

Madden Michael
Form 3
May 01, 2006

FORM 3 UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

OMB APPROVAL

OMB
Number: 3235-0104
Expires: January 31,
2005
Estimated average
burden hours per
response... 0.5

INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934,
Section 17(a) of the Public Utility Holding Company Act of 1935 or Section
30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting
Person *

Â Madden Michael

(Last) (First) (Middle)

C/O KIRKLAND'S, INC.,Â 805
N. PARKWAY

(Street)

JACKSON,Â TNÂ 38305

(City) (State) (Zip)

2. Date of Event Requiring
Statement

(Month/Day/Year)

04/30/2006

3. Issuer Name **and** Ticker or Trading Symbol
KIRKLANDS INC [KIRK]

4. Relationship of Reporting
Person(s) to Issuer

5. If Amendment, Date Original
Filed(Month/Day/Year)

(Check all applicable)

____ Director ____ 10% Owner
X Officer ____ Other
(give title below) (specify below)
V.P. & Chief Financial Officer

6. Individual or Joint/Group
Filing(Check Applicable Line)
X Form filed by One Reporting
Person
____ Form filed by More than One
Reporting Person

Table I - Non-Derivative Securities Beneficially Owned

1. Title of Security
(Instr. 4)

2. Amount of Securities
Beneficially Owned
(Instr. 4)

3. Ownership
Form:
Direct (D)
or Indirect
(I)
(Instr. 5)

4. Nature of Indirect Beneficial
Ownership
(Instr. 5)

Common Stock

1,052

D Â

Reminder: Report on a separate line for each class of securities beneficially
owned directly or indirectly.

SEC 1473 (7-02)

**Persons who respond to the collection of
information contained in this form are not
required to respond unless the form displays a
currently valid OMB control number.**

Table II - Derivative Securities Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security
(Instr. 4)

2. Date Exercisable and
Expiration Date
(Month/Day/Year)

3. Title and Amount of
Securities Underlying
Derivative Security
(Instr. 4)
Title

4. Conversion
or Exercise
Price of
Derivative
Security

5. Ownership
Form of
Derivative
Security:
Direct (D)

6. Nature of Indirect
Beneficial Ownership
(Instr. 5)

Edgar Filing: Madden Michael - Form 3

	Date Exercisable	Expiration Date		Amount or Number of Shares		or Indirect (I) (Instr. 5)	
Stock Options (right to buy)	Â (1)	11/26/2011	Common Stock	3,299	\$ 1.29	D	Â
Stock Options (right to buy)	Â (2)	03/02/2015	Common Stock	25,000	\$ 10.9	D	Â
Stock Options (right to buy)	Â (1)	08/28/2013	Common Stock	5,000	\$ 18.55	D	Â

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Madden Michael C/O KIRKLAND'S, INC. 805 N. PARKWAY JACKSON, TN 38305	Â	Â	Â V.P. & Chief Financial Officer	Â

Signatures

/s/ W. Michael
Madden 05/01/2006

__Signature of
Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, *see* Instruction 5(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

- (1) This option is fully vested.
- (2) These options became exercisable as to 33% of such shares on March 2, 2006, and will thereafter become exercisable as to an additional 8.33% on the last day of each of the next eight calendar quarters.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *See* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. 0in .0001pt;text-align:right;">106,604

93,199

Less accumulated depreciation

(60,064

)

(47,831

)

Property and equipment, net

\$

46,540

\$

45,368

Depreciation expense for the years ended March 31, 2007, 2006, and 2005 was \$17.8 million, \$14.2 million, and \$10.6 million, respectively.

8. Goodwill

The changes in the carrying amount of goodwill were as follows (amounts in thousands):

Explanation of Responses:

Edgar Filing: Madden Michael - Form 3

	Publishing	Distribution	Total
Balance as of March 31, 2005	\$ 85,899	\$ 5,762	\$ 91,661
Goodwill acquired during the year	6,459		6,459
Issuance of contingent consideration	2,793		2,793
Adjustment-prior period purchase allocation	(260)		(260)
Effect of foreign currency exchange rates	203	(410)	(207)
Balance as of March 31, 2006	95,094	5,352	100,446
Goodwill acquired during the year	87,257		87,257
Issuance of contingent consideration	6,918		6,918
Adjustment-prior period purchase allocation	51		51
Effect of foreign currency exchange rates	22	680	702
Balance as of March 31, 2007	\$ 189,342	\$ 6,032	\$ 195,374

F-19

9. Accrued Expenses

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

	As of March 31,	
	2007	2006
Accrued royalties payable	\$ 21,583	\$ 8,961
Accrued selling and marketing costs	23,909	24,637
Affiliate label program payable	1,846	1,121
Income tax payable	55,530	2,253
Accrued payroll related costs	63,249	33,434
Accrued customer payments	2,088	5,077
Accrued professional and legal costs	9,494	11,568
Other	26,953	17,811
Total accrued expenses	\$ 204,652	\$ 104,862

10. Operations by Reportable Segments and Geographic Area

We operate two business segments: (i) publishing of interactive entertainment software and peripherals and (ii) distribution of interactive entertainment software and hardware products.

Publishing refers to the development, marketing, and sale of products directly, by license or through our affiliate label program with certain third-party publishers. In the United States, we primarily sell our products on a direct basis to mass-market retailers, consumer electronics stores, discount warehouses, and game specialty stores. We conduct our international publishing activities through offices in the UK, Germany, France, Italy, Spain, the Netherlands, Australia, Sweden, Canada, South Korea and Japan. Our products are sold internationally on a direct-to-retail basis and through third-party distribution and licensing arrangements and through our wholly-owned distribution subsidiaries located in the UK, the Netherlands, and Germany.

Distribution refers to our operations in the UK, the Netherlands, and Germany that provide logistical and sales services to third-party publishers of interactive entertainment software, our own publishing operations, and manufacturers of interactive entertainment hardware.

Resources are allocated to each of these segments using information on their respective net revenues and operating profits before interest and taxes.

The accounting policies of these segments are the same as those described in the Summary of Significant Accounting Policies. Transactions between segments are eliminated in consolidation.

