ACTIVISION®

2001

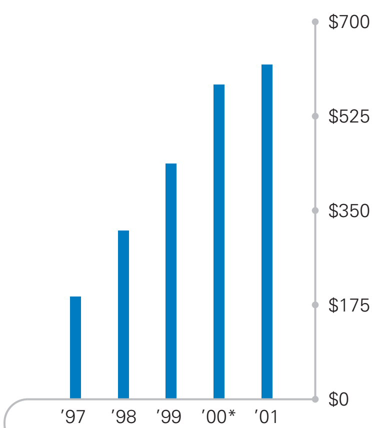
building the foundation for growth

Annual Report

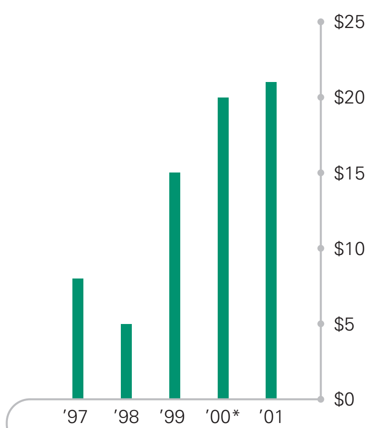
we're primed for growth

as Sony's PlayStation® 2, Microsoft's Xbox™, and Nintendo's GameCube™ and Game Boy® Advance usher in a new era of video gaming. Internet connectivity, DVD capability and backward compatibility will expand video gaming into a broader form of mass-market entertainment. The new video game systems, along with the impending introduction of various wireless technologies and a more ubiquitous broadband infrastructure, can push household penetration to new heights. Activision's strong brands, deep management and proven development capabilities position us to leverage these exciting market opportunities.

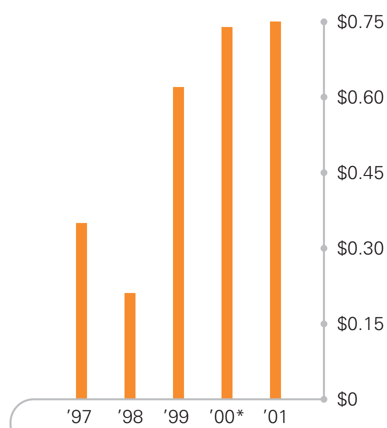
(in thousands of dollars except per share data)	2001	2000	2000*	1999	1998	1997
Net Revenues	620,183	572,205	583,930	436,526	312,906	190,446
Operating Income (Loss)	39,807	(30,325)	39,867	26,667	9,218	11,497
Net Earnings (Loss)	20,507	(34,088)	19,817	14,891	4,970	7,583
Earnings Per Common Share:						
Basic Earnings (Loss) Per Share	0.82	(1.38)	0.80	0.65	0.22	0.36
Diluted Earnings (Loss) Per Share	0.75	(1.38)	0.74	0.62	0.21	0.35



Net Revenues
(in millions of dollars)



Net Earnings
(in millions of dollars)



Diluted Earnings Per Share
(per common share)

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

to our shareholders:

Fiscal 2001 marked a year of record performance for Activision. The Company's net revenues grew to $620 million and net income rose to $21 million. Both net revenues and net income were the highest in our history.

We ended the fiscal year as the #2 independent U.S. video game publisher on console and hand-held platforms and we were the fastest growing major publisher overall. The market value of the Company is beginning to reflect the intrinsic value we have created over the last decade. This fiscal year, the Company's stock price rose 102%, versus a 60% decline in the Nasdaq Composite Index for the same period.

Our brand focused multi-platform strategy continues to drive our success. We achieved record financial results in a challenging software market, due to our prudent planning and platform and product strategies that were well aligned with the market opportunities.

FISCAL 2001 WAS A GREAT YEAR FOR ACTIVISION

During the fiscal year, Activision increased its U.S. dollar market share on the console and hand-held systems by 3.3 share points, despite a 2% decline in the overall U.S. video game market. We accomplished this by releasing products based on well-established brands for the PC, PlayStation® game console and PlayStation® 2 computer entertainment system, Nintendo® 64, Sega Dreamcast™ and Nintendo Game Boy® Color. More than 75% of our publishing revenue was derived from sales of games based on proven brand franchises, a key component of our business plan that markedly increased the predictability of our operating results.

We gained market share across all of the gaming platforms and achieved record financial performance while increasing our product development spending on games for the new generation console systems by $19 million dollars.

We currently have 55 games in planning and development for Sony's PlayStation 2, Microsoft's Xbox™ video game system and Nintendo's GameCube™ and Game Boy® Advance. We expect our investments in next-generation products to fuel our revenue growth over the next few years and provide greater opportunities for operating margin expansion.

Despite our increased investment in product development, our financial position is stronger than ever. As a result of our record performance in fiscal 2001, we ended the year with a significantly strengthened balance sheet. Our cash balance increased by $75 million to $126 million and we reduced our days sales outstanding from 94 days to 54 days.

We also significantly improved our capital structure. As of June 21, 2001, we completed the retirement of $60 million of Convertible Subordinated Notes. Substantially all of the holders of the Convertible Subordinated Notes elected to convert the Notes to common stock prior to the redemption date.

Additionally, we repaid in full the remaining $8.5 million balance of our three-year $25 million term loan and renegotiated our revolving credit facility with a more favorable cost structure. Unencumbered by debt, Activision now possesses greater financial flexibility as we move into the growth cycle provided by the launch of the new video game platforms.

REMARKABLE GROWTH AWAITS US

The launch of the next-generation gaming systems heralds a new and exciting period in our industry. As we have seen with other platform introductions, the hardware cycles comprise five-year increments. The first two years are staging years, followed by three years of rapid growth.

With the launch of the PlayStation 2 last fall, fiscal 2001 marked the beginning of a new cycle.

Over the last five years, we witnessed the transformation of the video game industry from an enthusiast market to a well-established mass-market entertainment medium. The release of the next-generation console systems will continue expanding the audience for video games. Many of the young people who grew up in the 1980s and 1990s playing games are still playing today, and millions of new consumers enter the market each year.

DRIVING FUTURE GROWTH

Activision is poised to capitalize on the tremendous opportunities ahead. For the past five years, we have been focused on building the infrastructure and scale necessary to be a leader in the interactive entertainment business. In fiscal 2001, our goal was to increase our product development resources and strengthen our financial position to take advantage of the market opportunities ahead. We now have a strong foundation for the Company's continued success.

Our product slate for fiscal year 2002 will fully leverage the current- and new-generation console platforms and includes the highest percentage of games based on proven brand franchises in the Company's history. With over $600 million in revenue, we have achieved a scale that should provide greater predictability in our operating results and opportunities for operating margin expansion.

Activision's market position has never been stronger. We have a product portfolio based on some of the world's most recognized brands coupled with the financial flexibility to capitalize on the opportunities afforded by the changes occurring within our industry. We have better products, a greater number of strategic partners, more satisfied customers, the most productive and dedicated employees and a stronger management than we have ever had.

We remain steadfast in our commitment to operate a professionally managed, highly disciplined Company — a company that is prosperous and growing, as well as financially prudent and focused on profitability. We are committed to delivering strong financial results while providing growing audiences around the world with the most compelling interactive entertainment experiences.

We would like to thank our employees for their hard work and dedication and our customers and shareholders for their continued commitment and support.

Sincerely,

Robert A. Kotick
Chairman & Chief Executive Officer

Brian G. Kelly
Co-Chairman

Ronald Doornink
President & Chief Operating Officer

we've got the brands

A 20-year reputation for quality titles with great gameplay has established Activision as a brand of choice among consumers. Our research has shown that Activision ranks as one of the most recognized names among interactive entertainment companies. Our properties include established brands like Disney, Marvel, Star Trek, Star Wars and Tony Hawk as well as emerging brands like Mat Hoffman. Recognized brands provide us with consistency and predictability in our financial results and emerging brands offer us significant financial potential for the future.

LucasArts Entertainment

Marvel Entertainment

Viacom Consumer Products

The Walt Disney Company

LEVERAGING BRANDS ACROSS MULTIPLE PLATFORMS

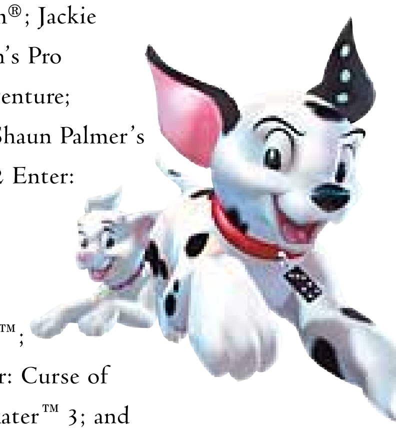
All of Activision's brands are selected and designed to deliver compelling interactive entertainment experiences to audiences around the world.

During the fiscal year, we achieved record performance despite a market transition. Our results can be attributed to our strategy of leveraging our brands across multiple gaming platforms and the fact that 75% of our revenues were derived from games based on proven franchises. As a result of these strategies and our strong product portfolio, Activision was the only U.S. publisher to have top-ten games on all the established console and hand-held platforms during calendar 2000.

The success of our brands is based on our insight into consumer trends and behaviors. In fiscal 1999, we were one of the first video game companies to recognize the growing popularity of action sports. In 1999, we dominated the action sports video game market with the success of Tony Hawk's Pro Skater. In September 2000, we launched the sequel, Tony Hawk's Pro Skater 2 which became the #1 selling PlayStation game in dollars sales for the calendar year. Last year, the Tony Hawk franchise accounted for more than $150 million in publishing revenues worldwide.

The success of the Tony Hawk's Pro Skater franchise, as well as our recently released BMX biking game Mat Hoffman's Pro BMX, have established Activision as the leader in this rapidly growing category with a 65% market share.

In fiscal year 2002, Activision plans to develop and release a dynamic slate of games across all platforms including the PlayStation 2, PlayStation, Xbox, GameCube, Game Boy Advance, Game Boy Color, Nintendo 64, Dreamcast and PC. Our lineup includes Bloody Roar™ 3; Bomberman™ Tournament; Doom®; Jackie Chan Adventures™; Mat Hoffman's Pro BMX™; Pinobee™: Wings of Adventure; Return to Castle Wolfenstein™; Shaun Palmer's Pro Snowboarder™; Spider-Man 2 Enter: Electro™; Star Trek®: Armada II; Star Trek® Bridge Commander™; Stuart Little™: The Journey Home; Supercar Street Challenge™; The Weakest Link™; Tomb Raider: Curse of the Sword™; Tony Hawk's Pro Skater™ 3; and X-Men: Mutant Academy 2™.



we've got game

With the launch of Sony's PlayStation 2, calendar 2000 marked the beginning of another transition phase for the industry. Calendar 2001 will benefit from the release of three additional gaming platforms — Microsoft's Xbox and Nintendo's GameCube and Game Boy Advance. By allowing consumers to play games with greater levels of realism and detail, watch DVD movies, listen to CDs and access the Internet, these new systems will increase the installed base of gamers to unprecedented levels.

PREPPED FOR NEXT-GENERATION CONSOLES

Activision's strong brands with proven market performance and its multi-platform development strategy should continue to give the Company an advantage in the new console era. Our established brands provide us with the flexibility to investigate and develop new properties and game concepts without sacrificing the financial stability and predictability that is crucial to our investors.

Past experience has shown us the importance of having a strong slate of products for these new game systems as the installed base increases. During fiscal 2001, we doubled our product development spending on games for the next-generation platforms. We believe that over the next two years, our game slate will allow us to take full advantage of the accelerated market growth resulting from these new platform launches.

During fiscal 2002, we plan to increase the number of games based on branded properties and designed by proven development talent. We believe that established brands and franchises with broad appeal are more critical than ever before as new consumers are apt to buy games based on branded rather than unbranded properties. Publishers with easily recognizable franchises should be better positioned to take advantage of the mass-market opportunities on the current hardware systems, as well as to capitalize on the next-generation console systems.

These factors, coupled with our industry-leading development capabilities and worldwide distribution network, will allow Activision to take full advantage of the future market opportunities presented by the next-generation console systems.

we're **connected**

Emerging technologies are changing our lives. The infrastructure for global communication is forming at a breakneck pace, driven by the thirst to move information in real time over the Internet. With microprocessors being incorporated into numerous electronic devices from digital assistants to cellular telephones, the reach of interactive entertainment is growing faster than ever. These new technologies will provide consumers in different time zones, continents and cultures with previously unimaginable game experiences. By continuing to leverage our multi-platform strategy, Activision will be able to take advantage of the growth and margin expansion opportunities afforded by these new systems.

