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, 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 000-12699

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 [ ]

The number of shares of the registrant's Common Stock outstanding as of November 10, 1998 was 22,111,130.

ACTIVISION, INC.

INDEX

	Page No.
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets as of September 30, 1998 (unaudited) and March 31, 1998	3
Condensed Consolidated Statements of Operations for the quarters and six months ended September 30, 1998 and 1997 (unaudited)	4
Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 1998 and 1997 (unaudited)	5
Notes to Condensed Consolidated Financial Statements for the three and six months ended September 30, 1998 (unaudited)	6-8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	9-16
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	17
Item 4. Submission of Matters to a Vote of Security Holders	17
Item 6. Exhibits and Reports on Form 8-K	17
SIGNATURE	18

PART I - FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

ACTIVISION, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

(in thousands except share data)

	September 30, 1998 (unaudited)	March 31, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 41,568	$ 73,378
Accounts receivable, net of allowances of $11,152 and $12,122, respectively	66,028	69,812
Inventories, net	27,243	14,920
Prepaid royalties and capitalized software costs	25,877	12,444
Prepaid expenses and other current assets	7,647	1,922
Deferred income taxes	8,313	3,852
Total current assets	176,676	176,328
Prepaid royalties and capitalized software costs	8,800	-
Property and equipment, net	11,466	10,628
Deferred income taxes	4,665	4,665
Other assets	3,766	2,313
Excess purchase price over identifiable assets acquired, net	22,760	23,473
Total assets	$ 228,133	$ 217,407
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of notes payable to bank	$ 9,665	$ 781
Accounts payable	40,657	40,150
Accrued expenses	19,447	14,860
Total current liabilities	69,769	55,791
Notes payable to bank, less current portion	1,496	1,235
Convertible subordinated notes	60,000	60,000
Other liabilities	89	88
Total liabilities	131,354	117,114
Shareholders' equity:		
Common stock, $.000001 par value, 50,000,000 shares authorized, 22,518,547 and 19,508,415 shares issued and 22,018,547 and 19,008,415 outstanding, respectively	-	-
Additional paid-in capital	97,194	91,799
Retained earnings	4,780	13,680
Accumulated other comprehensive income	83	92
Less: Treasury stock, cost of 500,000 shares	(5,278)	(5,278)
Total shareholders' equity	96,779	100,293
Total liabilities and shareholders' equity	$ 228,133	$ 217,407

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

ACTIVISION, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations
For the quarters and six months ended September 30,

(in thousands except per share data)

(Unaudited)

	Quarter ended September 30,		Six Months ended September 30,	
	1998	1997	1998	1997
Net revenues	$ 66,182	$ 53,015	$ 118,062	$ 79,529
Costs and expenses:				
Cost of sales -- product costs	43,473	23,315	75,059	42,125
Cost of sales -- royalties and software amortization	5,359	6,420	8,584	7,886
Product development	3,934	7,307	9,627	13,437
Sales and marketing	10,798	9,040	23,412	14,614
General and administrative	4,580	3,446	8,567	6,257
Amortization of intangible assets	396	380	792	755
Merger expenses	425	-	600	-
Total costs and expenses	68,965	49,908	126,641	85,074
Operating income (loss)	(2,783)	3,107	(8,579)	(5,545)
Other income (expense):				
Interest, net	(824)	(112)	(1,163)	(144)
Net income (loss) before income tax provision	(3,607)	2,995	(9,742)	(5,689)
Income tax (benefit) provision	(1,373)	1,158	(3,704)	(2,112)
Net income (loss)	$ (2,234)	$ 1,837	$ (6,038)	$ (3,577)
Basic net income (loss) per share	$ (0.10)	$ 0.09	$ (0.28)	$ (0.17)
Diluted net income (loss) per share	$ (0.10)	$ 0.08	$ (0.28)	$ (0.17)
Number of shares used in computing basic net income (loss) per share	21,970	21,114	21,949	21,021
Number of shares used in computing diluted net income (loss) per share	21,970	21,817	21,949	21,021

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,

(in thousands)

(UNAUDITED)

