SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1999

O R

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

For the transition period from __________ to __________

Commission File Number 0-12699

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

DELAWARE	94-2606438
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3100 OCEAN PARK BOULEVARD, SANTA MONICA, CA	90405
(Address of principal executive offices)	(Zip Code)

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

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

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

The number of shares of the registrant's Common Stock outstanding as of November 11, 1999 was 25,032,316.

ACTIVISION, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ACTIVISION, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets
(Unaudited)
(all amounts in thousands except share data)

	September 30, 1999	March 31, 1999 Restated
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,797	$ 33,037
Accounts receivable, net of allowances of $21,333 and $14,979, respectively	127,637	117,541
Inventories, net	40,805	30,931
Prepaid royalties and capitalized software costs	47,993	38,093
Deferred income taxes	11,145	6,383
Other current assets	14,831	9,965
Total current assets	268,208	235,950
Prepaid royalties and capitalized software costs	10,377	6,923
Property and equipment, net	11,438	10,924
Deferred income taxes	2,618	2,618
Intangible assets, net	53,727	21,647
Other assets	8,795	5,283
Total assets	$ 355,163	$ 283,345
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of notes payable to bank	$ 25,339	$ 5,992
Accounts payable	39,731	43,853
Accrued expenses	61,194	45,160
Total current liabilities	126,264	95,005
Notes payable to bank, less current portion	19,291	1,143
Convertible subordinated notes	60,000	60,000
Other liabilities	2	6
Total liabilities	205,557	156,154
Shareholders' equity:		
Common stock, $.000001 par value, 50,000,000 shares authorized, 25,490,105 and 23,303,762 shares issued and 24,990,105 and 23,803,762 outstanding, respectively	--	--
Additional paid-in capital	134,412	109,251
Retained earnings	22,217	25,728
Accumulated other comprehensive income (loss)	(1,745)	(2,510)
Less: Treasury stock, cost of 500,000 shares	(5,278)	(5,278)
Total shareholders' equity	149,606	127,191
Total liabilities and shareholders' equity	$ 355,163	$ 283,345

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

ACTIVISION, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
For the Three and Six Months ended September 30,
(Unaudited)
(all amounts in thousands except loss per share data)

	Three Months Ended September 30,		Six Months Ended September 30,	
	1999	1998	1999	1998
		Restated		Restated
Net revenues	$ 115,363	$ 66,182	$ 199,505	$ 127,723
Costs and expenses:				
Cost of sales - product costs	66,284	43,473	119,823	82,864
Cost of sales - royalties and software amortization	11,610	4,999	21,480	7,749
Product development	5,819	4,246	10,342	10,307
Sales and marketing	20,020	10,798	37,158	24,537
General and administrative	6,593	4,580	11,296	9,130
Amortization of intangible assets	1,362	396	1,831	793
Merger expenses	150	425	150	600
Total operating expenses	111,838	68,917	202,080	135,980
Operating income (loss)	3,525	(2,735)	(2,575)	(8,257)
Interest expense, net	(1,838)	(824)	(2,997)	(1,225)
Income (loss) before income tax provision (benefit)	1,687	(3,559)	(5,572)	(9,482)
Income tax provision (benefit)	624	(1,354)	(2,061)	(3,606)
Net income (loss)	$ 1,063	$ (2,205)	$ (3,511)	$ (5,876)
Other comprehensive income (loss):				
Foreign currency translation adjustment	1,822	788	765	(10)
Comprehensive income (loss)	$ 2,885	$ (1,417)	$ (2,746)	$ (5,886)
Basic and diluted net income (loss) per share	$ 0.04	$ (0.10)	$ (0.15)	$ (0.26)
Number of shares used in computing basic net income (loss) per share	24,502	22,669	24,103	22,648
Number of shares used in computing diluted net income (loss) per share	26,753	22,669	24,103	22,648

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

ACTIVISION, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
For the Six Months ended September 30,
(UNAUDITED)
(all amounts in thousands)

	1999	1998 Restated
	Increase (decrease) in cash	
Cash flows from operating activities:		
Net loss	$ (3,511)	$ (5,876)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred income taxes	(2,496)	(3,437)
Depreciation and amortization	3,435	2,825
Amortization of prepaid royalties and capitalized software costs	18,271	4,511
Change in assets and liabilities:		
Accounts receivable	(9,377)	11,797
Inventories	(6,593)	(6,178)
Other current assets	(2,468)	(5,209)
Other assets	(3,501)	2,178
Accounts payable	(6,591)	(7,161)
Accrued liabilities	11,457	813
Other liabilities	--	(1,310)
Net cash used in operating activities	(1,374)	(7,047)
Cash flows from investing activities:		
Cash used for purchase acquisitions, net of cash acquired	(20,523)	--
Cash acquired in pooling transactions	--	732
Capital expenditures	(2,330)	(2,858)
Investment in prepaid royalties and capitalized software costs	(31,625)	(27,261)
Net cash used in investing activities	(54,478)	(29,387)
Cash flows from financing activities:		
Proceeds from issuance of common stock pursuant to employee stock option plan	13,288	434
Proceeds from employee stock purchase plan	419	389
Note payable to bank, net	(4,844)	3,913
Proceeds from term loan	25,000	--
Cash paid to secure line of credit and term loan	(3,355)	--
Borrowings under line of credit agreement	51,815	--
Payments under line of credit agreement	(34,476)	--
Net cash provided by financing activities	47,847	4,736
Effect of exchange rate changes on cash	765	(10)
Net decrease in cash and cash equivalents	(7,240)	(31,708)
Cash and cash equivalents at beginning of period	33,037	73,378
Cash and cash equivalents at end of period	$ 25,797	$ 41,670

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

ACITIVISION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the Six Months Ended September 30, 1999

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of Activision, Inc. (together with its subsidiaries, "Activision" or "the Company"). The information furnished is unaudited and reflects all adjustments that, in the opinion of management, are necessary to provide a fair statement of the results for the interim periods presented. The financial statements should be read in conjunction with the financial statements included in the Company's Annual Report on Form 10-K for the year ended March 31, 1999, and the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 as previously filed with the Securities and Exchange Commission (the "SEC").