The following table summarizes certain selected consolidated financial data, which should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein. The selected consolidated financial data presented below as of and for each of the fiscal years in the five-year period ended March 31, 2001 are derived from the audited consolidated financial statements of the Company. The Consolidated Balance Sheets as of March 31, 2001 and 2000 and the Consolidated Statements of Operations and Statements of Cash Flows for each of the fiscal years in the three-year period ended March 31, 2001, and the reports thereon, are included elsewhere in this Annual Report.

			Restated (1)		
Fiscal years ended March 31, *(In thousands, except per share data)*	**2001**	2000	1999	1998	1997
STATEMENT OF OPERATIONS DATA:					
Net revenues	**$620,183**	$572,205	$436,526	$312,906	$190,446
Cost of sales—product costs	**324,907**	319,422	260,041	176,188	103,124
Cost of sales—royalties and software amortization	**89,702**	91,238	36,990	29,840	13,108
Income (loss) from operations	**39,807**	(30,325)	26,667	9,218	11,497
Income (loss) before income tax provision	**32,544**	(38,736)	23,636	8,106	11,578
Net income (loss)	**20,507**	(34,088)	14,891	4,970	7,583
Basic earnings (loss) per share	**0.82**	(1.38)	0.65	0.22	0.36
Diluted earnings (loss) per share	**0.75**	(1.38)	0.62	0.21	0.35
Basic weighted average common shares outstanding	**24,865**	24,691	22,861	22,038	20,961
Diluted weighted average common shares outstanding	**27,400**	24,691	23,932	22,909	21,650
SELECTED OPERATING DATA:					
EBITDA (2)	**46,075**	15,541	33,155	14,564	15,690
CASH (USED IN) PROVIDED BY:					
Operating activities	**147,529**	77,389	18,190	31,670	4,984
Investing activities	**(74,595)**	(99,547)	(64,331)	(43,814)	(19,617)
Financing activities	**2,547**	42,028	7,220	62,862	11,981

			Restated		
As of March 31,	**2001**	2000	1999	1998	1997
BALANCE SHEET DATA:					
Working capital	**$182,980**	$158,225	$136,355	$115,782	$ 52,142
Cash and cash equivalents	**125,550**	49,985	33,037	74,319	23,352
Goodwill, net	**10,316**	12,347	21,647	23,473	23,756
Total assets	**359,957**	309,737	283,345	229,366	132,203
Long-term debt	**63,401**	73,778	61,143	61,192	5,907
Redeemable and convertible preferred stock	**—**	—	—	—	1,500
Shareholders' equity	**181,306**	132,009	127,190	97,475	80,321

(1) Consolidated financial information for fiscal years 1999–1996 has been restated retroactively for the effects of the September 1999 acquisition of Neversoft, accounted for as a pooling of interests. Consolidated financial information for fiscal years 1998–1996 has been restated retroactively for the effects of the acquisitions of S.B.F. Services, Limited dba Head Games Publishing and CD Contact Data GmbH, in June 1998 and September 1998, respectively, accounted for as pooling of interests. Consolidated financial information for fiscal year 1997 has been restated retroactively for the effects of the acquisitions of Raven Software Corporation, NBG EDV Handels—und Verlags GmbH and Combined Distribution (Holdings) Limited in November 1997, August 1997 and November 1997, respectively, accounted for as pooling of interests.

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

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 ("PSX") and PlayStation 2 ("PS2") and Nintendo N64 ("N64") console systems and Nintendo Game Boy hand-held game devices. The Company is also currently focusing on the development of products for Microsoft Xbox ("Xbox") and Nintendo GameCube console systems and Nintendo Game Boy Advance hand-held device. During January 2001, Sega Corp., the maker of the Sega Dreamcast ("Dreamcast") console system announced that it would quit making the Dreamcast in March 2001. Net revenues from the Dreamcast have historically represented only a small percentage of the Company's total net revenues. Accordingly, the Company believes that the departure of the Dreamcast console system from the market will not have a material impact upon its financial position or results of operations.

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

The Company's financial information as of and for the year ended March 31, 1999 has been restated to reflect the effect of pooling of interests transactions as discussed elsewhere in this Annual Report.

The Company recognizes revenue from the sale of its products once they are shipped and are available for general release to customers. 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. Management of the Company estimates the amount of future returns and price protection based upon historical results and current known circumstances. With respect to license agreements that provide customers the right to multiple copies in exchange for guaranteed amounts, revenue is recognized upon delivery. Per copy royalties on sales that exceed the guarantee are recognized as earned.

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 or its agents, 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. Additionally, 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. Commencing upon product release, prepaid royalties and capitalized software costs are amortized to cost of sales—royalties and software amortization based on the ratio of current revenues to total projected revenues, generally resulting in an amortization period of one year or less.

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 and platform, as well as operating income by business segment:

Fiscal years ended March 31, *(In thousands)*	**2001**		2000		1999	
Net revenues	**$620,183**	**100%**	$572,205	100%	$436,526	100%
Costs and expenses:						
Cost of sales—product costs	**324,907**	**52%**	319,422	56%	260,041	60%
Cost of sales—royalties and software amortization	**89,702**	**14%**	91,238	16%	36,990	9%
Product development	**41,396**	**8%**	26,275	5%	22,875	5%
Sales and marketing	**85,378**	**14%**	87,303	15%	66,420	15%
General and administrative	**37,491**	**6%**	36,674	6%	21,948	5%
Amortization of intangible assets	**1,502**	**0%**	41,618	7%	1,585	0%
Total costs and expenses	**580,376**	**94%**	602,530	105%	409,859	94%
Income (loss) from operations	**39,807**	**6%**	(30,325)	(5%)	26,667	6%
Interest income (expense), net	**(7,263)**	**(1%)**	(8,411)	(2%)	(3,031)	(1%)
Income (loss) before income tax provision	**32,544**	**5%**	(38,736)	(7%)	23,636	5%
Income tax provision (benefit)	**12,037**	**2%**	(4,648)	(1%)	8,745	2%
Net income (loss)	**$20,507**	**3%**	$(34,088)	(6%)	$14,891	3%

Fiscal years ended March 31, *(In thousands)*	**2001**		2000		1999	
NET REVENUES BY TERRITORY:						
United States	**$352,893**	**57%**	$282,847	49%	$149,705	34%
Europe	**256,228**	**41%**	277,485	49%	278,032	64%
Other	**11,062**	**2%**	11,873	2%	8,789	2%
Total net revenues	**$620,183**	**100%**	$572,205	100%	$436,526	100%
ACTIVITY/PLATFORM MIX:						
Publishing:						
Console	**$349,528**	**75%**	$281,204	71%	$111,662	54%
PC	**116,534**	**25%**	115,487	29%	93,880	46%
Total publishing net revenues	**466,062**	**75%**	396,691	69%	205,542	47%
Distribution:						
Console	**117,365**	**76%**	129,073	74%	156,584	68%
PC	**36,756**	**24%**	46,441	26%	74,400	32%
Total distribution net revenues	**154,121**	**25%**	175,514	31%	230,984	53%
Total net revenues	**$620,183**	**100%**	$572,205	100%	$436,526	100%
OPERATING INCOME (LOSS)						
Publishing	**$ 35,687**	**5%**	$ (35,049)	(6%)	$ 12,398	3%
Distribution	**4,120**	**1%**	4,724	1%	14,269	3%
Total operating income (loss)	**$ 39,807**	**6%**	$ (30,325)	(5%)	$ 26,667	6%

RESULTS OF OPERATIONS—FISCAL YEARS ENDED MARCH 31, 2001 AND 2000

Net income for fiscal year 2001 was $20.5 million or $0.75 per diluted share, as compared to net loss of $34.1 million or $1.38 per diluted share in fiscal year 2000. The 2000 results were negatively impacted by a strategic restructuring charge totaling $70.2 million, approximately $61.8 million net of tax, or $2.50 per diluted share. See the analysis of the results of operations for the fiscal years ended March 31, 2000 and 1999 for a detailed discussion of the restructuring plan. During fiscal 2001, the Company completed those restructuring initiatives.

Net Revenues

Net revenues for the year ended March 31, 2001 increased 8% from the same period last year, from $572.2 million to $620.2 million. This increase was driven by the performance of the Company's publishing segment, partially offset by declines experienced in the Company's distribution segment.

Publishing net revenues for the year ended March 31, 2001 increased 17% from $396.7 million to $466.1 million. This increase primarily was due to publishing console net revenues increasing 24% from $281.2 million to $349.5 million. The increase in publishing console net revenues was attributable to the release in fiscal 2001 of several titles that sold very well in the marketplace, including *Tony Hawk's Pro Skater* 2 (PSX, Dreamcast and Game Boy), *Spider-Man* (PSX, N64 and Game Boy), *X-Men Mutant Academy* (PSX and Game Boy), as well as continuing strong sales of the original *Tony Hawk's Pro Skater* (PSX and N64). Publishing PC net revenues for the year ended March 31, 2001 remained relatively constant with the prior year, increasing 1% from $115.5 million to $116.5 million.

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

Domestic net revenues grew 25.0% from $282.8 million to $352.9 million. International net revenues decreased by 8% from $289.4 million to $267.3 million. The increase in domestic net revenues is reflective of the increases in the Company's publishing segment as described above and the decrease in international net revenues is reflective of the declines in the Company's distribution segment as described above.

Costs and Expenses

Cost of sales—product costs represented 52% and 56% of net revenues for the year ended March 31, 2001 and 2000, respectively. The decrease in cost of sales—product costs as a percentage of net revenues for the year ended March 31, 2001 was due to the decrease in distribution net revenue, 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 14% and 16% of net revenues for the year ended March 31, 2001 and 2000, respectively. The decrease in cost of sales—royalty and software amortization expense as a percentage of net revenues is reflective of the $11.9 million of write-offs recorded in the fourth quarter of fiscal 2000 relating to the Company's restructuring plan as later described in the analysis of the results of operations for the fiscal years ended March 31, 2000 and 1999.

Product development expenses of $41.4 million and $26.3 million represented 8% and 5% of net revenues for the fiscal year ended March 31, 2001 and 2000, respectively. These increases in product development expenses in dollars and as a percentage of net revenues reflect the Company's investment in the development of products for next-generation console and hand-held devices, including PS2, Xbox, GameCube and Game Boy Advance. The increases are also reflective of the increase in the number of titles expected to be released in fiscal 2002, 52 titles, compared to fiscal 2001, 35 titles. Of the 52 titles expected to be released in fiscal 2002, 19 titles are for next-generation platforms, which have higher development costs than existing-platform titles.

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

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

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

Operating Income (Loss)

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

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

Other Income (Expense)

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

Provision for Income Taxes

The income tax provision of $12.0 million for the fiscal year ended March 31, 2001, reflects the Company's effective income tax rate of approximately 37%. The significant items generating the variance between the Company's effective rate and its statutory rate of 35% are state taxes and nondeductible goodwill amortization, partially offset by a decrease in the Company's deferred tax asset valuation allowance and research and development tax credits. The realization of deferred tax assets primarily is dependent on the generation of future taxable income. Management believes that it is more likely than not that the Company will generate taxable income sufficient to realize the benefit of net deferred tax assets recognized.

RESULTS OF OPERATIONS—FISCAL YEARS ENDED MARCH 31, 2000 AND 1999

Net loss for fiscal year 2000 was $34.1 million or $1.38 per diluted share, as compared to net income of $14.9 million or $0.62 per diluted share in fiscal year 1999. The 2000 results were negatively impacted by a strategic restructuring charge totaling $70.2 million, approximately $61.8 million net of tax, or $2.50 per diluted share.

Strategic Restructuring Plan

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

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

The component of the charge included in amortization of intangible assets represented a write down of intangibles including goodwill, relating to Expert Software, Inc. ("Expert"), one of the Company's value publishing subsidiaries, totaling $26.3 million. The Company consolidated Expert into Head Games, forming one integrated business unit. As part of this consolidation, the Company discontinued substantially all of Expert's product lines, terminated substantially all of Expert's employees and phased out the use of the Expert name. In addition, a $10.9 million write down of goodwill relating to TDC, an OEM business unit, was recorded. During fiscal 1999, the OEM market went through radical changes due to price declines of PCs and hardware accessories. The sum of the undiscounted future cash flow of these assets was not sufficient to cover the carrying value of these assets and as such was written down to fair market value.