Edgar Filing: Madden Michael - Form 3

Information on the reportable segments for the three years ended March 31, 2007 is as follows (amounts in thousands):

	For the year ended March 31, 2007		
	Publishing	Distribution	Total
Total segment revenues	\$ 1,119,038	\$ 393,974	\$ 1,513,012
Revenue from sales between segments	(80,726)	80,726	
Revenues from external customers	\$ 1,038,312	\$ 474,700	\$ 1,513,012
Operating income	\$ 64,076	\$ 9,071	\$ 73,147
Total assets	\$ 1,618,195	\$ 175,752	\$ 1,793,947

	For the year ended March 31, 2006		
	Publishing	Distribution	Total
Total segment revenues	\$ 1,154,663	\$ 313,337	\$ 1,468,000
Revenue from sales between segments	(131,631)	131,631	
Revenues from external customers	\$ 1,023,032	\$ 444,968	\$ 1,468,000
Operating income (loss)	\$ (6,715)	\$ 21,941	\$ 15,226
Total assets	\$ 1,293,014	\$ 125,241	\$ 1,418,255

	For the year ended March 31, 2005		
	Publishing	Distribution	Total
Total segment revenues	\$ 1,072,729	\$ 333,128	\$ 1,405,857
Revenue from sales between segments	(111,676)	111,676	
Revenues from external customers	\$ 961,053	\$ 444,804	\$ 1,405,857
Operating income	\$ 155,863	\$ 23,745	\$ 179,608
Total assets	\$ 1,173,866	\$ 132,053	\$ 1,305,919

F-21

Edgar Filing: Madden Michael - Form 3

Geographic information is based on the location of the selling entity. Revenues from external customers by geographic region were as follows (amounts in thousands):

	For the years ended March 31,		
	2007	2006	2005
North America	\$ 753,376	\$ 710,040	\$ 696,325
Europe	718,973	717,494	675,074
Other	40,663	40,466	34,458
Total	\$ 1,513,012	\$ 1,468,000	\$ 1,405,857

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

	For the years ended March 31,		
	2007	2006	2005
Console	\$ 1,125,457	\$ 1,008,758	\$ 970,399
Hand-held	275,650	235,834	161,977
PC	111,905	223,408	273,481
Total	\$ 1,513,012	\$ 1,468,000	\$ 1,405,857

A significant portion of our revenues is derived from products based on a relatively small number of popular brands each year. In fiscal 2007, 39% of our consolidated net revenues (52% of worldwide publishing net revenues) was derived from three brands, which accounted for 17%, 13%, and 9% of consolidated net revenues (23%, 18%, and 11% of worldwide publishing net revenues). In fiscal 2006, 30% of our consolidated net revenues (38% of worldwide publishing net revenues) was derived from three brands, which accounted for 14%, 8%, and 8% of consolidated net revenues (18%, 10%, and 10% of worldwide publishing net revenues). In fiscal 2005, 37% of our consolidated net revenues (48% of worldwide publishing net revenues) was derived from three brands, which accounted for 16%, 11%, and 10% of consolidated net revenues (21%, 14%, and 13% of worldwide publishing net revenues).

11. Computation of Earnings Per Share

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

	For the years ended March 31,		
	2007	2006	2005
Numerator:			
Numerator for basic and diluted earnings per share - income available to common shareholders	\$ 85,787	\$ 40,251	\$ 135,057
Denominator:			
Denominator for basic earnings per share - weighted average common shares outstanding	281,114	273,177	250,023
Effect of dilutive securities:			
Employee stock options and stock purchase plan	23,611	20,232	26,398
Warrants to purchase common stock	614	593	1,291
Potential dilutive common shares	24,225	20,825	27,689
Denominator for diluted earnings per share - weighted average common shares outstanding plus assumed conversions	305,339	294,002	277,712
Basic earnings per share	\$ 0.31	\$ 0.15	\$ 0.54
Diluted earnings per share	\$ 0.28	\$ 0.14	\$ 0.49

Options to purchase approximately 7.9 million, 993,000, and 243,000 shares of common stock for the years ended March 31, 2007, 2006, and 2005, respectively, were not included in the calculation of diluted earnings per share because their effect would be antidilutive.

12. Income Taxes

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

	For the years ended March 31,		
	2007	2006	2005
Income (loss) before income taxes:			
Domestic	\$ 99,210	\$ 52,321	\$ 169,572
Foreign	10,615	(6,465)	23,128
	\$ 109,825	\$ 45,856	\$ 192,700
Income tax expense (benefit):			
Current:			
Federal	\$ 34,342	\$	\$ (355)
State	15,325	308	342
Foreign	3,842	4,383	5,126
Total current	53,509	4,691	5,113
Deferred:			
Federal	(17,074)	(11,095)	4,346
State	(19,608)	(7,266)	(2,863)
Foreign	(4,127)	(10,092)	(2,159)
Total deferred	(40,809)	(28,453)	(676)
Add back benefit credited to additional paid-in capital:			
Tax benefit related to stock option and warrant exercises	11,338	29,367	53,206
Income tax provision	\$ 24,038	\$ 5,605	\$ 57,643

Edgar Filing: Madden Michael - Form 3

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:

	For the years ended March 31,		
	2007	2006	2005
Federal income tax provision at statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	4.1	4.3	2.8
Research and development credits	(8.5)	(36.2)	(6.6)
Decremental effect of foreign tax rates	(3.6)	(10.5)	(2.4)
Increase (decrease) in valuation allowance	(26.6)	18.0	3.2
Increase (decrease) in tax reserves	18.8	(2.2)	(0.9)
Other	2.7	3.8	(1.2)
	21.9%	12.2%	29.9%

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):

	As of March 31,	
	2007	2006
Deferred asset:		
Allowance for doubtful accounts	\$ 369	\$ 739
Allowance for sales returns	14,094	16,200
Inventory reserve	1,507	2,474
Vacation and bonus reserve	5,996	4,993
Amortization and depreciation	1,566	3,970
Tax credit carryforwards	89,014	74,488
Net operating loss carryforwards	29,822	13,770
Stock-based compensation	11,879	3,272
Other	8,958	6,209
Deferred asset	163,205	126,115
Valuation allowance	(382)	(35,555)
Net deferred asset	162,823	90,560
Deferred liability:		
Capitalized development expenses	50,159	22,537
State taxes	12,309	5,814
Deferred liability	62,468	28,351
Net deferred asset	\$ 100,355	\$ 62,209

The tax benefits associated with certain net operating loss carryforwards relate to employee stock options. For the year ended March 31, 2006, pursuant to SFAS No. 109, deferred tax assets for net operating losses did not include \$30.9 million relating to these items which will be credited to additional paid-in capital when realized. For the year ended March 31, 2007, \$30.9 million relating to these items was realized and included in deferred tax assets for net operating losses; however, a reserve was established for this amount, as well as a reserve of \$20.6 million for tax credits and foreign taxes. These reserves were established because the tax positions are subject to certain assumptions of the relevant legislative and judicial history that may or may not be accepted by the tax authorities.