Increase (Decrease) in Cash

	1998	1997
Cash flows from operating activities:		
Net loss	$ (6,038)	$ (3,577)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred income taxes	(4,896)	(2,718)
Depreciation and amortization	2,779	2,265
Change in assets and liabilities:		
Accounts receivable	11,793	(4,338)
Inventories	(6,178)	(3,109)
Prepaid royalties and capitalized software costs	(22,233)	(2,236)
Other current assets	(5,725)	(1,410)
Other assets	2,377	9
Accounts payable	(7,156)	6,737
Accrued liabilities	863	1,741
Other liabilities	(1,311)	189
Net cash used in operating activities	(35,725)	(6,447)
Cash flows from investing activities:		
Cash acquired in pooling transactions	654	-
Cash used in purchase acquisitions	-	(246)
Capital expenditures	(1,469)	(5,909)
Net cash used in investing activities	(815)	(6,155)
Cash flows from financing activities:		
Proceeds from issuance of common stock pursuant to employee stock option plan	434	2,721
Proceeds from employee stock purchase plan	389	230
Note payable to bank, net	3,913	(12)
Dividends paid	-	(1,223)
Other	-	51
Net cash provided by financing activities	4,736	1,767
Effect of exchange rate changes on cash	(6)	(237)
Net decrease in cash and cash equivalent	(31,810)	(11,072)
Cash and cash equivalents at beginning of period	73,378	21,358
Cash and cash equivalents at end of period	$ 41,568	$ 10,286
Non-cash activities:		
Warrants issued to third party developers	$ 43	$ -
Stock issued in exchange for licensing rights	$ -	$ 431
Tax benefit derived from stock option exercises	$ -	$ 521
Stock issued in purchase acquisition	$ -	$ 136
Supplemental cash flow information:		
Cash paid for income taxes	$ 522	$ 585
Cash paid for interest	$ 2,532	$ 304

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

ACTIVISION, INC.

Notes to Condensed Consolidated Financial Statements
For the Quarter Ended September 30, 1998

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of Activision, Inc. and its subsidiaries (the "Company"). The information furnished is unaudited and reflects all adjustments which, in the opinion of management, are necessary to provide a fair statement of the results for the interim periods presented. The financial statements should be read in conjunction with the financial statements included in the Company's Annual Report on Form 10-K for the year ended March 31, 1998.

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

2. ACQUISITIONS

On September 29, 1998, the Company acquired CD Contact Data GmbH ("CD Contact") in exchange for 1,900,000 shares of the Company's common stock. $9.1 million in outstanding debt was acquired in connection with the CD Contact acquisition. The debt is evidenced by notes payable which are due on demand and bear interest at approximately 8% per annum. The acquisition of CD Contact was accounted for as an immaterial pooling of interests; accordingly, periods prior to July 1, 1998 were not retroactively restated for this transaction. However, weighted average shares outstanding and earnings per share data have been retroactively restated for the effect of the CD Contact acquisition.

3. PREPAID ROYALTIES AND CAPITALIZED SOFTWARE COSTS

Prepaid royalties include payments made to independent software developers under development agreements and license fees paid to intellectual property rights holders for use of their trademarks or copyrights. Intellectual property rights which have alternative future uses are capitalized. Capitalized software costs represent certain costs incurred for product 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 the 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 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 commencing upon 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, 1998, prepaid royalties and unamortized capitalized software costs totaled $28.3 million (including $8.8 million classified as non-current) and $6.4 million, respectively. As of March 31, 1998, prepaid royalties and unamortized capitalized software costs totaled $10.7 million and $1.7 million, respectively. At March 31, 1998, all prepaid royalties and unamortized capitalized software costs were classified as current.

4. REVENUE RECOGNITION

PRODUCT SALES

The Company recognizes revenues 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. Revenues from product sales are 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, revenues are 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 American Institute of Certified Public Accountants Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), is effective for all transactions entered into subsequent to March 31, 1998. The adoption of SOP 97-2 did not have a material impact on the Company's financial position, results of operations or liquidity.

5. COMPREHENSIVE INCOME

SFAS No. 130, "Reporting Comprehensive Income", was adopted by the Company as of April 1, 1998. SFAS 130 requires any changes in shareholders' equity that do not result directly from transactions with shareholders be reported separately in the financial statements, net of any tax effect, as other comprehensive income. For the Company, other comprehensive income includes only foreign currency translation adjustments. Total comprehensive income for the six months ended September 30, 1998 and 1997 is as follows:

	Six Months Ended	
	September 30, 1998	September 30, 1997
	(in thousands)	
Net (loss)	$(6,038)	$ (3,577)
Foreign currency translation adjustments	(6)	(237)
Comprehensive net (loss)	$(6,044)	$ (3,814)

6. COMPUTATION OF NET LOSS PER SHARE

Basic earnings per share ("EPS") is computed as net earnings divided by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from

common shares issuable through stock-based compensation plans, including stock options, warrants and other convertible securities using the treasury stock method. Due to the net loss reported for the six months ended September 30, 1998 and 1997, stock options and warrants of 8,028,164 and 4,471,587, respectively, were excluded from the calculation of diluted EPS. 3.2 million shares of convertible stock were also excluded in the calculation of diluted EPS for the six month period ended September 30, 1998.