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

The components of the charge included in cost of sales—royalties and software amortization and product development represent costs to write down certain assets associated with exiting certain product lines and re-evaluating other product lines which resulted in reduced expectations.

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

Net Revenues

Net revenues for the year ended March 31, 2000 increased 31% from the same period last year, from $436.5 million to $572.2 million. The increase was due to a 53% increase in console net revenues from $268.2 million to $410.3 million, slightly offset by a 4% decrease in PC net revenues from $168.3 million to $161.9 million. Domestic net revenues grew 89% from $149.7 million to $282.8 million. International net revenues remained fairly constant, increasing 1% from $286.8 million to $289.4 million.

Publishing net revenues for the year ended March 31, 2000 increased 93% from $205.5 million to $396.7 million. This increase primarily was due to publishing console net revenues increasing 152% from $111.7 million to $281.2 million. The increase in publishing console net revenues was attributable to the release in fiscal 2000 of a larger number of titles that sold well in the marketplace, including *Blue Stinger* (Dreamcast), *Space Invaders* (PlayStation, N64 and Game Boy Color) and Disney/Pixar's *Toy Story 2* (PlayStation and N64), Disney's *Tarzan* (N64 and Game Boy), Disney/Pixar's *A Bug's Life* (N64), *Vigilante 8: Second Offense* (PlayStation, N64 and Game Boy), *WuTang: Shaolin Style* (PlayStation) and *Tony Hawk's Pro Skater* (PlayStation, N64 and Game Boy). Publishing PC net revenues for the year ended March 31, 2000 increased 23% from $93.9 million to $115.5 million. This increase primarily was due to the release of *QUAKE III Arena, Cabela's Big Game Hunter III, Star Trek: Hidden Evil, Star Trek: Armada* and *Soldier of Fortune.*

For the year ended March 31, 2000, distribution net revenues decreased 24% from prior fiscal year from $231.0 million to $175.5 million. The decrease was mainly attributable to the pricing reductions initiated by leading retail chains in the United Kingdom (the "UK"), which in turn reduced market share for the independent retail channel in the UK to which the Company's CentreSoft subsidiary is the sole authorized Sony PlayStation distributor, as well as the unfavorable impact of foreign currency translation rates.

Net OEM licensing, on-line and other revenues for the fiscal year ended March 31, 2000 increased 40% from $19.0 million to $26.7 million. The increase was primarily due to an increase in licensing revenues, partially offset by a decrease in OEM revenues. Licensing revenues increased due to an increase in the number of licensing arrangements entered into by the Company during fiscal 2000. OEM revenues decreased due to the radical changes being experienced in the OEM market in fiscal 2000, which resulted from declining prices of personal computers and hardware accessories and the reluctance of hardware manufacturers to produce large inventories.

Costs and Expenses

Cost of sales—product costs represented 56% and 60% of net revenues for the year ended March 31, 2000 and 1999, respectively. The decrease in cost of sales—product costs as a percentage of net revenues for the year ended March 31, 2000 was due to the decrease in distribution net revenue, 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 16% and 9% of net revenues for the year ended March 31, 2000 and 1999, respectively. The increase in cost of sales—royalty and software amortization expense as a percentage of net revenues was primarily 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 prior fiscal year and increases in amortization expenses relating to the release of a greater number of products with capitalizable development costs. The increase also partially resulted from $11.9 million of write-offs recorded in the fourth quarter of fiscal 2000 relating to the Company's restructuring plan as previously described.

Product development expenses for the year ended March 31, 2000 increased 15% from the same period last year from $22.9 million to $26.3 million. The increase was primarily due to a $4.2 million charge to product development costs relating to the Company's restructuring plan as previously described.

As a percentage of net revenues, total product creation costs (i.e., royalties and software amortization expense plus product development expenses) increased from 14% to 21% for the year ended March 31, 2000. Such increases were attributable to the increases in product development costs, as described above.

Sales and marketing expenses for the year ended March 31, 2000 increased 31% from the same period last year, from $66.4 million to $87.3 million, but remained relatively constant as a percentage of net revenues at 15% at March 31, 2000 and 1999. The increase in the amount of sales and marketing expenses primarily was due to an increase in the number of titles released and an increase in television advertising during the final quarter of fiscal 2000 to support the Company's premium titles.

General and administrative expenses for the year ended March 31, 2000 increased 67% from the prior fiscal year, from $21.9 million to $36.7 million. As a percentage of net revenues, general and administrative expenses remained relatively constant at approximately 5% to 6%. The increase in the amount of general and administrative expenses was due to an increase in worldwide administrative support needs and headcount related expenses and charges incurred in conjunction with the Company's restructuring plan previously described.

Amortization of intangibles increased substantially from $1.6 million in fiscal 1999 to $41.6 million in fiscal 2000. This was due to the write-off of goodwill acquired in purchase acquisitions.

Operating Income (Loss)

Operating income (loss) for the year ended March 31, 2000, was $(30.3) million, compared to $26.7 million in fiscal 1999.

Publishing operating income (loss) for the year ended March 31, 2000 decreased 382% to $(35.0) million, compared to $12.4 million in the prior fiscal year. The decrease reflects the charges incurred in conjunction with the Company's restructuring plan as previously described, which predominantly impacted the Company's publishing segment. Distribution operating income for the year ended March 31, 2000 decreased 67% to $4.7 million, compared to $14.3 million in the prior fiscal year. The period over period change primarily was due to a decrease in distribution sales and the UK price reductions, as noted earlier.

Other Income (Expense)

Interest expense, net of interest income, increased to $8.4 million for the year ended March 31, 2000, from $3.0 million for the year ended March 31, 1999. This increase primarily was the result of interest costs associated with the Company's $125 million term loan and revolving credit facility obtained in June 1999.

Provision for Income Taxes

The income tax benefit of $4.6 million for the year ended March 31, 2000 reflected the Company's effective income tax rate of approximately 12%. The significant items that generated the variance between the Company's effective rate and its statutory rate of 34% were nondeductible goodwill amortization and an increase in the Company's deferred tax asset valuation allowance, partially offset by research and development tax credits. The realization of deferred tax assets primarily is dependent on the generation of future taxable income. Management believes that it is more likely than not that the Company will generate taxable income sufficient to realize the benefit of net deferred tax assets recognized.

Quarterly Operating Results

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

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

Quarter ended	**March 31, 2001**	Dec. 31, 2000	Sept. 30, 2000	June 30, 2000	March 31, 2000 (1)	Dec. 31, 1999	Sept. 30, 1999	June 30, 1999 (2)
Net revenues	**$126,789**	$264,473	$144,363	$84,558	$103,838	$268,862	$115,363	$84,142
Operating income (loss)	**2,015**	34,754	9,536	(6,498)	(65,990)	38,241	3,525	(6,101)
Net income (loss)	**875**	20,505	4,306	(5,179)	(52,877)	22,301	1,063	(4,575)
Basic earnings (loss) per share	**0.03**	0.84	0.18	(0.21)	(2.07)	0.89	0.04	(0.19)
Diluted earnings (loss) per share	**0.03**	0.70	0.17	(0.21)	(2.07)	0.75	0.04	(0.19)

(1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Strategic Restructuring Plan."
(2) Restated for acquisition of Neversoft.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents increased $75.6 million, from $50.0 million at March 31, 2000 to $125.6 million at March 31, 2001. This was in comparison to a $17.0 million increase in cash flows in fiscal year 2000 from $33.0 million at March 31, 1999 to $50.0 million at March 31, 2000. This increase in cash in fiscal year 2001 resulted from $81.6 million and $2.5 million provided by operating activities and financing activities, respectively, offset by $8.6 million utilized in investing activities. The cash provided by operating activities primarily was the result of changes in accounts receivable and accounts payable, driven by a seasonal change in working capital needs. The cash used in investing activities primarily is the result of capital expenditures. The cash provided by financing activities is primarily the result of $33.6 million of cash proceeds from the issuance common stock pursuant to employee stock option plans, the employee stock purchase plan and warrants. These inflows were partially offset by $16.1 in net cash payments on borrowings, as well as $15.0 million of cash used by the Company to purchase its common stock under its repurchase program.

In connection with the Company's purchases of Nintendo 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. Furthermore, Nintendo maintains a policy of not accepting returns of Nintendo N64 hardware and software cartridges. Because of these and other factors, the carrying of an inventory of Nintendo N64 hardware and software cartridges entails significant capital and risk. As of March 31, 2001, the Company had $5.4 million of N64 hardware and software cartridge inventory on hand, which represented approximately 12% of all inventory.

In December 1997, the Company completed the private placement of $60.0 million principal amount of 6¾% 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, 2003, the Company must pay a premium on such redeemed Notes. Subsequent to March 31, 2001, the Company called for the redemption of the Notes. In connection with that call, as of June 20, 2001, holders have converted for common stock approximately $60.0 million aggregate principal amount of their convertible subordinated notes.

The Company has a $100.0 million revolving credit facility and a $25.0 million term loan with a syndicate of banks (the "U.S. Facility"). The revolving portion of the U.S. Facility provides the Company with the ability to borrow up to $100.0 million and issue letters of credit up to $80 million on a revolving basis against eligible accounts receivable and inventory. The $25.0 million term loan portion of the U.S. Facility was used to fund the acquisition of Expert Software, Inc. in June 1999 and to pay costs related to such acquisition and the securing of the U.S. 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% or LIBOR plus 3%. The revolving portion of the U.S Facility has a borrowing rate based on the banks' base rate plus 1.75% or LIBOR plus 2.75% and matures June 2002. The U.S. Facility had a weighted average interest rate of approximately 9.70% for the year ending March 31, 2001. The Company pays a commitment fee of ½% on the unused portion of the revolving line. The U.S. Facility is collateralized by substantially all of the assets of the Company and its U.S. subsidiaries. The U.S. Facility contains various covenants which limit the ability of the Company to incur additional indebtedness, pay dividends or make other distributions, create certain liens, sell assets, or enter into certain mergers or acquisitions. The Company is also required to maintain specified financial ratios related to net worth and fixed charges. As of March 31, 2001, the Company was in compliance with these covenants. As of March 31, 2001, approximately $8.5 million was outstanding under the term loan portion of the U.S. Facility. As of March 31, 2001, there were no borrowings outstanding and $18.2 million letters of credit outstanding against the revolving portion of the U.S. Facility.

In May 2001, the Company repaid the remaining $8.5 million balance of the term loan portion of the U.S. Facility. In conjunction with the accelerated repayment of the term loan, the Company amended the U.S. Facility effective May 7, 2001. The amended and restated U.S. Facility eliminates the term loan, reduces the revolvers to $78.0 million, reduces the interest rate to Prime plus 1.25% or LIBOR plus 2.25%, eliminates certain covenants, increases the advance rates and reduces the fee paid for maintenance of the facility.

The Company has a revolving credit facility through its CD Contact subsidiary in the Netherlands (the "Netherlands Facility"). The Netherlands Facility permits revolving credit loans and letters of credit up to Netherlands Guilder ("NLG") 26 million ($10 million) at March 31, 2001, based upon eligible accounts receivable and inventory balances. The Netherlands Facility is due on demand, bears interest at a Eurocurrency rate plus 1.50% (weighted average interest rate of 7.40% as of March 31, 2001) and matures August 2003. The Company had $1.8 million of borrowings outstanding under the Netherlands Facility at March 31, 2001. There were no letters of credit under the Netherlands Facility as of March 31, 2001.

The Company also has revolving credit facilities with its CentreSoft subsidiary located in the United Kingdom, (the "UK Facility") and its NBG subsidiary located in Germany, (the "German Facility"). The UK Facility can be used for working capital requirements and provides for British Pounds ("GBP") 7 million ($10.0 million) of revolving loans and GBP 3 million ($4.3 million) of letters of credit, bears interest at LIBOR plus 2%, is collateralized by substantially all of the assets of the subsidiary and matures in July 2001. The UK Facility also contains various covenants that require the subsidiary to maintain specified financial ratios related to, among others, fixed charges. The Company was in compliance with these covenants as of March 31, 2001. No borrowings were outstanding against the UK Facility at March 31, 2001. Letters of credit of GBP 3.0 million ($4.3 million) were outstanding against the UK Facility at March 31, 2001. The German Facility can be used for working capital requirements and provides for revolving loans up to Deutsche Marks ("DM") 4 million ($1.8 million), bears interest at 7.0%, is collateralized by a cash deposit of approximately GBP 650,000 ($928,000) made by the Company's CentreSoft subsidiary and has no expiration date. No borrowings were outstanding against the German Facility as of March 31, 2001.

