

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark one)

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

FOR THE FISCAL YEAR ENDED MARCH 31, 1998

OR

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

For the transition period from _____ to _____

Commission File Number 0-12699

ACTIVISION, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

94-2606438

(I.R.S. Employer Identification No.)

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

90405
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (310) 255-2000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
COMMON STOCK, PAR VALUE \$.000001 PER SHARE
(Title of Class)

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 for 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
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405
of Regulation S-K is not contained herein, and will not be contained, to the
best of the registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-K or any
amendment to this Form 10-K.

The aggregate market value of the Common Stock of the registrant held by
non-affiliates of the registrant on June 12, 1998 was \$178,766,095.

The number of shares of the registrant's Common Stock outstanding as of June
12, 1998 was 19,016,775.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement, to be filed with the
Securities and Exchange Commission within 120 days after the end of the fiscal
year covered by this Form 10-K, with respect to the 1998 Annual Meeting of
Shareholders, are incorporated by reference into Part III of this Annual Report.

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PART I

Item 1. BUSINESS

(a) GENERAL

Activision, Inc. (together with its subsidiaries, the "Company") is a leading international publisher, developer and distributor of interactive entertainment software. The Company was incorporated in California in 1979. In December 1992, the Company reincorporated in Delaware.

The Company currently focuses its development, publishing and distribution efforts on products designed for personal computers ("PCs"), the Sony PlayStation console system and the Nintendo 64 console system. In selecting titles for acquisition or development, the Company currently pursues a combination of internally and externally developed titles, products based on proven technology and those based on newer technology, and PC and console products.

Financial information as of and for the year ended March 31, 1997 and for the six month period ended September 30, 1997, have been restated to reflect the acquisition of Combined Distribution (Holdings) Limited, ("CentreSoft") accounted for as a pooling of interests. See Note 2: "Acquisitions," in Notes to Consolidated Financial Statements.

(b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The Company operates in one industry: publishing and distributing CD-based and cartridge based entertainment software. See the Consolidated Financial Statements and Notes thereto included in Item 8 of this Annual Report on Form 10-K for certain financial information required by Item 1.

(c) NARRATIVE DESCRIPTION OF BUSINESS

FACTORS AFFECTING FUTURE PERFORMANCE

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

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

The Company's expenses are based in part on the Company's product development and marketing budgets. Many of the costs incurred by the Company to produce and sell its products are expensed as such costs are incurred, which is often long before a product is released. In addition, a large portion of the Company's expenses are fixed. As the Company increases its production and sales activities, current expenses will increase and, if sales from previously released products are below expectations, net income is likely to be disproportionately affected. See Note 1 of Notes to Consolidated Financial Statements included in Item 8.

Due to all of the foregoing, revenues and operating results for any future quarter are not predictable with any significant degree of accuracy. Accordingly, the Company believes that period-to-period comparisons of its operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

The Company's business has experienced and is expected to continue to experience significant seasonality, in part due to consumer buying patterns. Net revenues typically are significantly higher during the fourth calendar quarter, due primarily to the increased demand for consumer software during the year-end holiday buying season. Net revenues and net income in other quarters are generally lower and vary significantly as a result of new product introductions and other factors. For example, the Company's net revenues in its last five quarters were \$57.6 million for the quarter ended March 31, 1997, \$26.5 million for the quarter ended June 30, 1997, \$53.0 million for the quarter ended September 30, 1997, \$122.1 million for the quarter ended December 31, 1997 and \$58.2 million for the quarter ended March 31, 1998. The Company's net income (loss) for the last five quarters were \$5.1 million for the quarter ended March 31, 1997, \$(5.4) million for the quarter ended June 30, 1997, \$1.8 million for the quarter ended September 30, 1997, \$9.3 million for the quarter ended December 31, 1997 and \$126,000 for the quarter ended March 31, 1998. The Company expects its net revenues and operating results to continue to reflect significant seasonality.

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

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

RELIANCE ON THIRD PARTY DEVELOPERS AND INDEPENDENT CONTRACTORS. The percentage of products published by the Company that are developed by independent third party developers has increased over the last several fiscal years. From time to time, the Company also utilizes independent contractors for certain aspects of product development and production. The Company has less control over the scheduling and the quality of work by independent contractors and third party developers than that of its own employees. A delay in the work performed by independent contractors and third party developers or poor quality of such work may result in product delays. Although the Company intends to continue to rely in part on products that are developed primarily by its own employees, the Company's ability to grow its business and its future operating results will depend, in significant part, on the Company's continued ability to maintain relationships with skilled independent contractors and third party developers. There can be no assurance that the Company will be able to maintain such relationships.

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

PRODUCT CONCENTRATION; DEPENDENCE ON HIT PRODUCTS. A key aspect of the Company's strategy is to focus its development and acquisition efforts on selected, high quality entertainment software products. The Company derives a significant portion of its revenues from a relatively small number of high quality entertainment software products released each year, and many of these products have substantial production or acquisition costs and marketing budgets. During fiscal 1997, two titles accounted for approximately 23% and 16%, respectively, of the Company's consolidated net revenues. During fiscal 1998, one other title accounted for approximately 12% of the Company's consolidated net revenues. The Company anticipates that a limited number of products will continue to produce a disproportionate amount of revenues. Due to this dependence on a limited number of products, the failure of one or more of the Company's principal new releases to achieve anticipated results may have a material adverse effect on the Company's business, operating results and financial results.

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

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

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

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

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

DEPENDENCE ON DISTRIBUTORS AND RETAILERS; RISK OF CUSTOMER BUSINESS FAILURE; PRODUCT RETURNS. Certain mass market retailers have established exclusive buying relationships under which such retailers will buy consumer software only from one intermediary. In such instances, the price or other terms on which the Company sells to such retailers may be adversely effected by the terms imposed by such intermediary, or the Company may be unable to sell to such retailers on terms which the Company deems acceptable. The loss of, or significant reduction in sales attributable to, any of the Company's principal distributors or retailers could materially adversely effect the Company's business, operating results and financial condition.

Retailers in the computer industry have from time to time experienced significant fluctuations in their businesses and there have been a number of business failures among these entities. The insolvency or business failure of any significant retailer or other wholesale purchaser of the Company's products could have a material adverse effect on the Company's business, operating results and financial condition. Sales are typically made on credit, with terms that vary depending upon the customer and the nature of the product.

The Company does not hold collateral to secure payment. Although the Company has obtained insolvency risk insurance to protect against any bankruptcy, insolvency, or liquidation that may occur to its customers, such insurance contains a significant deductible as well as a co-payment obligation, and the

policy does not cover all instances of non-payment. In addition, the Company maintains a reserve for uncollectible receivables that it believes to be adequate, but the actual reserve which is maintained may not be sufficient in every circumstance. As a result of the foregoing, a payment default by a significant customer could have a material adverse effect on the Company's business, operating results and financial condition.

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

CHANGES IN TECHNOLOGY AND INDUSTRY STANDARDS. The consumer software industry is undergoing rapid changes, including evolving industry standards, frequent new platform introductions and changes in consumer requirements and preferences. The introduction of new technologies, including operating systems such as Microsoft's Windows 98, technologies that support multi-player games, and new media formats such as on-line delivery and digital video disks ("DVD"), could render the Company's previously released products obsolete or unmarketable. The development cycle for products utilizing new operating systems, microprocessors or formats may be significantly longer than the Company's current development cycle for products on existing operating systems, microprocessors and formats and may require the Company to invest resources in products that may not become profitable. There can be no assurance that the mix of the Company's future product offerings will keep pace with technological changes or satisfy evolving consumer preferences, or that the Company will be successful in developing and marketing products for any future operating system or format. Failure to develop and introduce new products and product enhancements in a timely fashion could result in significant product returns and inventory obsolescence and could have a material adverse effect on the Company's business, operating results and financial condition.

Like many other software companies, the year 2000 computer issue creates risk for the Company. If internal systems do not correctly recognize date information when the year changes to 2000, there could be an adverse impact on the Company's operations. The Company has initiated a comprehensive plan to prepare its computer systems for the year 2000 and is currently implementing changes to alleviate any year 2000 incapability. The Company is also contacting critical suppliers of product and service to determine that the supplier's operations and the products and services they provide are year 2000 capable. There can be no assurance that another company's failure to ensure year 2000 capability would not have an adverse effect on the Company.

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

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

DEPENDENCE ON KEY PERSONNEL. The Company's success depends to a significant extent on the performance and continued service of its senior management and certain key employees. Competition for highly skilled employees with technical, management, marketing, sales, product development and other specialized training is intense, and

there can be no assurance that the Company will be successful in attracting and retaining such personnel. Specifically, the Company may experience increased costs in order to attract and retain skilled employees. Although the Company enters into term employment agreements with many of its skilled employees and certain other key personnel, there can be no assurance that such

employees will not leave the Company or compete against the Company. The Company's failure to attract or retain qualified employees could have a material adverse effect on the Company's business, operating results and financial condition.

RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS: CURRENCY FLUCTUATIONS. International sales and licensing accounted for 23%, 58% and 67% of the Company's total revenues in the fiscal years 1996, 1997 and 1998, respectively. The Company intends to continue to expand its direct and indirect sales, marketing and localization activities worldwide. Such expansion will require significant management time and attention and financial resources in order to develop adequate international sales and support channels. There can be no assurance, however, that the Company will be able to maintain or increase international market demand for its products. International sales are subject to inherent risks, including the impact of possible recessionary environments in economies outside the United States, the costs of transferring and localizing products for foreign markets, longer receivable collection periods and greater difficulty in accounts receivable collection, unexpected changes in regulatory requirements, difficulties and costs of staffing and managing foreign operations, and political and economic instability. There can be no assurance that the Company will be able to sustain or increase international revenues or that the foregoing factors will not have a material adverse effect on the Company's future international revenues and, consequently, on the Company's business, operating results and financial condition. The Company currently does not engage in currency hedging activities. Although exposure to currency fluctuations to date has been insignificant, there can be no assurance that fluctuations in currency exchange rates in the future will not have a material adverse impact on revenues from international sales and licensing and thus the Company's business, operating results and financial condition.

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

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

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

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

RISK OF CENTRESOFT VENDOR DEFLECTIONS; VENDOR CONCENTRATION. The Company's recently acquired CentreSoft subsidiary performs software distribution services in the United Kingdom and, via export, in other

European territories for a variety of entertainment software publishers, many of which are competitors of the Company. These services are generally performed under limited term contracts, some of which

provide for cancellation in the event of a change of control. While the Company expects to use reasonable efforts to retain these vendors, there can be no assurance that the Company will be successful in this regard. The cancellation or non-renewal of one or more of these contracts could have a material adverse effect on the Company's business, operating results and financial condition. Three of CentreSoft's vendors accounted for 38%, 12% and 11%, respectively, of CentreSoft's net revenues in fiscal year 1998. The net revenues from these vendors represents 18%, 6% and 5%, respectively, of consolidated net revenues of the Company.

STRATEGY

The Company's objective is to be a worldwide leader in the publishing and development of exceptional and innovative interactive entertainment software that appeals to existing and new audiences and incorporates sophisticated graphics, sound and video, and compelling story lines and game experiences. The Company's strategy includes the following elements:

PUBLISH HIGH QUALITY TITLES. The Company seeks to differentiate its titles through the highest quality production values and superior game play, supported by comprehensive trade and consumer marketing programs coordinated with product releases. Accordingly, the Company must support the development, production, acquisition and marketing of its titles with the resources necessary to create best selling products. In order to reduce the financial risks associated with the higher development and marketing budgets required to support this strategy, the Company pursues a combination of internally and externally developed titles; between products based on proven technology and newer technology; and between PC and console products.

FOCUS ON FRANCHISE PROPERTIES. The Company focuses its publishing and developing activities principally on titles that are, or have the potential to become, franchise properties with sustainable consumer appeal and brand recognition. These titles can thereby serve as the basis for sequels, prequels, mission packs and other add-ons and related new titles that can be released over an extended period of time. The Company believes that the publishing and distribution of products based in large part on franchise properties will enhance revenue predictability. The Company currently is publishing products based on several franchise properties, including QUAKE, HEXEN, ZORK, PITFALL and SHANGHAI. The Company also has rights to several other properties that it believes will have franchise value, including HEAVY GEAR, DARK REIGN, BATTLEZONE, HERETIC, NIGHTMARE CREATURES, ASTEROIDS and JACK NICKLAUS GOLF.

EXPAND DIRECT DISTRIBUTION CAPABILITIES. In North America, the Company's products are sold primarily on a direct basis to major computer and software retailing organizations, consumer electronic stores and discount warehouses. In international territories, the Company's products are sold both direct to retail and through third party distribution and licensing arrangements. In order to maximize the revenues to be generated by each of its products, the Company is expanding its worldwide direct distribution capabilities. The Company believes that a dedicated internal sales force and direct distribution to retailers provide significant competitive advantages, including the ability to compete more effectively for shelf space, to create additional point-of-sale promotional opportunities, to more properly manage inventory levels, and to increase margins by eliminating third party distributors. Consistent with this strategy, the Company has concluded several acquisitions in recent months in an effort to bolster its direct distribution capabilities in international markets.

CONTINUE TO GROW ORIGINAL EQUIPMENT MANUFACTURERS ("OEM") REVENUES. The Company also generates significant revenue throughout the world as a result of arrangements with OEMs, in which the Company's titles are sold together with hardware or peripheral devices manufactured by the OEM. The Company believes that OEM bundle arrangements expand the distribution of its titles to a broader and more diverse audience, and it intends to continue aggressively pursuing these arrangements.

ENHANCE PRODUCT FLOW. In order to expand the Company's library of titles, intellectual property rights and talent base, the Company is actively engaged in the exploration of acquisition opportunities in the software development business. Consistent with this strategy, in August 1997 the Company acquired Raven Software Corporation ("Raven"), an entertainment software developer based in Madison, Wisconsin, that has created numerous best selling titles, including HERETIC, HEXEN: BEYOND HERETIC and HEXEN II. In addition, in order to create a closer relationship with independent developers, the Company from time to time makes investments and acquires minority equity interests in independent developers at the same time as it acquires publishing rights to the developers' products.