The consolidated financial statements for the period ended June 30, 1999 and all prior periods have been retroactively restated to reflect the Company's acquisition of JCM Productions, Inc. dba Neversoft Entertainment ("Neversoft") on September 30, 1999, which was accounted for as a pooling of interests.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Intangible assets, net of amortization, at September 30, 1999 and March 31, 1999 of $53.7 million and $21.6 million, respectively, includes goodwill and costs of acquired licenses, brands and trade names which are amortized using the straight-line method over their estimated useful lives, typically from three to twenty years.

Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income, was adopted as of April 1, 1999. This Statement establishes standards for the reporting and display of changes in shareholders' equity that do not result directly from transactions with shareholders. The Company has displayed comprehensive income (loss) and its components in the condensed consolidated statements of operations for the three and six months ended September 30, 1999 and 1998.

3. ACQUISITION OF NEVERSOFT

On September 30, 1999, the Company acquired Neversoft, a privately held console software developer, in exchange for 698,835 shares of the Company's common stock. The acquisition was accounted for as a pooling of interests.

4. PREPAID ROYALTIES AND CAPITALIZED SOFTWARE COSTS

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

The Company accounts for prepaid royalties relating to development agreements and capitalized software costs in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed". Software development costs and prepaid royalties are capitalized once technological feasibility is established. Technological feasibility is evaluated on a product-by-product basis. For products where proven game engine technology exists, this may occur early in the development cycle. Software development costs are expensed if and when they are deemed unrecoverable. Amounts related to software development, which are not capitalized, are charged immediately to product development expense.

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

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

As of September 30, 1999, prepaid royalties and unamortized capitalized software costs totaled $46.3 million (including $10.4 million classified as non-current) and $12.1 million, respectively. As of March 31, 1999, prepaid royalties and unamortized capitalized software costs totaled $36.0 million (including $6.9 million classified as non-current) and $9.0 million, respectively. Amortization of prepaid royalties and capitalized software costs was $21.5 million and $7.7 million for the six months ended September 30, 1999 and 1998, respectively. Write-offs of prepaid royalties and capitalized software costs prior to product release were approximately $675,000 and $415,000 for the three months ended September 30, 1999 and 1998, respectively.

5. REVENUE RECOGNITION

The AICPA's Statement of Position 97-2 "Software Revenue Recognition" (SOP 97-2"), provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions. SOP 97-2 is effective for all transactions entered into subsequent to March 31, 1999. The Company has adopted SOP 97-2 and such adoption did not have a material impact on the Company's financial position, results of operations or liquidity. Effective December 15, 1998, the American Institute of Certified Public Accounts issued Statement of Position 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions" ("SOP 98-9"), which is effective for transactions entered into after March 15, 1999. SOP 98-9 deals with the determination of vendor specific objective evidence of fair value in multiple element arrangements, such as maintenance agreements sold in conjunction with software packages. The Company does not believe this will have a material impact on the Company's financial position, result of operations or liquidity.

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

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

6. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash activities and supplemental cash flow information for the six months ended September 30, 1999 and 1998 are as follows (amounts in thousands):

	September 30, 1999	September 30, 1998
Non-cash activities:		
Warrants to acquire common stock issued in exchange for licensing rights	$3,113	$ 43
Common stock issued in connection with purchase acquisition	$2,700	--
Options to acquire common stock issued in connection with purchase acquisition	$3,271	--
Tax benefit attributable to stock option exercises	$2,370	
Supplemental cash flow information:		
Cash paid for income taxes	$ 788	$ 522
Cash paid for interest	$5,238	$2,532

7. OPERATIONS BY REPORTABLE SEGMENTS AND GEOGRAPHIC AREA

The Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," as of April 1, 1998. SFAS No. 131 establishes standards for reporting information about an enterprise's operating segments and related disclosures about its products, geographic areas and major customers.

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

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

The Company's distribution segment conducts operations in the United Kingdom, the Benelux territories and Germany. This segment distributes interactive entertainment software and hardware and provides logistical services for a variety of publishers and manufacturers in these territories. A small percentage of distribution sales are derived from Activision-published titles.

The President and Chief Operating Officer allocates resources to each of the segments using information on their respective revenues and operating profits before interest and taxes. The President and Chief Operating Officer has been identified as the Chief Operating Decision Maker as defined by SFAS No. 131.

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

The accounting policies of these segments are the same as those described in the Summary of Significant Accounting Policies in the Company's annual report on Form 10-K for the year ended March 31, 1999. Revenue derived from sales between segments is eliminated in consolidation.

Information on the reportable segments for the three and six months ended September 30, 1999 and 1998 is as follows:

	Three Months Ended September 30, 1999			
	Publishing	Distribution	Corporate	Total
Revenues from external customers	$ 78,689	$ 36,674	--	$115,363
Revenue from sales between segments	$ 8,417	--	--	$ 8,417
Operating income (loss)	$ 5,375	$ (418)	$ (1,432)	$ 3,525

	Six Months Ended September 30, 1999			
	Publishing	Distribution	Corporate	Total
Revenues from external customers	$ 126,809	$ 72,696	--	$199,505
Revenue from sales between segments	$ 13,663	--	--	$ 13,663
Operating income (loss)	$ 507	$ (1,261)	$ (1,821)	$ (2,575)

	Three Months Ended September 30, 1998			
	Publishing	Distribution	Corporate	Total
Revenues from external customers	$ 23,556	$ 42,626	--	$ 66,182
Revenue from sales between segments	$ 574	--	--	$ 574
Operating income (loss)	$ (2,183)	$ 352	$ (904)	$ (2,735)

	Six Months Ended September 30, 1998			
	Publishing	Distribution	Corporate	Total
Revenues from external customers	$ 45,029	$ 82,694	--	$127,723
Revenue from sales between segments	$ 2,263	--	--	$ 2,263
Operating income (loss)	$ (7,232)	$ 192	$ (1,217)	$ (8,257)

Operating expenses in the corporate column consist of amortization of goodwill and merger expenses resulting from the Company's merger with The Disc Company, Inc. on April 1, 1992, the Company's acquisition of Expert Software on June 22, 1999 and the Company's acquisition of Elsinore Multimedia on June 29, 1999.