7. NEW ACCOUNTING PRONOUNCEMENT

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. Although the Company currently does not have derivative instruments, or hedge foreign currency risk, the Company intends to monitor its risk in this regard and investigate various ways to manage that risk. If and when the Company decides to participate in hedging activities and/or purchase other derivative financial instruments, SFAS 133 will be adopted.

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 software. The Company currently focuses its publishing, development and distribution efforts on products designed for personal computers ("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, through its distribution subsidiaries CentreSoft Ltd. ("CentreSoft"), CD Contact Data GmbH ("CD Contact") and NBG EDV Handels und Verlags GmbH ("NBG"), and through third party distributors and licensees.

The Company recognizes revenues 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. Revenues from product sales are reflected after deducting the estimated allowance for returns and price protection. With respect to license agreements which provide customers the right to multiple copies in exchange for guaranteed amounts, revenues are 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 American Institute of Certified Public Accountants Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), provides guidance on applying generally accepted accounting principles in recognizing revenues on software transactions. SOP 97-2 is effective for all transactions entered into subsequent to March 31, 1998. 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.

Cost of sales - product costs represents the cost to acquire, manufacture and distribute PC and console games. 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 and Nintendo, who often require significant lead time to fulfill the Company's orders.

Cost of sales - royalties and software amortization is related to 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 which 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 expenses, 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, activity, platform and channel:

	QUARTER ENDED SEPTEMBER 30,				SIX MONTHS ENDED SEPTEMBER 30,			
	1998		1997		1998		1997	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
STATEMENTS OF OPERATIONS DATA:								
Net revenues:	$ 66,182	100.0%	$ 53,015	100.0%	$ 118,062	100.0%	$ 79,529	100.0%
Costs and expenses:								
Cost of sales - product costs	43,473	65.7%	23,315	44.0%	75,059	63.6%	42,125	53.0%
Cost of sales - royalties and software amortization	5,359	8.1%	6,420	12.1%	8,584	7.3%	7,886	9.9%
Product development	3,934	5.9%	7,307	13.8%	9,627	8.1%	13,437	16.9%
Sales and marketing	10,798	16.3%	9,040	17.0%	23,412	19.8%	14,614	18.3%
General and administrative	4,580	6.9%	3,446	6.5%	8,567	7.3%	6,257	7.9%
Amortization of intangible assets	396	0.6%	380	0.7%	792	0.6%	755	1.0%
Merger expenses	425	0.7%	-	-	600	0.5%	-	-
Total costs and expenses	68,965	104.2%	49,908	94.1%	126,641	107.3%	85,074	107.0%
Operating income (loss)	(2,783)	(4.2%)	3,107	5.9%	(8,579)	(7.3%)	(5,545)	(7.0%)
Interest income (expense), net	(824)	(1.2%)	(112)	(0.2%)	(1,163)	(1.0%)	(144)	(0.2%)
Income (loss) before provision (benefit) for income taxes	(3,607)	(5.4%)	2,995	5.7%	(9,742)	(8.3%)	(5,689)	(7.2%)
Income tax provision (benefit)	(1,373)	(2.1%)	1,158	2.2%	(3,704)	(3.2%)	(2,112)	(2.7%)
Net income (loss)	$ (2,234)	(3.3%)	$ 1,837	3.5%	$ (6,038)	(5.1%)	$ (3,577)	(4.5%)
NET REVENUES BY TERRITORY:								
North America	$ 21,242	32.1%	$ 20,164	38.0%	$ 37,151	31.5%	$ 25,139	31.6%
International	44,940	67.9%	32,851	62.0%	80,911	68.5%	54,390	68.4%
Total net revenues	$ 66,182	100.0%	$ 53,015	100.0%	$ 118,062	100.0%	$ 79,529	100.0%
ACTIVITY/PLATFORM MIX:								
Publishing:								
Console	$ 12,813	53.1%	$ 3,945	12.3%	$ 23,772	50.3%	$ 3,945	9.8%
PC	11,317	46.9%	28,118	87.7%	23,510	49.7%	36,175	90.2%
Total publishing net revenues	$ 24,130	36.5%	$ 32,063	60.5%	$ 47,282	40.0%	$ 40,120	50.4%
Distribution:								
Console	31,718	75.4%	12,090	57.7%	53,142	75.1%	22,795	57.8%
PC	10,334	24.6%	8,862	42.3%	17,638	24.9%	16,614	42.2%
Total distribution net revenues	42,052	63.5%	20,952	39.5%	70,780	60.0%	39,409	49.6%
Total net revenues	$ 66,182	100.0%	$ 53,015	100.0%	$ 118,062	100.0%	$ 79,529	100.0%
NET REVENUES BY CHANNEL:								
Retailer/Reseller	$ 63,487	95.9%	$ 45,707	86.2%	$ 110,973	94.0%	$ 67,248	84.6%
OEM, licensing, on-line and other	2,695	4.1%	7,308	13.8%	7,089	6.0%	12,281	15.4%
Total net revenues	$ 66,182	100.0%	$ 53,015	100.0%	$118,062	100.0%	$ 79,529	100.0%

