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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

ORIGINAL
P 31-700



FORM 10-K

Annual Report

Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

For the Fiscal Year Ended March 31, 1984

Commission File No. 2-83372*

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ACTIVISION, INC.

(Exact Name of Registrant as specified in charter)

California
(State or other jurisdiction
of incorporation or organization)

94-2606438
(I.R.S. Employer Identification No.)

2350 Bayshore Frontage Road
Mountain View, CA 94043
(415) 960-0410

(Address and telephone number of principal executive office)



Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act: None.

The Registrant (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (ii) has been subject to such filing requirements for the past 90 days.

Yes X No

As of May 18, 1984, the number of shares of Registrant's common stock outstanding was 32,691,460. As of May 18, 1984, the aggregate market value of the common stock (based on the average of the bid and asked prices for such stock as reported in the Wall Street Journal) of the Registrant held by non-affiliates was approximately \$29,900,000. For purposes of this disclosure, shares of common stock held by each officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded, in that such persons may be deemed to be "affiliates" as that term is defined under the rules and regulations promulgated under the Securities Act of 1933. This determination is not necessarily conclusive for other purposes.

*Refers to registration statement on form S-1. The Company has not yet registered under the Securities Exchange Act of 1934 and, accordingly, does not currently have a 1934 Act file number.

This document consists of 37 pages. The exhibit index appears on page 29.

PART I

Item 1. DESCRIPTION OF BUSINESS

(a) General Development of Business

Activision, Inc. was incorporated in California on October 1, 1979. Its principal offices are located at 2350 Bayshore Frontage Road, Mountain View, California 94043, and its telephone number at that location is (415) 960-0410. Unless the context otherwise indicates, the terms "Activision" and the "Company" as used herein refer to Activision, Inc. and its subsidiaries.

Activision is an independent designer, manufacturer, and marketer of home computer entertainment software. As of March 31, 1984, the Company had released 40 original titles. Of these titles, 37 are compatible with the Atari 2600, four with the Atari 5200, and four with the Atari Home Computers, all manufactured by Atari, Inc.; two are compatible with the ColecoVision system and Adam Computer manufactured by Coleco, Inc.; and seven are compatible with the Intellivision system manufactured by Mattel, Inc. As of June 1, 1984, the Company had announced plans to offer 12 titles for the Commodore 64 computer manufactured by Commodore Electronics Limited, two titles for the Apple II computer manufactured by Apple, Inc. and two titles for the IBM PCjr manufactured by International Business Machines, Inc. Also, as of June 1, 1984, the Company had announced plans to manufacture, sell and distribute titles from Gamestar, Inc., an independent designer of entertainment software.

In fiscal 1984, the Company opened offices in London, England, from which the manufacturing, distribution, marketing and sales of product in the United Kingdom and in certain other European countries is directed.

(b) Financial Information About Industry Segments

Not applicable

(c) Narrative Description of Business

Activision designs, manufactures and markets home computer entertainment software. Home computer software is used on programmable microprocessing equipment in the home, capable of producing high-quality graphic output. Such equipment includes both programmable video game machines ("game systems"), which are simple, moderately-priced computer systems used for mass market home entertainment, and more sophisticated home computers, which have faster processors, greater memory capacity and broader computing capabilities. Activision has produced home computer entertainment software for the Atari 2600, Atari 5200, ColecoVision and Intellivision

game systems and for the Atari and Adam Home Computers, and has announced plans to produce software for the Commodore 64, Apple II, and IBM PCjr computers. The Company has also announced plans to develop software for the Sinclair and MSX home computers, but had not released any titles for those systems as of June 1, 1984.

Products

The Company's software products consist of a particular entertainment software computer program which for some systems is embedded in a semiconductor read only memory (ROM) contained in a cartridge, while for other systems it consists of a tape cassette or disk on which the program has been encoded. Other media on which the software is encoded may be utilized as they are developed in connection with or required by different hardware systems.

In fiscal 1984, the Company released the following titles, some of which had been released earlier on other hardware systems:

<u>Title</u>	<u>Compatible Hardware</u>
Dolphin™	Atari 2600
Keystone Kapers™	Atari 2600
Enduro™	Atari 2600
Plaque Attack™	Atari 2600
Robot Tank™	Atari 2600
Crackpots™	Atari 2600
The Activision Decathlon™	Atari 2600
Frostbite™	Atari 2600
Pressure Cooker™	Atari 2600
Space Shuttle™	Atari 2600
Private Eye	Atari 2600
Pitfall II: Lost Caverns	Atari 2600
H.E.R.O.	Atari 2600
Happy Trails™	Intellivision
The Dreadnaught Factor™	Intellivision
Beamrider™	Intellivision
Worm Whomper™	Intellivision
River Raid™	Intellivision
River Raid™	Atari 5200
Kaboom!™	Atari 5200
MegaMania™	Atari 5200
Pitfall!™	Atari 5200
River Raid™	Atari Home Computers
Kaboom!™	Atari Home Computers
MegaMania™	Atari Home Computers
Pitfall!™	Atari Home Computers
Pitfall!™	ColecoVision/Adam Home Computer
River Raid™	ColecoVision/Adam Home Computer

All of the Company's products have been the original creative work of its designers. At March 31, 1984 the design staff consisted of 36 designers, 26 of whom are Company employees and 10 of whom are designing exclusively for the Company under long-term contracts. In addition, several other designers are under contract to the Company on a non-exclusive basis. The Company has two design centers in Northern California and one in New Jersey.

The continued market acceptance of the Company's products is dependent, among other things, upon its ability to attract and retain designers, to anticipate and adapt to changes in hardware and software technologies and to continue to produce software with broad market appeal.

Marketing

Advertising and Promotion

The Company's ability to promote and market its entertainment software is an important factor in its success as the number of manufacturers and titles in the industry has increased. Advertising and promotional programs are developed to highlight particular strengths of each software title, and leverage the strength of the Company's brand name.

Sales and Distribution

Activision's products are sold domestically in over 20,000 retail outlets ranging from consumer electronics specialty stores to department, drug, discount, book, record, and toy stores. The stores of most major national and regional chains carry Activision's products. For the fiscal year ended March 31, 1984, sales made to Revco D.S. Inc., consisting primarily of slower moving inventory, exceeded 10% of total sales.

Sales are made through independent sales representative organizations, which sell to wholesale distributors and to large retailers, and, to a lesser extent, by the Company's direct sales force.

Historically, a majority of the Company's sales occur during the period from October to March, reflecting holiday sales and the demand for software in the post-holiday period. The Company has an ongoing inventory balancing program to permit distributors and retailers of its products to return limited amounts of product remaining in their inventory. The Company charges sales to establish appropriate reserves to accommodate such returns.

Activision commenced international sales in August 1981. International sales are made through exclusive arrangements with independent distributors in approximately 40 countries, principally in Europe and Asia. The Company believes that its international sales, as a percentage of total sales, will continue to increase as the international installed base of video game and home computer systems expands.

Manufacturing

The Company's products consist of disks and tape cassettes encoded with an entertainment software program and cartridges containing a semiconductor read-only memory (ROM) attached to a printed circuit board and housed in a

molded plastic case, packaged with instructional materials for shipment and sale. For the game cartridge, the manufacturing process consists primarily of the purchasing, testing and assembly of component parts and sub-assemblies. Disk product currently is manufactured by a subcontractor, which delivers the encoded disk to the Company for packaging and shipment. The Company conducts extensive testing of component parts and sub-assemblies, and all products are fully inspected prior to their shipment.