PRODUCTS

The Company currently is best known for its action, adventure and action/simulation products, although the Company recently has expanded the line of products it distributes into new categories such as role playing, strategy, flight simulation and racing. The Company expects to continue such expansion efforts into new product

categories.

Several of the Company's current and upcoming releases are based on characters, worlds and concepts derived from the Company's extensive library of titles. For example, the Company is now or will soon be publishing new titles that are based on original best selling titles such as PITFALL!, SHANGHAI, HERETIC and HEXEN. Other new Company titles are based on original characters and concepts owned and created by the Company. In addition to developing its own characters and concepts, the Company selectively licenses intellectual property or other character or story rights from third parties for the purpose of publishing titles based on such rights. For example, the Company recently obtained a long term license to be the exclusive publisher of interactive entertainment software products based on the HEAVY GEAR role playing games created by an independent board game creator. Activision's HEAVY GEAR products are intended to replace the BATTLETECH/MECHWARRIOR 2 product line which was developed and published by the Company under a license. The Company also recently obtained long-term rights to publish interactive entertainment software products based on the ASTEROIDS and BATTLEZONE video games. In addition, the Company has obtained licenses to properties that previously have been marketed and sold in other entertainment media such as magazines, comic books and card or board games. These properties include X-Men, Soldier of Fortune, Legend of the Five Rings and Vampire. In publishing products based on licensed intellectual property rights, the Company generally seeks to capitalize on the name recognition, marketing efforts and goodwill associated with the underlying property.

In addition to its own internally developed products, the Company publishes and distributes software products for other independent developers and publishers such as id Software, Ritual Entertainment, Parsoft Interactive, Kalisto Entertainment and Nihilistic Software. As the Company seeks to associate the "ACTIVISION" mark only with the highest quality interactive entertainment products, the Company attempts to be selective in acquiring publishing and distribution rights from third party developers. Such products typically are marketed under the Company's name as well as the name of the original developer. The Company believes that these efforts enable the Company to leverage its investment in worldwide sales and marketing and add a new source of products while balancing the risks inherent in internal product development and production. This activity also allows the Company to enter new product genres more quickly and provide consumers with a wider variety of products.

PRODUCT DEVELOPMENT AND ACQUISITION

The Company uses both internal and external resources to develop products. The Company also acquires rights to products through publishing and distribution arrangements and the acquisition of other software companies.

ACTIVISION STUDIOS

Activision Studios, the Company's development and production group is located at the Company's headquarters in Santa Monica, California. Activision Studios' creative development and production staff selects and develops new products, adapts existing products for additional hardware platforms and peripheral devices, and manages the external development of certain products or their components by independent contractors.

Activision Studios develops and produces titles using a model in which a core group of creative, production and technical professionals on staff at the Company, in cooperation with the Company's marketing and finance departments, have overall responsibility for the entire development and production process and for the supervision and coordination of internal and external resources. Each project team is led by a game producer and game director and includes one or more associate producers, game designers, production coordinators and a quality assurance manager, all of whom are on the Company's staff. This team assembles the necessary creative elements to complete a title, using where appropriate outside programmers, artists, animators, musicians and songwriters, sound effects and special effects experts, and sound and video studios. The Company believes that this model allows the Company to supplement internal expertise with top quality external resources on an as needed basis.

The Company has adopted and implemented a rigorous procedure for the selection, development, production and quality assurance of its internally produced entertainment software titles. The process involves one or more pre-development, development and production phases, each of which includes a number of specific performance milestones. This procedure is designed to enable the Company to manage and control production and development budgets and timetables, to identify and address production and technical issues at the earliest opportunity, and to coordinate marketing and quality control strategies throughout the production and development phases, all in an environment that fosters creativity. Checks and balances are intended to be provided through the structured interaction of the project team with the Company's creative, technical, marketing and quality assurance/customer support personnel, as well as the legal, accounting and finance departments.

ACTIVISION EXTERNAL STUDIOS

The Company's External Studios division licenses or acquires certain software products from independent developers for publishing or distribution by the Company. Through its acquisition of Raven, the division also develops and produces products that are owned directly by the Company. Acquired titles are marketed under the Company's name as well as the name of the original developer. The agreements with affiliated developers provide the Company with exclusive publishing and distribution rights for a specific period of time for specified platforms and territories. These agreements often grant to the Company the right to publish sequels, enhancements and add-ons to the product originally being developed and produced by the developer. In consideration for its services, the developer receives a royalty based on sales of the product that it has developed. Typically, the developer also receives a nonrefundable advance which is recoupable by the Company from the royalties otherwise required to be paid to the developer. The royalty generally is paid in stages, with the payment of each stage tied to the completion of a detailed performance milestone.

The Company acquires titles from affiliated developers during various phases of the development and production processes for such titles. To the extent the Company acquires rights early in the development process, the Company generally will cause the independent developer to comply with the requirements of the pre-development, development and production processes applicable to titles internally produced by Activision Studios. The External Studios division generally will assign a game producer to each title who will serve as the principal liaison to the independent developer and help insure that performance milestones are timely met. The Company generally has the right to cease making payments to an independent developer if such developer fails to complete its performance milestones in a timely fashion.

In connection with its acquisition of product publishing and distribution, the Company may make an investment and hold a minority equity interest in the third party developer in order to create a closer relationship between the Company and the developer. In this regard, the Company recently acquired a minority equity interest in each of Redline Games and Pandemic Studios in connection with several new entertainment software products to be developed by each of such developers for the Company. There can be no assurance that the Company will realize long term benefits from either of these investments or that it will continue to carry such investments at its current value.

PRODUCT SUPPORT

The Company provides various forms of product support to both its internally and externally developed titles. The Company's quality assurance personnel are involved throughout the development and production processes for each title published by the Company. All such products are subjected to extensive testing before release in order to insure compatibility with the widest possible array of hardware configurations and to minimize the number of bugs and other defects found in the products. To support its products after release, the Company provides on-line support to its customers on a 24-hour basis as well as operator help lines during regular business hours. The customer support group tracks customer inquiries and this data is used to help improve the development and production processes.

PUBLISHING AND DISTRIBUTION ACTIVITIES

MARKETING

The Company's marketing efforts include on-line activities (such as the creation of World Wide Web pages to promote specific Company titles), public relations, print and broadcast advertising, coordinated in-store and industry promotions including merchandising and point of purchase displays, participation in cooperative advertising programs, direct response vehicles, and product sampling through demonstration software distributed through the Internet or on compact discs. In addition, the Company's products contain software that enables customers to "electronically register" their purchases with the Company via modem. Through this process, the Company captures electronic mail addresses for its customers as well as a variety of additional market research data.

The Company believes that certain of its franchise properties (such as the PITFALL! and SHANGHAI series) have loyal and devoted audiences who purchase the Company's sequels as a result of dedication to the property and satisfaction from previous product purchases. Marketing of these sequels is therefore directed both toward the established market as well as broader audiences. In marketing titles based on licensed properties, the Company believes that it derives marketing synergies and related benefits from the marketing and promotional activities of the property owners. In marketing affiliated label titles, the Company believes that it derives marketing synergies and related benefits from the previously established reputation of the independent developer and the properties owned by it.

SALES AND DISTRIBUTION

DOMESTIC SALES AND DISTRIBUTION. The Company's products are available for sale or rental in thousands of retail outlets domestically ranging from consumer electronics and computer specialty stores to department stores, discount chains, video rental stores and toy stores. The Company's customers in these categories include Best Buy, CompUSA, Computer City, Electronic Boutique, Babbages, WalMart, K-Mart, Target and Toys "R" Us. During fiscal 1998, no single customer accounted for more than 10% of consolidated net revenues. In North America, the Company's products are sold primarily on a direct basis to major computer and software retailing organizations, consumer electronic stores and discount warehouses and mail order companies. The Company believes that a direct relationship with retail accounts results in more effective inventory management, merchandising and communications than would be possible through indirect relationships. The Company has implemented electronic data interchange ("EDI") linkage with many of its retailers to facilitate the placing and shipment of orders. The Company seeks to continue to increase the number of retail outlets reached directly through its internal sales force. To a lesser extent, the Company sells its products through wholesale distributors, such as Ingram Micro, Handelman and Merisel.

INTERNATIONAL SALES AND DISTRIBUTION. The Company conducts its international publishing activities through offices in England, Germany, France, Australia and Japan, as well as through a Latin American sales office located in Miami, Florida. The Company seeks to maximize its worldwide revenues and profits by releasing high quality foreign language localizations concurrently with the English language releases, whenever practicable, and by continuing to expand the number of direct selling relationships it maintains with key retailers in major territories.

In June 1997, the Company acquired Take Us! Marketing & Consulting GmbH, a German company specializing in the localization and marketing of entertainment software products in German-speaking territories. In November 1997, the Company acquired NBG, an independent publisher, wholesaler and distributor of entertainment software in Germany.

Also in November 1997, the Company acquired CentreSoft, a leading independent distributor of entertainment software in the United Kingdom, and Sony's exclusive distributor of Playstation products to the independent retail channel in that country. The company employs approximately 150 people, including one of the largest entertainment software sales and marketing organizations in the United Kingdom.

The assets and personnel of CentreSoft and NBG are currently being combined to form the core of Activision's international distribution operations and a base for further expansion into European territories. The Company will emphasize the expansion of CentreSoft's and NBG's outstanding channel relations, and it intends to leverage its management expertise into other territories.

OEM SALES AND DISTRIBUTION. The Company seeks to enhance the distribution of its products through licensing arrangements with original equipment manufacturers ("OEMs"). Under these arrangements, one or more of the Company's titles are "bundled" with hardware or peripheral devices sold and distributed by the OEM so that the purchaser of the hardware or device obtains the Company's software as part of the purchase or on a discounted basis. Although it is customary for the Company to receive a lower per unit price on sales through OEM bundle arrangements, the OEM customer makes a high unit volume commitment to the Company with little associated marketing costs. In addition, the Company from time to time receives substantial advance payments from the OEM customer. The Company also believes that such arrangements can substantially expand the distribution of its titles to a broader audience. Recent OEM partners include Microsoft, IBM, Sony, Apple and Toshiba.

LICENSING AND MERCHANDISING

The Company believes that a number of its products have the potential to be exploited in ancillary markets and media, such as product merchandising and traditional entertainment media. The Company seeks opportunities for the exploitation of these ancillary rights directly and through third party agents. Potential opportunities include the publication of strategy guides for selected titles, the adaptation of titles into comic books, novels, television series or motion pictures, and the licensing of product merchandising rights. The Company believes that these types of licensing activities can provide additional sources of revenue and increase the visibility of the title, thereby leading to additional unit sales and greater potential for additional sequels. There can be no assurance that the Company will be successful in exploiting its properties in ancillary markets or media.

Similarly, the Company believes that there are opportunities for further exploitation of its titles through the Internet, on-line services such as America Online and the Microsoft Network, and through recently created on-line gaming services such as Heat and MPath. The Company has established "900" telephone numbers as hint lines for certain of its titles, and has realized revenues from the calls made to these numbers. The Company also is actively exploring the establishment of on-line game playing opportunities,

on-line hint sites, and Internet services as a method for realizing additional revenues from its products. There can be no assurance that the Company will be successful in exploiting these opportunities.

HARDWARE LICENSES

The Company's console products currently are being developed or published for the Sony PlayStation and Nintendo 64. In order to maintain general access to the console systems marketplace, the Company has obtained licenses for the PlayStation, Nintendo 64, Nintendo Game Boy and other console systems. Each license allows the Company to create one or more products for the applicable system, subject to certain approval rights as to quality which are reserved by each licensor. Each license also requires that the Company pay the licensor a per unit license fee from product sales.

In contrast, the Company currently is not required to obtain any license for the development and production of PC-CD products. Accordingly, the Company's per unit manufacturing cost for PC-CD products is less than the per unit manufacturing cost for console products.

MANUFACTURING

The Company prepares a set of master program copies, documentation and packaging materials for its products for each respective hardware platform on which the product will be released. Except with respect to products for use on the Sony and Nintendo systems, the Company's disk duplication, packaging, printing, manufacturing, warehousing, assembly and shipping are performed by third party subcontractors.

In the case of products for the Sony and Nintendo systems, in order to maintain protection over their hardware technologies, such hardware producers generally specify and/or control the manufacturing and assembly of finished products. The Company delivers the master materials to the licensor or its approved replicator which then manufactures finished goods and delivers them to the Company for distribution under the Company's label. At the time the Company's product unit orders are filled by the manufacturer, the Company becomes responsible for the costs of manufacturing and the applicable per unit royalty on such units, even if the units do not ultimately sell.

To date, the Company has not experienced any material difficulties or delays in the manufacture and assembly of its products or material returns due to product defects.

COMPETITION

The interactive entertainment industry is intensely competitive and is in the process of substantial consolidation. The availability of significant financial resources has become a major competitive factor in the industry, primarily as a result of the increasing development, acquisition, production and marketing budgets required to publish quality titles. In addition, competitors with large product lines and popular titles typically have greater leverage with distributors and other customers who may be willing to promote titles with less consumer appeal in return for access to such competitor's most popular titles. See "Risk Factors - Industry Competition; Competition for Shelf Space."

The Company seeks to compete by publishing high quality titles and by supporting these titles with substantial marketing efforts; by focusing on properties with sustainable consumer appeal; by working to strengthen its relationships with retailers and other resellers and otherwise expanding its channels of distribution; and by pursuing opportunities for strategic acquisitions. See " - Strategy."

EMPLOYEES

As of March 31, 1998, the Company had 667 employees, including 237 in Activision Studios, 65 in Activision External Studios, 58 in North American publishing, 74 in corporate finance, operations and administration, 33 in international publishing, and 200 employed in European distribution activities.

As of March 31, 1998, 98 of the Company's full-time employees were subject to term employment agreements with the Company. These agreements commit such employees to employment terms of between one and three years from the commencement of their respective agreements. Most of the employees subject to such agreements are senior executives of the Company or members of Activision Studios, Activision External Studios or the Company's sales or marketing divisions. Such individuals perform services to the Company as executives, directors, producers, associate producers, computer programmers, game designers, sales directors and marketing product managers. The execution by the Company of employment agreements with such employees, in the Company's experience, significantly reduces the Company's turnover during the development and production of its entertainment software products and allows the Company to plan more effectively for future development activities.