As of March 31, 2007, our available federal net operating loss carryforward of approximately \$34.9 million is subject to certain limitations as defined under Section 382 of the Internal Revenue Code. The net operating loss carryforwards expire between 2022 and 2026. We have various state net operating loss carryforwards totaling \$17.6 million which are not subject to limitations under Section 382 of the Internal Revenue Code. We have tax credit carryforwards of \$52.5 million and \$36.5 million for federal and state purposes, respectively, which begin to expire in fiscal year 2008.

At March 31, 2007, our deferred income tax asset for tax credit carryforwards and net operating loss carryforwards was reduced by a valuation allowance of \$0.4 million, as compared to \$35.6 million in the prior fiscal year. In management's judgment, based on the utilization of domestic net operating loss carryforwards in the current fiscal year, it was determined to be more likely than not that the tax credit carryforwards would ultimately be utilized, and consequently, the valuation allowance relating to tax credit carryforwards was reversed.

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.

Cumulative undistributed earnings of foreign subsidiaries for which no deferred taxes have been provided approximated \$97.5 million at March 31, 2007. Deferred income taxes on these earnings have not been provided as these amounts are considered to be permanent in duration.

On October 22, 2004, the President of the United States signed the American Jobs Creation Act of 2004 (the Act) which contains a number of tax law modifications with accounting implications. For companies that pay U.S. income taxes on manufacturing activities in the U.S., the Act provides a deduction from taxable income equal to a stipulated percentage of qualified income from domestic production activities. The manufacturing deduction provided by the Act replaces the extraterritorial income (ETI) deduction currently in place. We currently derive benefits from the ETI exclusion which was repealed by the Act. Our exclusion for fiscal 2006 and 2007 will be limited to 75% and 45% of the otherwise allowable exclusion and no exclusion will be available in fiscal 2008 and thereafter. The Act also creates a temporary incentive for U.S. multinationals to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations (Homeland Investment Act). The deduction is subject to a number of limitations. The Act also provides for other changes in tax law that will affect a variety of taxpayers. On December 21, 2004, the Financial Accounting Standards Board (FASB) issued two FASB Staff Positions (FSP) regarding the accounting implications of the Act related to (1) the deduction for qualified domestic production activities and (2) the one-time tax benefit for the repatriation of foreign earnings. The FASB determined that the deduction for qualified domestic production activities should be accounted for as a special deduction under FASB Statement No. 109, *Accounting for Income Taxes*. The FASB also confirmed, that upon deciding that some amount of earnings will be repatriated, a company must record in that period the associated tax liability. The guidance in the FSPs apply to financial statements for periods ending after the date the Act was enacted. We have evaluated the Act and have concluded that we will not repatriate foreign earnings under the Homeland Investment Act Provisions.

13. Commitments and Contingencies

Credit Facilities

We have revolving credit facilities with our Centresoft subsidiary located in the UK (the UK Facility) and our NBG subsidiary located in Germany (the German Facility). The UK Facility provided Centresoft with the ability to borrow up to Great British Pounds (GBP) 12.0 million (\$23.6 million) and GBP 12.0 million (\$21.0 million, including issuing letters of credit, on a revolving basis as of March 31, 2007 and 2006, respectively. Furthermore, under the UK Facility, Centresoft provided a GBP 0.6 million (\$1.2 million) and a GBP 0.6 million (\$1.0 million) guarantee for the benefit of our CD Contact subsidiary as of March 31, 2007 and 2006, respectively. The UK Facility bore interest at LIBOR plus 2.0% as of March 31, 2007 and 2006, is collateralized by substantially all of the assets of the subsidiary and expires in January 2008. 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, 2007 and 2006, we were in compliance with these covenants. No borrowings were outstanding against the UK Facility as of March 31, 2007 or 2006. The German Facility provided for revolving loans up to EUR 0.5 million (\$0.7 million) as of March 31, 2007 and EUR 0.5 million (\$0.6 million) as of March 31, 2006, bore interest at a Eurocurrency rate plus 2.5%, is collateralized by certain of the subsidiary's property and equipment and has no expiration date. No borrowings were outstanding against the German Facility as of March 31, 2007 or 2006.

As of March 31, 2007 and 2006, we maintained a \$7.5 million irrevocable standby letter of credit. The standby letter of credit is required by one of our inventory manufacturers to qualify for payment terms on our inventory purchases. Under the terms of this arrangement, we are required to maintain on deposit with the bank a compensating balance, restricted as to use, of not less than the sum of the available amount of the letter of credit plus the aggregate amount of any drawings under the letter of credit that have been honored thereunder but not reimbursed. At March 31, 2007 and 2006, the \$7.5 million deposit is included in short-term investments as restricted cash. No borrowings were outstanding as of March 31, 2007 or 2006.

As of March 31, 2007, our publishing subsidiary located in the UK maintained a EUR 4.0 million (\$5.3 million) irrevocable standby letter of credit. As of March 31, 2006, our publishing subsidiary located in the UK maintained a EUR 2.5 million (\$3.0 million) irrevocable standby letter of credit. The standby letter of credit is required by one of our inventory manufacturers to qualify for payment terms on our inventory purchases. The standby letter of credit does not require a compensating balance and is collateralized by substantially all of the assets of the subsidiary and expires in August 2007. No borrowings were outstanding as of March 31, 2007 or 2006.