RESULTS OF OPERATIONS

The results of operations for the quarter and six months ended September 30, 1998 include results of operations for NBG, Head Games Publishing Inc. ("Head Games") and CD Contact, three recently acquired companies, which were treated as immaterial poolings. The results of operations for the quarter and six months ended September 30, 1997 have not been restated to reflect such acquisitions. Net revenues for the quarter and six months ended September 30, 1998 included $2.5 million and $5.9 million from NBG's operations and $2.8 million and $5.0 million from Head Games' operations, respectively. Net revenues for the quarter and six months ended September 30, 1998 each included $12.4 million from CD Contact's operations.

NET REVENUES

Net revenues for the quarter ended September 30, 1998 increased 24.9% from the same period last year, from $53.0 million to $66.2 million. The 5.0% increase in net revenues in North America, from $20.2 million to $21.2 million, and the 36.8% increase in international net revenues, from $32.9 million to $45.0 million, primarily were attributable to the effect of the immaterial poolings discussed above.

Net revenues for the six months ended September 30, 1998 increased 48.6% from the same period last year, from $79.5 million to $118.1 million. This increase was primarily due to a 48.2% increase in net revenues in North America, from $25.1 million to $37.2 million, and a 48.7% increase in international net revenues, from $54.4 million to $80.9 million. North America and international net revenues for the six months ended September 30, 1998 increased as a result of the immaterial poolings discussed above and the increase in console net revenues, partially offset by a decrease in publishing PC net revenues.

Publishing console net revenues for the quarter and six months ended September 30, 1998 increased 228.2%, from $3.9 million to $12.8 million and 510.3%, from $3.9 million to $23.8 million, respectively, over the prior year. The increases in such periods were attributable to the initial releases of Vigilante 8 (Playstation), Tenchu (Playstation), Fifth Element (Playstation) and Activision Classics (Playstation). Publishing PC net revenues for the quarter and six months ended September 30, 1998 decreased 59.8%, from $28.1 million to $11.3 million, and 35.1%, from $36.2 million to $23.5 million, respectively, over the prior year. The decreases in such periods were attributable to the initial releases of fewer new PC titles than in the prior comparable periods.

Distribution console net revenues increased 162.0%, from $12.1 million to $31.7 million, and 132.9%, from $22.8 million to $53.1 million, for the quarter and six months ended September 30, 1998, respectively. Distribution PC net revenues increased 15.7%, from $8.9 million to $10.3 million, and 6.0%, from $16.6 million to $17.6 million, for the quarter and six months ended September 30, 1998, respectively. These increases were primarily attributable to the effect of the acquisitions of NBG and CD Contact, as discussed above.

COSTS AND EXPENSES

Cost of sales - product costs represented 65.7% and 44.0% of net revenues for the quarters ended September 30, 1998 and 1997, respectively. Cost of sales - product costs represented 63.6% and 53.0% of net revenues for the six months ended September 30, 1998 and 1997, respectively. The increase in cost of sales product costs as a percentage of net revenues for both the 1998 quarter and the six month period was due to the increase in the sales mix of distribution net revenues versus publishing net revenues, the increase in console net revenues versus PC net revenues, as well as the decrease in the sales mix of OEM, licensing and other net revenues versus retailer/reseller net revenues.