None of the Company's employees are subject to a collective bargaining agreement, and the Company has experienced no labor-related work stoppages.

(d) FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 8 of Notes to Consolidated Financial Statements included in Item 8.

Item 2. PROPERTIES

The Company's principal corporate, administrative, and product development offices are located in approximately 98,000 square feet of leased space in a building located at 3100 Ocean Park Boulevard, Santa Monica, California 90405. The lease in Santa Monica commenced on May 1, 1997. Prior to such date, the Company's principal corporate, administrative and product development offices were located in approximately 57,000 square feet of leased space located in Los Angeles, California. The following is a listing of the principal offices maintained by the Company at June 1, 1998:

Location of Principal Facilities	Square Feet	Lease Expiration Date
Santa Monica, California	98,000	April 30, 2007
Birmingham, United Kingdom	82,000	March 25, 2011 - June 1, 2012
Burglengenfeld, Germany	35,000	Owned
London, United Kingdom	10,625	July 23, 2005
Madison, Wisconsin	6,660	December 31, 2000
Sydney, Australia	3,400	Month-to-Month
Gutersloh, Germany	610	June 30, 1998
Tokyo, Japan	450	July 31, 1999

Item 3. LEGAL PROCEEDINGS

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

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

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's 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 closing sale prices for the Company's Common Stock.

	High	Low
	-----	-----
Fiscal 1997		

First Quarter ended June 30, 1996	\$15.00	\$11.63
Second Quarter ended September 30, 1996	\$14.38	\$ 9.50
Third Quarter ended December 31, 1996	\$14.00	\$10.56
Fourth Quarter ended March 31, 1997	\$16.25	\$10.00
Fiscal 1998		

First Quarter ended June 30, 1997	\$14.75	\$ 9.87
Second Quarter ended September 30, 1997	\$15.25	\$11.00
Third Quarter ended December 31, 1997	\$18.63	\$13.00
Fourth Quarter ended March 31, 1998	\$17.87	\$ 9.50
Fiscal 1999		

First Quarter through June 10, 1998	\$11.62	\$ 9.50

On June 12, 1998, the reported last sales price for the Common Stock was \$10.13. As of March 31, 1998, the Company had approximately 5,000 stockholders of record, excluding banks, brokers and depository companies that are the stockholders of record for the account of beneficial owners.

The Company's wholly owned subsidiary, CentreSoft, paid cash dividends of \$130,000 during fiscal 1997, and \$1.3 million in dividends during 1998. All of these dividends were paid by CentreSoft prior to its acquisition by the Company. The Company does not intend to pay any further cash dividends at any time in the foreseeable future. The Company expects that earnings will be retained for the continued growth and development of the Company's business. Future dividends, if any, will depend upon the Company's earnings, financial condition, cash requirements, future prospects and other factors deemed relevant by the Company's Board of Directors.

During the period from December 11, 1995 to December 14, 1995, the Company purchased in open market transactions 500,000 of its shares of common stock, at prices ranging from \$10.25 to \$10.875, aggregating approximately \$5.3 million. These purchases were made pursuant to the Company's announced share repurchase program. The company may from time to time in the future make additional open market purchases of its common stock.

During the fiscal year ended March 31, 1998, the Company granted warrants to purchase 300,000 shares of Common Stock to id Software in connection with software license agreements. 150,000 of the warrants have an exercise price of \$10.38 per share, are immediately exercisable, and expire on May 20, 2007. The remaining 150,000 warrants have an exercise price of \$10.50, are immediately exercisable, and expire March 31, 2008.

Neither the warrants, nor the shares of common stock for which they are exercisable were registered under the Securities Act of 1933, as amended (the "Securities Act"), by reason of Section 4(2) of the Securities Act. The Company's subsequently registered such shares for resale by id Software.

In November 1997, the Company issued a total of 3,068,249 shares of Common Stock in connection with the acquisition of CentreSoft and NBG. The shares were not registered under the Securities Act on issuance by reason of the exemption under Section 4(2) of the Securities Act. The Company has subsequently registered such shares under the Securities Act for resale by the former shareholders of CentreSoft and NBG.

In December 1997, the Company completed the private placement of \$60.0 million principal amount of 6 3/4% Convertible Subordinated Notes due 2005 (the "Notes"). The Notes are convertible, in whole or in part, at an option of the holder at any time after December 22, 1997 (the date of original issuance) and prior to the close of business on the business day immediately preceding the maturity date, unless previously redeemed or repurchased, into common stock, \$.000001 par value, of the Company, at a conversion price of \$18.875 per share, (equivalent to a conversion rate of 52.9801 shares per \$1,000 principal amount of Notes), subject to adjustment in certain circumstances. The Notes are redeemable, in whole or in part, at the option of the Company at any time on or after January 10, 2001, subject to premiums through December 31, 2003. Issuance costs totaled \$2.1 million.

Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table summarizes certain selected consolidated financial data, which should be read in conjunction with the Company's 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, 1998 are derived from the audited consolidated financial statements of the Company. The Consolidated Balance Sheets as of March 31, 1998 and 1997 and the Consolidated Statements of Operations and Statements of Cash Flows for each of the fiscal years in the three-year period ended March 31, 1998, and the report thereon, are included elsewhere in this Form 10-K.

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Fiscal Years ended March 31,				
	1998	1997	1996	1995	1994
STATEMENT OF OPERATIONS DATA:					
Net revenues	\$259,926	\$154,644	\$ 61,393	\$ 40,669	\$ 26,604
Cost of goods sold	163,123	87,121	21,749	21,293	15,311
Gross profit	96,803	67,523	39,644	19,376	11,293
Operating income (loss)	10,129	13,808	2,532	(2,957)	(2,031)
Income (loss) before income taxes	9,435	14,041	4,239	(1,365)	(1,853)
Net income (loss)	5,827	9,226	5,530	(1,520)	(1,987)
Dividends paid and/or accumulated	(116)	(1,270)	-	-	(3,296)
Basic net income (loss) per common share	\$ 0.31	\$ 0.52	\$ 0.36	\$ (0.10)	\$ (0.78)
Diluted net income (loss) per common share	\$ 0.30	\$ 0.50	\$ 0.34	\$ (0.10)	\$ (0.78)
Weighted average number of shares used in computing basic net income (loss) per common share (1) (4)	18,439	17,362	15,332	15,265	6,753
Weighted average number of shares used in computing diluted net income (loss) per common share (1) (4)	19,310	18,051	16,271	15,265	6,753
SELECTED OPERATING DATA:					
EBITDA (2)	\$ 15,341	\$ 17,926	\$ 5,178	\$ (1,015)	\$ (366)
CASH (USED IN) PROVIDED BY:					
Operating activities	\$ (1,388)	\$ (4,824)	\$ (3,768)	\$ (1,220)	\$ (3,080)
Investing activities	(9,234)	(8,127)	(3,045)	244	(2,375)
Financing activities	62,392	8,844	5,041	190	41,971

	As of March 31,				
	1998	1997	1996	1995	1994
BALANCE SHEET DATA:					
Cash and cash equivalents	\$ 73,378	\$ 21,358	\$ 25,288	\$ 37,355	\$ 38,093
Working capital	120,537	51,838	40,227	40,648	41,218
Intangible assets	23,473	23,749	19,580	20,863	22,146
Total assets	217,407	119,754	77,613	68,883	68,677
Long-term debt	60,000	-	-	-	-
Redeemable and convertible preferred stock	-	1,500	-	-	-
Shareholders' equity	100,293	81,980	62,999	62,704	63,985

- (1) The Company has presented basic and diluted net income (loss) per share for all periods in accordance with Statement of Financial Accounting Standards No. 128 "Earnings per Share."
- (2) EBITDA represents income (loss) before interest, income taxes, depreciation and amortization. The Company believes that EBITDA provides useful information regarding the Company's ability to service its debt; however, EBITDA does not represent cash flow from operations as defined by generally accepted accounting principles and should not be considered a substitute for net income, as an indicator of the Company's operating performance or cash flow, as a measure of liquidity.
- (3) Selected Consolidated Financial Data as of and for the year ended March 31, 1997 has been restated to reflect the acquisition of CentreSoft. In addition, weighted average shares outstanding have been restated for periods prior to April 1, 1996 to reflect shares issued in pooling transactions. See Note 2 of Notes to Consolidated Financial Statements.
- (4) Reflects the Company's 1-for-3 reverse stock split effective October 20, 1993. Accordingly, previously reported net income (loss) per common share has been retroactively restated.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION AND ANALYSIS CONTAINS FORWARD LOOKING STATEMENTS REGARDING FUTURE EVENTS OR THE FUTURE FINANCIAL PERFORMANCE OF THE COMPANY THAT INVOLVE CERTAIN RISKS AND UNCERTAINTIES DISCUSSED IN THIS CURRENT REPORT ON FORM 10-K UNDER "FACTORS AFFECTING FUTURE PERFORMANCE." ACTUAL EVENTS OR THE ACTUAL FUTURE RESULTS OF THE COMPANY MAY DIFFER MATERIALLY FROM ANY FORWARD LOOKING STATEMENT DUE TO SUCH RISKS AND UNCERTAINTIES.

OVERVIEW

The Company is a leading international publisher, developer and distributor of interactive entertainment software. The Company currently focuses its publishing, development and distribution efforts on products designed for PCs as well as the Sony PlayStation and the Nintendo 64 console systems. In selecting titles for acquisition or development, the Company pursues a combination of internally and externally developed titles, products based on proven technology and those based on newer technology, and PC and console products.

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

The Company recognizes revenue from the sale of its products upon shipment. Subject to certain limitations, the Company permits customers to obtain exchanges and return products within certain specified periods and provides price protection on certain unsold merchandise. Revenue from product sales is reflected after deducting the allowance for returns and price protection. With respect to license agreements which provide customers the right to multiple copies in exchange for guaranteed amounts, revenue is recognized upon delivery of the product master or the first copy. Per copy royalties on sales which exceed the guarantee are recognized as earned. The AICPA's Statement of Position 97-2 ("SOP 97-2"), "Software Revenue Recognition" provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions. SOP 97-2 will be effective for all transactions entered into subsequent to March 31, 1998. The Company is currently in compliance with SOP 97-2 requirements.

Cost of goods sold related to console, PC and OEM net revenues represents the manufacturing and related costs of computer software and console games. Manufacturers of the Company's computer software are located worldwide and are readily available. Console CDs and cartridges are manufactured by the respective video game console manufacturers, Sony and Nintendo, who often require significant lead time to fulfill the Company's orders. Also included in cost of goods sold is the royalty expense related to amounts due developers, product owners and other royalty participants as a result of product sales and amortization of capitalized software costs. Various contracts are maintained with developers, product owners or other royalty participants which state a royalty rate, territory and term of agreement, among other items. Upon a product's release, prepaid royalties and license fees are charged to cost of goods sold based on the contractual royalty rate.

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

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

As a result of the acquisition of CentreSoft by CentreSoft's management in June 1996 and the commencement of CentreSoft's operations at that time, results of operations for the fiscal year ended March 31, 1997 versus the fiscal year ended March 31, 1996 are not indicative of the comparative results for the Company combined with CentreSoft for the two periods.

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

	YEARS ENDED MARCH 31,					
	1998		1997		1996	
Statement of Operations Data:						
Net revenues	\$259,926	100.0%	\$154,644	100.0%	\$61,393	100.0%
Cost of goods sold	163,123	62.8%	87,121	56.3%	21,749	35.4%
Gross profit	96,803	37.2%	67,523	43.7%	39,644	64.6%
Operating expenses:						
Product development	28,393	10.9%	18,195	11.8%	17,505	28.5%
Sales and marketing	43,738	16.8%	26,297	17.0%	13,920	22.7%
General and administrative	11,507	4.4%	7,718	5.0%	4,404	7.2%
Amortization of intangible assets	1,562	0.6%	1,505	1.0%	1,283	2.1%
Merger Expenses	1,474	0.6%	-	-	-	-
Total operating expenses	86,674	33.3%	53,715	34.8%	37,112	60.5%
Operating income	10,129	3.9%	13,808	8.9%	2,532	4.1%
Other income (expense):						
Interest income (expense), net	(694)	(0.3%)	233	0.2%	1,707	2.8%
Income before income taxes	9,435	3.6%	14,041	9.1%	4,239	6.9%
Income tax provision (benefit)	3,608	1.4%	4,815	3.1%	(1,291)	(2.1)%
Net income	\$5,827	2.2%	\$9,226	6.0%	\$5,530	9.0%
NET REVENUES BY TERRITORY:						
North America	\$86,221	33.2%	\$64,184	41.5%	\$47,033	76.6%
Europe	160,400	61.7%	80,372	51.9%	6,501	10.6%
Japan	4,435	1.7%	4,504	2.9%	4,768	7.8%
Australia and Pacific Rim	6,581	2.5%	4,719	3.1%	2,948	4.8%
Latin America	2,289	0.9%	865	0.6%	143	0.2%
Total net revenues	\$259,926	100.0%	\$154,644	100.0%	\$61,393	100.0%
NET REVENUES BY PLATFORM:						
Console	\$103,718	39.9%	\$ 56,900	36.8%	\$ 5,161	8.4%
PC	156,208	60.1%	97,744	63.2%	56,232	91.6%
Total net revenues	\$259,926	100.0%	\$154,644	100.0%	\$61,393	100.0%
NET REVENUES BY CHANNEL:						
Retailer/Reseller	\$235,935	90.8%	\$133,595	86.4%	\$46,192	75.2%
OEM, Licensing, on-line and other	23,991	9.2%	21,049	13.6%	15,201	24.8%
Total net revenues	\$259,926	100.0%	\$154,644	100.0%	\$61,393	100.0%
NET REVENUES BY ACTIVITY:						
Publishing	\$129,111	49.7%	\$ 86,483	55.9%	\$ 61,393	100.0%
Distribution	130,815	50.3%	68,161	44.1%	-	0.0%
Total net revenues	\$259,926	100.0%	\$154,644	100.0%	\$61,393	100.0%

RESULTS OF OPERATIONS - FISCAL YEARS ENDED MARCH 31, 1997 AND 1998

NET REVENUES

Net revenues for the fiscal year ended March 31, 1998 increased 68.1% from \$154.6 million to \$259.9 million from the same period last year. This increase was attributable to a 34.3% increase in net revenues in North America from \$64.2 million to \$86.2 million, a 99.5% increase in net revenues in Europe from \$80.4 million to \$160.4 million, and a 40.4% increase in net revenues in the Australia and Pacific Rim territory from \$4.7 million to \$6.6 million.