Commitments

In the normal course of business, we enter into contractual arrangements with third parties for non-cancelable operating lease agreements for our offices, for the development of products, as well as for the rights to intellectual property. Under these agreements, we commit to provide specified payments to a lessor, developer, or intellectual property holder, based upon contractual arrangements. Typically, the payments to third-party developers are conditioned upon the achievement by the developers of contractually specified development milestones. These payments to third-party developers and intellectual property holders typically are deemed to be advances and are recoupable against future royalties earned by the developer or intellectual property holder based on the sale of the related game. Additionally, in connection with certain intellectual property right acquisitions and development agreements, we will commit to spend specified amounts for marketing support for the related game(s) which is to be developed or in which the intellectual property will be utilized.

Edgar Filing: Madden Michael - Form 3

Additionally, we lease certain of our facilities and equipment under non-cancelable operating lease agreements. Assuming all contractual provisions are met, the total future minimum commitments for these and other contractual arrangements in place as of March 31, 2007, are scheduled to be paid as follows (amounts in thousands):

	Contractual Obligations			
	Facility & Equipment Leases	Developer and IP	Marketing	Total
Fiscal year ending March 31,				
2008	\$ 14,213	\$ 67,836	\$ 40,254	\$ 122,303
2009	13,131	31,579	30,679	75,389
2010	12,070	29,936	100	42,106
2011	9,854	30,586	13,100	53,540
2012	5,543	16,586		22,129
Thereafter	17,783	47,586		65,369
Total	\$ 72,594	\$ 224,109	\$ 84,133	\$ 380,836

Facilities rent expense for the years ended March 31, 2007, 2006, and 2005 was approximately \$14.8 million, \$14.2 million, and \$10.6 million, respectively.

Compensation Guarantee

In June 2005, we entered into an employment agreement with the President and Chief Executive Officer of Activision Publishing, Inc. containing a guarantee related to total compensation. The agreement guarantees that in the event that on May 15, 2010 total compensation has not exceeded \$20.0 million, we will make a payment for the amount of the shortfall. The \$20.0 million guarantee will be recognized as compensation expense over the term of the employment agreement comprising of salary payments, bonus payments, restricted stock expense, stock option expense, and an accrual for any anticipated remaining portion of the guarantee. The remaining portion of the guarantee is accrued over the term of the agreement in Other liabilities and will remain accrued until the end of the employment agreement at which point it will be used to make a payment for any shortfall or reclassified into shareholders equity.

Legal Proceedings

In July 2006, individuals and/or entities claiming to be stockholders of the Company have filed derivative lawsuits, purportedly on behalf of the Company, against certain current and former members of the Company's Board of Directors as well as several current and former officers of the Company. Three derivative actions have been filed in Los Angeles Superior Court: Vazquez v. Kotick, et al., L.A.S.C. Case No. BC355327 (filed July 12, 2006); Greuer v. Kotick, et al., L.A.S.C. Case No. SC090343 (filed July 12, 2006); and Amalgamated Bank v. Baker, et al., L.A.S.C. Case No. BC356454 (filed August 3, 2006). These actions have been consolidated by the court under the caption In re Activision Shareholder Derivative Litigation, L.A.S.C. Master File No. SC090343 (West, J.). Two derivative actions have been filed in the United States District Court for the Central District of California: Pfeiffer v. Kotick, et al., C.D. Cal. Case No. CV06-4771 MRP (JTLx) (filed July 31, 2006); and Hamian v. Kotick, et al., C.D. Cal. Case No. CV06-5375 MRP (JLTx) (filed August 25, 2006). These actions have also been consolidated, under the caption In re Activision, Inc. Shareholder Derivative Litigation, C.D. Cal. Case No. CV06-4771 MRP (JTLx) (Pfaelzer, J.). The consolidated complaints allege, among other things, purported improprieties in the Company's issuance of stock options. Plaintiffs seek various relief on behalf of the Company, including damages, restitution of benefits obtained from the alleged misconduct, equitable relief, including an accounting and rescission of option contracts; and various corporate governance reforms. The Company expects that defense expenses

Edgar Filing: Madden Michael - Form 3

associated with the matters will be covered by its directors and officers insurance, subject to the terms and conditions of the applicable policies.
On May

F-28

24, 2007, the Superior Court granted the Company's motion to stay the state action. The court's order stays the action pending the resolution of motions to dismiss in the federal action, but is without prejudice to any party's right to seek modification of the stay upon a showing of good cause, including a showing that matters may be addressed in the Superior Court without the potential for conflict with or duplication of the federal court proceedings. The Company filed motions to dismiss in the federal action on June 1, 2007, which will be fully briefed by August 15, 2007. The Company was also informed that, on June 1, 2007, a derivative case, *Abdelnur vs. Kotick et al.*, was filed in the United States District Court for the Central District of California, C.D. Case No. CV07-3575 AHM (PJWx), by the same law firm that previously filed the Hamian case, alleging substantially the same claims.

On July 27, 2006, the Company received a letter of informal inquiry from the SEC requesting certain documents and information relating to the Company's historical stock option grant practices. In early June 2007, the SEC informed the Company that the SEC has issued a formal order of non-public investigation, which allows the SEC, among other things, to subpoena witnesses and require the production of documents. The Company is cooperating with the SEC's investigation, and representatives of the special subcommittee of independent members of our Board of Directors established in July 2006 to review our historical stock option granting practices (the Special Subcommittee) and its legal counsel have met with members of the staff of the SEC on several occasions, in person and by telephone (as has the Company's outside legal counsel), to discuss the progress of the Special Subcommittee's investigation and on February 28, 2007 to brief the SEC staff on the Special Subcommittee's findings and recommendations following the substantial completion of the Special Subcommittee's investigation. A representative of the U.S. Department of Justice has attended certain of these meetings and requested copies of certain documents that we have provided to the staff of the SEC. At this time, the Company has not received any grand jury subpoenas or written requests from the Department of Justice.

In addition, we are party to other routine claims and suits brought by us and against us in the ordinary course of business, including disputes arising over the ownership of intellectual property rights, contractual claims, employment relationships, and collection matters. In the opinion of management, after consultation with legal counsel, the outcome of such routine claims and lawsuits will not have a material adverse effect on our business, financial condition, results of operations, or liquidity.