Geographic information for the three and six months ended September 30, 1999 and 1998 is based on the location of the selling entity. Revenues from external customers by geographic region were as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	1999	1998	1999	1998
United States	$ 58,345	$ 21,242	$ 93,158	$ 37,161
International	57,018	44,940	106,347	90,562
Total	$115,363	$ 66,182	$199,505	$127,723

Revenues by platform were as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	1999	1998	1999	1998
Console	$ 79,823	$ 44,531	$129,051	$ 82,956
PC	35,540	21,651	70,454	44,767
Total	$115,363	$ 66,182	$199,505	$127,723

8. COMPUTATION OF NET INCOME (LOSS) PER SHARE

Statement of Financial Accounting Standards No. 128 ("SFAS 128" per share,") requires companies to compute net earnings per share under two different methods, basic and diluted earnings per share, for all periods for which an income statement is presented. Basic earnings per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for all periods. Diluted earnings per share reflects the potential dilution that could occur if the income were divided by the weighted average number of common and common stock equivalent shares outstanding during the period. Diluted earnings per share is computed by dividing net income (loss) by the weighted average number of common shares and common stock equivalents from outstanding stock options and warrants. Common stock equivalents are calculated using the treasury stock method and represent incremental shares issuable upon exercise of the Company's outstanding options and warrants.

For the three months ended September 30, 1999, outstanding weighted average options to purchase approximately 113,745 shares were not included in the computation of diluted earnings per share as a result of their antidilutive effect. Such stock options could have a dilutive effect in future periods. Due to losses recorded for the three months ended September 30, 1998 and the six months periods ended September 30, 1999 and 1998, no conversions were assumed in the computation of diluted net income (loss) per share for such periods.

The following table sets forth the computation of basic and diluted net income (loss) per common share for the three months and six months periods ended September 30, 1999 and 1998 (in thousands, except per share data):

	Three Months Ended September 30,		Six Months Ended September 30,	
	1999	1998	1999	1998
Numerator:				
Net income (loss)	$ 1,063	$ (2,205)	$ (3,511)	$ (5,876)
Denominator:				
Denominator for basic net (loss) per common share - weighted average shares outstanding	24,502	22,669	24,103	22,648
Effect of dilutive securities:				
Employee stock options	1,983	--	--	--
Warrants	268	--	--	--
Denominator for diluted net (loss) per common share - adjusted weighted-average shares for assumed conversions	26,753	22,669	24,103	22,648
Basic and diluted net income (loss) per share	$ 0.04	$ (0.10)	$ (0.15)	$ (0.26)

9. COMMITMENTS

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

As of September 30, 1998, the Company had a $40.0 million revolving credit and letter of credit facility (the "Prior Facility") with a group of banks. The Prior Facility provided the Company with the ability to borrow fund and issue letters of credit against eligible accounts receivable up to $40.0 million. The Prior Facility was scheduled to expire in October 2001. As of September 30, 1998, the Company had no outstanding letters of credit or borrowings against the Prior Facility.

In June 1999, the Company replaced the Prior Facility with a $125 million revolving credit facility and term loan (the "Facility") with a new group of banks that provides the Company with the ability to borrow up to $100 million and issue letters of credit up to $80 million on a revolving basis against eligible accounts receivable and inventory. The $25 million term loan portion of the Facility was used to acquire Expert Software in June 1999 and to pay costs related to such acquisition and the securing of the Facility. The term loan has a three-year term with principal amortization on a straight-line quarterly basis beginning December 31, 1999 and a borrowing rate based on the banks' base rate (which is generally equivalent to the published prime rate) plus 2.0% or LIBOR plus 3.0%. The revolving portion of the Facility has a borrowing rate based on the banks' base rate plus 1.75% or LIBOR plus 2.75%. The Company pays a commitment fee of 1/2% based on the unused portion of the Facility. At September 30, 1999, the Company had an outstanding balance of $10.6 million on the revolving portion of the Facility. Letters of credit outstanding against the Facility totaled $11.8 million at September 30, 1999.

The Company's CentreSoft subsidiary has a revolving credit facility (the "UK Facility") with a bank in the United Kingdom in the amount of approximately $11.2 million. The UK Facility can be used for working capital requirements and expires in June 2000. The Company had no borrowings outstanding against the UK Facility as of September 30, 1999 or 1998.

The Company's CD Contact subsidiary has a revolving credit facility (the "Netherlands Facility") with a bank in the Netherlands that permits borrowings against eligible accounts receivable and inventory up to approximately $25 million. Borrowings under the Netherlands Facility are due on demand and totaled $6.7 at September 30, 1999. Letters of credit outstanding under the Netherlands Facility totaled $6.3 million at September 30, 1999. The Netherlands Facility became available in October 1998 and expires on March 31, 2001.

In addition, the Company had a line of credit agreement (the "Asset Line") with a bank that expired in September 1998. Approximately $499,000 and $569,000 were outstanding on this line as of September 30, 1999 and 1998, respectively.

ITEM 2. 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 THE COMPANY'S ANNUAL 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 and leisure products. The Company currently focuses its publishing, development and distribution efforts on products designed for personal computers ("PCs") as well as the Sony PlayStation, Nintendo 64 and Sega Dreamcast console systems. The Company's products span a wide range of genres and target markets.