The Company presently uses contract labor supplied by an independent contractor for the assembly of its products, a common practice in the electronics industry. This practice is employed by Activision primarily to provide the flexibility to better manage fluctuations in its production schedule. Nevertheless, the Company believes that alternative labor sources are available, if necessary. The Company directly supervises the domestic assembly process of cartridges which is performed in its manufacturing facility located in Milpitas, California. In addition to the product manufactured in the United States, the Company has contracted for some product intended for European markets to be manufactured and packaged by a subcontractor in the United Kingdom.

The components used in the manufacturing process are widely available from multiple sources. While the Company has not encountered any significant supply problems, the availability of semiconductor components used in producing cartridges may change in the future, and prolonged delays in obtaining components could adversely impact the Company's operations. Inventory levels required to meet market delivery requirements are seasonal and dependent upon component lead times.

Activision's software titles carry a limited one-year warranty. Returns of defective products under warranty have been nominal to date.

Competition

Competition in the home computer entertainment software industry is intense and is expected to continue as new competitors enter the industry. The Company's primary competitors are Atari, Inc. (a subsidiary of Warner Communications, Inc.), Commodore Electronics Limited, Coleco Industries, Inc. and Parker Brothers Division (a subsidiary of General Mills, Inc.). All of these competitors, except Parker Brothers, manufacture and distribute hardware and software for home computer entertainment. The Company expects increased competition from new entrants into the industry, some of which may have considerably greater resources than the Company. While the number of competitors may increase in the future, the Company expects a small number of leading companies to produce a substantial portion of total industry volume.

Competition in the industry is principally based upon strength in creative product development, product quality (particularly game play, graphics and sound effects), price, sales and distribution support and marketing effectiveness. The Company believes that it competes successfully in each of these areas.

Employees

As of March 31, 1984, Activision had 242 full-time employees, of whom 48 were in software design and editorial development, 47 in marketing and sales, 19 in manufacturing and distribution, 19 in international operations and 109 in corporate administration. As of June 1, 1984, the Company had 214 employees, of whom 48 were in software design and editorial development, 43 in marketing and sales, 20 in manufacturing and distribution, 14 in international operations and 89 in corporate administration. The Company believes that its future success will depend, in large measure, on its ability to continue to attract and retain qualified employees. Competition for highly skilled employees is intense. The Company's domestic assembly labor, which fluctuates with manufacturing requirements, normally consists of approximately 40 persons who perform services under independent contract.

None of the Company's employees or its contracted assembly labor is subject to a collective bargaining agreement, and the Company has experienced no work stoppage. The Company believes that its employee relations are good.

Trademarks and Copyrights

The Company actively seeks to protect its trade identity, trademarks, copyrights and other proprietary information throughout the world. The Company has federally registered "Activision" as a trade name and trademark and obtains copyright protection for all of its entertainment software and trademark protection for each game title where such protection is appropriate. Copyright and trademark protection is also sought on an ongoing basis for most promotional materials, game instructions and point-of-purchase materials and for radio and television advertising.

Item 2. PROPERTIES

The Company's principal corporate, administrative and editorial offices are located in two buildings in Mountain View, California, consisting of approximately 56,000 square feet under a lease expiring in 1987. The Company's manufacturing and assembly operations are located in Milpitas, California, in a 92,500 square foot facility under a lease expiring in 1986. The Company also leases design offices in the United States and creative, administrative and marketing offices in London, England and Paris, France.

Item 3. LEGAL PROCEEDINGS

In September 1982 the Company was named in an action for patent infringement (the Magnavox Company et al vs. Activision, Inc.) in the United States District Court for the Northern District of California. Plaintiffs in the action claim that a limited number of the video game titles sold by the Company infringe the patent. The plaintiffs seek a permanent injunction against continued infringement, attorneys' fees, an accounting of profits and treble damages.

Based on advice of counsel, which is subject to the inherent uncertainties of litigation, management believes that the Company has valid and meritorious defenses to the claims and that the outcome of the action

will not have a material adverse effect upon the Company's business, financial condition or results of operations.

In October and December 1983, three civil class action complaints were filed against the Company in the United States District Court for the Northern District of California on behalf of the named plaintiffs and all others who acquired the Company's common stock between June 9, 1983 and September 16, 1983, inclusive. All three actions have been consolidated under the caption In Re Activision Securities Litigation.

The complaints name as co-defendants certain officers and directors, certain other shareholders who sold shares in the Company's initial public offering, the Company's auditors and the underwriters in the public offering. The complaints, which allege claims under the Securities Exchange Act of 1934, the Securities Act of 1933 as well as pendant claims under California state statutory and common law, are based upon purported misstatements and omissions in the Company's registration statement and prospectus issued in connection with the Company's initial public offering in June 1983. Plaintiffs seek an award of damages according to proof, with interest, and rescission of their stock purchases. They also seek recovery of their costs, including fees for attorneys and experts. The Company believes the complaints are without merit, intends to vigorously defend against plaintiffs' claims and believes that the outcome of the action will not have a material adverse effect upon the Company's business, financial condition or results of operations.

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

Not applicable

PART II

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

The Company's initial public offering was effective June 9, 1983 and since that date the Company's stock has been traded in the over-the-counter market (NASDAQ symbol: AVSN). Under its bank line of credit agreement, the Company is limited in the amount of cash dividends it may pay on its common stock. See note 4 to the consolidated financial statements. The number of shareholders of common stock on May 18, 1984 was approximately 8,400. The table below reflects the range of high and low closing quotations for each quarterly period indicated as reported by NASDAQ. It reflects inter-dealer quotation without markup, markdown or commission and does not necessarily represent actual transactions.

<u>Fiscal 1984</u>	<u>High</u>	<u>Low</u>
First Quarter		
ended July 2, 1983.....	12-5/8	9-1/8
Second Quarter		
ended October 1, 1983.....	11-1/4	5-7/8
Third Quarter		
ended December 31, 1983.....	6-5/8	3-1/2
Fourth Quarter		
ended March 31, 1984.....	4-1/2	1-3/4

Item 6. **SELECTED FINANCIAL DATA**

Activision, Inc. and Subsidiaries

(In thousands except per share data and ratios)	Fiscal Years Ended March 31,				October 1, 1979 (date of incorporation) through March 31, 1980
	1984	1983	1982	1981	
CONSOLIDATED STATEMENT OF OPERATIONS DATA					
Net Sales	\$69,981	\$157,633	\$65,987	\$ 6,226	—
Gross Profit	29,262	114,813	45,158	3,636	—
Net income (loss) before taxes	(33,610)	37,551	26,105	1,304	\$ (173)
Net income (loss)	(18,010)	19,183	12,918	744	(173)
Net income (loss) per share	\$ (.56)	\$.64	\$.43	\$.03	\$ (.01)
Common and common equivalent shares used in computing net income (loss) per share	32,143	29,987	30,095	29,730	23,025
CONSOLIDATED BALANCE SHEET DATA					
Working capital	41,744	28,438	12,909	1,050	496
Total assets	56,721	56,459	31,550	3,394	561
Long-term debt	—	550	550	550	550
Shareholders' equity	48,322	33,034	13,676	723	(30)
Current ratio	6.0:1	2.3:1	1.7:1	1.5:1	12.8:1
Debt to equity ratio	0.2:1	0.7:1	1.3:1	3.7:1	—

QUARTERLY DATA
(Unaudited)