Console net revenues increased 82.2% over the prior year to \$103.7 million as a result of the initial release of PITFALL 3D (PlayStation), NIGHTMARE CREATURES (PlayStation) and CAR & DRIVER'S GRAND TOUR RACING (PlayStation) as well as an increase in console related distribution net revenues. PC net revenues increased by 59.9% over the prior year to \$156.2 million primarily as a result of the initial release of QUAKE II (Windows 95), DARK REIGN: THE FUTURE OF WAR (Windows 95), HEXEN II (Windows 95), BATTLEZONE (Windows 95) and HEAVY GEAR (Windows 95). North America, Europe and Australia net revenues increased as a result of the increase in PC and console revenues. Net OEM, licensing, on-line and other revenues increased 14.3% over the prior year to \$24.0 million. The increase was due to an increase in the number of titles made available to OEMS, including 3-D versions of various products.

Net revenues also increased over the prior fiscal year due to the fact that CentreSoft, which began operations in June 1996, contributed only 10 months of revenue for the year ended March 31, 1997, as opposed to twelve months for the year ended March 31, 1998.

COST OF GOODS SOLD; GROSS PROFIT

Gross profit as a percentage of net revenues decreased to 37.2% for the fiscal year ended March 31, 1998, from 43.7% for fiscal 1997. The decrease in gross profit as a percentage of net revenues is due to the increase in net revenues derived from distribution arrangements as opposed to publishing arrangements, the increase in the sales mix of console net revenues versus PC net revenues and the increase in the number of externally developed versus internally developed products. Future determinations of gross profit as a percentage of net revenues will be driven primarily by the mix of new PC and console products released by the Company during the applicable period, the mix of revenues related to publishing arrangements versus distribution arrangements during the applicable period, as well as the mix of internally versus externally developed product releases during the applicable period, the latter in each case resulting in lower gross profit margins.

OPERATING EXPENSES

Product development expenses for the year ended March 31, 1998 increased 56.0% from the same period last year from \$18.2 million to \$28.4 million. As a percentage of net revenue, product development expenses decreased from 11.8% to 10.9%. The increase in product development expenses was due to the increased number of new products in development and the increased costs associated with the enhanced content and new technologies incorporated into such products. In addition, product development expenses as a percentage of net revenues decreased primarily as a result of an increase in net revenues from distribution arrangements.

Sales and marketing expenses for the year ended March 31, 1998 increased 66.2% from the same period last year, from \$26.3 million to \$43.7 million. As a percentage of net revenues, sales and marketing expenses decreased from 17.0% to 16.8%. The increase in sales and marketing expenses was due to increased marketing and promotional activities necessary to release new titles in an increasingly competitive environment and the Company's expansion of its European and Japanese sales and marketing infrastructures.

General and administrative expenses for the year ended March 31, 1998 increased 49.4% from the same period last year, from \$7.7 million to \$11.5 million. These expenses decreased as a percentage of net revenue from 5.0% to 4.4%. The increase in general and administrative expenses was primarily due to an increase in worldwide administrative support needs and headcount related expenses.

Merger expenses of \$1.4 million were incurred during the year ended March 31, 1998 in connection with the Company's acquisitions. See Note 2 of Notes to Consolidated Financial Statements.

OTHER INCOME (EXPENSE)

Net interest expense was \$694,000 for the fiscal year ended March 31, 1998, compared to net interest income of \$233,000 for the same period last year. The decrease was primarily as a result of lower average cash and cash equivalent balances and the issuance of the convertible subordinated notes in December 1997. See "Liquidity and Capital Resources."

PROVISION FOR INCOME TAXES

The Company's effective tax rate was 38.2% for the fiscal year ended March 31, 1998 as compared to 34.3% for the fiscal year ended March 31, 1997. The increase was primarily attributable to the territorial mix of taxable income as well as the tax effect of non-deductible merger expenses.

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

NET REVENUES

Net revenues for the fiscal year ended March 31, 1997 increased 151.8% from \$61.4 million to \$154.6 million from the same period last year. This increase was attributable to a 36.6% increase in net revenues in North America from \$47.0 million to \$64.2 million, an 1,136.9% increase in net revenues in Europe from \$6.5 million to \$80.4 million and a 62.1% increase in net revenues in the Australia and Pacific Rim territory from \$2.9 million to \$4.7 million. The increase in net revenues in Europe was attributable to the CentreSoft acquisition; CentreSoft began operations in June 1996 and, therefore, results of operations and net revenues for fiscal 1996, which are not effected by the CentreSoft acquisition, are not indicative of comparable results for fiscal 1997.

Console net revenues increased 1,015.7% over the prior year to \$56.9 million as a result of the CentreSoft acquisition and the initial release of BLOOD OMEN: LEGACY OF KAIN (PlayStation), MECHWARRIOR 2 (PlayStation and Saturn), POWER MOVE PRO WRESTLING (PlayStation) and TIME COMMANDO (PlayStation). PC net revenues increased by 73.8% over the prior year to \$97.7 million primarily as a result of the initial release of MECHWARRIOR 2: MERCENARIES (Windows 95), INTERSTATE '76 (Windows 95), TIME COMMANDO (Windows 95), QUAKE MISSION PACK NO. 1: SCOURGE OF ARMAGON (MS-DOS/Windows 95), QUAKE MISSION PACK NO. 2: DISSOLUTION OF ETERNITY (MS-DOS/Windows 95) and continued sales of MECHWARRIOR 2 (Windows 95/Macintosh) and the CentreSoft acquisition. North America, Europe and Australia net revenues increased as a result of the increases in PC and console revenues.

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

COST OF GOODS SOLD; GROSS PROFIT

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

OPERATING EXPENSES

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

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

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

OTHER INCOME (EXPENSE)

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

PROVISION FOR INCOME TAXES

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

QUARTERLY OPERATING RESULTS

The Company's 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 the Company's control. See Item 1. Business - "Certain Cautionary Information." Accordingly, the Company believes that period-to-period comparisons of its operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

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

	Quarter ended							
	March 31, 1998	Dec. 31, 1997	Sept. 30, 1997	June 30, 1997	March 31, 1997	Dec. 31, 1996	Sept. 30, 1996	June 30, 1996
Net revenues	\$58,256	\$122,141	\$53,015	\$26,514	\$57,586	\$60,480	\$29,557	\$ 7,021
Gross profit	22,222	45,063	23,280	6,238	22,027	24,295	15,689	5,512
Operating income (loss)	520	15,154	3,107	(8,652)	7,609	8,288	2,137	(4,226)
Net income (loss)	126	9,278	1,837	(5,414)	5,116	5,320	1,421	(2,631)
Net income (loss) per basic share	\$ 0.01	\$ 0.50	\$ 0.10	\$ (0.30)	\$ 0.29	\$ 0.30	\$ 0.08	\$ (0.17)
Net income (loss) per diluted share	\$ 0.01	\$ 0.47	\$ 0.09	\$ (0.30)	\$ 0.27	\$ 0.29	\$ 0.07	\$ (0.17)

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents increased \$52.0 million from \$21.4 million at March 31, 1997 to \$73.4 million at March 31, 1998. Approximately \$1.4 million in cash and cash equivalents was used in operating activities during the year ended March 31, 1998. Such operating uses of cash are primarily the result of increases in accounts receivable, inventories and prepaid royalties and capitalized software costs. Such increases are offset partially by increases in accounts payable and accrued liabilities.

In addition, approximately \$9.2 million in cash and cash equivalents were used in investing activities. Capital expenditures totaled approximately \$8.3 million, which were primarily composed of costs relating to the Company moving its Los Angeles office to a new facility in Santa Monica, California.

Sources of cash from financing activities totaled \$62.4 million for the year ended March 31, 1998 which included \$4.8 million in proceeds from exercise of employee stock options. In addition, on December 22, 1997, the Company completed a private placement of \$60 million in convertible subordinated notes ("Convertible Notes"). The Convertible Notes have a 6.75% coupon, are due in January 2005 and are convertible, at any time prior to maturity, into

shares of the Company's Common Stock at \$18.875 per share. Net proceeds from the issuance of the Convertible Notes was approximately \$57.9 million. The Company intends to use such net proceeds to fund product development, to acquire third party publishing and distribution rights, to expand the Company's direct sales and marketing capabilities and for general corporate purposes. In addition, the Company may, when and if the opportunity arises, use an unspecified portion of the net proceeds to acquire businesses, products or technologies that it believes are of strategic importance. Pending such uses, the Company intends to invest the net proceeds in short-term money market and other market rate, investment-grade instruments.

The Company has a \$10 million revolving credit and letter of credit facility (the "Facility") with its bank (the "Bank"). The Facility provides the Company the ability to borrow funds and issue letters of credit against eligible domestic accounts receivable up to \$10 million. The Facility expires in September 1998. In addition, the Company has a \$2 million line of credit agreement (the "Asset Line") with the Bank; drawings under the Asset Line are structured with 36 month repayment terms and the Asset Line of credit expires in September 1998. Borrowings under the Asset Line totaled \$1.4 million as of March 31, 1998 with an effective borrowing rate of 8.3%.

In Europe, the Company has a revolving credit facility (the "Europe Facility") with its bank for approximately \$8.5 million. The Europe Facility can be used for working capital requirements, and expires in June 2000. The Company had no borrowings under the Europe Facility as of March 31, 1998.

The Company will use its working capital (\$120.5 million at March 31, 1998) to finance ongoing operations, including acquisitions of inventory and equipment, to fund the development, production, marketing and selling of new products, and to obtain intellectual property rights for future products from third parties. Management believes that the Company's existing cash and cash equivalents, together with the proceeds available from the Facility, Asset Line and the Europe Facility, will be sufficient to meet the Company's operational requirements for at least the next twelve months.

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

Like many other software companies, the year 2000 computer issue creates risk for the Company. If internal systems do not correctly recognize date information when the year changes to 2000, there could be an adverse impact on the Company's operations. The Company has initiated a comprehensive plan to prepare its computer systems for the year 2000 and is currently implementing changes to alleviate any year 2000 incapability. The Company is also contacting critical suppliers of products and service to determine that the supplier's operations and the products and services they provide are year 2000 capable. There can be no assurance that another company's failure to ensure year 2000 capability would not have an adverse effect on the Company. Costs associated with this issue are not expected to be material.

RECENTLY ISSUED ACCOUNTING STANDARDS

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

SFAS No. 130, "Reporting Comprehensive Income," is effective for fiscal years beginning after December 15, 1997. SFAS No. 130 established standards for the reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. The Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company will adopt SFAS No. 130 effective April 1, 1998.

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

The AICPA recently issued Statement of Position 97-2, "Software Revenue Recognition," (SOP 97-2) effective for transactions entered into in fiscal years beginning after December 15, 1997. The Company will adopt

SOP 97-2 for transactions occurring on or after April 1, 1998. The Company is in compliance with the provisions thereof.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company transacts business in many different foreign currencies and may be exposed to financial market risk resulting from fluctuations in foreign currency exchange rates, particularly the British Pound sterling. However, due to the long-term stability of the pound, the Company has deemed it unnecessary to hedge against foreign currency devaluation at the present time. The volatility of the Pound (and all other applicable currencies) will be monitored frequently throughout the coming year and the Company may require the use of hedging programs, currency forward contracts, currency options and/or other derivative financial instruments commonly utilized to reduce financial market risks.

Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All other schedules of the Registrant are omitted because of the absence of conditions under which they are required or because the required information is included elsewhere in the financial statements or in the notes thereto.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company replaced Coopers & Lybrand, LLP ("Coopers & Lybrand") as its principal accountants, effective January 17, 1997. The action was recommended by the Audit Committee of the Board of Directors and was approved by the Company's Board of Directors. Coopers & Lybrand's reports on the Company's financial statements for the fiscal years ended March 31, 1996 and 1995 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. During the two fiscal years ended March 31, 1996 and 1995 and all interim periods through January 17, 1997, (i) there were no disagreements with Coopers & Lybrand on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Coopers & Lybrand, would have caused Coopers & Lybrand to make a reference to the subject matter of the disagreements in connection with its reports in the financial statements for such years, and (ii) there were no reportable events as described in Item 304 of Regulation S-K.