In the normal course of business, the Company enters into contractual arrangements with third parties for the development of products. Under these agreements, the Company commits to provide specified payments to a developer, contingent upon the developer's achievement of contractually specified milestones. Assuming all contractually specified milestones are achieved, for contracts in place as of March 31, 2001, the total future minimum contract commitment is approximately $62.1 million, which is scheduled to be paid as follows (amounts in thousands):

Year ending March 31,	
2002	$35,197
2003	13,528
2004	6,250
2005	2,925
2006	1,675
Thereafter	2,500
	$62,075

Additionally, as of March 31, 2001, under the terms of a production financing arrangement, the Company has a commitment to purchase two future PlayStation 2 titles from independent third party developers for an estimated $5.7 million. Failure by the developers to complete the project within the contractual time frame or specifications alleviates the Company's commitment.

The Company historically has financed its acquisitions through the issuance of shares of its common stock. The Company will continue to evaluate potential acquisition candidates as to the benefit they bring to the Company and as to the ability of the Company to make such acquisitions and maintain compliance with its bank facilities.

In May 2000, the Board of Directors authorized the Company to purchase up to $15.0 million in shares of its common stock as well as its convertible subordinated notes. The shares and notes could be purchased in the open market or in privately negotiated transactions at such times and in such amounts as management deemed appropriate, depending on market conditions and other factors. During fiscal 2001, the Company repurchased 2.3 million shares of its common stock for approximately $15.0 million.

The Company believes that it has sufficient working capital ($183.0 million at March 31, 2001), as well as proceeds available from the U.S. Facility, the UK Facility, the Netherlands Facility and the German Facility, to finance the Company's operational requirements for at least the next twelve months, including acquisitions of inventory and equipment, the funding of the development, production, marketing and sale of new products, the acquisition of intellectual property rights for future products from third parties and the repurchase of common stock and notes under the Company's repurchase plan.

INFLATION

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

EURO CONVERSION

On January 1, 1999, eleven of the fifteen member countries of the European Union adopted the "euro" as their common currency. 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 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 8% and 12% of the Company's consolidated net revenues for the years ended March 31, 2001 and 2000, respectively.

IMPLEMENTATION OF SAB 101

The Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") 101, Revenue Recognition in Financial Statements, in December 1999. The SAB summarizes certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. During the year ended March 31, 2001, the Company performed a review of its revenue recognition policies and determined that it is in compliance with SAB 101.

RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS No. 133") as subsequently amended by SFAS No. 137 and SFAS No. 138, is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company does not currently participate in hedging activities or own derivative instruments but plans to adopt SFAS No. 133 beginning April 1, 2001. Management does not believe the adoption of SFAS No. 133 will have a material impact on the financial position or results of operations of the Company.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the potential loss arising from fluctuations in market rates and prices. The Company's market risk exposures primarily include fluctuations in interest rates and foreign currency exchange rates. The Company's market risk sensitive instruments are classified as "other than trading." The Company's exposure to market risk as discussed below includes "forward-looking statements" and represents an estimate of possible changes in fair value or future earnings that would occur assuming hypothetical future movements in interest rates or foreign currency exchange rates. The Company's views on market risk are not necessarily indicative of actual results that may occur and do not represent the maximum possible gains and losses that may occur, since actual gains and losses will differ from those estimated, based upon actual fluctuations in foreign currency exchange rates, interest rates and the timing of transactions.

Interest Rate Risk

The Company has a number of variable rate and fixed rate debt obligations, denominated both in U.S. dollars and various foreign currencies as detailed in Note 10 to the Consolidated Financial Statements appearing elsewhere in this Annual Report. The Company manages interest rate risk by monitoring its ratio of fixed and variable rate debt obligations in view of changing market conditions. Additionally, in the future, the Company may consider the use of interest rate swap agreements to further manage potential interest rate risk.

As of March 31, 2001, the carrying value of the Company's variable rate debt was $10.3 million, which includes the U.S. Facility ($8.5 million) and the Netherlands Facility ($1.8 million). As of March 31, 2000, the carrying value of the Company's variable rate debt was $26.0 million, which included the U.S. Facility ($22.5 million) and the Netherlands Facility ($3.5 million). A hypothetical 1% increase in the applicable interest rates of the Company's variable rate debt would increase annual interest expense by approximately $103,000 and $260,000, as March 31, 2001 and 2000, respectively.

The Company additionally has 6¼% convertible subordinated notes due 2005 (the "Notes") that have a carrying value of $60.0 million as of March 31, 2001 and 2000. The Notes have a fair value of $60.0 million and $51.6 million as of March 31, 2001 and 2000, respectively. The fair value of the Notes was determined based on quoted market prices. A hypothetical 1% increase in market rates would decrease their fair value by approximately $600,000 and $516,000 as of March 31, 2001 and 2000, respectively.

Subsequent to March 31, 2001, the Company's holdings of market risk sensitive instruments changed. Subsequent to March 31, 2001, the Company called for the redemption of $60.0 million of the Notes. In connection with that call, as of June 20, 2001, holders have converted to common stock approximately $60.0 million aggregate principal amount of their Notes. Additionally, in May 2001, the Company repaid in full the remaining $8.5 million balance of the term loan portion of the U.S. Facility.

Foreign Currency Exchange Rate Risk

The Company transacts business in many different foreign currencies and may be exposed to financial market risk resulting from fluctuations in foreign currency exchange rates, particularly GBP. The volatility of GBP (and all other applicable currencies) will be monitored frequently throughout the coming year. While the Company has not traditionally engaged in foreign currency hedging, the Company may in the future use hedging programs, currency forward contracts, currency options and/or other derivative financial instruments commonly utilized to reduce financial market risks if it is determined that such hedging activities are appropriate to reduce risk.

To the Board of Directors and Shareholders:

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Los Angeles, CA
May 9, 2001

Report of Independent Accountants

The Board of Directors and Shareholders:

We have audited the accompanying consolidated balance sheet of ACTIVISION, INC. and subsidiaries as of March 31, 2000 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years in the two-year period ended March 31, 2000. In connection with our audit of the consolidated financial statements, we also have audited financial statement schedule II for each of the years in the two-year period ended March 31, 2000. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ACTIVISION, INC. and subsidiaries as of March 31, 2000, and the results of their operations and their cash flows for each of the years in the two-year period ended March 31, 2000, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule for each of the years in the two-year period ended March 31, 2000, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

KPMG LLP

Los Angeles, California
May 5, 2000,
except as to Note 16, which is as of June 9, 2000

Consolidated Balance Sheets

March 31, *(In thousands, except share data)*	**2001**	2000
ASSETS		
Current assets:		
Cash and cash equivalents	**$125,550**	$ 49,985
Accounts receivable, net of allowances of $28,461 and $31,521 at March 31, 2001 and 2000, respectively	**73,802**	108,108
Inventories	**43,888**	40,453
Prepaid royalties and capitalized software costs	**27,502**	31,655
Deferred income taxes	**14,292**	14,159
Other current assets	**13,196**	17,815
Total current assets	**298,230**	262,175
Prepaid royalties and capitalized software costs	**14,703**	9,153
Property and equipment, net	**15,240**	10,815
Deferred income taxes	**13,759**	6,055
Goodwill, net	**10,316**	12,347
Other assets	**7,709**	9,192
Total assets	**$359,957**	$309,737
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	**$ 10,231**	$ 16,260
Accounts payable	**60,980**	38,286
Accrued expenses	**44,039**	49,404
Total current liabilities	**115,250**	103,950
Long-term debt, less current portion	**3,401**	13,778
Convertible subordinated notes	**60,000**	60,000
Total liabilities	**178,651**	177,728
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $.000001 par value, 5,000,000 shares authorized, no shares issued at March 31, 2001 and 2000	**—**	—
Common stock, $.000001 par value, 50,000,000 shares authorized, 30,166,455 and 26,488,260 shares issued and 27,282,476 and 25,988,260 shares outstanding at March 31, 2001 and 2000, respectively	**—**	—
Additional paid-in capital	**200,786**	151,714
Retained earnings (deficit)	**12,146**	(8,361)
Accumulated other comprehensive loss	**(11,377)**	(6,066)
Less: Treasury stock, cost, 2,883,979 and 500,000 shares as of March 31, 2001 and 2000, respectively	**(20,249)**	(5,278)
Total shareholders' equity	**181,306**	132,009
Total liabilities and shareholders' equity	**$359,957**	$309,737

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

For the years ended March 31, *(In thousands, except per share data)*	**2001**	2000	1999
Net revenues	**$620,183**	$572,205	$436,526
Costs and expenses:			
Cost of sales—product costs	**324,907**	319,422	260,041
Cost of sales—royalties and software amortization	**89,702**	91,238	36,990
Product development	**41,396**	26,275	22,875
Sales and marketing	**85,378**	87,303	66,420
General and administrative	**37,491**	36,674	21,948
Amortization of intangible assets	**1,502**	41,618	1,585
Total costs and expenses	**580,376**	602,530	409,859
Income (loss) from operations	**39,807**	(30,325)	26,667
Interest expense, net	**(7,263)**	(8,411)	(3,031)
Income (loss) before income tax provision	**32,544**	(38,736)	23,636
Income tax provision (benefit)	**12,037**	(4,648)	8,745
Net income (loss)	**$ 20,507**	$ (34,088)	$ 14,891
Basic earnings (loss) per share	**$ 0.82**	$ (1.38)	$ 0.65
Weighted average common shares outstanding	**24,865**	24,691	22,861
Diluted earnings (loss) per share	**$ 0.75**	$ (1.38)	$ 0.62
Weighted average common shares outstanding—assuming dilution	**27,400**	24,691	23,932

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

Consolidated Statements of Changes in Shareholders' Equity

For the years ended March 31, 2001, 2000 and 1999 *(In thousands)*	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity
BALANCE, MARCH 31, 1998	23,107	$—	$ 91,825	$10,836	(500)	$ (5,278)	$ 92	$ 97,475
Components of comprehensive income:								
Net income for the year	—	—	—	14,891	—	—	—	14,891
Foreign currency translation adjustment	—	—	—	—	—	—	(2,602)	(2,602)
Total comprehensive income								12,289
Issuance of common stock and common stock warrants	—	—	3,368	—	—	—	—	3,368
Issuance of common stock pursuant to employee stock option plans	605	—	5,271	—	—	—	—	5,271
Issuance of common stock pursuant to employee stock purchase plan	92	—	798	—	—	—	—	798
Tax benefit attributable to employee stock option plans	—	—	1,059	—	—	—	—	1,059
Tax benefit derived from net operating loss carryforward utilization	—	—	2,430	—	—	—	—	2,430
Conversion of notes payable to common stock	—	—	4,500	—	—	—	—	4,500
BALANCE, MARCH 31, 1999	23,804	—	109,251	25,727	(500)	(5,278)	(2,510)	127,190
Components of comprehensive income:								
Net loss for the year	—	—	—	(34,088)	—	—	—	(34,088)
Foreign currency translation adjustment	—	—	—	—	—	—	(3,556)	(3,556)
Total comprehensive loss								(37,644)
Issuance of common stock and common stock warrants	—	—	8,529	—	—	—	—	8,529
Issuance of common stock pursuant to employee stock option plans	2,331	—	21,718	—	—	—	—	21,718
Issuance of common stock pursuant to employee stock purchase plan	72	—	762	—	—	—	—	762
Tax benefit attributable to employee stock option plans	—	—	3,017	—	—	—	—	3,017
Tax benefit derived from net operating loss carryforward utilization	—	—	1,266	—	—	—	—	1,266
Acquisitions and investments made with common stock and common stock options	281	—	7,171	—	—	—	—	7,171
BALANCE, MARCH 31, 2000	26,488	—	151,714	(8,361)	(500)	(5,278)	(6,066)	132,009
Components of comprehensive income:								
Net income for the year	—	—	—	20,507	—	—	—	20,507
Foreign currency translation adjustment	—	—	—	—	—	—	(5,311)	(5,311)
Total comprehensive income								15,196
Issuance of common stock and common stock warrants	100	—	1,050	—	—	—	—	1,050
Issuance of common stock pursuant to employee stock option plans	3,499	—	31,693	—	—	—	—	31,693
Issuance of common stock pursuant to employee stock purchase plan	79	—	845	—	—	—	—	845
Tax benefit attributable to employee stock option plans	—	—	11,832	—	—	—	—	11,832
Tax benefit derived from net operating loss carryforward utilization	—	—	3,652	—	—	—	—	3,652
Purchase of treasury shares	—	—	—	—	(2,384)	(14,971)	—	(14,971)
BALANCE MARCH 31, 2001	**30,166**	**$—**	**$200,786**	**$12,146**	**(2,884)**	**$(20,249)**	**$(11,377)**	**$181,306**