Activision, Inc. and Subsidiaries

(Amounts in thousands)	Fiscal Year 1984 Quarter Ended				Fiscal Year 1983 Quarter Ended			
	Jul 2, 1983	Oct 1, 1983	Dec 31, 1983	Mar 31, 1984	Jul 3, 1982	Oct 2, 1982	Jan 1, 1983	Mar 31, 1983
	Net Sales	\$26,205	\$13,247	\$10,167	\$20,362	\$30,556	\$32,147	\$50,057
Gross Profit	19,837	6,988	2,484	(47)	20,961	23,073	36,983	33,796
Income (loss) before income taxes	439	(7,929)	(14,995)	(11,125)	8,517	8,624	9,191	11,219
Net income (loss)	\$ 227	\$ (4,119)	\$ (8,106)	\$ (6,012)	\$ 4,351	\$ 4,405	\$ 4,696	\$ 5,731

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

SALES

The Company's net sales in fiscal 1984 were \$70 million, a decrease of 56% from fiscal 1983. Net sales in fiscal 1983 were \$158 million, representing an increase of 139% over net sales of \$66 million in fiscal 1982. Fiscal years 1982 and 1983 were the first two full years of product shipments for the Company. The Company's sales growth in those years was the result of increased distribution of its entertainment software titles and the success of these titles in a rapidly growing market. The Company also began selling product internationally in fiscal 1982.

During fiscal 1984, the home computer entertainment software industry entered a difficult period of transition as a result of a changing mix of video game and computer hardware sales; the concern of many retailers about video game software inventories; and the appearance of large quantities of discontinued video game software released into the market at substantially reduced prices. Industry orders for new software were severely impacted, and the Company experienced a marked decline in factory shipments of active catalogue product (frontline product).

OPERATING MARGINS, COSTS AND EXPENSES

Gross profit margins decreased to 42% in fiscal 1984 from 73% in fiscal 1983 and 68% in fiscal 1982. While margins on frontline product remained relatively unchanged during fiscal 1984, the Company sold off substantial quantities of discontinued merchandise at prices close to original cost. This change in sales mix had a major effect on gross margin. In addition, a cost adjustment associated with the reduction of the book value of certain inventories at March 31, 1984, and charges for costs of reduction in facilities and distribution operations further reduced the fiscal 1984 gross profit margin. Improved margins in fiscal 1983 over fiscal 1982 resulted primarily from increased manufacturing volumes, manufacturing efficiencies and cost reductions of some raw materials.

In fiscal 1984, operating expenses decreased 17% from fiscal 1983 levels. In fiscal 1983 operating expenses increased by 306% over fiscal 1982 levels. The Company increased its product development expenditures in each of the past three years to provide for an increased schedule of product releases and, in fiscal 1984, to introduce products for several new hardware systems. In the second half of 1984, the Company instituted a significant reduction in workforce and marketing, sales and general and administrative expenses to more closely align operating expenses with current business levels. Operating expenses in fiscal 1984 included costs associated with workforce reductions, the consolidation of certain facilities and certain asset disposition and valuation adjustments. In fiscal 1983, the Company expanded its marketing, sales and general and administrative activities to support the Company's then current and anticipated sales levels. In addition, the Company significantly increased its advertising and promotion expenditures during the peak Christmas selling season in that year in response to increased competitive activity.

Other than the reduction in sales prices of discontinued product as discussed above, management does not believe that changing prices or inflation have had a significant effect on the Company's results of operation.

LIQUIDITY AND CAPITAL RESOURCES

In fiscal 1983, the Company's primary source of liquidity was cash flow from operations and, to a lesser extent, seasonal bank borrowings. During the year, the Company's working capital requirements increased rapidly with the expansion of the business. For fiscal 1984, the Company's primary source of liquidity consisted of proceeds of \$33 million from its initial public offering.

The principal unused sources of liquidity at March 31, 1984, consisted primarily of \$7.6 million of cash and temporary investments, \$11.9 million of refundable income taxes and a \$10 million bank line of credit. At that date, the Company's financial position included \$48.3 million of shareholders' equity, \$41.7 million of net working capital and the absence of long term debt or bank borrowings.

Inventories decreased significantly in fiscal 1984 as a result of the sale of substantial quantities of discontinued merchandise during the year and the reduction of the book value of certain inventory remaining on hand at year-end to reflect recent developments in the marketplace. Accounts receivable also decreased substantially from fiscal 1983 to fiscal 1984 primarily as a result of lower sales volumes.

Item 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Activision, Inc.

We have examined the consolidated Financial Statements and the Financial Statement schedules of Activision, Inc. and Subsidiaries as listed in the index on page 29 of this Form 10K. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Activision, Inc. and Subsidiaries as of March 31, 1984 and 1983, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended March 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis. In addition, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly the information required to be included therein.

San Jose, California
April 27, 1984


COOPERS & LYBRAND

CONSOLIDATED BALANCE SHEETS

Activision, Inc. and Subsidiaries
(In thousands except share data)

	<u>March 31,</u>	
	<u>1984</u>	<u>1983</u>
ASSETS		
Current assets:		
Cash and temporary cash investments	\$ 7,605	\$ 2,403
Accounts receivable, less allowances for doubtful accounts and sales returns of \$6,474 in 1984 and \$5,016 in 1983	12,815	22,974
Inventories	10,278	21,186
Refundable income taxes	11,900	--
Deferred income taxes	5,501	3,484
Other current assets	<u>1,916</u>	<u>1,027</u>
Total current assets	50,015	51,074
Fixed assets	6,495	5,204
Other assets	<u>211</u>	<u>181</u>
Total assets	<u>\$56,721</u>	<u>\$56,459</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,592	\$ 9,265
Accrued liabilities	3,129	5,878
Income taxes payable	--	7,493
Subordinated notes payable to shareholders	<u>550</u>	<u>--</u>
Total current liabilities	8,271	22,636
Deferred income taxes	128	239
Subordinated notes payable to shareholders	<u>--</u>	<u>550</u>
Total liabilities	<u>8,399</u>	<u>23,425</u>
Commitments and contingencies (Notes 10 and 11).		
Shareholders' equity:		
Preferred stock, no par value:		
Authorized: 10,000,000 shares		
Issued and outstanding: None	--	--
Common stock, no par value:		
Authorized: 100,000,000 shares		
Issued and outstanding: 32,691,460 shares in 1984 and 29,696,800 shares in 1983	33,660	362
Retained earnings	<u>14,662</u>	<u>32,672</u>
Total shareholders' equity	<u>48,322</u>	<u>33,034</u>
Total liabilities and shareholders' equity	<u>\$56,721</u>	<u>\$56,459</u>

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

**CONSOLIDATED STATEMENTS
OF INCOME**

Activision, Inc. and Subsidiaries
(In thousands except
per share data)

	Years Ended March 31,		
	<u>1984</u>	<u>1983</u>	<u>1982</u>
Net Sales	<u>\$ 69,981</u>	<u>\$157,633</u>	<u>\$65,987</u>
Costs and Expenses:			
Cost of sales	40,719	42,820	20,829
Sales and marketing expenses	42,016	62,346	13,941
General, administrative and product development expenses	<u>22,197</u>	<u>15,339</u>	<u>5,201</u>
	<u>104,932</u>	<u>120,505</u>	<u>39,971</u>
Operating income (loss)	(34,951)	37,128	26,016
Interest income	1,407	575	244
Interest expense	<u>(66)</u>	<u>(152)</u>	<u>(155)</u>
Income (loss) before provision (credit) for income taxes	(33,610)	37,551	26,105
Provision (credit) for income taxes	<u>(15,600)</u>	<u>18,368</u>	<u>13,187</u>
Net income (loss)	<u>\$ (18,010)</u>	<u>\$ 19,183</u>	<u>\$12,918</u>
Net income (loss) per share	<u>\$ (.56)</u>	<u>\$.64</u>	<u>\$.43</u>
Number of common and common equivalent shares used in computing net income (loss) per share	<u>32,143</u>	<u>29,987</u>	<u>30,095</u>