14. Stock-Based Compensation and Employee Benefit Plans

We have a stock-based compensation program that provides our Board of Directors broad discretion in creating employee equity incentives. This program includes incentive and non-statutory stock options and restricted stock awards granted under various plans, the majority of which are stockholder approved. Stock options are generally time-based, vesting on each annual anniversary of the grant date over periods of three to five years and expire ten years from the grant date, with some options containing performance clauses which would accelerate the vesting into earlier annual periods. Additionally, we have an Employee Stock Purchase Plan (ESPP) that allows employees to purchase shares of common stock at 85% of the fair market value at either the date of enrollment or the date of purchase, whichever is lower. Shares issued as a result of stock option exercises and our ESPP are generally issued as new stock issuances. As of March 31, 2007, we had approximately 11.2 million shares of common stock reserved for future issuance under our stock option plans and ESPP.

Stock Incentive Plans

We sponsor several stock option plans for the benefit of officers, employees, consultants, and others.

On February 28, 1992, the shareholders of Activision approved the Activision 1991 Stock Option and Stock Award Plan, as amended, (the 1991 Plan) which 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 to directors, officers, employees, consultants, and

Edgar Filing: Madden Michael - Form 3

others. The total number of shares of common stock available for distribution under the 1991 Plan is 45,400,000. The 1991 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. There were no shares remaining available for grant under the 1991 Plan as of March 31, 2007.

F-29

Edgar Filing: Madden Michael - Form 3

On September 23, 1998, the shareholders of Activision approved the Activision 1998 Incentive Plan, as amended (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 18,000,000. The 1998 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. There were approximately 56,300 shares remaining available for grant under the 1998 Plan as of March 31, 2007.

On April 26, 1999, the Board of Directors approved the Activision 1999 Incentive Plan, as amended (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 30,000,000. The 1999 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. There were approximately 84,500 shares remaining available for grant under the 1999 Plan as of March 31, 2007.

On August 23, 2001, the shareholders of Activision approved the Activision 2001 Incentive Plan, as amended (the 2001 Plan). The 2001 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 2001 Plan is 9,000,000. The 2001 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. There were approximately 158,300 shares remaining available for grant under the 2001 Plan as of March 31, 2007.

On April 4, 2002, the Board of Directors approved the Activision 2002 Incentive Plan (the 2002 Plan). The 2002 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 officers (other than executive officers), employees, consultants, advisors, and others. The 2002 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. The total number of shares of common stock available for distribution under the 2002 Plan is 17,400,000. There were approximately 167,600 shares remaining available for grant under the 2002 Plan as of March 31, 2007.

On September 19, 2002, the shareholders of Activision approved the Activision 2002 Executive Incentive Plan (the 2002 Executive Plan). The 2002 Executive 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 officers, employees, directors, consultants, and advisors. The total number of shares of common stock available for distribution under the 2002 Executive Plan is 10,000,000. The 2002 Executive Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. There were approximately 488,700 shares remaining available for grant under the 2002 Executive Plan as of March 31, 2007.

On December 16, 2002, the Board of Directors approved the Activision 2002 Studio Employee Retention Incentive Plan, as amended (the 2002 Studio Plan). The 2002 Studio Plan permits the granting of Awards in the form of non-qualified stock options and restricted stock awards to key studio employees (other than executive officers) of Activision, its subsidiaries and affiliates, and to contractors and others. The 2002 Studio Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. The total number of shares of common stock available for distribution under the 2002 Studio Plan is 6,000,000. There were approximately 4,200 shares remaining available for grant under the 2002 Studio Plan as of March 31, 2007.

On April 29, 2003, our Board of Directors approved the Activision 2003 Incentive Plan (the 2003 Plan). On September 15, 2005, the shareholders of Activision approved the 2003 Plan. The 2003 Plan permits the granting of Awards in the form of non-qualified stock options, SARs, restricted stock awards, deferred stock awards, and other common stock-based awards to directors, officers, employees, consultants, and others. The 2003 Plan requires available shares to consist in whole or in part of authorized and unissued shares or treasury shares. The total number of shares of common stock available for distribution under the 2003 Plan is 24,000,000. There were approximately 8,915,300 shares

Edgar Filing: Madden Michael - Form 3

remaining available for grant under the 2003 Plan as of March 31, 2007.

F-30

Under the terms of the plans, the exercise price for Awards issued under the 1991 Plan, 1998 Plan, 1999 Plan, 2001 Plan, 2002 Plan, 2002 Executive Plan, 2002 Studio Plan, and 2003 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 under the terms of the plans, the exercise price for ISOs is not to be less than the fair market value of our common stock at the date of grant, and in the case of non-qualified options, the exercise price must exceed or be equal to 85% of the fair market value of our common stock at the date of grant. Options typically become exercisable in installments over a period of three to five years and must be exercised within 10 years of the date of grant. We have recently determined that certain Awards issued in certain past periods were issued with exercise prices below the fair market value of our common stock on the dates that we have determined to be the correct grant and measurement dates for those Awards.

Other Employee Stock Options

In connection with prior employment agreements between Activision and Robert A. Kotick, Activision's Chairman and Chief Executive Officer, and Brian G. Kelly, Activision's Co-Chairman, Mr. Kotick and Mr. Kelly were granted options to purchase common stock. The Board of Directors approved the granting of these options. Relating to such grants, as of March 31, 2007, approximately 8,304,800 options were outstanding with a weighted average exercise price of \$1.74.

We additionally have approximately 9,500 options outstanding to employees as of March 31, 2007, with a weighted average exercise price of \$3.48. The Board of Directors approved the granting of these options. Such options have terms similar to those options granted under the Plans.

Employee Stock Purchase Plan

On April 11, 2005, the Board of Directors approved the 2002 Employee Stock Purchase Plan and on February 11, 2003 the Board approved the 2002 Employee Stock Purchase Plan for International Employees (together, the 2002 Employee Stock Purchase Plan). Under the 2002 Employee Stock Purchase Plan, up to an aggregate of 4,000,000 shares of our common stock may be purchased by eligible employees during two six-month offering periods that commence each April 1 and October 1 (the Offering Period). Common stock is purchased by the Amended 2002 Purchase Plans participants at a price per share generally equal to 85% of the lower of the fair market value of the common stock on the first day of the Offering Period and the fair market value of the common stock on the purchase date (the last day of the Offering Period). Employees may purchase shares having a value not exceeding 15% of their gross compensation during an Offering Period and are limited to a maximum of \$10,000 in value for any two purchases within the same calendar year. On June 13, 2007, the most recent purchase date, employees purchased 228,337 shares of our common stock at a purchase price of \$12.8350 per share.