The Company engaged KPMG Peat Marwick, LLP ("Peat Marwick") as the Company's principal accountants to audit the Company's financial statements, effective January 17, 1997. The action was recommended by the Audit Committee of the Board of Directors and was approved by the Company's Board of Directors.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference to the sections of the Company's definitive Proxy Statement for its 1998 Annual Meeting of Shareholders, entitled "Election of Directors" and "Executive Officers and Key Employees" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the sections of the Company's definitive Proxy Statement for its 1998 Annual Meeting of Shareholders, entitled "Executive Compensation" and "Indebtedness of Management" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the sections of the Company's definitive Proxy Statement for its 1998 Annual Meeting of Shareholders, entitled "Security Ownership of Certain Beneficial Owners and Management" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the sections of the Company's definitive Proxy Statement for its 1998 Annual Meeting of Shareholders, entitled "Certain Relationships and Related Transactions" to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

- (a) 1. FINANCIAL STATEMENTS See Item 8. - Consolidated Financial Statements and Supplementary Data Index for Financial Statements and Schedule on page 25 herein.
2. FINANCIAL STATEMENT SCHEDULE The following financial statement schedule of Activision, Inc. for the years ended March 31, 1998, 1997 and 1996 is filed as part of this report and should be read in conjunction with the Consolidated Financial Statements of Activision, Inc. Schedule II -- Valuation and Qualifying Accounts and Reserves Other financial statement schedules are omitted because the information called for is not required or is shown either in the Consolidated Financial Statements or the notes thereto.
3. EXHIBITS REQUIRED BY ITEM 601 OF REGULATION S-K

Exhibit Number -----	Exhibit -----
3.1	Amended and Restated Articles of Incorporation of Activision, Inc., dated October 15, 1992 (incorporated by reference to Exhibit 4.5 of Amendment No. 1 to the Company's Form S-8, Registration No. 33-48411 filed on June 1, 1993).
3.2	Bylaws of Activision, Inc. (incorporated by reference to Exhibit 4.6 of Amendment No. 1 to the Company's Form S-8, Registration No. 33-48411 filed on June 1, 1993).
10.1	Mediagenic 1991 Stock Option and Stock Award Plan, as amended (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, Registration No. 33-63638, filed on December 8, 1995).
10.2	Mediagenic 1991 Director Warrant Plan as amended (incorporated by reference to Exhibit 28.2 to the Company's Registration Statement on Form S-8, Registration No. 33-63638, filed on June 1, 1993).
10.3	Lease Agreement dated as of December 20, 1996, between the Company and Barclay Curci Investment Company (incorporated by reference to Exhibit 10.14 of the Company's Form 10-Q for the quarter ended December 31, 1996.)
10.4	Articles of Merger, with the Plan of Merger annexed thereto, between the Company and Raven Software Corporation, as filed with the Department of Financial Institutions of the State of Wisconsin on August 26, 1997 (incorporated by reference to Exhibit 2.1 of the Company's Form 8-K filed September 5, 1997).
10.5	Share Exchange Agreement dated November 23, 1997, among the Company and the holders of all of the issued and outstanding capital stock of Combined Distribution (Holdings), Inc. (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed December 5, 1997).
10.6	Purchase Agreement dated as of December 16, 1997, among the Company and Credit Suisse First Boston Corporation, Piper Jaffray, Inc. and UBS Securities LLC (the "Initial Purchasers") (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed December 23, 1997).
10.7	Registration Rights Agreement dated as of December 16, 1997, among the Company and the Initial Purchasers (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed December 23, 1997).

- 10.8 Indenture dated as of December 22, 1997, between the Company and State Street Bank and Trust Company of California, N.A., as Trustee (incorporated by reference to Exhibit 10.3 of the Company's Form 8-K filed December 23, 1997).
- 16. Letter from Coopers & Lybrand, LLP pursuant to Item 304 (a) (3) of Regulation S-K (incorporated by reference to exhibit 16 of the Company's Form 8-K filed January 17, 1997.)
- 21. Principal subsidiaries of the Company.
- 23. Independent Auditor Consent.
- 27.1 Fiscal 1995 Year to Date Financial Data Schedule.
- 27.2 Fiscal 1996 Year to Date Financial Data Schedule.
- 27.3 Fiscal 1997 Quarters and Year to Date Financial Data Schedule.
- 27.4 Fiscal 1998 Quarters and Year to Date Financial Data Schedule.

(b) REPORTS ON FORM 8-K. The following reports on Form 8-K have been filed by the Company during the last quarter of the fiscal year ended March 31, 1998:

- 1. Form 8-K dated January 6, 1998, containing items 5 and 7.

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: June 15, 1998

ACTIVISION, INC.

By: /s/ ROBERT A. KOTICK

(Robert A. Kotick)
Chairman

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ ROBERT A. KOTICK Chairman, Chief Executive Officer June 15, 1998
----- (Principal Executive Officer) and Director
(Robert A. Kotick)

By: /s/ BRIAN G. KELLY President, Chief Operating June 15, 1998
----- Officer and Director
(Brian G. Kelly)

By: /s/ BARRY J. PLAGA Chief Financial Officer June 15, 1998

(Barry J. Plaga)

By: /s/ HAROLD A. BROWN Director June 15, 1998

(Harold A. Brown)

By: /s/ BARBARA S. ISGUR Director June 15, 1998

(Barbara S. Isgur)

By: /s/ STEVEN T. MAYER Director June 15, 1998

(Steven T. Mayer)

By: /s/ ROBERT J. MORGADO Director June 15, 1998

(Robert J. Morgado)

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders:

We have audited the accompanying consolidated balance sheets of ACTIVISION, INC. and subsidiaries as of March 31, 1998 and 1997 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years in the three-year period ended March 31, 1998. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule II for each of the years in the three-year period ended March 31, 1998. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ACTIVISION, INC. and subsidiaries as of March 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 1998, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule for each of the years in the three-year period ended March 31, 1998, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG PEAT MARWICK LLP

Los Angeles, California
May 12, 1998

PART I. FINANCIAL INFORMATION.
Item I. Financial Statements.

ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

	March 31, 1998	March 31, 1997
	-----	-----
		Restated
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 73,378	\$ 21,358
Accounts receivable, net of allowances of \$12,122 and \$7,674, respectively	69,812	46,633
Inventories, net	14,920	8,283
Prepaid royalties and capitalized software costs	12,444	6,559
Other current assets	1,922	1,222
Deferred income taxes	3,852	1,493
	-----	-----
Total current assets	176,328	85,548
Property and equipment, net	10,628	5,990
Deferred income taxes	4,665	4,212
Other assets	2,313	255
Excess purchase price over identifiable assets acquired, net	23,473	23,749
	-----	-----
Total assets	\$ 217,407	\$ 119,754
	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of notes payable to bank	\$ 781	\$ 1,600
Current portion of subordinated loan stock debenture	-	683
Accounts payable	40,150	19,291
Accrued expenses	14,860	12,136
	-----	-----
Total current liabilities	55,791	33,710
Notes payable to bank, less current portion	1,235	-
Convertible subordinated notes	60,000	-
Subordinated loan stock debentures	-	2,533
Other liabilities	88	31
	-----	-----
Total liabilities	117,114	36,274
	-----	-----
Commitments and contingencies		
Redeemable preferred stock	-	1,286
Convertible preferred stock	-	214
Shareholders' equity:		
Common stock, \$.000001 par value, 50,000,000 shares authorized, 19,508,415 and 17,113,007 shares issued and 19,008,415 and 16,613,077 outstanding, respectively	-	-
Additional paid-in capital	91,799	78,752
Retained earnings	13,680	8,664
Cumulative foreign currency translation	92	(158)
Less: Treasury stock, cost of 500,000 shares	(5,278)	(5,278)
	-----	-----
Total shareholders' equity	100,293	81,980
	-----	-----
Total liabilities and shareholders' equity	\$ 217,407	\$ 119,754
	-----	-----

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

ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands except per share data)

	For the years ended March 31,		
	1998	1997	1996
		Restated	
Net revenues	\$ 259,926	\$ 154,644	\$ 61,393
Cost of goods sold	163,123	87,121	21,749
Gross profit	96,803	67,523	39,644
Operating expenses:			
Product development	28,393	18,195	17,505
Sales and marketing	43,738	26,297	13,920
General and administrative	11,507	7,718	4,404
Amortization of intangible assets	1,562	1,505	1,283
Merger expenses	1,474	-	-
Total operating expenses	86,674	53,715	37,112
Income from operations	10,129	13,808	2,532
Other income (expense), net	(694)	233	1,707
Income before income taxes	9,435	14,041	4,239
Income tax provision (benefit)	3,608	4,815	(1,291)
Net income	\$ 5,827	\$ 9,226	\$ 5,530
Basic net income per share	\$ 0.31	\$ 0.52	\$ 0.36
Diluted net income per share	\$ 0.30	\$ 0.50	\$ 0.34
Number of shares used in computing basic net income per share	18,439	17,362	15,332
Number of shares used in computing diluted net income per share	19,310	18,051	16,271

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

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

(in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)
	Shares	Amount		
Balance March 31, 1995	14,183	-	\$ 67,667	\$ (4,822)
Issuance of common stock pursuant to employee stock purchase plan	50	-	224	-
Issuance of common stock pursuant to directors stock purchase plan	17	-	13	-
Purchase of treasury stock	-	-	-	-
Net income for the year	-	-	-	5,530
Foreign currency translation adjustment	-	-	-	-
Balance March 31, 1996	14,250	-	\$ 67,904	\$ 708
Issuance of common stock	63	-	822	-
Issuance of common stock pursuant to employee stock option plan	313	-	2,209	-
Issuance of common stock pursuant to employee stock purchase plan	19	-	179	-
Tax benefit attributable to employee stock option plan	-	-	736	-
Tax benefit derived from net operating loss carryforward utilization	-	-	6,634	-
Issuance of stock on formation of CentreSoft	2,468	-	268	-
Net income for the year	-	-	-	9,226
Foreign currency translation adjustment	-	-	-	-
Dividends declared	-	-	-	(1,270)
Balance March 31, 1997	17,113	-	\$ 78,752	\$ 8,664
Issuance of common stock and common stock warrants	82	-	1,214	-
Issuance of common stock pursuant to employee stock option plan	599	-	4,756	-
Issuance of common stock pursuant to employee stock purchase plan	64	-	582	-
Tax benefit attributable to employee stock option plan	-	-	1,247	-
Issuance of stock to affect business combinations	1,331	-	532	(56)
Adjustment for change in year-end of pooled subsidiary	-	-	-	(639)
Conversion of Redeemable Preferred Stock	87	-	1,286	-
Conversion of Subordinated Loan Stock Debentures	217	-	3,216	-
Conversion of Convertible Preferred Stock	15	-	214	-
Net income for the year	-	-	-	5,827
Foreign currency translation adjustment	-	-	-	-
Dividends declared	-	-	-	(116)
Balance March 31, 1998	19,508	\$ -	\$ 91,799	\$ 13,680

	Foreign Currency Adjustment	Treasury Stock		Shareholders' Equity
		Shares	Amount	
Balance March 31, 1995	\$ (141)	-	-	\$ 62,704

Issuance of common stock pursuant to employee stock purchase plan	-	-	-	224
Issuance of common stock pursuant to directors stock purchase plan	-	-	-	13
Purchase of treasury stock	-	500	\$ (5,278)	(5,278)
Net income for the year	-	-	-	5,530
Foreign currency translation adjustment	(194)	-	-	(194)
Balance March 31, 1996	\$ (335)	500	\$ (5,278)	\$ 62,999
Issuance of common stock	-	-	-	822
Issuance of common stock pursuant to employee stock option plan	-	-	-	2,209
Issuance of common stock pursuant to employee stock purchase plan	-	-	-	179
Tax benefit attributable to employee stock option plan	-	-	-	736
Tax benefit derived from net operating loss carryforward utilization	-	-	-	6,634
Issuance of stock on formation of CentreSoft	-	-	-	268
Net income for the year	-	-	-	9,226
Foreign currency translation adjustment	177	-	-	177
Dividends declared	-	-	-	(1,270)
Balance March 31, 1997	\$ (158)	500	\$ (5,278)	\$ 81,980
Issuance of common stock and common stock warrants	-	-	-	1,214
Issuance of common stock pursuant to employee stock option plan	-	-	-	4,756
Issuance of common stock pursuant to employee stock purchase plan	-	-	-	582
Tax benefit attributable to employee stock option plan	-	-	-	1,247
Issuance of stock to affect business combinations	-	-	-	476
Adjustment for change in year-end of pooled subsidiary	-	-	-	(639)
Conversion of Redeemable Preferred Stock	-	-	-	1,286
Conversion of Subordinated Loan Stock Debentures	-	-	-	3,216
Conversion of Convertible Preferred Stock	-	-	-	214
Net income for the year	-	-	-	5,827
Foreign currency translation adjustment	250	-	-	250
Dividends declared	-	-	-	(116)
Balance March 31, 1998	\$ 92	500	\$ (5,278)	\$ 100,293

ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the years ended March 31,		
	1998	1997 Restated	1996
Cash flows from operating activities:			
Net income	\$ 5,827	\$ 9,226	\$ 5,530
Adjustments to reconcile net income to net cash used in operating activities:			
Deferred income taxes	(1,563)	3,165	(1,500)
Adjustment for change in fiscal year-end for pooled subsidiaries	(639)	-	-
Depreciation and amortization	5,212	4,118	2,646
Expense related to common stock warrants	200	-	-
Loss on disposal of fixed assets	-	34	-
Change in assets and liabilities (net of effects of purchases and acquisitions):			
Accounts receivable	(23,179)	(14,249)	(14,343)
Inventories	(6,637)	(2,415)	(1,003)
Prepaid royalties and capitalized software costs	(4,871)	(2,085)	(2,570)
Other current assets	(700)	(39)	(841)
Other assets	178	(55)	(140)
Accounts payable	20,859	3,368	2,076
Accrued expenses	3,868	(5,558)	6,535
Other liabilities	57	(334)	(176)
Net cash used in operating activities	(1,388)	(4,824)	(3,786)
Cash flows from investing activities:			
Cash paid by Combined Distribution (Holdings) Ltd. to acquire CentreSoft (net of cash acquired)	(812)	(3,878)	-
Capital expenditures	(8,288)	(4,249)	(3,045)
Cash used in purchase acquisitions	(246)	-	-
Adjustment for effect of poolings	340	-	-
Other	(228)	-	-
Net cash used in investing activities	(9,234)	(8,127)	(3,045)
Cash flows from financing activities:			
Proceeds from issuance of common stock	-	268	-
Proceeds from issuance of common stock upon exercise of warrants	-	2,209	237
Issuance of common stock pursuant to employee stock option plan	4,756	-	-
Issuance of common stock pursuant to employee stock purchase plan	582	179	-
Proceeds from issuance of subordinated loan stock debentures	-	3,216	-
Proceeds from issuance of convertible preferred stock	-	214	-
Proceeds from issuance of redeemable preferred stock	-	1,286	-
Dividends paid (Combined Distribution (Holdings) Ltd.)	(1,256)	(130)	-
Borrowing under line-of-credit agreement	8,800	1,600	-
Payment under line-of-credit agreement	(8,800)	-	-
Note payable to bank, net	416	-	-
Proceeds from issuance of subordinated convertible notes	57,900	-	-
Purchase of treasury stock	-	-	(5,278)
Other	(6)	2	-
Net cash provided by (used in) financing activities	62,392	8,844	(5,041)
Effect of exchange rate changes on cash	250	177	(195)
Net increase (decrease) in cash and cash equivalents	52,020	(3,930)	(12,067)
Cash and cash equivalents at beginning of period	21,358	25,288	37,355
Cash and cash equivalents at end of period	\$ 73,378	\$ 21,358	\$ 25,288
Non-cash activities:			
Stock and warrants to acquire common stock issued in exchange for licensing rights	\$ 1,214	\$ 822	\$ -
Tax benefit derived from net operating loss carryforward utilization	-	6,634	-
Tax benefit attributable to stock option exercises	1,247	736	-
Stock issued to affect business combinations	136	-	-
Subordinated loan stock debentures converted to common stock in pooling transaction	3,216	-	-

Redeemable preferred stock converted to common stock in pooling transaction	1,286	-	-
Convertible preferred stock converted to common stock in pooling transaction	214	-	-
Supplemental cash flow information:			
Cash paid for income taxes	\$ 2,174	\$ 473	\$ 124
Cash paid for interest	675	-	20

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

ACTIVISION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

The Company is a leading international publisher, developer and distributor of interactive entertainment software. The Company currently focuses its publishing and development efforts on products designed for personal computers ("PCs") as well as the Sony PlayStation and Nintendo 64 console systems. In selecting titles for acquisition or development, the Company currently pursues a combination of internally and externally developed titles, products based on proven technology and those based on new technology, and PC and console products.