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

CONSOLIDATED STATEMENTS OF
CHANGES IN FINANCIAL POSITION

Activision, Inc. and Subsidiaries
(In thousands)

	<u>Years Ended March 31,</u>		
	<u>1984</u>	<u>1983</u>	<u>1982</u>
Resources provided (used):			
From Operations:			
Net income (loss)	\$(18,010)	\$19,183	\$12,918
Add charges to income (loss) not requiring a current outlay of working capital:			
Depreciation and amortization	2,365	794	154
Other	<u>749</u>	<u>166</u>	<u>60</u>
Resources provided (used) by operations	(14,896)	20,143	13,132
Disposition of fixed assets	702	--	--
Issuance of common stock, net	<u>33,298</u>	<u>180</u>	<u>35</u>
Total resources provided	<u>19,104</u>	<u>20,323</u>	<u>13,167</u>
Resources applied:			
Acquisition of fixed assets	5,218	4,751	1,209
Subordinated notes payable to shareholders	550	--	--
Other	<u>30</u>	<u>43</u>	<u>99</u>
Total resources applied	<u>5,798</u>	<u>4,794</u>	<u>1,308</u>
Increase in working capital	<u>\$ 13,306</u>	<u>\$15,529</u>	<u>\$11,859</u>
Increase (decrease) in working capital by components:			
Cash and temporary cash investments	\$ 5,202	\$ 1,023	\$ 1,325
Accounts receivable	(10,159)	1,182	19,421
Inventories	(10,908)	14,376	6,278
Refundable and deferred income taxes	13,917	5,727	(2,438)
Other current assets	889	849	170
Accounts payable	4,673	(2,985)	(5,417)
Accrued liabilities	2,749	(2,839)	(2,533)
Income taxes payable	7,493	(1,804)	(4,947)
Subordinated notes payable to shareholders	<u>(550)</u>	<u>--</u>	<u>--</u>
Increase in working capital	<u>\$ 13,306</u>	<u>\$15,529</u>	<u>\$11,859</u>

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

**CONSOLIDATED STATEMENTS OF
SHAREHOLDERS' EQUITY**

Activision, Inc. and Subsidiaries
(Amounts in thousands)

	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>		
<u>Balances, March 31, 1981</u>	<u>29,915</u>	<u>\$152</u>	<u>\$ 571</u>	<u>\$ 723</u>
Issuance of common stock:				
Employee stock purchase agreements	220	30		30
Employee stock bonuses	11	5		5
Net income for the year			<u>12,918</u>	<u>12,918</u>
<u>Balances, March 31, 1982</u>	<u>30,146</u>	<u>187</u>	<u>13,489</u>	<u>13,676</u>
Issuance of common stock:				
Employee stock bonuses	7	30		30
Employee stock options	8	10		10
Other sales	70	140		140
Repurchases of common stock	(534)	(5)		(5)
Net income for the year			<u>19,183</u>	<u>19,183</u>
<u>Balances, March 31, 1983</u>	<u>29,697</u>	<u>362</u>	<u>32,672</u>	<u>33,034</u>
Issuance of common stock:				
Public offering, net of expenses of \$3,214	3,000	32,786		32,786
Employee stock bonuses	8	61		61
Employee stock options	19	43		43
Employee stock purchase plan	14	24		24
Other sales	43	430		430
Repurchases of common stock	(90)	(46)		(46)
Net loss for the year			<u>(18,010)</u>	<u>(18,010)</u>
<u>Balances, March 31, 1984</u>	<u>32,691</u>	<u>\$33,660</u>	<u>\$14,662</u>	<u>\$48,322</u>

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

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

Activision, Inc. and Subsidiaries
(Dollar amounts in thousands except
per share data unless otherwise noted)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of Activision, Inc. and its wholly-owned subsidiaries after elimination of intercompany accounts and transactions.

Revenue Recognition

The Company records revenue, net of an allowance for estimated returns, at the time products are shipped.

Inventory Valuation

Inventories are stated at the lower of standard cost (which approximates actual cost determined on a first-in, first-out basis) or market.

Depreciation and Amortization

Fixed assets other than leasehold improvements are depreciated on a straight-line basis over the estimated useful lives of the related assets (two to seven years). Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the assets or the lease term.

Research and Development Expenditures

Research and development expenditures are charged to expense as incurred. Such expenditures, included in general, administrative and product development expenses, amounted to \$6.8 million, \$4.8 million and \$1.1 million in 1984, 1983, and 1982, respectively.

Income Taxes

Deferred taxes are recorded to reflect differences in the timing of recognition of certain costs and expenses for financial statement and income tax purposes. Investment tax credits are recorded as a reduction of the provision for federal income taxes using the flow-through method.

Income taxes are not provided on certain qualified undistributed earnings of the Company's Domestic International Sales Corporation (DISC) subsidiary since the Company intends to permanently utilize such earnings in qualified export activities. At March 31, 1984 the cumulative earnings of the

Company's DISC for which no federal income taxes have been provided approximated \$1.6 million.

Income (Loss) Per Share

Net loss per share has been computed using the weighted average number of common shares outstanding during the period. Net income per share has been computed using the weighted average number of common and common equivalent (dilutive stock options) shares outstanding during the period. Prior to June 9, 1983 (date of Company's initial public offering) the fair market value of the Company's common stock was determined by the Board of Directors.

2. INVENTORIES

Inventories comprise the following:

	<u>March 31,</u>	
	<u>1984</u>	<u>1983</u>
Purchase parts and components	\$ 4,496	\$15,722
Finished goods	5,782	5,464
	<u>\$10,278</u>	<u>\$21,186</u>

Due to recent changing market conditions for the video game portion of the home computer software market, the Company has re-evaluated the performance of certain of its titles. Accordingly, the Company has reduced the carrying value of finished goods and component parts of certain portions of its inventory in order to value such items at current estimated net realizable value. Such writedowns amounted to \$4.8 million at March 31, 1984.

3. FIXED ASSETS

Fixed assets are stated at cost and comprise the following:

	<u>March 31,</u>	
	<u>1984</u>	<u>1983</u>
Machinery and equipment	\$2,039	\$1,191
Office furniture and equipment	6,180	4,432
Leasehold improvements	930	524
	<u>9,149</u>	<u>6,147</u>
Less accumulated depreciation and amortization	<u>(2,654)</u>	<u>(943)</u>
	<u>\$6,495</u>	<u>\$5,204</u>

4. LINE OF CREDIT AGREEMENT

Subsequent to March 31, 1984 the Company entered into a revolving bank line of credit in the amount of \$10 million which expires April 30, 1985. Borrowings under the line are limited to 65% to 75% of eligible receivables under various facilities at interest rates that generally would not exceed the bank's prime rate plus .25% and are collateralized by accounts receivable, inventories and fixed assets. Under the agreement, the Company must maintain various financial ratios and meet certain conditions including minimum tangible net worth. The Company is also restricted from paying dividends in excess of 10% of its net worth. As of March 31, 1984 the full \$10 million would have been available under this line.