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

The Company recognizes revenue from the sale of its products upon shipment. Subject to certain limitations, the Company permits customers to obtain exchanges and returns within certain specified periods and provides price protection on certain unsold merchandise. Revenue from product sales is reflected after deducting the estimated allowance for returns and price protection. With respect to license agreements that 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 that exceed the guarantee are recognized as earned. The AICPA's Statement of Position 97-2 "Software Revenue Recognition" ("SOP 97-2"), provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions. SOP 97-2 is effective for all transactions entered into subsequent to March 31, 1999. The Company has adopted SOP 97-2 and such adoption did not have a material impact on the Company's financial position, results of operations or liquidity. Effective December 15, 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions" ("SOP 98-9"), which is effective for transactions entered into after March 15, 1999. SOP 98-9 deals with the determination of vendor specific objective evidence of fair value in multiple element arrangements, such as maintenance agreements sold in conjunction with software packages. The Company does not believe this will have a material impact on the Company's financial position, results of operations or liquidity.

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

Cost of sales-royalties and software amortization represents amounts due developers, product owners and other royalty participants as a result of product sales, as well as amortization of capitalized software development costs. The costs incurred by the Company to develop products are accounted for in accordance with accounting standards that provide for the capitalization of certain software development costs once technological feasibility is established and such costs are determined to be recoverable. 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 royalty expense based on the contractual royalty rate. The capitalized software costs are then amortized to cost of sales-royalties and software amortization on a straight-line basis over the estimated product life commencing upon product release 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 charges to expense, as part of product development costs, capitalized costs when, in management's estimate, such amounts are not recoverable. The following criteria is used to evaluate recoverability: historical performance of comparable products; the commercial acceptance of prior products released on a given game engine; orders for the product prior to its release; estimated performance of a sequel product based on the performance of the product on which the sequel is based; and actual development costs of a product as compared to the company's budgeted amount.

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:

	THREE MONTHS ENDED SEPTEMBER 30,			
	1999		1998	
	Amount	% of Net Revenues	Amount	% of Net Revenues
STATEMENTS OF OPERATIONS DATA:				
Net revenues:	$ 115,363	100.0%	$ 66,182	100.0%
Costs and expenses:				
Cost of sales - product costs	66,284	57.5%	43,473	65.7%
Cost of sales - royalties and software amortization	11,610	10.1%	4,999	7.6%
Product development	5,819	5.0%	4,246	6.4%
Sales and marketing	20,020	17.3%	10,798	16.3%
General and administrative	6,593	5.7%	4,580	6.9%
Amortization of intangible assets	1,362	1.2%	396	0.6%
Merger expenses	150	0.1%	425	0.6%
Total costs and expenses	111,838	96.9%	68,917	104.1%
Operating income (loss)	3,525	3.1%	(2,735)	(4.1%)
Interest income (expense), net	(1,838)	(1.6%)	(824)	(1.3%)
Income (loss) before income tax benefit	1,687	1.5%	(3,559)	(5.4%)
Income tax provision (benefit)	624	0.5%	(1,354)	(2.1%)
Net income (loss)	$ 1,063	1.0%	$ (2,205)	(3.3%)
NET REVENUES BY TERRITORY:				
United States	$ 58,345	50.6%	21,242	32.1%
International	57,018	49.4%	44,940	67.9%
Total net revenues	$ 115,363	100.0%	$ 66,182	100.0%
NET REVENUES BY ACTIVITY/PLATFORM MIX:				
Publishing:				
Console	$ 61,890	71.1%	$ 12,813	53.1%
PC	25,216	28.9%	11,317	46.9%
Total publishing net revenues	$ 87,106	75.5%	$ 24,130	36.5%
Distribution:				
Console	$ 17,933	63.5%	$ 31,718	75.4%
PC	10,324	36.5%	10,334	24.6%
Total distribution net revenues	$ 28,257	24.5%	$ 42,052	63.5%
Total net revenues	$ 115,363	100.0%	$ 66,182	100.0%
NET REVENUES BY CHANNEL:				
Retailer/Reseller	$ 108,322	93.9%	$ 63,487	95.9%
OEM, licensing, on-line and other	7,041	6.1%	2,695	4.1%
Total net revenues	$ 115,363	100.0%	$ 66,182	100.0%
OPERATING INCOME (LOSS) BY SEGMENT:				
Publishing	$ 5,375	152.5%	$ (2,183)	(79.8%)
Distribution	(418)	(11.9%)	352	12.9%
Other	(1,432)	(40.6%)	(904)	(33.1%)
Total operating income (loss) by segment	$ 3,525	100.0%	$ (2,735)	(100.0%

	SIX MONTHS ENDED SEPTEMBER 30,			
	1999		1998	
	Amount	% of Net Revenues	Amount	% of Net Revenues
STATEMENTS OF OPERATIONS DATA:				