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

For the years ended March 31, *(In thousands)*	**2001**	2000	1999
Cash flows from operating activities:			
Net income (loss)	**$ 20,507**	$ (34,088)	$ 14,891
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Deferred income taxes	**(6,597)**	(4,311)	3,806
Depreciation and amortization	**6,268**	45,866	6,488
Amortization of prepaid royalties and capitalize software costs	**68,925**	78,714	27,055
Expense related to common stock warrants	**1,406**	5,769	388
Tax benefit of stock options exercised	**11,832**	3,017	1,059
Change in assets and liabilities (net of effects of purchases and acquisitions):			
Accounts receivable	**30,027**	9,900	(43,686)
Inventories	**(5,283)**	(7,342)	(11,506)
Prepaid royalties and capitalized software costs	**(65,964)**	(74,506)	(60,531)
Other assets	**6,062**	(6,307)	(6,862)
Accounts payable	**21,361**	(8,038)	(6,620)
Accrued expenses and other liabilities	**(6,979)**	(5,791)	33,177
Net cash provided by (used in) operating activities	**81,565**	2,883	(42,341)
Cash flows from investing activities:			
Cash used in purchase acquisitions (net of cash acquired)	**—**	(20,523)	—
Capital expenditures	**(9,780)**	(4,518)	(3,800)
Proceeds from disposal of property and equipment	**1,149**	—	—
Net cash used in investing activities	**(8,631)**	(25,041)	(3,800)
Cash flows from financing activities:			
Proceeds from issuance of common stock pursuant to employee stock option plans	**31,693**	21,718	5,271
Proceeds from issuance of common stock pursuant to employee stock purchase plan	**845**	762	798
Proceeds from issuance of common stock pursuant to warrants	**1,050**	—	—
Borrowing under line-of-credit agreement	**577,590**	361,161	5,300
Payment under line-of-credit agreement	**(581,618)**	(355,156)	(5,300)
Payment on term loan	**(11,450)**	(1,645)	—
Proceeds from term loan	**—**	25,000	—
Notes payable, net	**(592)**	(6,457)	1,151
Cash paid to secure line of credit and term loan	**—**	(3,355)	—
Purchase of treasury stock	**(14,971)**	—	—
Net cash provided by financing activities	**2,547**	42,028	7,220
Effect of exchange rate changes on cash	**84**	(2,922)	(2,361)
Net increase (decrease) in cash and cash equivalents	**75,565**	16,948	(41,282)
Cash and cash equivalents at beginning of period	**49,985**	33,037	74,319
Cash and cash equivalents at end of period	**$ 125,550**	$ 49,985	$ 33,037

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Activision, Inc. ("Activision" or 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 ("PSX") and PlayStation 2 ("PS2") and Nintendo N64 ("N64") console systems and Nintendo Game Boy hand-held game devices. The Company is also currently focusing on the development of products for the Microsoft Xbox ("Xbox") and Nintendo GameCube console systems and Nintendo Game Boy Advance hand-held device. During January 2001, Sega Corp., the maker of the Sega Dreamcast ("Dreamcast") announced that it would stop making the Dreamcast in March 2001. Net revenues from the Dreamcast have historically represented only a small percentage of the Company's total net revenues. Accordingly, the Company believes that the departure of the Dreamcast console system from the market will not have a material impact upon its financial position or results of operations.

The Company maintains operations in the U.S., Canada, the United Kingdom, France, Germany, Japan, Australia, Belgium and the Netherlands. For fiscal year 2001, international operations contributed approximately 43% of net revenues.

Principles of Consolidation

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

Basis of Presentation

The consolidated financial statements have been retroactively restated to reflect the poolings of interests of the Company with JCM Productions, Inc. dba Neversoft Entertainment ("Neversoft") in September 1999.

Cash and Cash Equivalents

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

The Company's cash and cash equivalents were comprised of the following at March 31, 2001 and 2000 (amounts in thousands):

March 31,	**2001**	2000
Cash	**$ 63,018**	$32,637
Money market funds	**62,532**	17,348
	$125,550	$49,985

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of temporary cash investments and accounts receivable. The Company places its temporary cash investments with financial institutions. At various times during the fiscal years ended March 31, 2001 and 2000, the Company had deposits in excess of the Federal Deposit Insurance Corporation ("FDIC") limit at these financial institutions. The Company's customer base includes retail outlets and distributors including consumer electronics and computer specialty stores, discount chains, video rental stores and toy stores in the United States and countries worldwide. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. The Company generally does not require collateral or other security from its customers.

As of and for the year ending March 31, 2001, the Company's publishing business had one customer that accounted for 10% of its consolidated net revenues and 15% of its consolidated accounts receivable, net. For the years ending March 31, 2000 and 1999, no single customer accounted for 10% or more of consolidated net revenues.

Fair Value of Financial Instruments

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

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

Long-term debt and convertible subordinated notes: The carrying amounts of the Company's variable rate debt approximate fair value because the interest rates are based on floating rates identified by reference to market rates. The fair value of the Company's fixed rate debt is based on quoted market prices, where available, or discounted future cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements as of the balance sheet date. The carrying amount and fair value of the Company's long-term debt and convertible subordinated notes, was $73.6 million and $60.0 million, respectively, as of March 31, 2001 and $90.0 million and $81.6 million, respectively, as of March 31, 2000.

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 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.

Commencing upon product release prepaid royalties and capitalized software development costs are amortized to cost of sales—royalties and software amortization on the ratio of current revenues to total projected revenues, generally resulting in an amortization period of one year or less. For products that have been released, management evaluates the future recoverability of capitalized amounts on a quarterly basis.

As of March 31, 2001, prepaid royalties and unamortized capitalized software costs totaled $38.3 million (including $14.7 million classified as non-current) and $3.9 million, respectively. As of March 31, 2000, prepaid royalties and unamortized capitalized software costs totaled $29.2 million (including $9.2 million classified as non-current) and $11.6 million, respectively. Amortization of prepaid royalties and capitalized software costs was $68.9 million, $78.7 million and $27.1 million for the years ended March 31, 2001, 2000 and 1999, respectively.

Inventories

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

Revenue Recognition

Product Sales: The Company recognizes revenue from the sale of its products once they are shipped and are available for general release to customers. 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 estimates the amount of future returns, and price protections based upon historical results and current known circumstances. Revenue from product sales is reflected net of the allowance for returns and price protection.

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

Advertising Expenses

The Company expenses advertising and the related costs as incurred. Advertising expenses for the years ended March 31, 2001, 2000 and 1999 were approximately $16.5 million, $18.6 million and $15.6 million, respectively, and are included in sales and marketing expense in the consolidated statements of operations.

Goodwill and Long-Lived Assets

Cost in excess of the fair value of net assets of companies acquired, goodwill, is being amortized on a straight-line basis over periods ranging from 5 to 20 years. As of March 31, 2001 and 2000, accumulated amortization amounted to $51.9 million and $50.8 million, respectively. The Company accounts for impairment of long-lived assets, including goodwill, in accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of." This Statement requires that long-lived assets and certain identifiable intangibles, including goodwill, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. In conjunction with its strategic restructuring plan as detailed in Note 3, in the fourth quarter of fiscal 2000, the Company recorded a charge for impairment of goodwill of $37.2 million. See Note 3 for further discussion.

Interest Expense, net

Interest expense, net is comprised of the following, (amounts in thousands):

March 31,	**2001**	2000	1999
Interest expense	**$(9,399)**	$(9,375)	$(4,974)
Interest income	**2,136**	964	1,943
Net interest income (expense)	**$(7,263)**	$(8,411)	$(3,031)

Income Taxes

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

Foreign Currency Translation

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

Estimates

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

Earnings Per Common Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for all periods. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares and common stock equivalents from outstanding stock options and warrants and convertible debt. 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 and conversion of the Company's convertible debt. However, potential common shares are not included in the denominator of the diluted earnings per share calculation when inclusion of such shares would be anti-dilutive, such as in a period in which the Company records a net loss.

Stock Based Compensation

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

Warrants granted to non-employees are accounted for in accordance with the Financial Accounting Standards Board's Emerging Issues Task Force Issue No. 96-18 "Accounting for Equity Instruments that are Issued To Other Than Employees for Acquiring or in Connection With Selling Goods or Services" (EITF 96-18).

Related Parties

As of March 31, 2001 and 2000, the Company had $4.3 million and $2.7 million, respectively, of loans outstanding due from employees. The loans bear interest at 6.75% and are primarily due from Company executives.

Implementation of SAB 101

The Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") 101, Revenue Recognition in Financial Statements, in December 1999. The SAB summarizes certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. During the year ended March 31, 2001, the Company performed a review of its revenue recognition policies and determined that it is in compliance with SAB 101.

Recently Issued Accounting Standards

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS No. 133") as subsequently amended by SFAS No. 137 and SFAS No. 138, is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company does not currently participate in hedging activities or own derivative instruments but plans to adopt SFAS No. 133 beginning April 1, 2001. Management does not believe the adoption of SFAS No. 133 will have a material impact on the financial position or results of operations of the Company.

Reclassifications

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

2. ACQUISITIONS

FISCAL 2000 TRANSACTIONS

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. Accordingly, in fiscal 2000 the Company restated the financial statements for all periods prior to the closing of the transaction.

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

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

Acquisition of Elsinore Multimedia

On June 29, 1999, the Company acquired Elsinore Multimedia, Inc. ("Elsinore"), a privately held interactive software development company, in exchange for 204,448 shares of the Company's common stock.

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

Acquisition of Expert Software

On June 22, 1999, the Company acquired all of the outstanding capital stock of Expert Software, Inc. ("Expert"), a publicly held developer and publisher of value-line interactive leisure products, for approximately $24.7 million. The aggregate purchase price of approximately $24.7 million consisted of $20.3 million in cash payable to the former shareholders of Expert, the valuation of employee stock options in the amount of $3.3 million, and other acquisition costs.

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

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

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

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

FISCAL 1999 TRANSACTIONS

The acquisitions of Head Games and CD Contact were originally treated as immaterial poolings of interests. However, after reviewing the results of operations of the entities, including the materiality and impact on the Company's trends, in fiscal 1999 the Company restated the financial statements for all periods prior to the closing of each respective transaction.

Acquisition of Head Games

On June 30, 1998, the Company acquired Head Games in exchange for 1,000,000 shares of the Company's common stock. The acquisition was accounted for as a pooling of interests.

Acquisition of CD Contact

On September 29, 1998, the Company acquired CD Contact in exchange for 1,900,000 shares of the Company's common stock and the assumption of $9.1 million in outstanding debt payable to CD Contact's former shareholders. The acquisition was accounted for as a pooling of interests.

The following table represents the results of operations of the previously separate companies for the periods before the combinations were consummated that are included in the fiscal 1999 combined net income of the Company (amounts in thousands):

Fiscal year 1999	Activision Year Ended March 31, 1999	Head Games Three Months Ended June 30, 1998	CD Contact Six Months Ended Sept. 30, 1998	Neversoft Year Ended March 31, 1999	Total Year Ended March 31, 1999
Revenues	$412,225	$2,195	$22,065	$ 41	$436,526
Net income (loss)	$ 14,194	$ 394	$ 666	$(363)	$ 14,891

3. STRATEGIC RESTRUCTURING PLAN

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

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

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

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

The components of the charge included in cost of sales—royalties and software amortization and product development represent costs to write down certain assets associated with exiting certain product lines and re-evaluating other product lines which resulted in reduced expectations.

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

4. INVENTORIES

The Company's inventories consist of the following (amounts in thousands):

March 31,	2001	2000
Purchased parts and components	$ 1,885	$ 2,857
Finished goods	42,003	37,596
	$43,888	$40,453

5. PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation and amortization are provided using the straight-line method over the shorter of the estimated useful lives or the lease term: buildings, 30 years; computer equipment, office furniture and other equipment, 3 years; leasehold improvements, through the life of the lease. When assets are retired or disposed of, the cost and accumulated depreciation thereon are removed and any resultant gains or losses are recognized in current operations. Property and equipment was as follows (amounts in thousands):

March 31,	2001	2000
Land	$ 214	$ 526
Buildings	4,004	2,468
Computer equipment	21,512	18,670
Office furniture and other equipment	5,585	5,800
Leasehold improvements	3,713	3,229
Total cost of property and equipment	35,028	30,693
Less accumulated depreciation	(19,788)	(19,878)
Property and equipment, net	$ 15,240	$ 10,815

Depreciation expense for the years ended March 31, 2001, 2000 and 1999 was $4.8 million, $4.2 million and $4.9 million, respectively.