5. ACCRUED LIABILITIES

Accrued liabilities comprise the following:

	March 31,	
	1984	1983
Accrued profit sharing and bonuses	\$ 142	\$2,472
Accrued cooperative advertising costs	1,009	1,868
Accrued royalties	1,324	1,135
Other accrued liabilities	654	403
	<u>\$3,129</u>	<u>\$5,878</u>

6. CAPITAL STOCK

Preferred Stock

The Company has authorized 10 million shares of preferred stock and the Board of Directors has the authority to establish all rights and terms thereof.

Stock Purchase Agreements

Shares of common stock issued to certain employees and to the Company's legal counsel are subject to stock purchase agreements whereby the Company has a five-year option to repurchase the shares, at the purchaser's original cost, in the event employment or services are terminated. A pro rata portion of the shares is released from this provision each month. As of March 31, 1984 approximately 1,187,000 shares were subject to the repurchase option.

Stock and Subordinated Note Purchase Agreement

In 1980, the Company entered into a Stock and Subordinated Note Purchase Agreement. Under the agreement, the Company sold 20 million shares of common stock for \$100 thousand and received \$550 thousand for 10% subordinated notes. The subordinated notes are due March 31, 1985 with interest payable semiannually.

Stock Options Plans

The Company has an Incentive Stock Option Plan under which 2 million shares were reserved for issuance to officers, directors and employees. Under the plan, incentive or nonqualified options may be granted at prices not less than the fair market value on the date of grant. Options granted under the plan are exercisable at such times and under such conditions as determined by the Board of Directors at the date of each grant and expire ten years from the date of grant. Options currently outstanding generally become exercisable ratably over four to five years commencing one year from either the date of the individual's employment or the date of grant.

The Company has a nonstatutory stock option plan under which 600 thousand shares of common stock were reserved for issuance to employees. Options may be granted for periods of up to ten years and at prices equal to the fair market value at the date of grant. Options become exercisable at such times and under such conditions as determined by the Board of Directors. Options granted during fiscal 1984 and 1983 were immediately exercisable. Such options must be exercised subject to restricted stock purchase agreements under which the Company has the right to repurchase shares under certain conditions. No such options had been exercised as of March 31, 1984.

Information with respect to activity under the two plans is set forth below:

	Shares Available for Grant	Outstanding Options		
		Number of Shares	Price Per Share	Aggregate Price
Incentive stock option plan shares reserved	2,000,000			
Options granted	(261,500)	261,500	\$1.00 to \$2.00	\$ 391
Balances, March 31, 1982	1,738,500	261,500	\$1.00 to \$2.00	391
Nonstatutory stock option plan shares reserved	600,000			
Options granted	(936,500)	936,500	\$4.00 to \$7.50	4,900
Options exercised		(7,800)	\$1.00 to \$1.50	(10)
Options terminated	9,200	(9,200)	\$1.50 to \$4.00	(19)
Balances, March 31, 1983	1,411,200	1,181,000	\$1.00 to \$7.50	5,262
Options granted	(786,150)	786,150	\$2.19 to \$12.00	3,740
Options exercised		(19,360)	\$1.50 to \$2.00	(43)
Options terminated	324,010	(324,010)	\$1.50 to \$12.00	(1,664)
Balances, March 31, 1984	949,060	1,623,780	\$1.00 to \$12.00	\$7,295

At March 31, 1984, options to purchase approximately 398 thousand shares of the Company's common stock were exercisable.

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan under which 400 thousand shares of common stock were reserved for issuance to permanent employees meeting minimum employment criteria and owning not more than 5% of the outstanding shares. Employees may participate through payroll deductions in amounts related to their basic compensation. The participant's purchase price is 85% of the lower of the fair market value at the beginning or end of the offering period. The 15% discount will be treated as equivalent to the cost of issuing stock for financial reporting purposes. At March 31, 1984, 14,325 shares had been issued under the plan.

7. PROFIT SHARING PLAN

The Company has adopted a noncontributory, trusted profit sharing plan for all full-time employees based on specific length of service. The Company's contribution to the plan is determined annually by the Board of Directors and cannot exceed 15% of the annual aggregate wages of those employees eligible for participation in the plan. There was no contribution authorized for fiscal year 1984. The authorized contributions to the plan for fiscal years ended March 31, 1983 and 1982 were \$917 thousand and \$210 thousand, respectively.

8. SEGMENT INFORMATION

The Company designs, develops, manufactures and markets home computer software programs and its business falls exclusively within one industry segment. The Company has no significant foreign operations. For fiscal year 1984, export sales accounted for 17% of consolidated net sales. For the years ended March 31, 1983 and 1982 export sales represented less than 10% of consolidated net sales.

During fiscal 1984, sales to one customer accounted for 10% of consolidated net sales. No single customer accounted for more than 10% of the consolidated net sales in fiscal 1983 or 1982.

9. INCOME TAXES

The provision (credit) for income taxes for the years ended March 31, 1984, 1983, and 1982 comprises:

	<u>1984</u>	<u>1983</u>	<u>1982</u>
Current:			
Federal	\$(13,507)	\$19,379	\$ 8,601
State	35	4,550	2,123
	<u>(13,472)</u>	<u>23,929</u>	<u>10,724</u>
Deferred:			
Federal	(2,416)	(4,578)	2,079
State	288	(983)	384
	<u>(2,128)</u>	<u>(5,561)</u>	<u>2,463</u>
	<u>\$(15,600)</u>	<u>\$18,368</u>	<u>\$13,187</u>

The items accounting for the difference between income taxes computed at the U.S. Federal statutory income tax rate (46%) and the provisions for income taxes for each of the years are as follows:

	<u>1984</u>	<u>1983</u>	<u>1982</u>
Federal income tax at statutory rate	\$(15,459)	\$17,273	\$12,008
State taxes, net of federal income tax benefits	175	1,926	1,353
Investment tax credit	(167)	(377)	(93)
Other, net	<u>(149)</u>	<u>(454)</u>	<u>(81)</u>
	<u>\$(15,600)</u>	<u>\$18,368</u>	<u>\$13,187</u>

State taxes, in 1984, represents the reversal of state tax deferred debits provided in 1983.

The components of the deferred tax provision for each of the years are as follows:

	<u>1984</u>	<u>1983</u>	<u>1982</u>
Accrued cooperative advertising	\$ (64)	\$ (123)	\$ (111)
Installment sales	--	(2,780)	2,780
Allowance for sales returns	(396)	(1,758)	(367)
Inventory reserves	(1,352)	(1,090)	(78)
Other	<u>(316)</u>	<u>190</u>	<u>239</u>
	<u>\$(2,128)</u>	<u>\$(5,561)</u>	<u>\$2,463</u>

10. LEASE COMMITMENTS

The Company leases its manufacturing and office facilities under noncancellable operating leases expiring at various dates through February 1989. The Company is generally responsible for payment of utilities, taxes and insurance or for increases in taxes and/or operating costs. At the Company's option, certain of the leases may be extended and, if extended, would expire at various dates through February 1994, depending on the lease. In addition, the Company rents several sales offices under short-term rental agreements.

At March 31, 1984, the aggregate future minimum rental commitment for all noncancellable operating leases was as follows:

Fiscal year	<u>Gross Lease Payments</u>	<u>Sublease Income</u>	<u>Net Lease Payments</u>
1985	\$2,512	\$348	\$2,164
1986	2,584	348	2,236
1987	2,457	348	2,109
1988	1,473	203	1,270
1989	<u>146</u>	<u>--</u>	<u>146</u>
	<u>\$9,172</u>	<u>\$1,247</u>	<u>\$7,925</u>

Rent expenses for the years ended March, 1984, 1983, and 1982 were approximately \$2.5 million, \$1.3 million and \$155 thousand, respectively.

