORWARD LOOKING STATEMENT DUE TO SUCH RISKS AND UNCERTAINTIES.

OVERVIEW

The Company is a diversified international publisher of interactive entertainment software. The Company develops and publishes entertainment software for a variety of platforms, including both personal computer CD-ROM desktop systems, such as the Windows 95 operating system, and videogame set-top hardware systems, such as the Sony Playstation and Sega Saturn. The Company distributes its products worldwide through its direct sales force and, to a lesser extent, through third party distributors and licensees.

For purposes of the presentation set forth below, net revenues from and cost of goods sold related to set-top systems consist of sales and costs relating to all entertainment software products designed by the Company for operation on a hardware device that is connected to a television set and displayed on a television screen. Examples of set-top systems include Super Nintendo Entertainment System ("SNES"), Sega Genesis ("SGS"), Sega Saturn ("Saturn"), Sony Playstation ("Playstation"), Atari Jaguar, CD-I and 3DO Multiplayer ("3DO"). The Company designs products for operation on many of these systems, and normally it is required to pay a license fee for the right to create products for a particular system. Net revenues from and cost of goods sold related to desktop systems consist of sales and costs relating to all entertainment software products designed by the Company for operation through a personal computer's operating system software and that is displayed on the computer's monitor. Examples of computer operating systems include MS-DOS, Windows and the Macintosh operating system. The Company generally is not obligated to pay an operating system license fee for the right to produce desktop products.

RESULTS OF OPERATIONS

Net Revenues

Net revenues for the quarter ended June 30, 1996 increased 112% from the same period last year. This increase in net revenues was primarily due to an increase in desktop net revenues and OEM net revenues during the quarter. The increase in desktop net revenues during the current quarter was attributable to continuing strong sales of "Mechwarrior 2" (DOS and Windows 95 CD), which was released in July 1995, as well as the initial release of "Mechwarrior 2: Ghost Bear's Legacy" (Windows 95 CD), "Netmech" (DOS CD), "Mechwarrior 2" (Mac CD), "Zork Nemesis" (Mac CD) and "Elk Moon Murder" (DOS/Windows 95/Mac CD). The decrease in set-top net revenues during the current quarter was due to the Company's strategic change in its business emphasis from cartridge-based set-top systems to CD-based desktop systems. The Company expects revenues from set-top systems to grow as a result of an increase in new releases of CD based set-top products for the Playstation and Saturn.

On-line, OEM, licensing and other net revenues increased during the current quarter due to OEM and licensing revenues related to "Mechwarrior 2" (Windows 95 CD/Power VR and S3 Virge enhanced versions), "Zork: Nemesis" and "Spycraft: The Great Game."

Net revenues by territory were as follows (amounts in thousands):

	Quarter Ended June 30,				
	1996		1995		
	Amount	% of Net Revenues	Amount	% of Net Revenues	%Change
North America	\$5,544	79%	\$2,183	66%	154%
Europe	723	10%	70	2%	933%
Japan	284	4%	839	25%	-66%
Australia and Pacific Rim	470	7%	227	7%	107%
	\$7,021	100%	\$3,319	100%	112%

Net revenues by device/medium were as follows (amounts in thousands):

	Quarter Ended June 30,				
	1996		1995		
	Amount	% of Net Revenues	Amount	% of Net Revenues	%Change
Set-top	\$203	3%	\$685	21%	-70%
Desktop	6,818	97%	2,634	79%	159%
	\$7,021	100%	\$3,319	100%	112%

Net revenues by distribution channel were as follows (amounts in thousands):

	Quarter Ended June 30,				
	1996		1995		
	Amount	% of Net Revenues	Amount	% of Net Revenues	%Change
Retailer/Reseller	\$2,614	37%	\$2,723	82%	-4%
OEM	3,455	49%	69	2%	4,907%
On-line, licensing and other	952	14%	527	16%	81%
	\$7,021	100%	\$3,319	100%	112%

Cost of Goods Sold

Cost of goods sold related to set-top, desktop and OEM revenues represent the manufacturing and related costs of computer software and video games. Manufacturers of the Company's computer software are located in the United States and Europe and are readily available. Set-top cartridges and CDs are manufactured by the respective video game console manufacturers, such as Sony, Nintendo and Sega, who require significant lead time to fulfill the Company's orders.

Also included in cost of goods sold is royalty expense related to amounts due to developers, title owners or other royalty participants based on product sales. Various contracts are maintained with developers, product title owners or other royalty participants which state a royalty rate and term of agreement, among other items. The decrease in cost of goods sold is a result of the increase in the percentage of net revenues to CD-based products.

Gross Profit

For the quarter ended June 30, 1996, gross profit as a percentage of net revenues was 78.5% compared to 53.2% for the quarter ended June 30, 1995. The increase in gross profit as a percentage of net revenues was due to the increase in the percentage of net revenues related to CD based products.