Net revenues:	$ 199,505	100.0%	$ 127,723	100.0%
Costs and expenses:				
Cost of sales - product costs	119,823	60.1%	82,864	64.9%
Cost of sales - royalties and software amortization	21,480	10.8%	7,749	6.1%
Product development	10,342	5.2%	10,307	8.1%
Sales and marketing	37,158	18.6%	24,537	19.2%
General and administrative	11,296	5.7%	9,130	7.1%
Amortization of intangible assets	1,831	0.9%	793	0.6%
Merger expenses	150	--	600	0.5%
Total costs and expenses	202,080	101.3%	135,980	106.5%
Operating income (loss)	(2,575)	(1.3%)	(8,257)	(6.5%)
Interest income (expense), net	(2,997)	(1.5%)	(1,225)	(1.0%)
Income (loss) before income tax benefit	(5,572)	(2.8%)	(9,482)	(7.4%)
Income tax provision (benefit)	(2,061)	(1.0%)	(3,606)	(2.8%)
Net income (loss)	$ (3,511)	(1.7%)	$ (5,876)	4.6%
NET REVENUES BY TERRITORY:				
United States	$ 93,158	46.7%	$ 37,161	29.1%
International	106,347	53.3%	90,562	70.9%
Total net revenues	$ 199,505	100.0%	$ 127,723	100.0%
NET REVENUES BY ACTIVITY/PLATFORM MIX:				
Publishing:				
Console	$ 93,405	66.5%	$ 23,782	50.3%
PC	47,067	33.5%	23,510	49.7%
Total publishing net revenues	$ 140,472	70.4%	$ 47,292	37.0%
Distribution:				
Console	$ 35,646	60.4%	$ 59,174	73.6%
PC	23,387	39.6%	21,257	26.4%
Total distribution net revenues	$ 59,033	29.6%	$ 80,431	63.0%
Total net revenues	$ 199,505	100.0%	$ 127,723	100.0%
NET REVENUES BY CHANNEL:				
Retailer/Reseller	$ 187,680	94.1%	$ 120,634	94.4%
OEM, licensing, on-line and other	11,825	5.9%	7,089	5.6%
Total net revenues	$ 199,505	100.0%	$ 127,723	100.0%
OPERATING INCOME (LOSS) BY SEGMENT:				
Publishing	$ 507	19.7%	$ (7,232)	(87.6%)
Distribution	(1,261)	(49.0%)	192	2.3%
Other	(1,821)	(70.7%)	(1,217)	(14.7%)
Total operating income (loss) by segment	$ (2,575)	(100.0%)	$ (8,257)	(100.0%)

RESULTS OF OPERATIONS

NET REVENUES

Net revenues for the three months ended September 30, 1999 increased 74.3% from the same period last year, from $66.2 million to $115.4 million. This increase primarily was composed of a 175% increase in net revenues in the United States from $21.2 million to $58.3 million and a 26.9% increase in international net revenues from $44.9 million to $57.0 million. The increase in overall net revenues was composed of a 79.3% increase in console net revenues from $44.5 million to $79.8 million and a 63.6% increase in PC net revenues from $21.7 million to $35.5 million.

Net revenues for the six months ended September 30, 1999 increased 56.2% from the same period last year, from $127.7 million to $199.5 million. This increase primarily was composed of a 150.5% increase in net revenues in the United States from $37.2 million to $93.2 million and a 17.3% increase in international net revenues from $90.6 million to $106.3 million. The increase in overall net revenues for the six months ended September 30, 1999 was composed of a 55.5% increase in console net revenues from $83.0 million to $129.1 million and a 57.4% increase in PC net revenues from $44.8 million to $70.5 million.

Publishing net revenues for the three and six months ended September 30, 1999 increased 261.4% from $24.1 million to $87.1 million and 197.0% from $47.3 million to $140.5 million, respectively. These increases were primarily due to the increases in publishing console net revenues and publishing PC net revenues over the same periods last year. Publishing console net revenues for the three and six months ended September 30, 1999, increased 383.6% from $12.8 million to $61.9 million and 292.4% from $23.8 million to $93.4 million, respectively. These increases primarily were attributable to the initial release of Tony Hawk Pro Skater (PSX), Space Invaders (PSX), A Bug's Life (N64), Quake 2 (PSX and N64), Blue Stinger (Dreamcast), Tarzan (Gameboy), as well as Star Wars Episode I: Phantom Menace (PSX) and Tai Fu (PSX) in international territories. Publishing PC net revenues for the three and six months ended September 30, 1999, increased 123% from $11.3 million to $25.2 million and 100% from $23.5 million to $47.1 million, respectively. These increases primarily were due to the initial release of Kingpin (Windows), Quake 2 (Mac), Heavy Gear 2 (Windows), Cabela's Big Game Hunter 3 (Windows) and Space Invaders (Windows).

Distribution net revenues for the three and six months ended September 30, 1999 decreased 32.8% from $42.1 million to $28.3 million and 26.6% from $80.4 million to $59.0 million, respectively. These decreases were primarily attributable to a decrease in distribution console revenues for the three and six months ended September 30, 1999. Distribution console net revenues for the three and six months ended September 30,1999, decreased 43.5% from $31.7 million to $17.9 million and 39.9% from $59.2 million to $35.6 million, respectively. These decreases were primarily due to a lack of significant major releases by third party publishers and increased competition among leading United Kingdom retail chains resulting in a reduced market share for the independent retailers during the six months ended September 30, 1999. Distribution PC net revenues for the three months ended September 30,1999 remained constant at $10.3 million as compared to the same period last year. Distribution PC net revenues for the six months ended September 30, 1999 increased 9.9% from $21.3 million to $23.4 million. This increase primarily was due to an increase in PC titles released by third party publishers during the three months ended June 30, 1999.

Net OEM, licensing, on-line and other revenues for the three months and six months ended September 30, 1999 increased 159.3% from $2.7 million to $7.0 million and 66.2% from $7.1 million to $11.8 million, respectively. These increases primarily were due to an increase in the release of titles compatible with OEM customers' products.

COSTS AND EXPENSES

Cost of sales - product costs represented 57.5% and 65.7% of net revenues for the three months ended September 30, 1999 and 1998, respectively. Cost of sales - - product costs represented 60.1% and 64.9% of net revenues for the six months ended September 30, 1999 and 1998, respectively. The decrease in cost of sales - product costs as a percentage of net revenues for both the three and six months ended September 30, 1999 was due to the decrease in distribution net revenue mix, partially offset by a higher publishing console net revenue mix. Distribution products have a higher per unit product cost than publishing products and console products have a higher per unit product cost than PC products.

Cost of sales - royalty and software amortization expense represented 10.1% and 7.6% of net revenues for the three months ended September 30, 1999 and 1998, respectively. Cost of sales - royalty and software amortization expense represented 10.8% and 6.1% of net revenues for the six months ended September 30, 1999 and 1998, respectively. The increase in cost of sales - royalty and software amortization expense as a percentage of net revenues for both the three and six month period primarily was due to changes in the Company's product mix, with an increase in the number of branded products with higher royalty obligations as compared to the same periods last year.