11. LITIGATION

In September 1982 the Company was named in an action for patent infringement. Plaintiffs in the action claim that a limited number of the video game titles sold by the Company infringe the patent. The plaintiffs seek a permanent injunction against continued infringement, attorneys' fees, an accounting of profits and treble damages.

Based on advice of counsel, which is subject to the inherent uncertainties of litigation, management believes that the Company has valid and meritorious defenses to the claims and that the outcome of the action will not have a material adverse effect upon the Company's business, financial condition or results of operations.

In October and December 1983, three civil class action complaints were filed against the Company in the United States District Court for the Northern District of California on behalf of the named plaintiffs and all others who acquired the Company's common stock between June 9, 1983 and September 16, 1983, inclusive. All three actions have been consolidated.

The complaints name as co-defendants certain officers and directors, certain other shareholders who sold shares in the Company's initial public offering, the Company's auditors and the underwriters in the public offering. The complaints, which allege claims under the Securities Exchange Act of 1934, the Securities Act of 1933 as well as pendant claims under California state statutory and common law, are based upon purported misstatements and omissions in the Company's registration statement and prospectus issued in connection with the Company's initial public offering in June 1983. Plaintiffs seek an award of damages according to proof, with interest, and rescission of their stock purchases. They also seek recovery of their costs, including fees for attorneys and experts. The Company believes the complaints are without merit, intends to vigorously defend against plaintiffs' claims, and believes that the outcome of the action will not have a material adverse effect upon the Company's business, financial condition or results of operations.

Item 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Directors

None of the Directors of the Company are related. As of June 1, 1984, the Directors of the Company are:

James H. Levy, 39. Mr. Levy has been Chairman of the Board, President and Chief Executive Officer of the Company since October 1979. Prior to his involvement with Activision, from 1973 to 1979, Mr. Levy was employed by GRT Corporation, where he last served as Corporate Vice President.

Richard W. Muchmore, 65. Mr. Muchmore is currently employed by Muchmore Enterprises, a private investment firm. He is also a director of Raychem Corporation and Datametrics Corporation.

David L. Anderson, 40. Mr. Anderson is a general partner of Sutter Hill Ventures, a venture capital firm and one of the major shareholders of the Company. He is also a director of Hybritech, Inc., Dionex Corporation, Apollo Computer, Inc., and Integrated Genetics Inc.

John M. Lillie, 47. Mr. Lillie has been employed by Lucky Stores, Inc. since June 1979 and is currently the President, Chief Operating Officer and a member of the Board of Directors of that corporation. From December 1972 to June 1979, Mr. Lillie was the President and Chief Executive Officer of Leslie Salt Co. He is also a director of Spectra-Physics, Inc.

(b) Executive Officers

None of the Executive Officers of the Company are related and they all hold office at the pleasure of the Board of Directors of the Company. As of June 1, 1984, the Executive Officers of the Corporation are:

James H. Levy. See Item 10(a) above.

Joseph Avery, Jr., 42. Mr. Avery was elected Vice President, Operations of the Company in May 1984, having joined the Company in November 1983 as Vice President, Manufacturing. From 1969 until he joined the Company, Mr. Avery held a variety of positions at Hewlett-Packard Company, including Manufacturing Manager and Production Manager in the Data Systems Division.

Kenneth L. Coleman, 41, Vice President, Human Resources. Mr. Coleman has served as Vice President, Human Resources of the Company since March 1982. Prior to his employment by the Company, from 1972 to 1982, Mr. Coleman was employed by Hewlett-Packard Company, where he served in a number of personnel positions, including Manager of Corporate Staffing, Personnel Manager of the Computer Systems Division and Northern European Personnel Manager.

Allan Epstein, 32, Senior Vice President, Corporate Development. Mr. Epstein has been Senior Vice President, Corporate Development since March 1983. He joined the Company as Vice President, Operations, in May 1980, and served in that position until March 1983. Prior to his employment by the Company, Mr. Epstein was employed by a subsidiary of Cooper Laboratories, Inc., Cooper Medical Devices, a manufacturer of sophisticated, microprocessor-controlled medical instrumentation, where, from 1978 to 1980, Mr. Epstein served as Vice President, Operations.

Gregory E. Fischbach, 42, Senior Vice President, International. Mr. Fischbach joined the Company as Senior Vice President, International in September 1983. Prior to his employment by the Company, from 1978 until 1983, Mr. Fischbach was a member of Fischbach & Fischbach, a law firm which Activision has retained since 1982. Mr. Fischbach remains of counsel to such firm.

Thomas M. Lopez, 41, Senior Vice President, Editorial Development. Mr. Lopez has served as Senior Vice President, Editorial Development of the Company since March 1983, prior to which, from September 1981 to March 1983 he was Vice President, Editorial Development. Prior to his employment by the Company, Mr. Lopez acted as an advertising account supervisor for J. Walter Thompson/San Francisco, from 1980 to 1981, and, from 1979 to 1980, served as Vice President and General Manager of Computermaster, a New York-based retailer of personal computer systems.

R. L. Smith McKeithen, 40, Vice President, General Counsel and Secretary. Mr. McKeithen joined the Company and assumed his present positions in December 1983. Prior to his employment by the Company, from January 1980 to November 1983, Mr. McKeithen was Securities Counsel for Genstar Corporation, prior to which, from 1975 until January 1980, he was associated with the law firm of Howard, Prim, Rice, Nemerovski, Canady & Pollak.

Thomas J. Oswald, 31, Vice President, Finance and Treasurer. Mr. Oswald has served as Vice President, Finance of the Company since May 1984. Mr. Oswald joined the Company as Director, Financial Planning and Analysis in March 1983, and was named to the additional post of Treasurer in July 1983. Prior to joining the Company in 1983, from June 1976 to March 1983 he served in various financial positions at Seattle-First National Bank. From 1978 to 1983 he was a vice president of that bank.

Thomas Restaino, 35, Vice President, Marketing. Mr. Restaino has held his present position with the Company since October, 1983. Mr. Restaino joined Activision in March 1982, and prior to assuming his present position served the Company in a variety of marketing positions. From

1978 until 1980, Mr. Restaino was Vice President and Director of Research of McCann-Erickson, an advertising agency, and from 1980 until he joined the Company in 1982, was Manager, Corporate Marketing Research for Levi Strauss & Company.

James Scoroposki, 40, Vice President, Sales. Mr. Scoroposki has served as Vice President, Sales of the Company since October, 1983. From 1979 to the present, Mr. Scoroposki has also been President of Jaymar Marketing, Inc., an independent sales representative company, which acts as a sales representative for Activision.

Item 11. **MANAGEMENT REMUNERATION**

The Following table sets forth the remuneration of the five most highly compensated executive officers of the Company whose remuneration exceeds \$60,000 and the aggregate compensation paid to all executive officers and directors of the Company as a group for the fiscal year ended March 31, 1984.