Operating Expenses

	Quarter Ended June 30,			
	1996		1995	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Product development	\$4,547	64.7%	\$4,579	138.0%
Sales and marketing	3,641	51.9%	1,893	57.0%
General and administrative	1,229	17.5%	986	29.7%
Amortization of excess purchase price and reorganization expenses	321	4.6%	321	9.7%
Total operating expenses	\$9,738	138.7%	\$7,779	234.4%

The decrease in product development expenses for the quarter ended June 30, 1996 was due to the decrease in products in development containing live action video. This decrease, however, was almost fully offset by an overall increase in the number of products in development, an increase in production costs associated with 3-D programming technology, continued investment in development for new CD platforms and the higher average development costs of products for these new platforms. Sales and marketing expenses also increased both in amount and as a percentage of revenues as a result of a worldwide expansion of the sales and marketing organization needed to manage the Company's increased product release schedule later in the fiscal year. General and administrative expenses increased due to an increase in head count related expenses as compared to the same period in the prior year.

Other Income (Expense)

Interest income was \$312,000 and \$525,000 for the quarters ended June 30, 1996 and 1995, respectively. The decrease was due the decrease in cash and cash equivalents during the current fiscal quarter as compared to the same period in the prior year.

Income Tax Provision (Benefit)

The income tax benefit of \$1,283,000 for the quarter ended June 30, 1996 reflects the Company's expected effective income tax rate for the fiscal year ended March 31, 1997. The income tax benefit was recorded based on recent operating history, as well as a current assessment that operations will generate taxable income for the fiscal year. Income taxes for the quarter ended June 30, 1995 represents foreign taxes withheld, which may be available in the future as tax credits against future tax liability.

Net Income (Loss)

For the reasons noted above, there was a decrease in the net loss recorded for the quarter ended June 30, 1996 as compared to the net loss for the quarter ended June 30, 1995. Net loss for the quarter ended June 30, 1996 was \$2,631,000 compared to a net loss of \$5,528,000 for the same period of the prior fiscal year.

SEASONALITY

The Company's quarterly operating results have in the past varied significantly and will likely in the future vary significantly depending on many factors, some of which are not under the Company's control. For example, net revenues may be higher during the fourth calendar quarter as a result of increased demand for consumer software during the year-end holiday buying season. Net revenues in other quarters can vary significantly as a result of the timing of new product introductions.

Products are generally shipped as orders are received, and consequently the Company operates with little or no backlog. Net revenues in any quarter are therefore substantially dependent on orders booked and shipped in that quarter. The Company's expense levels are based in large part on the Company's product development and marketing budgets. The majority of product development and marketing costs are expensed as incurred, which is often before a product ever is released. As the Company increases its development and marketing activities, current expenses will increase and, if sales from previously released products are below expectations, net income is likely to be disproportionately affected. Due to all of the foregoing, revenues and operating results for any future quarter are not predictable with any significant degree of accuracy. Accordingly, the Company believes that period-to-period comparisons of operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital decreased \$2.6 million from March 31, 1996 to June 30, 1996 as a result of the funding of the Company's expanding operations and additional capital expenditures. At June 30, 1996, net accounts receivable and inventories were \$17.2 million, a decrease of \$5.7 million from \$22.9 million as of March 31, 1996. The decrease is due primarily to a decrease in the Company's product sales in the first quarter of this fiscal year as compared to the quarter ended March 31, 1996.

As of June 30, 1996, total accounts payable and accrued liabilities were approximately \$12.4 million versus \$14.3 million at March 31, 1996. The decrease at June 30, 1996 is related to the decrease in cost of goods sold as well as a decrease in operating expenses from \$10.7 million for the quarter ended March 31, 1996 as compared to \$9.7 million for the quarter ended June 30, 1996.

During the quarter ended June 30, 1996, the Company invested approximately \$1.1 million in computer hardware and software purchases required to support the Company's product development efforts and new management information systems. During fiscal 1997, the Company expects to incur additional capital expenditures relating to the development of its products and the general operation of its business. The Company also plans on moving its Los Angeles headquarters to a new facility by the end of fiscal 1997 and, although a new site has not been finally identified, the Company may consider a site purchase as opposed to a new lease.

The Company's principal source of liquidity is \$22.8 million in cash and cash equivalents. The Company uses its working capital to finance ongoing operations, including acquisitions of inventory and equipment, to fund the development, production, marketing and selling of new products, and to obtain intellectual property rights for future products from third parties. Management believes that the Company's existing capital resources are sufficient to meet its current operational requirements for the foreseeable future.

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

PART II. - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURES

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

Date: August 14, 1996

ACTIVISION, INC.

/S/Robert A. Kotick (Robert A. Kotick)	Chairman, Chief Executive Officer (Principal Executive Officer), President and Director	August 14, 1996
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/S/Brian G. Kelly (Brian G. Kelly)	Chief Financial and Operating Officer and Director (Principal Financial Officer)	August 14, 1996
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/S/Barry J. Plaga (Barry J. Plaga)	Chief Accounting Officer (Principal Accounting Officer)	August 14, 1996
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JUN-30-1996

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