Product development expenses for the three months ended September 30, 1999 increased 38.1% from the same period last year, from $4.2 million to $5.8 million. This increase primarily was due to a decrease in capitalizable development costs relating to sequel products being developed on proven engine technologies which are capitalized in accordance with Statement of Accounting Standards ("SFAS") No. 86, "Accounting for the Cost of Computer Software to be Sold, Leased or Otherwise Marketed". Product development expenses of $10.3 million for the six months ended September 30, 1999 remained constant from the same period last year.

As a percentage of net revenues, total product creation costs (i.e., royalties and software amortization expense plus product development expenses), increased from 14.0% to 15.1% and from 14.2% to 16.0% for the three and six months ended September 30, 1999, respectively. Such increases primarily were attributable to the increase in the effective royalty rate and the increase in product development costs, as discussed above.

Sales and marketing expenses for the three months ended September 30, 1999 increased 85.2% from the same period last year, from $10.8 million to $20.0 million. As a percentage of net revenues, sales and marketing expense increased from 16.3% to 17.3 %. Sales and marketing expense for the six months ended September 30, 1999 increased 51.8% from $24.5 million to $37.2 million. As a percentage of net revenues, sales and marketing expense decreased from 19.2% to 18.6%. The increases in the amount of sales and marketing expenses for the three and six month periods primarily were due to an increase in the number of titles released during the three and six month periods ended September 30, 1999 and an increase in television advertising during the three months ended September 30, 1999. The decrease in sales and marketing expense as a percentage of net revenues during the six months ended September 30, 1999 was primarily due to lower marketing expense required on branded properties such as Quake 2, A Bug's Life, Tarzan, Star Wars Episode I: Phantom Menace and Space Invaders.

General and administrative expense for the three months ended September 30, 1999 increased 43.5% from the same period last year, from $4.6 million to $6.6 million. As a percentage of net revenues, general and administrative expenses for the three months decreased from 6.9% to 5.7%. General and administrative expense for the six months ended September 30, 1999 increased 24.2% from $9.1 million to $11.3 million. As a percentage of net revenues, general and administrative expenses for the six-month period decreased from 7.1% to 5.7%. The increases in the amount of general and administrative expenses for the 1999 three and six month period primarily were due to an increase in worldwide administrative support needs and headcount related expenses. The decreases in general and administrative expenses as a percentage of net revenues for the 1999 three and six month period primarily were due to the efficiencies gained in controlling fixed costs and the increases in net revenues.

OPERATING INCOME (LOSS)

Operating income for the three months ended September 30, 1999 was $3.5 million, compared to an operating loss of $2.7 million in the same period last year. Operating loss for the six months ended September 30, 1999 decreased 68.7% from the same period last year, from $8.3 million to $2.6 million.

Publishing operating income for the three months ended September 30, 1999 increased to $5.4 million, compared to a loss of $2.2 million in the same period last year. The period over period increase in publishing operating income primarily was due to an increase in publishing net revenues and decreases in cost of sales - product sales, product development expenses and general and administrative expenses as a percentage of publishing net revenues, offset partially by increases in cost of sales - royalties and software amortization and sales and marketing expenses as a percentage of net revenues. Distribution operating loss for the three months ended September 30, 1999 was $0.4 million, compared to operating income of $0.4 million in the same period last year. The period over period change primarily was due to a decrease in distribution sales, offset partially by a decrease in distribution manufacturing and distribution costs, sales and marketing expenses and general and administrative expenses as a percentage of net distribution revenues.

Publishing operating income for the six months ended September 30, 1999 was $0.5 million, compared to a loss of $7.2 million in the same period last year. The period over period change primarily was due to an increase in publishing net revenues and decreases in cost of sales - product sales, product development expenses, sales and marketing expenses and general and administrative expenses as a percentage of publishing net revenues, offset partially by increases in cost of sales - royalties and software amortization as a percentage of net revenues. Distribution operating loss for the six months ended September 30, 1999 was $1.3 million, compared to operating income of $0.2 million in the same period last year. The period over period change primarily was due to a decrease in distribution sales, offset partially by a decrease in distribution manufacturing and distribution costs and general and administrative expenses as a percentage of net distribution revenues.

PROVISION FOR INCOME TAXES

The income tax provision of approximately $624,000 and income tax benefit of approximately $2.1 million for the three and six months ended September 30, 1999, respectively, reflects the Company's estimated tax benefit from the Company's net income and loss for these periods using the estimated effective income tax rate of 37% for the fiscal year ended March 31, 2000. The realization of deferred tax assets primarily is dependent on the generation of future taxable income. Management believes that it is more likely than not that the Company will generate taxable income sufficient to realize the benefit of the deferred tax assets recognized.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents decreased $7.2 million, from $33.0 million at March 31, 1999 to $25.8 million at September 30, 1999. Approximately $1.4 million in cash and cash equivalents were used in operating activities during the six months ended September 30, 1999. This decrease primarily was attributable to the Company's operating loss during the six month period coupled with increases in accounts receivable, inventories and other assets, offset partially by an increase in current liabilities.

In addition, approximately $54.5 million in cash and cash equivalents were used in investing activities during the six months ended September 30, 1999, as compared with approximately $29.4 million during the same period last year. The increase in cash used for investing activities primarily was due to the acquisition of Expert on June 22, 1999, for approximately $20.5 million in cash and other acquisition costs related to the transaction. Cash used in investing activities also increased due to an increase in prepaid royalties and capitalized software costs incurred by the Company as a result of its execution of new license and development agreements granting the Company long term rights to intellectual property of third parties, as well as the acquisition of publishing and distribution rights to products being developed by third parties. Capital expenditures totaled approximately $2.3 million during the six months ended September 30, 1999.