<u>Individual or Persons in Group</u>	<u>Capacities in Which Served</u>	<u>Cash Remuneration</u>
		<u>Salaries, Directors' Fees and Bonuses(1)</u>
James H. Levy.....	President	\$ 251,250
Gregory E. Fischbach.....	Senior Vice President	\$ 145,211
Harvey N. Gillis.....	Vice President	\$ 140,000
Thomas M. Lopez.....	Senior Vice President	\$ 135,000
Allan Epstein.....	Senior Vice President	\$ 120,000(2)
All Executive Officers and Directors as a Group (15 persons).....		\$1,476,252(3)(4)

- (1) Includes discretionary cash bonuses accrued in fiscal 1984 as authorized by the Board of Directors.
- (2) In addition, \$13,714 in other compensation, consisting of tax planning and preparation services, reimbursement of certain medical expenses, and the cost to the Company of a Company-owned automobile, was provided to Mr. Epstein.
- (3) In fiscal 1984, directors who are not employees (three persons) each were compensated at the rate of \$15,000 per year for their regular services. They also received an additional \$500 for each committee meeting or Board meeting attended.
- (4) Excludes legal fees of approximately \$464,360 accrued for services rendered to the company during fiscal 1984 by Wilson, Sonsini, Goodrich & Rosati, of which firm Arthur F. Schneiderman, Secretary of the Company until December 15, 1983, is a member. Includes amounts paid during fiscal 1984 to three individuals who are no longer officers of the company.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the Company's common stock owned on May 18, 1984 by each shareholder known by the Company to own beneficially more than 5 percent of the Company's common stock, by each director and by all directors and officers as a group.

<u>Name and Address</u>	<u>Shares Owned</u>	<u>Percentage</u>
Sutter Hill Ventures..... 2 Palo Alto Square Palo Alto, CA 94036	6,191,988	18.9%
Genstar Pacific Corporation..... 4 Embarcadero Center San Francisco, CA 94111	5,823,934 ⁽¹⁾	17.8%
James H. Levy..... 2350 Bayshore Frontage Road Mountain View, CA 94043	1,954,118 ⁽²⁾	5.9%
Richard W. Muchmore..... c/o Activision Inc. 2350 Bayshore Frontage Road Mountain View, CA 94043	618,000	1.9%
David L. Anderson c/o Activision Inc. 2350 Bayshore Frontage Road Mountain View, CA 94043	575,816 ⁽³⁾	1.8%
John M. Lillie..... c/o Activision Inc. 2350 Bayshore Frontage Road Mountain View, CA 94043	5,000	.02%
All Directors and Officers as a Group.. (18 persons)	4,402,481 ⁽²⁾⁽⁴⁾	13.4%

- (1) Excludes shares held of record by Sutter Hill Ventures, a partnership of which Genstar Pacific Corporation is the sole limited partner. Genstar Pacific Corporation may be deemed to be the beneficial owner of 80 percent of the shares held by Sutter Hill Ventures.
- (2) Excludes 107,553 shares held in trust for Mr. Levy's daughter, for which trust Mr. Levy does not serve as trustee and as to which shares he disclaims beneficial ownership.
- (3) Excludes shares held of record by Sutter Hill Ventures. Mr. Anderson may be deemed to be the beneficial owner of shares owned by Sutter Hill Ventures.
- (4) Includes 223,236 shares issuable upon exercise of options held by nine officers, which options were exercisable at May 1, 1984 or within 60 days of such date. Excludes shares held of record by Sutter Hill Ventures, of which David L. Anderson, a director, is a general partner.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Until he joined Activision as Senior Vice President, Gregory E. Fischbach was a member of Fischbach & Fischbach, a law firm which Activision has retained since 1982 and to which Activision paid legal fees of approximately \$345,650 from April 1, 1983 through May 1, 1984. Mr. Fischbach remains of counsel to such firm.

James Scoroposki, a Vice President of the Company is also President and the owner of Jaymar Marketing, Inc., a company which has been one of Activision's independent sales representatives since 1980. In fiscal year 1984, the Company paid Jaymar approximately \$348,000 in sales commissions in respect of Activision product sold by Jaymar.

In April 1984, the Company made a mortgage interest differential loan in the amount of approximately \$46,800 and a housing relocation loan in the amount of \$40,000 to R.L. Smith McKeithen, a Vice President of the Company. Neither loan bears interest. The mortgage interest differential loan is forgiven in equal amounts over a period of three years beginning from the date of employment, such forgiveness being included as income to the employee. As of June 1, 1984, approximately \$77,750 was outstanding on such loans.

In May 1983, the Company sold 15,000 shares of common stock to Mr. Lillie at a purchase price of \$10 per share in conjunction with his election to the Board of Directors. In December 1983, the Company repurchased 10,000 of such shares at a purchase price of \$4.1875 per share, such price being the average of the closing bid and asked prices for the Company's common stock on the date of repurchase.

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

	<u>Page</u>
(a) (1) Financial Statements. See Index to Financial Statements.	10
(2) Financial Statement Schedules.	
Schedule II - Amounts Receivable from Related Parties and Underwriters, Promoters and Employees Other Than Related Parties.	30
Schedule VIII - Valuation and Qualifying Accounts and Reserves.	31
Schedule IX - Short-term Borrowings	32
Schedule X - Supplementary Income Statement Information	33
(b) The Company has filed no reports on form 8-K during the last quarter of the period covered by this report.	
(c) <u>List of Exhibits</u>	
(3) Articles of Incorporation and By Laws (incorporated by reference to Exhibit no. 3 to the Company's Registration Statement on Form S-1 (file no. 2-83372))	
(11) Statement re computation of per share earnings.	34
(12) Statements re computation of ratios.	35
(24) Consent of Experts.	36

ACTIVISION, INC. AND SUBSIDIARIES

AMOUNTS RECEIVABLE FROM RELATED PARTIES AND UNDERWRITERS,
 PROMOTERS AND EMPLOYEES OTHER THAN RELATED PARTIES (A)
 (Amounts in thousands)

Col. A	Col. B	Col. C	Col. D		Col. E	
Name of Debtor	Balance at Beginning of Period	Additions	Amounts Collected	Amounts Written Off	Balance at End of Period	
					Current	Noncurrent
For the year ended March 31, 1983:						
Kenneth L. Coleman	\$—	\$110(B)	\$65	\$—	\$45(B)	\$—
For the year ended March 31, 1984:						
Kenneth L. Coleman	\$45(B)	\$—	\$45(C)	\$—	\$—	\$—

-
- (A) As to the periods omitted, the answer is none.
 - (B) Unsecured noninterest bearing advance due May 1, 1983.
 - (C) Includes amounts deducted from incentive bonus.

ACTIVISION, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(Amounts in thousands)

<u>Col. A</u>	<u>Col. B</u>	<u>Col. C</u>	<u>Col. D</u>	<u>Col. E</u>
<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Charged Against Income</u>	<u>Deductions (Describe)</u>	<u>Balance at End of Period</u>
Year ended March 31, 1982:				
Allowance for doubtful accounts and sales returns	<u>\$ 147</u>	<u>\$ 1,678</u>	<u>\$ 72(A)</u>	<u>\$1,753</u>
Inventory valuation	<u>\$ —</u>	<u>\$ 361</u>	<u>\$ 221(B)</u>	<u>\$ 140</u>
Year ended March 31, 1983:				
Allowance for doubtful accounts and sales returns	<u>\$1,753</u>	<u>\$13,739</u>	<u>\$10,476(A)</u>	<u>\$5,016</u>
Inventory valuation	<u>\$ 140</u>	<u>\$ 2,246</u>	<u>\$ 167(B)</u>	<u>\$2,219</u>
Year ended March 31, 1984:				
Allowance for doubtful accounts and sales returns	<u>\$5,016</u>	<u>\$17,699</u>	<u>\$16,241(A) (D)</u>	<u>\$6,474</u>
Inventory valuation	<u>\$2,219</u>	<u>\$ 7,056</u>	<u>\$ 3,916(C) (D)</u>	<u>\$5,359</u>

- (A) Actual write-offs of uncollectible accounts receivable or actual sales returns
- (B) Actual write-offs of obsolete inventory and scrap.
- (C) Actual write-offs of obsolete inventory, scrap and reduction in carrying value of certain portions of inventory.
- (D) Includes the effect of the transfer of \$1,250 from the inventory reserve to the allowance for doubtful accounts and sales returns reserve.