The Company distributes its products worldwide primarily through its direct sales force, its distribution subsidiaries in Europe, and to a lesser extent, through third party distributors and licensees.

PRINCIPLES OF CONSOLIDATION

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

BASIS OF PRESENTATION

These consolidated financial statements reflect the pooling of interests of the Company with Combined Distribution (Holdings) Limited ("CentreSoft") from June 28, 1996 (the inception of CentreSoft) (see Note 2 "Acquisitions"). As further described in Note 2, certain acquisitions (which occurred after March 31, 1997) have not been retroactively reflected in the historical financial statements of the Company for years ending on or before March 31, 1997, except for weighted averages shares outstanding and earnings per share data, as the impact would be immaterial.

CASH AND CASH EQUIVALENTS

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

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of temporary cash investments and accounts receivable. The Company places its temporary cash investments with financial institutions. At various times during the fiscal years ended March 31, 1998, 1997 and 1996, the Company had deposits in excess of the \$100,000 Federal Deposit Insurance Corporation ("FDIC") limit at these financial institutions. At March 31, 1998, the Company had approximately \$48.3 million invested in short-term commercial paper and short-term United States government backed securities. The Company's customer base includes retail outlets and distributors including consumer electronics and computer specialty stores, discount chains, video rental stores and toy stores in the United States and countries worldwide. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. The Company generally does not require collateral or other security from its customers.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

PREPAID ROYALTIES AND CAPITALIZED SOFTWARE COSTS

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

The Company accounts for prepaid royalties relating to development agreements and capitalized software costs in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," (SFAS No. 86). In accordance with SFAS No. 86, the Company capitalizes software development costs and prepaid royalties once technological feasibility is established. Prior to the capitalization of any amounts, the Company evaluates recoverability based on the criteria discussed below. Amounts related

to product development which are not capitalized are charged to product development expense. The Company evaluates technological feasibility on a product by product basis. For products where proven game engine technology exists, this may occur early in the development cycle.

Capitalized software development costs are amortized to cost of goods sold on a straight-line basis over the estimated product life (generally one year or less) commencing upon product release, or on the ratio of current revenues to total projected revenues, whichever amortization amount is greater. Prepaid royalties are expensed to cost of goods sold at the contractual royalty rate based on actual net product sales, or on the ratio of current revenues to total projected revenues, whichever amortization amount is greater.

For products that have been released, management evaluates the future recoverability of capitalized amounts on a quarterly basis. Prior to a product's release, the Company expenses, as part of product development costs, capitalized costs when, in management's estimate, such amounts are not recoverable. Management primarily uses the following criteria in evaluating recoverability: historical performance of comparable products; the commercial acceptance of prior products released on a given game engine; estimated performance of a sequel product based on the performance of the product on which the sequel is based; and actual development costs of a product as compared to the Company's budgeted amount.

As of March 31, 1998, prepaid royalties and unamortized capitalized software costs totaled \$10,730,000 and \$1,714,000, respectively. As of March 31, 1997, prepaid royalties and unamortized capitalized software costs totaled \$6,230,000 and \$329,000, respectively. Amortization of prepaid royalties and capitalized software costs was \$24,944,000, \$9,057,000 and \$3,451,000 for the years ended March 31, 1998, 1997 and 1996, respectively. Write-offs of prepaid royalties and capitalized software costs prior to product release were \$363,000, \$588,000 and \$816,000 for the years ended March 31, 1998, 1997 and 1996, respectively.

INVENTORIES

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

REVENUE RECOGNITION

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

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

The AICPA's Statement of Position 97-2 "Software Revenue Recognition" (SOP 97-2) will be effective for all transactions entered into subsequent to March 31, 1998. The Company does not believe the adoption of SOP 97-2 will have a material impact on its financial position, results of operations or liquidity.

ADVERTISING EXPENSES

The Company expenses advertising and the related costs as incurred. Advertising expenses for the years ended March 31, 1998, 1997 and 1996 were approximately \$6,336,000, \$3,285,000 and \$1,940,000, respectively, and are included in sales and marketing expense in the consolidated statements of operations.

EXCESS PURCHASE PRICE OVER IDENTIFIABLE ASSETS ACQUIRED, NET

The excess cost over net assets acquired is being amortized on a straight-line basis over a 20 year period. As of March 31, 1998 and 1997, accumulated amortization amounted to \$7,904,000 and \$6,342,000, respectively. The Company adopted the provisions of SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of," on April 1, 1996. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. Adoption of this Statement did not have a material impact on the Company's financial position, results of operations, or liquidity.

OTHER INCOME (EXPENSE)

Other income (expense), net is comprised of:

	Amounts in thousands		
	1998	1997	1996
Interest expense	\$ (1,805)	\$ (691)	\$ (21)
Interest income	1,111	924	1,728
	\$ (694)	\$ 233	\$ 1,707

INCOME TAXES

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

FOREIGN CURRENCY TRANSLATION

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

NET INCOME PER COMMON SHARE

Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share," is effective for financial statements issued for periods ending after December 15, 1997. SFAS No. 128 replaces Accounting Principles Board Opinion ("APB") No. 15 and simplifies the computation of earnings per share ("EPS") by replacing the presentation of primary EPS with a presentation of basic EPS. Basic EPS includes no dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution from securities that could share in the earnings of the Company, similar to fully diluted EPS under APB No. 15. The Statement requires dual presentation of basic and diluted EPS by entities with complex capital structures. The Company adopted SFAS No. 128 for the consolidated financial statements for the year ended March 31, 1998 and in accordance with SFAS No. 128, all prior periods have been restated to adopt this standard. See Note 9 - "Computation of Net Income Per Share."

ESTIMATES

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

STOCK BASED COMPENSATION

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

RECLASSIFICATIONS

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

2. ACQUISITIONS

ACQUISITION OF CENTRESOFT AND NBG

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

CentreSoft previously used the fiscal year ended April 30 for its financial reporting. Accordingly, the consolidated balance sheet as of March 31, 1997 contained herein includes the financial position of CentreSoft as of April 30, 1997, and the consolidated statement of operations for the year ended March 31, 1997 contained herein include the results of operations of CentreSoft for the period from June 28, 1996 (inception) to April 30, 1997. The month ended April 30, 1997 is also included in the results of operations for the year ended March 31, 1998 and for the year ended March 31, 1997. CentreSoft's net revenues and net loss for the month ended April 30, 1997 were approximately \$8.0 million and \$639,000, respectively.

Also on November 26, 1997, the Company completed its acquisition of NBG EDV Handels und Verlags GmbH ("NBG") by the issuance of 281,206 shares of the Company's common stock in exchange for all outstanding common stock of NBG. An additional 11,117 shares of common stock were issued in exchange for all the outstanding capital stock of NBG USA, Inc. In addition, as part of the transaction, the Company acquired the real property (including land and buildings) used by NBG that was owned by the two equity owners of NBG, in exchange for assumption of certain debt secured by a mortgage on the property. The transaction was accounted for as an immaterial pooling; accordingly, the Company's operating results were not restated for periods prior to October 1, 1997 and the assets acquired and liabilities assumed were recorded at their historical values. However, weighted average shares outstanding and earnings per share data were retroactively restated for the effect of the NBG acquisition for all periods presented.

All costs related to the acquisitions of CentreSoft and NBG have been reflected in the Company's consolidated financial statements for the period ended March 31, 1998. Such non-recurring costs were approximately \$1.4 million and were comprised primarily of consulting, legal and accounting costs.

ACQUISITION OF TAKE US! MARKETING GMBH

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

ACQUISITION OF RAVEN SOFTWARE CORPORATION

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

3. PRIVATE PLACEMENT OF CONVERTIBLE SUBORDINATED NOTES

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

repurchased, into common stock, \$.000001 par value, of the Company, at a conversion price of \$18.875 per share, (equivalent to a conversion rate of 52.9801 shares per \$1,000 principal amount of Notes), subject to adjustment in certain circumstances. The Notes are redeemable, in whole or in part, at the option of the Company at any time on or after January 10, 2001, subject to premiums through December 31, 2003. Issuance costs totaled \$2.1 million.

4. MANAGEMENT BUYOUT OF CENTRESOFT

On June 28, 1996 CentreSoft's management completed a buyout of CentreSoft ("Management Buyout"). In the Management Buyout, CentreSoft acquired all the outstanding ordinary shares of CentreSoft Limited ("CentreSoft") for approximately \$7,428,000 in cash from Centregold plc, a subsidiary of Eidos plc ("Eidos"). The acquisition agreement provided for a contingent payment of a maximum of approximately \$812,000 to Eidos if CentreSoft is later sold at above a certain price, resulting in a total purchase price of approximately \$8,240,000. This contingent payment has been recorded by the Company as a result of the Company's subsequent acquisition of CentreSoft in November 1997. The Management Buyout was accounted for by the purchase method of accounting. 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 \$6,486,000. This intangible asset is being amortized on a straight-line basis over a 20 year period. Amortization was approximately \$324,000 and \$238,000 for the years ended March 31, 1998 and 1997, respectively.

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

	BOOK VALUE & FAIR VALUE

Assets:	
Cash and cash equivalents	\$ 3,550
Accounts receivables, net	12,474
Inventories	2,892
Fixed assets	1,061

Total assets	19,977

Liabilities:	
Accounts payable	11,331
Accrued liabilities	6,892

Total liabilities	18,223

Net assets	1,754
Cost in excess of net assets acquired	6,486

Consideration (including net costs of \$767) satisfied by cash	\$ 8,240

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

SECURED SUBORDINATED LOAN STOCK DEBENTURES

Proceeds from the issuance of the Secured Subordinated Loan Stock Debentures ("Debentures") totaled \$3,216,000. The Debentures bore interest at the rate of 15% per annum. In connection with the acquisition of CentreSoft by the Company on November 26, 1997, the Debentures were exchanged for 217,405 shares of the Company's common stock.

REDEEMABLE PREFERRED STOCK

Proceeds from the issuance of the 800,000 shares of Redeemable Preferred Stock with a stated par value of \$0.16 per share totaled \$1,286,000. The Preferred Stock was entitled to a cumulative dividend of \$0.19 per share per annum. In connection with the acquisition of CentreSoft by the Company the Preferred Stock was exchanged for 86,962 shares of the Company's common stock.

CONVERTIBLE PREFERRED STOCK

Proceeds from the issuance of 133,333 shares of Convertible Preferred Stock with a stated par value of \$1.61 per share totaled \$214,000. The Convertible Preferred Stock was entitled to a dividend of 12% per annum.

The Convertible Preferred Stock was convertible into Ordinary Shares on a one-for-one basis in the event the Company had not redeemed the Redeemable Preferred Stock or Convertible Preferred Stock by the period ending six months after the final redemption date of January 31, 2001. In connection with the acquisition of CentreSoft by the Company, on November 26, 1997, the Convertible Preferred Stock was exchanged for 14,494 shares of the Company's common stock.

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

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

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

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

DIVIDENDS

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

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

		\$1,270

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

5. INVENTORIES

Inventories at March 31, 1998 and 1997 reflect an adjustment to net realizable value of approximately \$828,000 and \$471,000, respectively. The provisions for net realizable value for the years ended March 31, 1998, 1997 and 1996 were approximately \$1,082,000, \$478,000 and \$532,000, respectively. Inventories, net of reserves, consisted of (amounts in thousands):

	March 31, 1998	March 31, 1997
	-----	-----
Purchased parts and components	\$ 1,409	\$ 1,162
Finished goods	13,511	7,121
	-----	-----
	\$ 14,920	\$ 8,283
	-----	-----
	-----	-----

Included in finished goods at March 31, 1998 and 1997 are expected inventory returns at a net realizable value of \$1,276,000 and \$837,000, respectively.

6. 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: building, 30 years; computer equipment, office furniture and other equipment, 3 years; leasehold improvements, through the life of the lease. Property and equipment, stated at cost, was as follows (amounts in thousands):

	March 31, 1998	March 31, 1997
	-----	-----
Land	\$ 581	-
Building	113	-
Computer equipment	15,461	\$ 11,561
Office furniture and other equipment	2,967	887
Leasehold improvements	2,974	1,584
	-----	-----
	22,096	14,032
Less accumulated depreciation and amortization	(11,468)	(8,042)
	-----	-----
	\$ 10,628	\$ 5,990
	-----	-----

Depreciation expense for the years ended March 31, 1998, 1997 and 1996 was \$3,836,000, \$2,613,000 and \$1,362,000, respectively.