6. ACCRUED EXPENSES

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

March 31,	2001	2000
Accrued royalties payable	$14,764	$13,300
Affiliated label payable	733	4,033
Accrued selling and marketing costs	4,603	10,493
Income tax payable	859	4,934
Accrued interest expense	1,150	1,013
Accrued bonus and vacation pay	11,958	5,514
Other	9,972	10,117
Total	$44,039	$49,404

7. OPERATIONS BY REPORTABLE SEGMENTS AND GEOGRAPHIC AREA

The Company publishes, develops and distributes interactive entertainment and leisure products for a variety of game platforms, including PCs, the Sony PlayStation and PlayStation 2 console systems, the Nintendo 64 console system, the Nintendo Game Boy and the Sega Dreamcast console system. The Company has also begun product development for next-generation console systems and hand held devices, including Microsoft's Xbox and Nintendo's GameCube and Game Boy Advance. Based on its organizational structure, the Company operates in two reportable segments: publishing and distribution.

The Company's publishing segment publishes titles that are developed both internally through the studios owned by the Company and externally through third party developers. 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, Canada and Japan. The Company's products are sold internationally on a direct to retail basis and through third party distribution and licensing arrangements and through the Company's wholly-owned distribution subsidiaries located in the United Kingdom, the Netherlands and Germany.

The Company's distribution segment, located in the United Kingdom, the Netherlands and Germany, distributes interactive entertainment software and hardware and provides logistical services for a variety of publishers and manufacturers.

The President and Chief Operating Officer allocates resources to each of these 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, "Disclosure about Segments of an Enterprise and Related Information," ("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. Revenue derived from sales between segments is eliminated in consolidation.

Information on the reportable segments for the three years ended March 31, 2001 is as follows (amounts in thousands):

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

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

Year ended March 31, 1999	Publishing	Distribution	Total
Total segment revenues	$205,542	$230,984	$436,526
Revenue from sales between segments	(19,202)	19,202	—
Revenues from external customers	$186,340	$250,186	$436,526
Operating income	$ 12,398	$ 14,269	$ 26,667
Total assets	$185,567	$ 97,778	$283,345

Geographic information for the three years ended March 31, 2001 is based on the location of the selling entity. Revenues from external customers by geographic region were as follows (amounts in thousands):

Year ended March 31,	**2001**	2000	1999
United States	**$352,893**	$282,847	$149,705
Europe	**256,228**	277,485	278,032
Other	**11,062**	11,873	8,789
Total	**$620,183**	$572,205	$436,526

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

Year ended March 31,	**2001**	2000	1999
Console	**$466,893**	$410,277	$268,246
PC	**153,290**	161,928	168,280
Total	**$620,183**	$572,205	$436,526

8. COMPUTATION OF EARNINGS PER SHARE

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

Year ended March 31,	**2001**	2000	1999
Numerator			
Numerator for basic and diluted earnings per share—income (loss) available to common shareholders	**$20,507**	$ (34,088)	$14,891
Denominator			
Denominator for basic earnings per share—weighted average common shares outstanding	**24,865**	24,691	22,861
Effect of dilutive securities:			
Employee stock options	**2,354**	—	942
Warrants to purchase common stock	**181**	—	129
Potential dilutive common shares	**2,535**	—	1,071
Denominator for diluted earnings per share—weighted average common shares outstanding plus assumed conversions	**27,400**	24,691	23,932
Basic earnings (loss) per share	**$ 0.82**	$ (1.38)	$ 0.65
Diluted earnings (loss) per share	**$ 0.75**	$ (1.38)	$ 0.62

Options to purchase 2,338,841, 2,555,397 and 2,188,175 shares of common stock were outstanding for the years ended March 31, 2001, 2000 and 1999, respectively, but were not included in the calculations of diluted earnings (loss) per share because their effect would be anti-dilutive. Convertible subordinated notes were also not included in the calculations of diluted earnings per share because their effect would be anti-dilutive.

Subsequent to March 31, 2001, the Company called for the redemption of its $60.0 million convertible subordinated notes due 2005. In connection with that call, holders have converted into common stock approximately $60.0 million aggregate principal amount of their convertible subordinated notes, resulting in the issuance of approximately 3,175,000 shares of common stock to such holders.

9. INCOME TAXES

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

Year ended March 31,	**2001**	2000	1999
Income (loss) before income taxes:			
Domestic	**$24,276**	$(37,115)	$ 5,945
Foreign	**8,268**	(1,621)	17,691
	$32,544	$(38,736)	$23,636
Income tax expense (benefit):			
Current:			
Federal	**$ 394**	$ (383)	$ 37
State	**112**	337	124
Foreign	**4,351**	2,610	5,456
Total current	**4,857**	2,564	5,617
Deferred:			
Federal	**(5,610)**	(10,047)	(418)
State	**(1,761)**	(1,448)	57
Foreign	**(479)**	—	—
Total deferred	**(7,850)**	(11,495)	(361)
Add back benefit credited to additional paid-in capital:			
Tax benefit related to stock option exercises	**11,378**	3,017	1,059
Tax benefit related to utilization of pre-bankruptcy net operating loss carryforwards	**3,652**	1,266	2,430
	15,030	4,283	3,489
Income tax provision (benefit)	**$12,037**	$ (4,648)	$ 8,745

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

Year ended March 31,	**2001**	2000	1999
Federal income tax provision (benefit) at statutory rate	**35.0%**	(34.0%)	34.0%
State taxes, net of federal benefit	**3.3%**	(4.5%)	1.3%
Nondeductible amortization	**1.3%**	18.6%	1.7%
Nondeductible merger fees	**—**	0.4%	0.8%
Research and development credits	**(5.7%)**	(8.6%)	(5.4%)
Incremental effect of foreign tax rates	**0.5%**	2.8%	(0.9%)
Increase of valuation allowance	**4.0%**	13.8%	5.1%
Rate changes	**(1.5%)**	—	—
Other	**0.1%**	(0.5%)	0.4%
	37.0%	(12.0%)	37.0%

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

March 31,	**2001**	2000
Deferred asset:		
Allowance for bad debts	**$ 716**	$ 1,019
Allowance for sales returns	**3,900**	5,151
Inventory reserve	**992**	799
Vacation and bonus reserve	**1,663**	763
Royalty reserve	**170**	774
Other	**1,643**	1,585
Tax credit carryforwards	**14,224**	12,062
Net operating loss carryforwards	**12,362**	12,828
Amortization and depreciation	**6,816**	7,055
Deferred asset	**42,486**	42,036
Valuation allowance	**(9,895)**	(13,041)
Net deferred asset	**32,591**	28,995
Deferred liability:		
Capitalized research expenses	**3,087**	7,864
State taxes	**1,453**	917
Deferred liability	**4,540**	8,781
Net deferred asset	**$28,051**	$ 20,214

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

As of March 31, 2001, the Company's available federal net operating loss carryforward of $30.8 million is subject to certain limitations as defined under Section 382 of the Internal Revenue Code. The net operating loss carryforwards expire from 2006 to 2019. The Company's available state net operating loss carryforward of $8.0 million is not subject to limitations under Section 382 of the Internal Revenue Code. The Company has tax credit carryforwards of $9.4 million and $4.8 million for federal and state purposes, respectively, which expire from 2006 to 2021.

At March 31, 2001, the Company's deferred income tax asset for tax credit carryforwards and net operating loss carryforwards was reduced by a valuation allowance of $9.9 million. Of such valuation allowance, none relates to SOP 90-7 which, if realized, would be recorded as additional paid-in capital. Realization of the deferred tax assets is dependent upon the continued generation of sufficient taxable income prior to expiration of tax credits and loss carryforwards. Although realization is not assured, management believes it is more likely than not that the net carrying value of the deferred tax asset will be realized. The amount of deferred tax assets considered realizable, however, could be reduced in the future if estimates of future taxable income are reduced.

Cumulative undistributed earnings of foreign subsidiaries for which no deferred taxes have been provided approximated $22.8 million at March 31, 2001. Deferred income taxes on these earnings have not been provided as these amounts are considered to be permanent in duration.

10. LONG-TERM DEBT

Bank Lines of Credit and Other Debt

The Company's long-term debt consists of the following (amounts in thousands):

March 31,	2001	2000
U.S. Facility	$ 8,432	$ 22,496
The Netherlands Facility	1,759	3,509
Mortgage notes payable and other	3,441	4,033
	13,632	30,038
Less current portion	(10,231)	(16,260)
Long-term debt, less current portion	$ 3,401	$ 13,778

In June 1999, the Company obtained a $100.0 million revolving credit facility and a $25.0 million term loan (the "U.S. Facility") with a syndicate of banks. The revolving portion of the U.S. Facility provides the Company with the ability to borrow up to $100.0 million and issue letters of credit up to $80 million on a revolving basis against eligible accounts receivable and inventory. The $25.0 million term loan portion of the U.S. Facility was used to acquire Expert Software, Inc. in June 1999 and to pay costs related to such acquisition and the securing of the U.S. 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% or LIBOR plus 3%. The revolving portion of the U.S. Facility has a borrowing rate based on the banks' base rate plus 1.75% or LIBOR plus 2.75% and matures June 2002. The U.S. Facility had a weighted average interest rate of approximately 9.70% and 9.50% for the year ended March 31, 2001 and 2000, respectively. The Company pays a commitment fee of ½% on the unused portion of the revolving line. The U.S. Facility is collateralized by substantially all of the assets of the Company and its U.S. subsidiaries. The U.S. Facility contains various covenants that limit the ability of the Company to incur additional indebtedness, pay dividends or make other distributions, create certain liens, sell assets, or enter into certain mergers or acquisitions. The Company is also required to maintain specified financial ratios related to net worth and fixed charges. As of March 31, 2001 and 2000, the Company was in compliance with these covenants. As of March 31, 2001, approximately $8.5 million was outstanding under the term loan portion of the U.S. Facility. As of March 31, 2001, there were no borrowings outstanding and $18.2 million of letters of credit outstanding against the revolving portion of the U.S. Facility. As of March 31, 2000, $20.0 million was outstanding under the term loan portion and $2.5 million was outstanding under the revolving portion of the U.S. Facility.

The Company has a revolving credit facility through its CD Contact subsidiary in the Netherlands (the "Netherlands Facility"). The Netherlands Facility permits revolving credit loans and letters of credit up to Netherlands Guilders ("NLG") 26 million ($10.4 million) as of March 31, 2001 and NLG 45 million ($19.4 million) as of March 31, 2000, based upon eligible accounts receivable and inventory balances. The Netherlands Facility is due on demand, bears interest at a Eurocurrency rate plus 1.50% and 1.25% in fiscal 2001 and 2000, respectively (weighted average interest rate of approximately 7.40% and 6.80% as of March 31, 2001 and 2000, respectively) and matures August 2003. Borrowings outstanding under the Netherlands Facility were $1.8 million and $3.5 million at March 31, 2001 and 2000, respectively. Letters of credit outstanding under the Netherlands Facility were NLG 3.8 million ($1.6 million) as of March 31, 2000. There were no letters of credit outstanding under the Netherlands Facility as of March 31, 2001.

The Company also has revolving credit facilities with its CentreSoft subsidiary located in the United Kingdom (the "UK Facility") and its NBG subsidiary located in Germany (the "German Facility"). The UK Facility provides for British Pounds ("GBP") 7.0 million ($10.0 million) of revolving loans and GBP 3.0 million ($4.3 million) of letters of credit as of March 31, 2001 and GBP 7.0 million ($11.2 million) of revolving loans and GBP 6.0 million ($9.6 million) of letters of credit as of March 31, 2000. The UK Facility bears interest at LIBOR plus 2%, is collateralized by substantially all of the assets of the subsidiary and matures in July 2001. The UK Facility also contains various covenants that require the subsidiary to maintain specified financial ratios related to, among others, fixed charges. As of March 31, 2001 and 2000, the Company was in compliance with these covenants. No borrowings were outstanding against the UK Facility at March 31, 2001 or 2000. Letters of credit of GBP 3.0 million ($4.3 million) and GBP 6.0 million ($9.6 million) were outstanding against the UK Facility at March 31, 2001 and 2000, respectively. As of March 31, 2001 and 2000, the German Facility provides for revolving loans up to Deutsche Marks ("DM") 4 million ($1.8 million), bears interest at 7.0%, is collateralized by a cash deposit of approximately GBP 650,000 ($928,000) made by the Company's CentreSoft subsidiary and has no expiration date. No borrowings were outstanding against the German Facility as of March 31, 2001 and 2000.