Non-Employee Warrants

In prior years, we have 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 their fair market value of our common stock at the date of grant. No third-party warrants were granted during the years ended March 31, 2007, 2006, and 2005. As of March 31, 2007 and 2006, third-party warrants to purchase 936,000 shares of common stock were outstanding with a weighted average exercise price of \$4.54 per share.

Edgar Filing: Madden Michael - Form 3

In accordance with EITF 96-18, we measure the fair value of the securities on the measurement date. The fair value of each warrant is capitalized and amortized to expense when the related product is released and the related revenue is recognized. Additionally, as more fully described in Note 1, the recoverability of capitalized software development costs and intellectual property licenses is evaluated on a quarterly basis with amounts determined as not recoverable being charged to expense. In connection with the evaluation of capitalized software development costs and intellectual property licenses, any capitalized amounts for related third-party warrants are additionally reviewed for recoverability with amounts determined as not recoverable being amortized to expense. As of March 31, 2006, capitalized amounts of third-party warrants had been fully amortized and there was no amortization related to third-party warrants for the fiscal year ended March 31, 2007. For the fiscal years ended March 31, 2006 and 2005, \$0.5 and \$1.6 million, respectively was amortized and included in cost of sales - software royalties and amortization and/or cost of sales - intellectual property licenses.

F-31

Employee Retirement Plan

We have a retirement plan covering substantially all of our 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 the lesser of 92% of their pre-tax salary and the maximum amount allowed by law. We contribute an amount equal to 20% of each dollar contributed by a participant. Our matching contributions to the plan were approximately \$1.5 million, \$1.3 million, and \$905,000 for the years ended March 31, 2007, 2006, and 2005, respectively.

Restricted Stock

In June 2005, we issued the rights to 155,763 shares of restricted stock to an employee. Additionally, in October 2005 we issued the rights to 96,712 shares of restricted stock to an employee. These shares all vest over a five-year period and remain subject to forfeiture if vesting conditions are not met. In accordance with APB 25, we recognized unearned compensation in connection with the grant of restricted shares equal to the fair value of our common stock on the date of grant. The fair value of these shares when issued was approximately \$12.84 and \$15.51 per share, respectively, and resulted in a total increase in Additional paid-in capital and Unearned compensation of \$2.0 million and \$1.5 million on the respective balance sheets at the times of grant. Prior to the adoption of SFAS 123R, we reduced unearned compensation and recognized compensation expense over the vesting periods. Upon adoption of SFAS 123R, unearned compensation was reclassified against additional paid in capital and we will increase additional paid in capital and recognize compensation expense over the respective remaining vesting periods. Additionally, in the third quarter of fiscal 2007 we issued the rights to an aggregate of 81,000 shares of restricted stock to various employees. These shares vest over two and three year periods (with some subject to vesting acceleration clauses if the holder achieves certain performance objectives) and remain subject to forfeiture if vesting conditions are not met. In accordance with SFAS 123R we will recognize compensation expense and increase additional paid in capital related to these restricted stock shares over the requisite service period. For the year ended March 31, 2007, we recorded expenses related to these shares of approximately \$981,000, which was included as a component of stock-based compensation expense within General and administrative on the accompanying Consolidated Statements of Operations. Since the issuance dates, we have recognized \$1.4 million of the \$4.8 million total fair value, with the remainder to be recognized over a weighted-average period of 2.88 years.

On April 1, 2006, we adopted the provisions of SFAS 123R, requiring us to recognize expense related to the fair value of our stock-based compensation awards. We elected to use the modified prospective transition method as permitted by SFAS 123R and therefore have not restated our financial results for prior periods. Under this transition method, stock-based compensation expense for the year ended March 31, 2007 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of April 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123. Stock-based compensation expense for all stock-based compensation awards granted subsequent to April 1, 2006 was based on the grant-date fair value, estimated in accordance with the provisions of SFAS 123R.

The effect of adopting SFAS 123R in the year ended March 31, 2007 was as follows:

	For the year ended March 31, 2007	
(in thousands except per share data)		
Additional pre-tax stock-based compensation	\$	21,436
Additional stock-based compensation, net of tax		13,055
Cash flows from operations		(9,012)
Cash flows from financing activities		9,012
Effect on earnings per share:		
Basic	\$	(0.05)

Edgar Filing: Madden Michael - Form 3

Diluted \$ (0.04)

The following table sets forth the total stock-based compensation expense resulting from stock options, restricted stock awards, and the ESPP included in our Consolidated Statements of Operations (in thousands) in accordance with SFAS 123R for the fiscal year ended March 31, 2007, and APB 25 for the fiscal years ended March 31, 2006 and 2005:

		2007	For the year ended March 31, 2006	2005
Cost of sales - software royalties and amortization	\$	2,503	\$	\$
Product development		5,728	869	1,233
Sales and marketing		5,267	175	241
General and administrative		12,024	2,055	1,894
Stock-based compensation expense before income taxes		25,522	3,099	3,368
Income tax benefit		(9,979)	(1,208)	(1,310)
Total stock-based compensation expense after income taxes	\$	15,543	\$	\$ 1,891 \$ 2,058

F-32

Additionally, stock option expenses are capitalized in accordance with SFAS No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed* as discussed in Note 1. For the year ended March 31, 2007, stock-based compensation costs in the amount of \$9.1 million were capitalized and \$2.5 million of capitalized stock-based compensation costs were amortized. The following table summarizes stock based compensation included in our Consolidated Balance Sheets as a component of software development (in thousands):

	Software Development
Balance, March 31, 2006	\$
Stock-based compensation expense capitalized during period	9,069
Amortization of capitalized stock-based compensation expense	(2,503)
Balance, March 31, 2007	\$ 6,566

Net cash proceeds from the exercise of stock options were \$19.0 million, \$45.1 million, and \$72.7 million for the years ended March 31, 2007, 2006, and 2005, respectively. Income tax benefit from stock option exercises was \$11.3 million, \$29.4 million, and \$53.2 million for the years ended March 31, 2007, 2006, and 2005, respectively. In accordance with SFAS 123R, we present excess tax benefits from the exercise of stock options, if any, as financing cash flows rather than operating cash flows.