Cost of sales - royalties and software amortization expense represented 8.1% and 12.1% of net revenues for the quarters ended September 30, 1998 and 1997, respectively. Cost of sales - royalties and software amortization expense represented 7.3% and 9.9% of net revenues for the six months ended September 30, 1998 and 1997, respectively. The decrease in cost of sales - royalties and software amortization expense as a percentage of

net revenues for both the 1998 quarter and six months period was due to the increase in the sales mix of distribution net revenues versus publishing net revenues and a decrease in the effective royalty rate within the sales mix.

Product development expenses for the quarter ended September 30, 1998 decreased 46.6% from the same period last year, from $7.3 million to $3.9 million. Product development expenses for the six months ended September 30, 1998 decreased 28.4% from the same period last year, from $13.4 million to $9.6 million. The decreases in the amount of product development expenses for the quarter and six months ended September 30, 1998 primarily were due to an increase in the development costs of sequel products on proven engine technologies which have been capitalized under SFAS 86.

As a percentage of net revenues, total product creation costs (i.e., royalties and software amortization expense plus product development expenses), decreased from 25.9% to 14.0% and from 26.8% to 15.5% during the quarter and six months ended September 30, 1998, respectively. Such decreases were attributable to the increase in distribution net revenues as well as efficiencies gained in studio operations.

Sales and marketing expenses for the quarter ended September 30, 1998 increased 20.0% from the same period last year, from $9.0 million to $10.8 million. As a percentage of net revenues, sales and marketing expenses decreased from 17.0% to 16.3%. Sales and marketing expenses for the six months ended September 30, 1998 increased 60.3% from the same period last year, from $14.6 million to $23.4 million. As a percentage of net revenues, sales and marketing expenses increased from 18.3% to 19.8%. The increases in the amount of sales and marketing expenses for the 1998 quarter and six month period primarily were due to a significant increase in television advertising and an increase in the number of products scheduled to be released during the current fiscal year. In addition, sales and marketing expenses attributable to CD Contact, which was acquired in September 1998, were only included in the Company's sales and marketing expenses for the quarter ended September 30, 1998.

General and administrative expenses for the quarter ended September 30, 1998 increased 35.3% from the same period last year, from $3.4 million to $4.6 million. As a percentage of net revenues, general and administrative expenses increased from 6.5% to 6.9%. General and administrative expenses for the six months ended September 30, 1998 increased 36.5% from the same period last year, from $6.3 million to $8.6 million. As a percentage of net revenues, general and administrative expenses decreased from 7.9% to 7.4%. The period over period increase in the amount of general and administrative expenses for the 1998 quarter and six month period primarily were due to an increase in worldwide administrative support needs and headcount related expenses.

OTHER INCOME (EXPENSE)

Net interest expense was $824,000 and $1,163,000 for the quarter and six months ended September 30, 1998, compared to net interest expense of $112,000 and $144,000 for the same periods last year. These increases primarily were the result of interest costs associated with the Company's convertible subordinated notes issued in December 1997.

PROVISION FOR INCOME TAXES

The income tax benefit of approximately $1,373,000 and $3,704,000 for the quarter and six months ended September 30, 1998, respectively, reflects the Company's estimated effective income tax rate for the fiscal year ending March 31, 1999. 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 deferred tax assets recognized.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents decreased $31.8 million, from $73.4 million at March 31, 1998 to $41.6 million at September 30, 1998. Approximately $35.7 million in cash and cash equivalents were used in operating activities during the six months ended September 30, 1998. Such operating uses of cash resulted from the

Company's operating loss during the most recent six month period coupled with increases in inventories, prepaid royalties and capitalized software costs. Such increases were offset partially by a decrease in accounts receivable.

In addition, approximately $815,000 in cash and cash equivalents were used in investing activities. Capital expenditures totaled approximately $1.5 million during the six months ended September 30, 1998.

Cash and cash equivalents provided by financing activities totaled $4.7 million for the six months ended September 30, 1998, which included $389,000 in proceeds from exercise of employee stock options.

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.

During the quarter ended September 30, 1998, the Company had a $10 million revolving credit and letter of credit facility with its bank. This facility, which provided the Company the ability to borrow funds and issue letters of credit against eligible domestic accounts receivable up to $10 million, expired in September 1998. In October 1998, the Company obtained a new revolving credit and letter of credit facility ("the New Facility") from a new bank that permits the Company to borrow funds and issue letters of credit against domestic accounts receivable up to $25 million. The New Facility expires in October 2000.