Cash and cash equivalents provided by financing activities totaled $47.8 million for the six months ended September 30, 1999 versus $4.7 million provided by financing activities for the same period last year. This increase was primarily due to $25 million in proceeds from a term loan, approximately $13.3 million in proceeds from the exercise of employee stock options and approximately $17.3 million of net borrowings under a line of credit agreement.

In connection with the Company's purchases of N64 hardware and software cartridges for distribution in North America and Europe, Nintendo requires the Company to provide irrevocable letters of credit prior to accepting purchase orders from the Company for the purchase of these cartridges. Furthermore, Nintendo maintains a policy of not accepting returns of N64 hardware and software cartridges. Because of these and other factors, the carrying of an inventory of N64 hardware and software cartridges entails significant capital and risk.

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

The Company has a $125 million revolving credit facility and term loan (the "Facility") with a group of banks. The Facility provides the Company with the ability to borrow up to $100 million and issue letters of credit up to $80 million on a revolving basis against eligible accounts receivable and inventory. The $25 million term loan portion of the Facility was used to acquire Expert Software in June 1999 and to pay costs related to such acquisition and the securing of the Facility. The term loan has a three-year term with principal amortization on a straight-line quarterly basis beginning December 31, 1999 and a borrowing rate based on the banks' base rate (which is generally equivalent to the published prime rate) plus 2.0%, or LIBOR plus 3.0%. The revolving portion of the Facility has a borrowing rate based on the banks' base rate plus 1.75% or LIBOR plus 2.75%. The Company pays a commitment fee of 1/2% based on the unused portion of the facility. The Company had a balance outstanding of $10.6 million under the revolving portion of the Facility at September 30, 1999. Letters of credit outstanding against the New Facility totaled $11.8 million at September 30, 1999.

The Company's CentreSoft subsidiary has a revolving credit facility (the "UK Facility") with its bank in the United Kingdom in the amount of approximately $11.2 million. The UK Facility can be used for working capital requirements and expires in June 2000. The Company had no borrowings outstanding against the UK facility as of September 30, 1999 or 1998.

The Company's CD Contact subsidiary has a credit facility in the Netherlands, ("the Netherlands Facility") with a bank that permits borrowings against eligible accounts receivable and inventory up to approximately $25 million. Borrowings under the Netherlands Facility are due on demand and totaled $6.7 at September 30, 1999. Letters of credit outstanding under the Netherlands Facility totaled $6.3 million at September 30, 1999. The Netherlands Facility became available in October 1998 and expires on March 31, 2001.

In addition, the Company had a line of credit agreement (the "Asset Line") with a bank that expired in September 1998. Approximately $499,000 and $569,000 were outstanding on this line as of September 30, 1999 and 1998, respectively.

The Company will use its working capital ($141.9 million at September 30, 1999), as well as the proceeds available from the Facility, the UK Facility and the Netherlands Facility, to finance the Company's operational requirements, including acquisitions of inventory and equipment, the funding of development, production, marketing and selling of new products, and the acquisition of intellectual property rights for future products from third parties.

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

YEAR 2000

Like many other software companies, the year 2000 computer issue creates risk for the Company. If internal computer and embedded 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 completed a comprehensive plan to prepare its internal computer and embedded systems for the year 2000 and is currently implementing changes to alleviate any year 2000 incapabilities. As part of such plan, the Company has purchased software programs that have been independently developed by third parties, which have tested year 2000 compliance for all of the Company's systems.

All of the entertainment and leisure software products currently being shipped by the Company have been tested for year 2000 compliance and have passed these tests. In addition, all such products currently in development are being tested as part of the normal quality assurance testing process and the Company expects them to be fully year 2000 compliant when released. Notwithstanding the foregoing, the year 2000 computer issue could still affect the ability of consumers to use the PC products sold by the Company. For example, if the computer system on which a consumer uses the Company's products is not year 2000 compliant, such noncompliance could affect the consumer's ability to use such products.

Contingency plans currently have been developed to address the systems critical to the Company, such as adding network operating systems to back-up the Company's current network server and developing back-up plans for telecommunications with external offices and customers. In addition, a staffing plan has been developed to manually handle orders should there be a failure of electronic data interchange connections with its customers and suppliers. Management believes that the items mentioned above constitute the greatest risk of exposure to the Company and that the plans developed by the Company will be adequate for handling these items.

The Company has contacted critical suppliers of products and services to determine that the suppliers' operations and the products and services they provide are year 2000 compliant. To assist suppliers (particularly trading partners using electronic data interchange) in evaluating their year 2000 issues, the Company developed a questionnaire, which indicates the ability of each supplier to address year 2000 incompatibilities. All critical suppliers and trading partners of the Company have responded to the questionnaire and confirmed the expectation that they will continue providing services and products through the change to 2000.

Year 2000 compliance testing on substantially all of the Company's critical systems and all changes required to be made as a result of such testing have been completed. The costs incurred by the Company to date related to this testing and modification process are less than $100,000, and no substantial additional costs currently are foreseen. The total estimated cost does not include potential costs related to any systems used by the Company's customers, any third party claims, or the costs incurred by the Company when it replaces internal software and hardware in the normal course of its business. The overall cost of the Company's year 2000 compliance plan is a minor portion of the Company's total information technology budget and is not expected to materially delay the implementation of any other unrelated projects that are planned to be undertaken by the Company. In some instances, the installation schedule of new software and hardware in the normal course of business has been accelerated to also afford a solution to year 2000 compatibility issues. The total cost estimate for the Company's year 2000 compliance plan is based on management's current assessment of the projects comprising the plan and is subject to change as the projects progress.

Based on currently available information, management does not believe that the year 2000 issues discussed above related to the Company's internal systems or its products sold to customers will have a material adverse impact on the Company's financial condition or results of operations; however, the specific extent to which the Company may be affected by such matters is not certain. In addition, there can be no assurance that the failure by a supplier or another third party to ensure year 2000 compatibility would not have a material adverse effect on the Company.