Prior to the adoption of SFAS 123R, we applied SFAS 123, amended by SFAS No. 148, *Accounting for Stock-Based Compensation* Transition and Disclosure (SFAS 148), which allowed companies to apply the existing accounting rules under APB 25 and related Interpretations. According to APB 25, a non-cash stock-based compensation expense is recognized for any options granted where the exercise price is lower than the market price on the actual date of grant. This expense is then amortized over the vesting period of the associated option. As required by SFAS 148, prior to the adoption of SFAS 123R, we provided pro forma net income and pro forma net income per common share disclosures for stock-based awards, as if the fair-value-based method defined in SFAS 123 had been applied.

Edgar Filing: Madden Michael - Form 3

The following table illustrates the effect on net income after tax and net earnings per common share as if we had applied the fair value recognition provisions of SFAS 123 to stock-based compensation during the years ended March 31, 2006 and 2005 (in thousands, except per share amounts):

	For the years ended March 31,	
	2006	2005
Net income, as reported	\$ 40,251	\$ 135,057
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	1,589	2,313
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(16,175)	(14,233)
Pro forma net income	\$ 25,665	\$ 123,137
Earnings per share		
Basic - as reported	\$ 0.15	\$ 0.54
Basic - pro forma	\$ 0.09	\$ 0.49
Diluted - as reported	\$ 0.14	\$ 0.49
Diluted - pro forma	\$ 0.09	\$ 0.44

In the table above, stock-based compensation has been tax effected using our effective tax rate which differs from our statutory rate. Additionally, included in fiscal year 2006 net income, as reported, is \$467,000 of amortization of unearned compensation related to restricted stock.

As of April 1, 2005, the Company began estimating the value of employee stock options on the date of grant using a binomial-lattice model. Prior to April 1, 2005 the value of each employee stock option was estimated on the date of grant using the Black-Scholes model for the purpose of the pro forma financial information in accordance with SFAS 123.

Our employee stock options have features that differentiate them from exchange-traded options. These features include lack of transferability, early exercise, vesting restrictions, pre- and post-vesting termination provisions, blackout dates, and time-varying inputs. In addition, some of the options have non-traditional features, such as accelerated vesting upon the satisfaction of certain performance conditions that must be reflected in the valuation. A binomial-lattice model was selected because it is better able to explicitly address these features than closed-form models such as the Black-Scholes model, and is able to reflect expected future changes in model inputs, including changes in volatility, during the option's contractual term.

Consistent with SFAS 123R, we have attempted to reflect expected future changes in model inputs during the option's contractual term. The inputs required by our binomial-lattice model include expected volatility, risk-free interest rate, risk-adjusted stock return, dividend yield, contractual term, and vesting schedule, as well as measures of employees' forfeiture, exercise, and post-vesting termination behavior. Statistical methods were used to estimate employee type specific termination rates. These termination rates, in turn, were used to model the number of options that are expected to vest and post-vesting termination behavior. Employee type specific estimates of Expected Time-To-Exercise (ETTE) were used to reflect employee exercise behavior. ETTE was estimated by using statistical procedures to first estimate the conditional probability of exercise occurring during each time period, conditional on the option surviving to that time period. These probabilities are then used to estimate ETTE. The model was calibrated by adjusting parameters controlling exercise and post-vesting termination behavior so that the measures output by the model matched values of these measures that were estimated from historical data. The weighted-average estimated value of employee stock options granted during the years ended March 31, 2007, 2006, and 2005 was \$5.86, \$5.09, and \$3.06 per share, respectively,

Edgar Filing: Madden Michael - Form 3

using the binomial-lattice model with the following weighted-average assumptions:

F-34

Edgar Filing: Madden Michael - Form 3

	Employee and Director Options and Warrants For the year ended March 31,			Employee Stock Purchase Plan For the year ended March 31,		
	2007	2006	2005	2007	2006	2005
Expected life (in years)	4.87	4.85	3.20	0.5	0.5	0.5
Risk free interest rate	4.99%	5.17%	3.25%	4.71%	3.05%	2.66%
Volatility	54%	48%	48%	43%	42%	46%
Dividend yield						
Weighted-average fair value at grant date	\$ 5.86	\$ 5.09	\$ 3.06	\$ 3.72	\$ 3.11	\$ 1.59

To estimate volatility for the binomial-lattice model, we use methods or capabilities that are discussed in SFAS 123R and SAB 107. These methods included the implied volatility method based upon the volatilities for exchange-traded options on our stock to estimate short-term volatility, the historical method (annualized standard deviation of the instantaneous returns on Activision's stock) during the option's contractual term to estimate long-term volatility and a statistical model to estimate the transition or mean reversion from short-term volatility to long-term volatility. Based on these methods, for options granted during the year ended March 31, 2007, the expected stock price volatility ranged from 38% to 56%, with a weighted-average volatility of 54%. For options granted during the year ended March 31, 2006, the expected stock price volatility ranged from 40% to 55%, with a weighted average volatility of 48%. For options granted during the year ended March 31, 2005, the expected stock price volatility ranged from 45% to 48%, with a weighted average volatility of 48%.

As is the case for volatility, the risk-free rate is assumed to change during the option's contractual term. Consistent with the calculation required by a binomial lattice model, the risk-free rate reflects the interest from one time period to the next (forward rate) as opposed to the interest rate from the grant date to the given time period (spot rate). Since we do not currently pay dividends and are not expected to pay them in the future, we have assumed that the dividend yield is zero.

The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding and is, as required by SFAS 123R, an output by the binomial-lattice model. The expected life of employee stock options depends on all of the underlying assumptions and calibration of our model. A binomial-lattice model can be viewed as assuming that employees will exercise their options when the stock price equals or exceeds an exercise boundary. The exercise boundary is not constant but continually declines as one approaches the option's expiration date. The exact placement of the exercise boundary depends on all of the model inputs as well as the measures that are used to calibrate the model to estimated measures of employees' exercise and termination behavior.

As stock-based compensation expense recognized in the Consolidated Statement of Operations for the year ended March 31, 2007 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.

Accuracy of Fair Value Estimates

The Company uses third-party analyses to assist in developing the assumptions used in the binomial-lattice model, including model inputs and measures of employees' exercise and post-vesting termination behavior. However, we are ultimately responsible for the assumptions used to estimate the fair value of our share-based payment awards.