ACTIVISION, INC. AND SUBSIDIARIES

SHORT-TERM BORROWINGS
(Dollar amounts in thousands)

<u>Col. A</u>	<u>Col. B</u>	<u>Col. C</u>	<u>Col. D</u>	<u>Col. E</u>	<u>Col. F</u>
<u>Category of Aggregate Short-Term Borrowings</u>	<u>Balance at End of Period</u>	<u>Weighted Average Interest Rate</u>	<u>Maximum Amount Outstanding During the Period</u>	<u>Average Amount Outstanding During the Period (A)</u>	<u>Weighted Average Interest Rate During the Period (B)</u>
Year ended March 31, 1982:					
Bank of America, N.T. & S.A.	—	—	\$1,906	\$185	20.1%
Year ended March 31, 1983					
Bank of America, N.T. & S.A.	—	—	\$3,600	\$395	12.5%
Year ended March 31, 1984					
Bank of America, N.T. & S.A.	—	—	—	—	—

(A) Calculated on the average daily balances.

(B) Calculated by dividing interest on short-term borrowings during the year by average short-term borrowings.

ACTIVISION, INC. AND SUBSIDIARIES

SUPPLEMENTARY INCOME STATEMENT INFORMATION
(Amounts in thousands)

<u>Col. A</u>	<u>Col. B</u>		
	<u>Charged to Costs and Expenses</u>		
	<u>Year Ended March 31,</u>		
<u>Item</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>
1. Maintenance and repairs	<u>(A)</u>	<u>(A)</u>	<u>(A)</u>
2. Depreciation and amortization of intangible assets, preoperating costs and similar deferrals	<u>(A)</u>	<u>(A)</u>	<u>(A)</u>
3. Taxes, other than payroll and income taxes ..	<u>(A)</u>	<u>(A)</u>	<u>(A)</u>
4. Royalties	<u>\$ 1,742</u>	<u>(A)</u>	<u>(A)</u>
5. Advertising costs	<u>\$18,912</u>	<u>\$38,340</u>	<u>\$ 6,812</u>

(A) Amounts charged to costs and expenses do not exceed 1% of total revenues.

ACTIVISION, INC. AND SUBSIDIARIES

COMPUTATION OF NET INCOME PER SHARE
(Dollar amounts in thousands except per share data)

	Year Ended March 31,		
	<u>1984</u>	<u>1983</u>	<u>1982</u>
Primary:			
Weighted average shares outstanding for the period	32,143,093	29,778,163	30,079,584
Net effect of stock options based on the treasury stock method	—	209,176	15,064
Average common and common equivalent shares outstanding	<u>32,143,093</u>	<u>29,987,339</u>	<u>30,094,648</u>
Net Income (loss)	<u>\$(18,010)</u>	<u>\$19,183</u>	<u>\$12,918</u>
Net income (loss) per share	<u>\$(.56)</u>	<u>\$.64</u>	<u>\$.43</u>
Fully diluted:			
Weighted average shares outstanding for the period	32,143,093	29,778,163	30,079,584
Net effect of stock options based on the treasury stock method	—	260,660(A)	20,629(A)
Average common and common equivalent shares outstanding	<u>32,143,093</u>	<u>30,038,823</u>	<u>30,100,213</u>
Net Income (loss)	<u>\$(18,010)</u>	<u>\$19,183</u>	<u>\$12,918</u>
Net income (loss) per share	<u>\$(.56)</u>	<u>\$.64</u>	<u>\$.43</u>

(A) In the fiscal years 1982 and 1983 the fair market value of the Company's common stock was determined by the Board of Directors.

Activision, Inc. and Subsidiaries
 Computation of Ratios
 (Amounts in thousands except ratios)

	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>
<u>Current Ratio</u>					
Total Current Assets (1)	\$50,015	\$51,074	\$30,160	\$3,158	\$536
Total Current Liabilities (2)	8,271	22,636	17,251	2,041	42
Current Ratio (1 ÷ 2)	6.0:1	2.3:1	1.7:1	1.5:1	12.8:1
<u>Debt to Equity Ratio</u>					
Total Debt (1)	\$8,399	\$23,425	\$17,874	\$2,672	\$592
Total Equity (2)	48,322	33,034	13,676	723	[30]
Debt to Equity Ratio (1 ÷ 2)	0.2:1	0.7:1	1.3:1	3.7:1	-

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

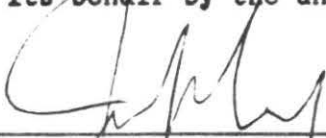
We consent to the incorporation by reference in the Registration Statement of Activision, Inc. on Form S-8 (File No. 2-86881), of our report dated April 27, 1984 on our examinations of the consolidated financial statements and financial statement schedules of Activision, Inc. and Subsidiaries as of March 31, 1984 and 1983, and for the years ended March 31, 1984, 1983 and 1982, which report is included in this Annual Report on Form 10-K.


Coopers and Lybrand

San Jose, California
April 27, 1984

SIGNATURES

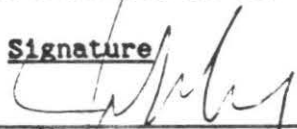
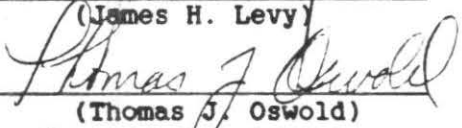
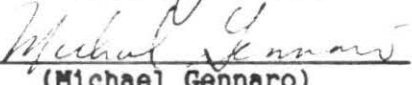
Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.



ACTIVISION, INC.

(James H. Levy)
Chairman and Chief Executive Officer

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

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
 <u>(James H. Levy)</u>	Chairman, Chief Executive Officer and Director	June 25, 1984
 <u>(Thomas J. Oswald)</u>	Vice President - Finance	June 25, 1984
 <u>(Michael Gennaro)</u>	Controller	June 25, 1984
<u>(Richard W. Muchmore)</u>	Director	June 25, 1984
<u>(David L. Anderson)</u>	Director	June 25, 1984
<u>(John M. Lillie)</u>	Director	June 25, 1984

SIGNATURES

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

ACTIVISION, INC.

(James H. Levy)
Chairman and Chief Executive Officer

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<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
_____ (James H. Levy)	Chairman, Chief Executive Officer and Director	June 25, 1984
_____ (Thomas Oswald)	Vice President - Finance	June 25, 1984
_____ (Michael Gennero)	Controller	June 25, 1984
<i>Richard W. Muchmore</i> _____ (Richard W. Muchmore)	Director	June 25, 1984
_____ (David L. Anderson)	Director	June 25, 1984
_____ (John M. Lillie)	Director	June 25, 1984

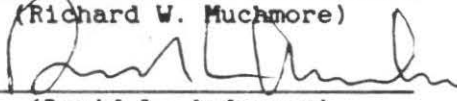
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ACTIVISION, INC.

(James H. Levy)
Chairman and Chief Executive Officer

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_____ (Richard W. Muchmore)	Director	June 25, 1984
 _____ (David L. Anderson)	Director	June 25, 1984
_____ (John M. Lillie)	Director	June 25, 1984