Mortgage notes payable relate to the land, office and warehouse facilities of the Company's German and Netherlands subsidiaries. The notes bear interest at 5.45% and 5.35%, respectively, and are collateralized by the related assets. The Netherlands mortgage note payable is due in quarterly installments of NLG 25,000 ($10,000) and matures January 2019. The German mortgage note payable is due in bi-annual installments of DM 145,000 ($65,500) beginning June 2002 and matures December 2019.

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

2002	$10,231
2003	235
2004	171
2005	171
2006	171
Thereafter	2,653
Total	$13,632

Private Placement of Convertible Subordinated Notes

In December 1997, the Company completed the private placement of $60.0 million principal amount of 6¾% 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.

11. COMMITMENTS AND CONTINGENCIES

Developer Contracts

In the normal course of business, the Company enters into contractual arrangements with third parties for the development of products. Under these agreements, the Company commits to provide specified payments to a developer, contingent upon the developer's achievement of contractually specified milestones. Assuming all contractually specified milestones are achieved, for contracts in place as of March 31, 2001, the total future minimum contract commitment is approximately $62.1 million, which is scheduled to be paid as follows (amount in thousands):

Year ending March 31,	
2002	$35,197
2003	13,528
2004	6,250
2005	2,925
2006	1,675
Thereafter	2,500
	$62,075

Additionally, under the terms of a production financing arrangement, the Company has a commitment to purchase two future PlayStation 2 titles from independent third party developers for an estimated $5.7 million. Failure by the developers to complete the project within the contractual time frame or specifications alleviates the Company's commitment.

Lease Obligations

The Company leases certain of its facilities under non-cancelable operating lease agreements. Total future minimum lease commitments as of March 31, 2001 are as follows (amounts in thousands):

Year ending March 31,	
2002	$ 3,991
2003	3,728
2004	3,606
2005	3,389
2006	3,044
Thereafter	5,576
Total	$23,334

Facilities rent expense for the years ended March 31, 2001, 2000 and 1999 was approximately $4.7 million, $4.4 million and $4.4 million, respectively.

Legal Proceedings

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

12. STOCK COMPENSATION PLANS

Employee Options

The Company sponsors three stock option plans for the benefit of officers, employees, consultants and others.

The Activision 1991 Stock Option and Stock Award Plan, as amended, (the "1991 Plan") permits the granting of "Awards" in the form of non-qualified stock options, incentive stock options ("ISOs"), stock appreciation rights ("SARs"), restricted stock awards, deferred stock awards and other common stock-based awards. The total number of shares of common stock available for distribution under the 1991 Plan is 7,567,000. The 1991 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. There were approximately 229,000 shares remaining available for grant under the 1991 Plan as of March 31, 2001.

On September 23, 1998, the stockholders of the Company approved the Activision 1998 Incentive Plan (the "1998 Plan"). The 1998 Plan permits the granting of "Awards" in the form of non-qualified stock options, ISOs, SARs, restricted stock awards, deferred stock awards and other common stock-based awards to directors, officers, employees, consultants and others. The total number of shares of common stock available for distribution under the 1998 Plan is 3,000,000. The 1998 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. There were approximately 648,000 shares remaining available for grant under the 1998 Plan as of March 31, 2001.

On, April 26, 1999, the Board of Directors approved the Activision 1999 Incentive Plan (the "1999 Plan"). The 1999 Plan permits the granting of "Awards" in the form of non-qualified stock options, ISOs, SARs, restricted stock awards, deferred share awards and other common stock-based awards to directors, officers, employees, consultants and others. The total number of shares of common stock available for distribution under the 1999 Plan is 5,000,000. The 1999 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. As of March 31, 2001, there were approximately 262,000 shares remaining available for grant under the 1999 Plan.

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

In connection with current and prior employment agreements between the Company and Robert A. Kotick, the Company's Chairman and Chief Executive Officer, and Brian G. Kelly, the Company's Co-Chairman, Mr. Kotick and Mr. Kelly have been granted options to purchase common stock. Relating to such grants, as of March 31, 2001, 4,269,000 and 3,186,000 shares with weighted average exercise prices of $8.43 and $9.22 were outstanding and exercisable, respectively.

The Company also issues stock options in conjunction with acquisition transactions. For the year ended March 31, 2001, approximately 13,000 and 1,000 options with weighted average exercise prices of $9.74 and $6.76 were outstanding and exercisable, respectively, relating to options issued in conjunction with the acquisitions of Head Games and Expert.

Director Warrants

The Director Warrant Plan, which expired on December 19, 1996, provided for the automatic granting of warrants ("Director Warrants") to purchase 16,667 shares of common stock to each director of the Company who was not an officer or employee of the Company or any of its subsidiaries. Director Warrants granted under the Director Warrant Plan vest 25% on the first anniversary of the date of grant, and 12.5% each six months thereafter. The expiration of the Plan had no effect on the outstanding Director Warrants. As of March 31, 2001, there were no shares of common stock available for distribution under the Director Warrant Plan.

The range of exercise prices for Director Warrants outstanding as of March 31, 2001 was $.75 to $8.50. The range of exercise prices for Director Warrants is wide due to increases and decreases in the Company's stock price over the period of the grants. As of March 31, 2001, 28,700 of the outstanding and vested Director Warrants have a weighted average remaining contractual life of 0.78 years and a weighted average exercise price of $.75; 20,000 of the outstanding and vested Director Warrants have a weighted average remaining contractual life of 3.82 years and a weighted average exercise price of $6.50; and 20,000 of the outstanding and vested Director Warrants have a weighted average remaining contractual life of 3.82 years and a weighted average exercise price of $8.50.

During the fiscal year ended March 31, 1997, the Company issued warrants to purchase 40,000 shares of the Company's common stock, at exercise prices ranging from $11.80 to $13.88 to two of its outside directors in connection with their election to the Board. Such warrants have vesting terms identical to the Director Warrants and expire within 10 years. Relating to such warrants, as of March 31, 2001, 40,000 and 39,000 shares with weighted average exercise prices of $12.85 and $12.89 were outstanding and exercisable, respectively.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan for all eligible employees (the "Purchase Plan"). Under the Purchase Plan, shares of the Company's common stock may be purchased at six-month intervals at 85% of the lower of the fair market value on the first or last day of each six-month period (the "Offering Period"). Employees may purchase shares having a value not exceeding 10% of their gross compensation during an Offering Period. Employees purchased 34,615 and 39,002 shares at a price of $9.46 and $10.68 per share during the Purchase Plan's offering period ended September 30, 2000 and 1999, respectively, and 43,910 and 33,440 shares at a price of $11.79 and $10.25 per share during the Purchase Plan's offering period ended March 31, 2001 and 2000, respectively.

Activity of Employee and Director Options and Warrants

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

	2001		2000		1999	
	Shares	**Wtd Avg Ex Price**	Shares	Wtd Avg Ex Price	Shares	Wtd Avg Ex Price
Outstanding at beginning of year	**10,332**	**$11.07**	9,949	$10.54	6,218	$11.47
Granted	**6,767**	**6.91**	3,767	11.52	5,538	10.27
Exercised	**(3,500)**	**9.06**	(2,331)	9.15	(605)	8.68
Forfeited	**(1,655)**	**9.73**	(1,053)	11.91	(1,202)	15.33
Outstanding at end of year	**11,944**	**$ 9.68**	10,332	$11.07	9,949	$10.54
Exercisable at end of year	**6,544**	**$ 9.99**	4,715	$10.25	4,154	$10.00

For the year ended March 31, 2001, 4,342,000 options with a weighted average exercise price of $7.19 were granted at an exercise price equal to the fair market value on the date of grant and 2,425,000 options with a weighted average exercise price of $6.43 were granted at an exercise price greater than fair market value on the date of grant.

For the year ended March 31, 2000, 2,501,000 options with a weighted average exercise price of $12.88 were granted at an exercise price equal to the fair market value on the date of grant and 705,000 options with a weighted average exercise price of $10.71 were granted at an exercise price greater than fair market value on the date of grant. Additionally, in conjunction with the acquisition of Expert, 561,000 options with a weighted average exercise price of $6.48 were granted at an exercise price less than market value on the date of grant. Options granted to Expert were outside any of the Plans.

For the year ended March 31, 1999, 5,320,000 options were granted at an exercise price equal to the fair market value on the date of grant and 218,000 options were granted at an exercise price greater than fair market value on the date of grant.

The following tables summarize information about all employee and director stock options and warrants outstanding as of March 31, 2001 (share amounts in thousands):

	Outstanding Options			Exercisable Options	
	Shares	Remaining Wtd Avg Contractual Life (in years)	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Range of exercise prices:					
$0.75 to $0.75	29	0.78	0.75	29	0.75
$3.00 to $6.00	1,336	8.30	5.82	333	5.30
$6.03 to $6.13	2,002	9.14	6.13	917	6.13
$6.16 to $9.44	1,306	8.04	7.79	506	8.70
$9.50 to $10.25	1,608	6.88	9.89	1,462	9.88
$10.31 to $10.31 . . .	340	8.29	10.31	167	10.31
$10.38 to $10.50 . . .	1,999	7.97	10.50	1,975	10.50
$10.56 to $12.50 . . .	1,307	7.48	11.14	422	10.98
$12.63 to $14.50 . . .	1,306	7.87	13.53	332	13.44
$14.56 to $23.86 . . .	711	6.31	17.84	401	18.86

Non-Employee Warrants

In prior years, the Company has granted stock warrants to third parties in connection with the development of software and the acquisition of licensing rights for intellectual property. The warrants generally vest upon grant and are exercisable over the term of the warrant. The exercise price of third party warrants is generally greater than or equal to the fair market value of the Company's common stock at the date of grant.

No such grants were made during the fiscal year ending March 31, 2001. As of March 31, 2001, 1,316,000 third party warrants to purchase common stock were outstanding with a weighted average exercise price of $10.89 per share.

During the fiscal year ended March 31, 2000, the Company granted warrants to a third party to purchase 100,000 shares of the Company's common stock at an exercise price of $11.63 per share in connection with, and as partial consideration for, a license agreement that allows the Company to utilize the third party's name in conjunction with certain Activision products. The warrants vested upon grant, have a seven year term and become exercisable ratably in annual installments over the warrant term. As of March 31, 2000, 1,580,000 third party warrants to purchase common stock were outstanding with a weighted average exercise price of $11.02 per share.

During the fiscal year ended March 31, 1999, the Company issued the following warrants to third parties to purchase an aggregate of 1,000,000 shares of common stock in connection with software license agreements:

Warrants	Shares	Exercise Price	Vesting Schedule	Expiration Date
#1	500,000	$10.27	Vested upon date of grant; exercisable ratably over 5 years beginning on date of grant.	9/16/08
#2	250,000	(a)	Vested upon date of grant; exercisable ratably over 5 years beginning on 9/16/03.	9/16/08
#3	250,000	$12.70	Vested and exercisable upon date of grant.	7/2/08
Total	1,000,000			

(a) Exercise price will be equal to the average closing price of the Company's common stock on the Nasdaq National Market® for the 30 trading days preceding September 16, 2003.

As of March 31, 1999, 1,480,000 third party warrants to purchase common stock were outstanding with a weighted average exercise price of $10.98 per share

The fair value of the warrants was determined using the Black-Scholes pricing model, assuming a risk-free rate of 4.77%, a volatility factor of 66% and expected terms as noted above. The weighted average estimated fair value of third party warrants granted during the years ending March 31, 2000 and 1999 were $7.89 per share and $7.93 per share, respectively. No warrants were granted during the fiscal year ending March 31, 2001. In accordance EITF 96-18, the Company measures the fair value of the securities on the measurement date. The fair value of each warrant is capitalized and amortized to royalty expense when the related product is released and the related revenue is recognized. During fiscal year 2001, 2000 and 1999, $1.4 million, $5.8 million and $0.4 million, respectively, was amortized and included in royalty expense relating to warrants.