7. ACCRUED EXPENSES

Accrued expenses were as follows (amounts in thousands):

	March 31, 1998	March 31, 1997
	-----	-----
Accrued royalties	\$ 5,996	\$ 4,173
Accrued selling and marketing costs	2,937	1,680
Dividends payable	-	1,144
Income tax payable	1,360	329
Accrued interest expense	1,125	-
Other	3,442	4,810
	-----	-----
	\$ 14,860	\$ 12,136
	-----	-----

8. OPERATIONS BY GEOGRAPHIC AREA

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

	Year ended March 31,		
	1998	1997	1996
Net revenues:			
North America	\$ 86,221	\$ 64,184	\$ 47,033
Europe	160,400	80,372	6,501
Japan	4,435	4,504	4,768
Australia and Pacific Rim	6,581	4,719	2,948
Latin America	2,289	865	143
Total net revenues	\$ 259,926	\$ 154,644	\$ 61,393
Operating income:			
North America	\$ 1,480	\$ 9,137	\$ 873
Europe	7,726	4,271	189
Japan	273	(395)	1,190
Australia and Pacific Rim	125	832	280
Latin America	525	(37)	-
Total operating income	\$ 10,129	\$ 13,808	\$ 2,532
	March 31,	March 31,	March 31,
	1998	1997	1996
Assets:			
North America	\$ 161,202	\$ 81,833	\$ 73,377
Foreign (principally Europe)	56,205	37,921	4,236
Total assets	\$ 217,407	\$ 119,754	\$ 77,613

9. COMPUTATION OF NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share:

	(amounts in thousands, except per share data)		
	1998	1997	1996
	-----	-----	-----
NUMERATOR			
Net income	\$ 5,827	\$ 9,226	\$ 5,530
Preferred stock dividends	(116)	(151)	-
	-----	-----	-----
Numerator for basic and diluted net income per share-income available to common stockholders	\$ 5,711	\$ 9,075	\$ 5,530
DENOMINATOR			
Denominator for basic net income per share-weighted average shares outstanding	18,439	17,362	15,332
Effect of dilutive securities:			
Employee stock options	801	689	939
Warrants to purchase common stock	70	-	-
	-----	-----	-----
Potential dilutive common shares	871	689	939
	-----	-----	-----
Denominator for diluted net income per share-adjusted weighted average shares and assumed conversions	19,310	18,051	16,271
	-----	-----	-----
Basic net income per share	\$ 0.31	\$ 0.52	\$ 0.36
	-----	-----	-----
Diluted net income per share	\$ 0.30	\$ 0.50	\$ 0.34
	-----	-----	-----

Weighted average options to purchase 1,978,000, 2,838,000 and 1,738,000 shares of common stock were outstanding for the years ended March 31, 1998, 1997 and 1996, respectively, but were not included in the calculations of diluted earnings per share because their effect would be antidilutive. Convertible subordinated notes and convertible preferred stock were not included in the calculations of diluted earnings per share because their effect would be antidilutive.

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,		
	1998	1997	1996
Income (loss) before income taxes:			
Domestic	\$ (2,103)	\$ 5,896	\$ 3,681
Foreign	11,538	8,145	558
	\$ 9,435	\$ 14,041	\$ 4,239
Income tax expense (benefit)			
Current:			
Federal	\$ 1,175	\$ 383	\$ 106
State	14	31	25
Foreign	3,984	1,236	78
Total current	5,173	1,650	209
Deferred:			
Federal	(2,580)	(2,961)	(1,369)
State	(232)	(1,244)	(131)
Total deferred	(2,812)	(4,205)	(1,500)
Add back benefit credited to additional paid-in capital:			
Tax benefit related to stock option exercises	1,247	736	-
Tax benefit related to utilization of pre-bankruptcy net operating loss carryforwards	-	6,634	-
	1,247	7,370	-
	\$ 3,608	\$ 4,815	\$ (1,291)

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,		
	1998	1997	1996
Federal income tax provision at statutory rate	34.0%	35.0%	34.0%
State taxes, net of federal benefit	(1.2%)	2.6%	-
Benefit of net operating loss carryforward	-	-	(25.7%)
Nondeductible amortization	4.4%	3.0%	10.3%
Nondeductible merger fees	3.6%	-	-
Future (current) deductible reserves	-	-	(4.9%)
Research and development credits	(5.3%)	(6.4%)	(8.7%)
Incremental effect of foreign tax rates	0.7%	(3.1%)	(0.5%)
Increase (reduction) of valuation allowance	-	3.1%	(35.4%)
Other	2.0%	0.1%	0.4%
	38.2%	34.3%	(30.5%)

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

	March 31, 1998	March 31, 1997
	-----	-----
Deferred asset:		
Allowance for bad debts	\$ 358	\$ 272
Allowance for sales returns	3,241	441
Miscellaneous	521	99
Tax credit carryforwards	3,320	2,553
Net operating loss carryforwards	9,184	10,447
	-----	-----
Deferred tax asset	16,624	13,812
Valuation allowance	(8,107)	(8,107)
	-----	-----
Net deferred tax asset	\$ 8,517	\$ 5,705
	-----	-----
	-----	-----

During the year ended March 31, 1996, the Company recognized a tax benefit of \$1.5 million through a reduction in the Company's deferred tax asset valuation allowance. The reduction reflected the remaining portion of the Company's net operating loss carryforwards, the benefit from which could be recorded in the Company's provision for income taxes. In accordance with Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," issued by the American Institute of Certified Public Accountants, benefits from loss carryforwards arising prior to the Company's reorganization are recorded as additional paid-in capital. During the year ended March 31, 1997, \$6.6 million of such benefit was recognized through a reduction in the valuation allowance. No further reduction was recognized in fiscal 1998. The reductions in the valuation allowance during the years ended March 31, 1997 and 1996 were determined based on the Company's assessment of the realizability of its deferred tax assets, which assessment was based on recent operating history, and the Company's expectation that operations will continue to generate taxable income, as well as other factors. Realization of the deferred tax assets is dependent upon the continued generation of sufficient taxable income prior to expiration of tax credits and loss carryforwards. Although realization is not assured, management believes it is more likely than not that the deferred tax asset of \$8.5 million will be realized. The amount of deferred tax assets considered realizable, however, could be reduced in the future if estimates of future taxable income are reduced.

The Company's available net operating loss carryforward for federal tax reporting purposes approximates \$25.8 million and is subject to certain limitations as defined under Section 382 of the Internal Revenue Code. The net operating loss carryforwards expire from 1999 to 2009. The Company has tax credit carryforwards of approximately \$2.4 million and \$900,000 for federal and state purposes, respectively.

11. COMMITMENTS AND CONTINGENCIES

BANK LINE OF CREDIT

As of March 31, 1998, the Company has a \$10.0 million revolving credit and letter of credit facility (the "Facility") with its bank (the "Bank"). The Facility currently provides the Company with the ability to borrow funds and issue letters of credit against eligible domestic accounts receivable up to \$10.0 million. The Facility expires in September 1998. In addition, the Company has entered into a \$2.0 million line of credit agreement (the "Asset Line") with the Bank. Drawings under the Asset Line are structured with 36 month repayment terms and the Asset Line expires in September 1998. Borrowings under the Asset Line totaled \$1.2 million as of March 31, 1998 with an effective borrowing rate of 8.3%.

In addition, the Company has a revolving credit facility (the "Europe Facility") with its bank in Europe for approximately \$8.5 million. The Europe Facility can be used for working capital requirements and expires in June 2000. The Company had no borrowings outstanding against the Europe facility as of March 31, 1998.

LEASE OBLIGATIONS

The Company leases certain of its facilities under non-cancelable operating lease agreements. Total future minimum lease commitments as of March 31, 1998 are as follows (amounts in thousands):

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

28,720

Rent expense for the years ended March 31, 1998, 1997 and 1996 was approximately \$3,219,000, \$2,279,000 and \$1,348,000, respectively.

LEGAL PROCEEDINGS

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

12. STOCKHOLDERS' EQUITY

STOCK OPTION PLAN

The Company has a stock option plan (the "Stock Option Plan") for the benefit of officers, employees, consultants and others. The Stock Option Plan permits the granting of non-qualified stock options, incentive stock options ("ISOs"), stock appreciation rights ("SARs"), restricted stock awards, deferred stock awards and other Common Stock-based awards. As of March 31, 1998, the total number of shares of Common Stock available for distribution under the Stock Option Plan was 7,666,667. The plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. There were 258,480 remaining shares available for grant under the Stock Option Plan as of March 31, 1998.

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

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

	1998		1997		1996	
	Shares (000)	Wtd Avg Ex Price	Shares (000)	Wtd Avg Ex Price	Shares (000)	Wtd Avg Ex Price
Outstanding at beginning of year	5,228	\$ 11.69	3,725	\$ 11.37	1,190	\$ 5.20
Granted	2,776	\$ 12.14	1,997	\$ 11.28	2,805	\$ 13.61
Exercised	(599)	\$ 8.35	(313)	\$ 7.05	(50)	\$ 4.54
Forfeited	(1,187)	\$ 14.45	(181)	\$ 9.24	(220)	\$ 6.07
Expired	-	-	-	-	-	-
Outstanding at end of year	6,218	\$ 11.47	5,228	\$ 11.69	3,725	\$ 11.37
Exercisable at end of year	2,532	\$ 9.78	3,292	\$ 12.62	334	\$ 4.55

The range of exercise prices for options outstanding as of March 31, 1998 was \$.75 to \$21.18. The range of exercise prices for options is wide due to increases and decreases in the Company's stock price over the period of the grants. For the year ended March 31, 1998, 2,019,000 options were granted at an exercise price equal to the fair market value on the date of grant, and 757,000 options were granted at an exercise price greater than fair market value on the date of grant.

The following tables summarize information about options outstanding at March 31, 1998:

Outstanding Options			
	Shares (000)	Remaining Weighted Avg Contractual Life (in years)	Wtd Avg Exercise Price
Range of exercise prices:			
\$.75 to \$6.00	767	6.25	\$4.82
\$6.12 to \$9.50	771	8.34	\$8.59
\$9.75 to \$9.87	687	8.86	\$9.85
\$10.00 to \$10.87	1,161	8.89	\$10.64
\$10.88 to \$13.00	943	8.63	\$12.32
\$13.13 to \$14.37	637	7.99	\$13.62
\$14.50 to \$21.18	1,252	8.05	\$18.01
Total	6,218	8.30	\$11.47

Exercisable Options		
	Shares (000)	Wtd Avg Exercise Price
Range of exercise prices:		
\$.75 to \$6.00	538	\$4.54
\$6.12 to \$9.50	251	\$7.89
\$9.75 to \$9.87	624	\$9.86
\$10.00 to \$10.87	442	\$10.44
\$10.88 to \$13.00	174	\$11.88
\$13.13 to \$14.37	291	\$13.55
\$14.50 to \$21.18	212	\$16.57
Total	2,532	\$9.78

These options will expire if not exercised at specific dates ranging from January 2002 to March 2008. Prices for options exercised during the three year period ended March 31, 1998 ranged from \$1.50 to \$15.75.

EMPLOYEE STOCK PURCHASE PLAN

The Company has an employee stock purchase plan for all eligible employees (the "Purchase Plan"). Under the Purchase Plan, shares of the Company's common stock may be purchased at six-month intervals at 85% of the lower of the fair market value on the first or last day of each six-month period (the "Offering Period"). Employees may purchase shares having a value not exceeding 10% of their gross compensation during an Offering Period. Employees purchased 24,600 shares at a price of \$9.35 per share and 38,500 shares at a price of \$9.14 per share during the Purchase Plan's offering period ended September 30, 1997 and March 31, 1998, respectively. As of March 31, 1998, 117,900 shares were reserved for future issuance under the Purchase Plan.

EMPLOYEE RETIREMENT PLAN

The Company has a retirement plan covering substantially all of its eligible employees. The retirement plan is qualified in accordance with Section 401(k) of the Internal Revenue Code. Under the plan, employees may defer up to 15% of their pre-tax salary, but not more than statutory limits. The Company contributes 5% of each dollar contributed by a participant. The Company's matching contributions to the plan were \$40,000, \$25,000 and \$10,000 during the years ended March 31, 1998, 1997 and 1996, respectively.

DIRECTOR WARRANT PLAN

The Director Warrant Plan provides for the automatic granting of warrants ("Director Warrants") to purchase 16,667 shares of the Common Stock to each director of the Company who is not an officer or employee of the Company or any of its subsidiaries. Director Warrants granted under the Director Warrant Plan vest 25% on the first anniversary of the date of grant, and 12.5% each six months thereafter. The Director Warrant Plan expired on December 19, 1996. The expiration had no effect on the outstanding Warrants. As of March 31, 1998, there were no shares of Common Stock available for distribution under the Director Warrant Plan.

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

	1998		1997		1996	
	Shares (000)	Wtd Avg Ex Price	Shares (000)	Wtd Avg Ex Price	Shares (000)	Wtd Avg Ex Price
Outstanding at beginning of year	73	\$4.43	73	\$4.43	50	\$0.75
Granted	-	-	-	-	60	7.50
Exercised	-	-	-	-	(17)	0.75
Forfeited	-	-	-	-	(20)	7.50
Expired	-	-	-	-	-	-
Outstanding at end of year	73	\$4.43	73	\$4.43	73	\$4.43
Exercisable at end of year	73	\$4.43	73	\$4.43	39	\$2.47

The range of exercise prices for Director Warrants outstanding as of March 31, 1998 was \$.75 to 8.50. The range of exercise prices for director warrants is wide due to increases and decreases in the Company's stock price over the period of the grants. As of March 31, 1998, 33,300 of the outstanding and vested Director Warrants have a weighted average remaining contractual life of 3.78 years and a weighted average exercise price of \$.75; 20,000 of the outstanding and vested Director Warrants have a weighted average remaining contractual life of 6.82 years and a weighted average exercise price of \$6.50; and 20,000 of the outstanding and vested Director Warrants have a weighted average remaining contractual life of 6.82 years and a weighted average exercise price of \$8.50.

OTHER WARRANTS

During the fiscal year ended March 31, 1997, the Company granted 40,000 warrants to purchase Common Stock with a weighted average exercise price of \$12.02 to two of its outside directors in connection with their election to the Board. Such warrants have vesting terms identical to the Director Warrants and expire within 10 years. As of March 31, 1998, 10,125 of such warrants were vested and exercisable.

During the fiscal year ended March 31, 1998, the Company granted warrants to purchase 300,000 shares of Common Stock to an outside developer in connection with software license agreements. Of the warrants, 150,000 have an exercise price of \$10.38 per share, are immediately exercisable, and expire on May 20, 2007. The remaining 150,000 warrants have an exercise price of \$10.50, are immediately exercisable, and expire March 31, 2008. The Company has accounted for the fair value of the warrants.