The Company's CentreSoft subsidiary has a revolving credit facility (the "Europe Facility") with its bank for approximately $11.5 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 September 30, 1998. The Company's newly acquired subsidiary, CD Contact, has facilities (the "CD Contact Facilities") with its banks that permit borrowings up to approximately $21 million. Borrowings under the CD Contact Facilities are due on demand and totaled $9.1 million as of September 30, 1998.

The Company will use its working capital ($106.9 million at September 30, 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 New Facility, the Europe Facility and the CD Contact Facilities, 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.

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 initiated 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 will test year 2000 compliance for the majority of the Company's systems.

All of the entertainment 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 are scheduled to be released fully year 2000 compliant. 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 are being developed to address the most material areas of exposure 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 currently is in development 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 currently being developed by the Company will be adequate for handling these items.

The Company also is contacting 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 has developed a questionnaire which indicates the ability of each supplier to address year 2000 incompatibilities. The Company's suppliers and trading partners have been asked to complete and return the questionnaires by December 1998. The Company anticipates substantial compliance from all critical suppliers.

The Company anticipates that year 2000 compliance testing on substantially all of its critical systems will be completed, and corresponding changes will be made, by mid-1999. The costs incurred by the Company to date related to this testing and modification process are less than $100,000. The Company expects that the total cost of its year 2000 compliance plan will not exceed $200,000. This total cost estimate 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 is being 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.

EURO CONVERSION

On January 1, 1999, eleven of the fifteen member countries of the European Union are scheduled to adopt the "euro" as their common currency. Following introduction of the euro, the sovereign currencies of the participating countries are scheduled to remain legal tender as denominations of the euro between January 1, 1999 and January 1, 2002. Beginning January 1, 2002, the participating countries will issue new euro-denominated bills and coins for use in cash transactions. No later than July 1, 2002, the participating countries will withdraw all bills and coins denominated in the sovereign currencies, so that the sovereign currencies no longer will be legal tender for any transactions, making conversion to the euro complete. The Company has performed an internal analysis of the possible implications of the upcoming euro conversion on the Company's business and financial condition, and has determined that the impact of the conversion will be immaterial to its overall operations. The Company's wholly owned subsidiaries operating in participating countries represented 22.9% and 13.5% of the Company's consolidated net revenues for the six months ended September 30, 1998 and 1997, respectively.

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.

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 1998 Annual Meeting of Stockholders on September 23, 1998 in Santa Monica, CA. Two items were submitted to a vote of the stockholders:

1. The election of six directors to hold office for one year terms and until their respective successors are elected and have qualified. 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	14,135,990	498,271
Barbara S. Isgur	14,138,219	496,042
Brian G. Kelly	14,136,891	497,370
Robert A. Kotick	14,165,200	469,062
Steven T. Mayer	14,136,494	497,767
Robert J. Morgado	14,164,747	469,514

2. The adoption of the Company's 1998 Incentive Plan. This proposal was adopted by a vote of 7,417,125 in favor, 6,991,105 against, and 34,066 abstentions.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

None

(b) REPORTS ON FORM 8-K

During its fiscal quarter ended September 30, 1998, the Company filed the following report on Form 8-K:

Form 8-K dated July 1, 1998, filed July 2, 1998, reporting information under Item 5 and Item 7, with respect to the Company's acquisition of Head Games Publishing, 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, 1998

ACTIVISION, INC.

/s/ Barry J. Plaga	Chief Financial Officer	November 13, 1998
(Barry J. Plaga)		

3-MOS 6-MOS
MAR-31-1999 MAR-31-1999
JUN-30-1998 MAR-31-1998
SEP-30-1998 SEP-30-1998
41,568 41,568
0 0
77,180 77,180
11,152 11,152
27,243 27,243
176,676 176,676
25,018 25,018
(13,552) (13,552)
228,133 228,133
69,769 69,769
0 0
0 0
0 0
0 0
96,779 96,779
228,133 228,133
66,182 118,062
66,182 118,062
48,832 83,643
68,965 126,641
0 0
0 0
(824) (1,163)
(3,607) (9,742)
(1,373) (3,704)
(2,234) (6,038)
0 0
0 0
0 0
(2,234) (6,038)
(0.10) (0.28)
(0.10) (0.28)