Pro Forma Information

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

Pro forma information regarding net income (loss) and earnings per share is required by SFAS No. 123. This information is required to be determined as if the Company had accounted for its employee stock options (including shares issued under the Purchase Plan and Director Warrant Plan and other employee option grants, collectively called "options") granted during fiscal 2001, 2000 and 1999 under the fair value method of that statement. The fair value of options granted in the years ended March 31, 2001, 2000 and 1999 reported below has been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	Option Plans and Other Employee Options			Purchase Plan			Director Warrant Plan		
	2001	2000	1999	**2001**	2000	1999	**2001**	2000	1999
Expected life (in years)	**1**	1	1.5	**0.5**	0.5	0.5	**1**	1	0.5
Risk free interest rate	**4.09%**	6.15%	4.77%	**4.09%**	6.15%	4.77%	**4.09%**	6.15%	4.77%
Volatility	**70%**	67%	66%	**70%**	67%	66%	**70%**	67%	66%
Dividend yield	**—**	—	—	**—**	—	—	**—**	—	—

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options. For options granted during fiscal 2001, the per share weighted average fair value of options with exercise prices equal to market value on date of grant and exercise prices greater than market value were $3.12, and $1.34, respectively. For options granted during fiscal 2000, the per share weighted average fair value of options with exercise prices equal to market value on date of grant, exercise prices greater than market value and exercise prices less than market value were $5.91, $2.64 and $8.00, respectively. The weighted average estimated fair value of options and warrants granted during the year ended March 31, 1999 was $11.12 per share. The per share weighted average estimated fair value of Employee Stock Purchase Plan shares granted during the years ended March 31, 2001, 2000 and 1999 were $3.48, $3.35 and $2.85, respectively.

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

Year ended March 31,	**2001**	2000	1999
Pro forma net income (loss)	**$11,531**	$(45,355)	$748
Pro forma basic earnings (loss) per share	**0.46**	(1.84)	0.01
Pro forma diluted earnings (loss) per share	**0.42**	(1.84)	0.01

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

Employee Retirement Plan

The Company has a retirement plan covering substantially all of its eligible employees. The retirement plan is qualified in accordance with Section 401(k) of the Internal Revenue Code. Under the plan, employees may defer up to 15% of their pre-tax salary, but not more than statutory limits. The Company contributes 5% of each dollar contributed by a participant. The Company's matching contributions to the plan were $62,000, $46,000 and $40,000 during the years ended March 31, 2001, 2000 and 1999, respectively.

13. SHAREHOLDERS' EQUITY

Repurchase Plan

As of May 9, 2000, the Board of Directors authorized the Company to purchase up to $15.0 million in shares of its common stock as well as its convertible subordinated notes. The shares and notes could be purchased from time to time through the open market or in privately negotiated transactions. The amount of shares and notes purchased and the timing of purchases was based on a number of factors, including the market price of the shares and notes, market conditions, and such other factors as the Company's management deemed appropriate. The Company has financed the purchase of shares with available cash. As of the quarter ending June 30, 2000, the Company had repurchased 2.3 million shares of its common stock for approximately $15.0 million.

Shareholders' Rights Plan

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

In the event that any person or group acquires 15% or more of the Company's outstanding common stock each holder of a right (other than such person or members of such group) will thereafter have the right to receive upon exercise of such right, in lieu of shares of Series A Junior Preferred Stock, the number of shares of common stock of the Company having a value equal to two times the then current exercise price of the right. If the Company is acquired in a merger or other business combination transaction after a person has acquired 15% or more the Company's common stock, each holder of a right will thereafter have the right to receive upon exercise of such right a number of the acquiring company's common shares having a market value equal to two times the then current exercise price of the right. For persons who, as of the close of business on April 18, 2000, beneficially own 15% or more of the common stock of the Company, the Rights Plan "grandfathers" their current level of ownership, so long as they do not purchase additional shares in excess of certain limitations.

The Company may redeem the rights for $.01 per right at any time until the first public announcement of the acquisition of beneficial ownership of 15% of the Company's common stock. At any time after a person has acquired 15% or more (but before any person has acquired more than 50%) of the Company's common stock, the Company may exchange all or part of the rights for shares of common stock at an exchange ratio of one share of common stock per right. The rights expire on April 18, 2010.

14. SUPPLEMENTAL CASH FLOW INFORMATION

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

Years ended March 31,	**2001**	2000	1999
Non-cash investing and financing activities:			
Stock and warrants to acquire common stock issued in exchange for licensing rights	**$ —**	$ 8,529	$3,368
Tax benefit derived from net operating loss carryforward utilization	**3,652**	1,266	2,430
Stock issued to effect business combination	**—**	7,171	—
Assumption of debt to effect business combination	**—**	—	9,100
Conversion of notes payable to common stock	**—**	—	4,500
Supplemental cash flow information:			
Cash paid for income taxes	**$6,753**	$ 6,333	$2,814
Cash paid for interest	**$5,720**	$10,519	$5,513

15. QUARTERLY FINANCIAL AND MARKET INFORMATION—UNAUDITED

(Amounts in thousands, except per share data)	Quarter Ended				Year Ended
	June 30	Sept 30	Dec 31	Mar 31 (1)	
Fiscal 2001:					
Net revenues	**$84,558**	**$144,363**	**$264,473**	**$126,789**	**$620,183**
Operating income (loss)	**(6,498)**	**9,536**	**34,754**	**2,015**	**39,807**
Net income (loss)	**(5,179)**	**4,306**	**20,505**	**875**	**20,507**
Basic earnings (loss) per share	**(0.21)**	**0.18**	**0.84**	**0.03**	**0.82**
Diluted earnings (loss) per share	**(0.21)**	**0.17**	**0.70**	**0.03**	**0.75**
Common stock price per share					
High	**12.16**	**15.63**	**15.25**	**25.25**	**25.25**
Low	**5.38**	**6.31**	**10.31**	**13.63**	**5.38**
Fiscal 2000 (quarter ended June 30 restated):					
Net revenues	$84,142	$115,363	$268,862	$103,838	$572,205
Operating income (loss)	(6,101)	3,525	38,241	(65,990)	(30,325)
Net income (loss)	(4,575)	1,063	22,301	(52,877)	(34,088)
Basic earnings (loss) per share	(0.19)	0.04	0.89	(2.07)	(1.38)
Diluted earnings (loss) per share	(0.19)	0.04	0.75	(2.07)	(1.38)
Common stock price per share					
High	14.56	17.75	17.50	17.69	17.75
Low	10.31	12.63	13.94	12.06	10.31

(1) In the fourth quarter of fiscal 2000, the Company initiated a strategic restructuring which resulted in additional costs of $70.2 million reflected in the consolidated statement of operations in the fourth quarter. See Note 3, "Strategic Restructuring Plan."

16. ORGANIZATIONAL STRUCTURE

Effective June 9, 2000, Activision reorganized into a holding company form of organizational structure, whereby Activision Holdings, Inc., a Delaware corporation ("Activision Holdings"), became the holding company for Activision and its subsidiaries. The new holding company organizational structure will allow Activision to manage its entire organization more effectively and broadens the alternatives for future financings.

The holding company organizational structure was effected by a merger conducted pursuant to Section 251(g) of the General Corporation Law of the State of Delaware, which provides for the formation of a holding company structure without a vote of the stockholders of the constituent corporations. In the merger, ATVI Merger Sub, Inc., a Delaware corporation, organized for the purpose of implementing the holding company organizational structure, (the "Merger Sub"), merged with and into Activision with Activision as the surviving corporation (the "Surviving Corporation"). Prior to the merger, Activision Holdings was a direct, wholly-owned subsidiary of Activision and Merger Sub was a direct, wholly-owned subsidiary of Activision Holdings. Pursuant to the merger, (i) each issued and outstanding share of common stock of Activision (including treasury shares) was converted into one share of common stock of Activision Holdings, (ii) each issued and outstanding share of Merger Sub was converted into one share of the Surviving Corporation's common stock, and Merger Sub's corporate existence ceased, and (iii) all of the issued and outstanding shares of Activision Holdings owned by Activision were automatically canceled and retired. As a result of the merger, Activision became a direct, wholly-owned subsidiary of Activision Holdings.

Immediately following the merger, Activision changed its name to "Activision Publishing, Inc." and Activision Holdings changed its name to "Activision, Inc." The holding company's common stock will continue to trade on the Nasdaq National Market® under the symbol ATVI.

The conversion of shares of Activision's common stock in the merger occurred without an exchange of certificates. Accordingly, certificates formerly representing shares of outstanding common stock of Activision are deemed to represent the same number of shares of common stock of Activision Holdings. The change to the holding company structure was tax free for federal income tax purposes for stockholders.

These transactions had no impact on the Company's consolidated financial statements.

17. SUBSEQUENT EVENTS—UNAUDITED

Subsequent to March 31, 2001, the Company called for the redemption of its $60.0 million convertible subordinated notes due 2005. In connection with that call, as of June 20, 2001, holders have converted into common stock approximately $60.0 million aggregate principal amount of their convertible subordinated notes.

In May 2001, the Company repaid in full the remaining $8.5 million balance of the term loan portion of the U.S. Facility. In conjunction with the accelerated repayment of the term loan, the Company amended the U.S. Facility effective May 7, 2001. The amended and restated U.S. Facility eliminates the term loan, reduces the revolver to $78.0 million, reduces the interest rate to Prime plus 1.25% or LIBOR plus 2.25%, eliminates certain covenants, increases the advance rates and reduces the fee paid for maintenance of the facility.

Market for Registrant's Common Equity and Related Stockholder Matters

The Company's common stock is quoted on the Nasdaq National Market® under the symbol "ATVI."

The following table sets forth for the periods indicated the high and low reported sale prices for the Company's common stock. As of June 13, 2001, there were approximately 4,800 holders of record of the Company's common stock.

	High	Low
Fiscal 2000		
First Quarter ended June 30, 1999	$14.56	$10.31
Second Quarter ended September 30, 1999	17.75	12.63
Third Quarter ended December 31, 1999	17.50	13.94
Fourth Quarter ended March 31, 2000	17.69	12.06
Fiscal 2001		
First Quarter ended June 30, 2000	**$12.16**	**$ 5.38**
Second Quarter ended September 30, 2000	**15.63**	**6.31**
Third Quarter ended December 31, 2000	**15.25**	**10.31**
Fourth Quarter ended March 31, 2001	**25.25**	**13.63**
Fiscal 2002		
First Quarter through June 13, 2001	$41.15	$20.88

On June 13, 2001, the reported last sales price for the Company's common stock was $40.93.

DIVIDENDS

The Company paid no cash dividends in 2001 or 2000 and does not intend to pay any cash dividends at any time in the foreseeable future. The Company expects that earnings will be retained for the continued growth and development of the Company's business. In addition, the Company's bank credit facility currently prohibits the Company from paying dividends on its common stock. Future dividends, if any, will depend upon the Company's earnings, financial condition, cash requirements, future prospects and other factors deemed relevant by the Company's Board of Directors.

corporate information

OFFICERS

ROBERT A. KOTICK
Chairman and Chief Executive Officer

BRIAN G. KELLY
Co-Chairman

RONALD DOORNINK
President and Chief Operating Officer

WILLIAM CHARDAVOYNE
Executive Vice President and
Chief Financial Officer

LAWRENCE GOLDBERG
Executive Vice President, Worldwide Studios

DANIEL HAMMETT
Executive Vice President, Activision and
President, Activision Value Publishing

MICHAEL J. ROWE
Executive Vice President, Human Resources

RICHARD STEELE
Executive Vice President, Distribution

KATHY P. VRABECK
Executive Vice President, Global Publishing
and Brand Management

BOARD OF DIRECTORS

ROBERT A. KOTICK

BRIAN G. KELLY

BARBARA S. ISGUR

STEVEN T. MAYER

ROBERT J. MORGADO

KENNETH L. HENDERSON

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New York, New York
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Bezons, France
Birmingham, United Kingdom
Burglengenfeld, Germany
Ismaning, Germany
Slough, United Kingdom
Sydney, Australia
Tokyo, Japan
Venlo, The Netherlands

FORWARD-LOOKING STATEMENTS

The statements contained in this report that are not historical facts are "forward-looking statements." The Company cautions readers of this report that a number of important factors could cause Activision's actual future results to differ materially from those expressed in any such forward-looking statements. These important factors, and other factors that could affect Activision, are described in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2001, which was filed with the United States Securities and Exchange Commission. Readers of this Annual Report are referred to such filings.

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ANNUAL MEETING

August 23, 2001
The Peninsula Hotel
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Beverly Hills, California 90212

ANNUAL REPORT ON FORM 10-K

The Company's Annual Report on Form 10-K for the year ended March 31, 2001 is available to shareholders without charge upon request from our corporate offices.

Designed by Curran & Connors, Inc. / www.curran-connors.com

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