PRO FORMA INFORMATION

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

Pro forma information regarding net income (loss) and net income (loss) per share is required by SFAS No. 123. This information is required to be determined as if the Company had accounted for its employee stock options (including shares issued under the Purchase Plan and Director Warrant Plan, collectively called "options") granted during fiscal 1996, 1997 and 1998 under the fair value method of that statement. The fair value of options granted in the years ended March 31, 1998, 1997 and 1996 reported below has been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	Stock Option Plan			Purchase Plan			Director Warrant Plan		
	1998	1997	1996	1998	1997	1996	1998	1997	1996
Expected life (in years)	3.0	2.2	3.7	0.5	0.5	-	-	-	2.0
Risk free interest rate	5.62%	6.45%	6.45%	5.62%	6.45%	-	-	-	6.45%
Volatility	.63	.60	.60	.71	.60	-	-	-	.60
Dividend yield	-	-	-	-	-	-	-	-	-

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options. The weighted average estimated fair value of Stock Option Plan shares granted during the years ended March 31, 1998, 1997 and 1996 was \$4.49, \$4.04 and \$3.74 per share, respectively. The weighted average estimated fair value of Employee Purchase Plan shares granted during the year ended March 31, 1998 and 1997 were \$2.65 and \$2.89, respectively. The weighted average estimated fair value of Director Warrants granted during the year ended March 31, 1997 was \$2.27. No Director Warrants were granted during the year ended March 31, 1998.

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

	Year ended March 31,		
	1998	1997	1996
Pro forma net income (loss)	\$ (52)	\$ 5,947	\$ 2,302
Pro forma basic net income per share	\$ 0.00	\$ 0.33	\$ 0.15
Pro forma diluted net income per share	\$ 0.00	\$ 0.32	\$ 0.14

The effects on pro forma disclosures of applying SFAS No. 123 are not likely to be representative of the effects on pro forma disclosures of future years. Because SFAS No. 123 is applicable only to options granted during fiscal 1996 through 1998, the pro forma effect will not be fully reflected until the fiscal year ended March 31, 2000.

13. QUARTERLY FINANCIAL AND MARKET INFORMATION (UNAUDITED)

(Dollars in thousands, except per share data)	Quarter Ended				Year Ended
	June 30	Sept 30	Dec 31	Mar 31	
Fiscal 1998:					
Net revenues	\$ 26,514	\$ 53,015	\$ 122,141	\$ 58,286	\$ 259,926
Operating income (loss)	(8,652)	3,107	15,154	520	10,129
Net income (loss)	(5,414)	1,837	9,278	126	5,827
Basic income (loss) per share	(0.30)	0.10	0.50	0.01	0.31
Diluted net income (loss) per share	(0.30)	0.09	0.47	0.01	0.30
Common stock price per share					
High	\$ 14.75	\$ 15.25	\$ 18.63	\$ 17.87	\$ 18.63
Low	9.87	11.00	13.00	9.50	9.50
Fiscal 1997:					
Net revenues	\$ 7,021	\$ 29,557	\$ 60,480	\$ 57,586	\$ 154,644
Operating income (loss)	(4,226)	2,137	8,288	7,609	13,808
Net income (loss)	(2,631)	1,421	5,320	5,116	9,226
Basic income (loss) per share	(0.17)	0.08	0.30	0.29	0.52
Diluted net income (loss) per share	(0.17)	0.07	0.29	0.27	0.50
Common stock price per share					
High	\$ 15.00	\$ 14.38	\$ 14.00	\$ 16.25	\$ 16.25
Low	11.63	9.50	10.56	10.00	9.50

SCHEDULE II

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

Col. A ----- Description	Col. B ----- Balance at Beginning of Period	Col. C ----- Additions	Col. D ----- Deductions (Describe)	Col. E ----- Balance at End of Period
Year ended March 31, 1998				
Allowance for sales returns, price protection and doubtful accounts	\$ 7,674	\$ 35,977	\$ 31,529 (A)	\$ 12,122
Inventory valuation	\$ 471	\$ 1,082	\$ 725 (B)	\$ 828
Deferred tax valuation allowance	\$ 8,107	-	-	\$ 8,107
Year ended March 31, 1997				
Allowance for sales returns, price protection and doubtful accounts	\$ 7,005	\$ 18,878	\$ 18,209 (A)	\$ 7,674
Inventory valuation	\$ 145	\$ 478	\$ 152 (B)	\$ 471
Deferred tax valuation allowance	\$ 14,305	\$ 436	\$ 6,634	\$ 8,107
Year ended March 31, 1996				
Allowance for sales returns, price protection and doubtful accounts	\$ 4,469	\$ 12,402	\$ 9,866 (A)	\$ 7,005
Inventory valuation	\$ 357	\$ 532	\$ 744 (B)	\$ 145
Deferred tax valuation allowance	\$ 16,500	\$ (695)	\$ 1,500	\$ 14,305

(A) Actual write-offs of uncollectible accounts receivable or sales returns and price protection.

(B) Actual write-offs of obsolete inventory, scrap and reduction in carrying value of certain portions of inventory.

EXHIBIT INDEX

ITEM 14(a). EXHIBITS.

Exhibit Number -----	Exhibit -----	Sequential Page Number -----
3.1	Amended and Restated Articles of Incorporation of Activision, Inc., dated October 15, 1992 (incorporated by reference to Exhibit 4.5 of Amendment No. 1 to the Company's Form S-8, Registration No. 33-48411 filed on June 1, 1993).	
3.2	Bylaws of Activision, Inc. (incorporated by reference to Exhibit 4.6 of Amendment No. 1 to the Company's Form S-8, Registration No. 33-48411 filed on June 1, 1993).	
10.1	Mediagenic 1991 Stock Option and Stock Award Plan, as amended (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, Registration No. 33-63638, filed on December 8, 1995).	
10.2	Mediagenic 1991 Director Warrant Plan as amended (incorporated by reference to Exhibit 28.2 to the Company's Registration Statement on Form S-8, Registration No. 33-63638, filed on June 1, 1993).	
10.3	Lease Agreement dated as of December 20, 1996, between the Company and Barclay Curci Investment Company (incorporated by reference to Exhibit 10.14 of the Company's Form 10-Q for the quarter ended December 31, 1996.)	
10.4	Articles of Merger, with the Plan of Merger annexed thereto, between the Company and Raven Software Corporation, as filed with the Department of Financial Institutions of the State of Wisconsin on August 26, 1997 (incorporated by reference to Exhibit 2.1 of the Company's Form 8-K filed September 5, 1997).	
10.5	Share Exchange Agreement dated November 23, 1997, among the Company and the holders of all of the issued and outstanding capital stock of Combined Distribution (Holdings) , Inc. (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed December 5, 1997).	
10.6	Purchase Agreement dated as of December 16, 1997, among the Company and Credit Suisse First Boston Corporation, Piper Jaffray, Inc. and UBS Securities LLC (the "Initial Purchasers") (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed December 23, 1997).	
10.7	Registration Rights Agreement dated as of December 16, 1997, among the Company and the Initial Purchasers (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed December 23, 1997).	
10.8	Indenture dated as of December 22, 1997, between the Company and State Street Bank and Trust Company of California, N.A., as Trustee (incorporated by reference to Exhibit 10.3 of the Company's Form 8-K filed December 23, 1997).	
16.	Letter from Coopers & Lybrand, LLP pursuant to Item 304 (a) (3) of Regulation S-K (incorporated by reference to exhibit 16 of the Company's Form 8-K filed January 17, 1997.)	
21.	Principal subsidiaries of the Company.	
23.	Independent Auditor Consent.	
27.1	Fiscal 1995 Year to Date Financial Data Schedule.	
27.2	Fiscal 1996 Year to Date Financial Data Schedule.	
27.3	Fiscal 1997 Quarters and Year to Date Financial Data Schedule.	
27.4	Fiscal 1998 Quarters and Year to Date Financial Data Schedule.	

(b) REPORTS ON FORM 8-K. The following reports on Form 8-K have been filed by the Company during the last quarter of the fiscal year ended March 31, 1998:

1. Form 8-K dated January 6, 1998, containing items 5 and 7.

PRINCIPAL SUBSIDIARIES OF THE REGISTRANT

Name of subsidiary	State or Other Jurisdiction of Incorporation or Organization
-----	-----
Activision Australia Pty Ltd.	Australia
Activision GmbH	Germany
Activision Illinois, Inc.	Illinois
Activision Japan Co., Ltd.	Japan
Activision Latin America, Inc.	Florida
Activision New York, Inc.	New York
Activision Productions, Inc.	Delaware
Activision Texas, Inc.	Texas
Activision (U.K.) Ltd.	United Kingdom
CentreSoft Limited	United Kingdom
CentreSoft France SARL	France
Combined Distribution (Holdings) Ltd.	United Kingdom
The Disc Company International, Inc.	U.S. Virgin Islands
Jotaphoenicis Beteiligungs GmbH	Germany
Kappaphoenicis Beteiligungs GmbH	Germany
NBG EDV Handels und Verlags GmbH	Germany
NBG USA	Minnesota
PDQ Limited	United Kingdom
Raven Software Corporation	Wisconsin
Take Us! Marketing and Consulting GmbH	Germany
Target Software Vertriebs GmbH	Germany
TDC Group, Inc.	Delaware

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the registration statements (Nos. 33-48411, 33-63638, 33-91074, 333-06130, 333-12621, 333-06054 and 33-40727) on Form S-8 and (Nos. 33-68144, 33-75878, 333-30303, 333-36949, 333-43961 and 333-46425) on Form S-3 of Activision, Inc. of our report dated May 12, 1998, relating to the consolidated balance sheets of ACTIVISION, INC. and subsidiaries as of March 31, 1998 and 1997 and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended March 31, 1998, and the related financial statement schedule for each of the years in the three-year period ended March 31, 1998, which report appears in the March 31, 1998 annual report on Form 10-K of ACTIVISION, INC.

KPMG PEAT MARWICK LLP

Los Angeles, California
June 11, 1998

YEAR

MAR-31-1995		
APR-01-1994		
MAR-31-1995		
	37,355	
	0	
	10,035	
	4,469	
	1,972	
46,317		2,985
(1,342)		
68,883		
5,669		0
0		0
	0	
	0	
	62,704	
68,883		
	40,669	
40,669		21,293
	21,293	
22,333		
0		
(1,592)		
(1,365)		
	155	
(1,520)		
	0	
	0	
	0	
	(1,520)	
	(.10)	
	(.10)	

YEAR

	MAR-31-1996	
	APR-01-1995	
	MAR-31-1996	25,288
		0
		26,377
		6,468
		2,975
	54,507	6,008
		2,682
	14,614	77,613
	0	0
		0
		0
77,613		62,999
		61,393
	61,393	21,749
		21,749
	37,112	
	0	
	(1,707)	
	4,239	
	1,291	
	5,530	
	0	
	0	
		0
	5,530	
	.36	
	.34	

YEAR	3-MOS			6-MOS			9-MOS		
	MAR-31-1997	APR-01-1996	MAR-31-1997	MAR-31-1997	APR-01-1996	MAR-31-1997	MAR-31-1997	APR-01-1996	MAR-31-1997
	APR-01-1996	MAR-31-1997	APR-01-1996	APR-01-1996	SEP-30-1996	APR-01-1996	APR-01-1996	DEC-31-1996	APR-01-1996
			JUN-30-1996						
		21,358		22,814		17,348		23,936	
	0		0		0		0		0
	54,307		19,946		42,266		47,640		
	7,674		6,220		6,939		9,774		
	8,283		3,439		7,469		10,185		
	85,548		49,938		70,078		90,554		
		14,032		3,974		5,112		5,133	
	(8,042)		(3,124)		(6,524)		(7,462)		
	119,754		74,242		100,853		120,398		
	33,710		12,358		32,731		45,617		
	0	0	0	0	0	0	0	0	0
	0	0	0	0	1,500	0	1,500	0	
	81,980		61,555		63,588		69,679		
119,754		74,242		100,853		120,398			
	154,644		7,021		36,578		97,058		
		87,121		1,509		15,377		51,562	
	87,121		1,509		15,377		39,297		
	53,715		9,738		23,290		0		
	0		0		0		0		
	(233)		(312)		(309)		(284)		
	14,041		(3,914)		(1,774)		6,483		
	4,815		(1,283)		(564)		(2,373)		
	9,226		(2,631)		(1,210)		4,110		
	0		0		0		0		
	0		0		0		0		
	9,226		(2,631)		(1,210)		4,110		
	.53		(.17)		.08		.24		
	.50		(.17)		.08		.23		

YEAR	3-MOS		6-MOS		9-MOS	
	MAR-31-1998	MAR-31-1998	MAR-31-1998	MAR-31-1998	MAR-31-1998	MAR-31-1998
	APR-01-1997	APR-01-1997	APR-01-1997	APR-01-1997	APR-01-1997	APR-01-1997
	MAR-31-1998	JUN-30-1997	SEP-30-1997	DEC-31-1997		
	73,378	15,894	10,286	91,617		
	0	0	0	0		
	81,934	39,030	57,988	113,342		
	12,122	6,194	7,153	13,911		
	14,920	8,888	11,330	17,588		
	176,326	73,369	87,806	220,508		
	22,096	17,046	19,904	21,515		
	(11,468)	(8,795)	(9,378)	(10,599)		
	217,405	110,463	126,442	262,353		
	55,791	28,880	40,435	103,673		
	0	0	0	0		
	0	0	0	0		
	0	0	0	0		
	100,293	77,522	81,370	97,388		
217,407	110,463	126,442	262,353			
	259,926	26,514	79,529	201,670		
	163,123	20,276	50,011	127,089		
	163,123	20,276	50,011	127,089		
	86,674	14,890	35,063	64,972		
	0	0	0	0		
	(694)	(32)	145	377		
	9,435	(8,684)	(5,690)	9,232		
	3,608	(3,271)	(2,113)	3,531		
	5,827	(5,414)	(3,577)	5,701		
	0	0	0	0		
	0	0	0	0		
	0	0	0	0		
	5,827	(5,414)	(3,577)	5,701		
	.31	(.30)	.18	.31		
	.30	(.30)	.18	.30		