FACTORS AFFECTING FUTURE PERFORMANCE

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in the Registrant's Annual Report on Form 10-K for the year ended March 31, 1999. There has been no significant change in the nature or amount of market risk since year end.

PART II. - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

The Company held its 1999 Annual Meeting of the Stockholders on September 23, 1999 in Beverly Hills, California. One item was submitted to a vote of the stockholders: the election of six directors to hold office for one year terms and until their respective successors are elected and have qualified. All six nominees were recommended by the Board of Directors and all were elected. Set forth below are the results of the voting for each director.

	For	Withheld
Harold A. Brown	17,376,334	333,149
Barbara S. Isgur	17,651,225	58,258
Brian G. Kelly	17,653,258	56,225
Robert A. Kotick	17,653,432	56,051
Steven T. Mayer	17,654,034	55,449
Robert J. Morgado	17,651,222	58,261

ITEM 5. OTHER INFORMATION

On November 4, 1999, the Company announced that Barry Plaga, Executive Vice President and Chief Financial Officer, would be leaving the Company for personal reasons. Mr. Plaga's departure is effective as of November 5, 1999.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

6.1 Amendment to Employment Agreement between Ron Doornink and the Company, dated April 30, 1999.

(b) Reports on Form 8-K

On July 12, 1999, the Company filed a Current Report on Form 8-K reporting its acquisition of Elsinore Multimedia, Inc.

SIGNATURES

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

Date: November 13, 1999

ACTIVISION, INC.

/s/ RASMUS VAN DER COLFF	Vice President of Finance	November 13, 1999
(Rasmus van der Colff)	(Principal Financial Officer)	

April 30, 1999

Mr. Ron Doornink
25 Oakbrook
Coto de Caza, California 92679

Re: Your Employment Agreement with Activision, Inc.
dated October 19, 1998 (the "Employment Agreement")

Dear Ron:

This letter confirms our agreement to amend the terms of the Employment Agreement in accordance with the provisions set forth below. Capitalized terms not defined in this letter shall have the meanings ascribed to them in the Employment Agreement.

The specific amendments to the Employment Agreement are as follows:

1. Paragraph 1 of the Employment Agreement is deleted in its entirety and is replaced with the following:

"1. TERM

(a) The initial term of your employment under this agreement shall commence on October 27, 1998 and expire on March 31, 2001, unless earlier terminated as provided below (the "initial period").

(b) Employer shall have the irrevocable option to extend the term of this agreement beyond the initial period for one (1) additional successive two (2) year period.

(c) The option granted to Employer in Paragraph 1(b) of this agreement may be exercised by Employer by written notice given to you at least ninety (90) days prior to the expiration of the initial period."

2. Paragraph 2(a) of the Employment Agreement is deleted in its entirety and is replaced with the following:

"(a) In full consideration for all rights and services provided by you under this agreement, you shall receive a base salary at the annual rate of $280,000 during the portion of the initial period commencing on October 27, 1998 and ending on March 31, 1999. You also shall receive an annual base salary of $315,000 during the portion of the initial period commencing on April 1, 1999 and ending on March 31, 2000, and an annual base salary of $346,500 during the portion of the initial period commencing on April 1, 2000 and ending on March 31, 2001. If Employer exercises its option pursuant to Paragraph 1(b), then you shall receive an annual base salary of $381,150 during the first year of the option period and an annual base salary of $419,265 during the second year of the option period."

3. The word "60%" in the second line of Paragraph 2(d) of the Employment Agreement is deleted and is replaced with the word "75%."

4. The third sentence of Paragraph 2(e) of the Employment Agreement is deleted in its entirety and is replaced with the following:

"The options will vest as follows: 25,000 of such options will be immediately vested and exercisable; 83,334 of such options will vest on October 27, 1999; 58,333 of such options will vest on October 27, 2000; and 33,333 of such options will vest on October 27, 2001."

5. Paragraph 2(f) of the Employment Agreement is amended by adding the following provisions to the end of the sentence currently constituting such Paragraph:

"Without limiting the generality of the foregoing, you are also being granted, under Employer's 1999 Incentive Plan, options to purchase 250,000 shares of Employer's common stock. The options will be issued on April 30, 1999 and will have an exercise price of $10.56 per share. The options will vest as follows: 62,500 of such options will vest on March 31, 2000; 62,500 of such options will vest on March 31, 2001; 62,500 of such options will vest on March 31, 2002; and 62,500 of such options will vest on March 31, 2003. The foregoing options will be governed in all other respects by Employer's 1999 Incentive Plan."

6. Paragraph 8 of the Employment Agreement is amended by adding the following sentence to the end of such Paragraph:

"In connection with the foregoing, you hereby agree to permanently relocate to the West Los Angeles area by no later than July 1, 2000."

Except as specifically set forth above, the Employment Agreement shall remain unmodified and in full force and effect.

If the foregoing accurately reflects your understanding of the provisions of your Employment Agreement that are being amended pursuant to this letter, please so indicate by signing in the space provided below.

Very truly yours,

Brian Kelly
Co-Chairman

ACCEPTED AND AGREED TO:

____
Ron Doornink

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1,000

3-MOS	6-MOS
MAR-31-2000	MAR-31-2000
JUL-01-1999	APR-01-1999
SEP-30-1999	SEP-30-1999
25,797	25,797
0	0
148,970	148,970
(21,333)	(21,333)
40,805	40,805
268,208	268,208
32,729	32,729
(21,291)	(21,291)
355,163	355,163
126,264	126,264
60,000	60,000
0	0
0	0
0	0
149,606	149,606
355,163	355,163
115,363	199,505
115,363	199,505
77,894	141,303
111,838	202,080
0	0
0	0
(1,838)	(2,997)
1,687	(5,572)
624	(2,061)
1,063	(3,511)
0	0
0	0
0	0
1,063	(3,511)
0.04	(0.15)
0.04	(0.15)