Edgar Filing: Madden Michael - Form 3

Our ability to accurately estimate the fair value of share-based payment awards as of the grant date depends upon the accuracy of the model and our ability to accurately forecast model inputs as long as ten years into the future. These inputs include, but are not limited to, expected stock price volatility, risk-free rate, dividend yield, and employee termination rates. Although the fair value of employee stock options is determined in accordance with SFAS 123R and SAB 107 using an option-pricing model, the estimates that are produced by this model may not

F-35

Edgar Filing: Madden Michael - Form 3

be indicative of the fair value observed between a willing buyer/willing seller. Unfortunately, it is difficult to determine if this is the case, because markets do not currently exist that permit the active trading of employee stock option and other share-based instruments.

Stock option activity for the years ended March 31, 2007, 2006, and 2005 is as follows (in thousands, except per share amounts):

	2007		2006		2005	
	Shares	Wtd Avg Ex Price	Shares	Wtd Avg Ex Price	Shares	Wtd Avg Ex Price
Outstanding at beginning of year	48,337	\$ 6.20	48,772	\$ 4.84	65,135	\$ 3.71
Granted	6,361	13.91	8,728	12.66	7,501	8.82
Exercised	(3,352)	5.03	(8,108)	4.81	(22,167)	2.90
Forfeited	(1,917)	8.61	(1,055)	7.35	(1,697)	4.47
Outstanding at end of year	49,429	\$ 7.18	48,337	\$ 6.20	48,772	\$ 4.84
Exercisable at end of year	31,291	\$ 4.60	27,126	\$ 4.17	25,180	\$ 3.92

The following table shows the weighted-average remaining contractual term and aggregate intrinsic value for options outstanding and options exercisable at March 31, 2007 (amounts in thousands):

	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at March 31, 2007	5.97	\$ 581,459
Exercisable at March 31, 2007	4.69	\$ 448,621

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (i.e., the difference between our closing stock price on the last trading day of the period and the exercise price, times the number of shares for options where the exercise price is below the closing stock price) that would have been received by the option holders had all option holders exercised their options on that date. This amount changes based on the fair market value of our stock. Total intrinsic value of options actually exercised was \$32.0 million, \$77.9 million, and \$198.0 million for the years ended March 31, 2007, 2006, and 2005, respectively.

As of March 31, 2007, \$34.0 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.61 years.

Edgar Filing: Madden Michael - Form 3

The following table summarizes information about all employee and director stock options outstanding as of March 31, 2007 (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:					
\$1.00 to \$1.08	665	3.11	\$ 1.05	665	\$ 1.05
\$1.72 to \$1.75	8,202	1.95	1.75	8,202	1.75
\$1.76 to \$3.53	5,354	5.09	3.34	4,714	3.34
\$3.54 to \$5.00	5,696	5.74	4.04	5,185	4.07
\$5.08 to \$5.74	4,959	5.36	5.72	4,292	5.72
\$5.79 to \$7.73	6,605	5.96	7.12	6,032	7.10
\$7.75 to \$11.10	5,440	7.61	9.77	1,009	8.99
\$11.15 to \$13.61	8,959	8.65	12.90	779	12.14
\$13.62 to \$17.21	3,388	8.97	15.24	413	15.06
\$18.43 to \$18.43	161	9.80	18.43		
	49,429	5.97	\$ 7.18	31,291	\$ 4.60

15. Capital Transactions

Buyback Program

During fiscal 2003, our Board of Directors authorized a buyback program under which we can repurchase up to \$350.0 million of our common stock. Under the program, shares may be purchased as determined by management, from time to time and within certain guidelines, in the open market or in privately negotiated transactions, including privately negotiated structured stock repurchase transactions and through transactions in the options markets. Depending on market conditions and other factors, these purchases may be commenced or suspended at any time or from time to time without prior notice.

Under the buyback program, we did not repurchase any shares of our common stock in the years ended March 31, 2007, March 31, 2006 and March 31, 2005. As of March 31, 2007, we had no outstanding structured stock repurchase transactions. Structured stock repurchase transactions are settled in cash or stock-based on the market price of our common stock on the date of the settlement. Upon settlement, we either have our capital investment returned with a premium or receive shares of our common stock, depending, respectively, on whether the market price of our common stock is above or below a pre-determined price agreed in connection with each such transaction. These transactions are recorded in shareholders' equity in the accompanying Consolidated Balance Sheets. As of March 31, 2007, we had approximately \$226.2 million available for utilization under the buyback program and no outstanding stock repurchase transactions.

Shareholders' Rights Plan

On April 18, 2000, our Board of Directors approved a shareholders rights plan (the "Rights Plan"). Under the Rights Plan, each common shareholder at the close of business on April 19, 2000, received a dividend of one right for each share of common stock held. Each right represents the right to purchase one-six hundredths (1/600) of a share, as adjusted on account of stock dividends made since the plan's adoption, of our Series A Junior Preferred Stock at an exercise price of \$6.67 per share, as adjusted on account of stock dividends made since the plan's adoption. Initially, the rights are represented by our common stock certificates and are neither exercisable nor traded separately from our common stock. The rights will only become exercisable if a person or group acquires 15% or more of the common stock of Activision, or announces or commences a tender or exchange offer which would result in the bidder's beneficial ownership of 15% or more of our common stock.

In the event that any person or group acquires 15% or more of our 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 Activision having a value equal to two times the then current exercise price of the right. If we are acquired in a merger or other business combination transaction after a person has acquired 15% or more of our 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 Activision, the Rights Plan "grandfathers" their current level of ownership, so long as they do not purchase additional shares in excess of certain limitations.

We 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 our common stock. At any time after a person has acquired 15% or more (but before any person has acquired more than 50%) of our common stock, we 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.

16. Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss)

The components of comprehensive income (loss) for the year ended March 31, 2007, 2006, and 2005 were as follows (amounts in thousands):

	March 31, 2007	March 31, 2006	March 31, 2005
Net income	\$ 85,787	\$ 40,251	\$ 135,057
Other comprehensive income (loss):			
Unrealized appreciation (depreciation) on investments, net of taxes	(8,224)	10,576	(3,317)
Foreign currency translation adjustment	12,057	(5,825)	4,974
Other comprehensive income	3,833	4,751	1,657
Comprehensive income	\$ 89,620	\$ 45,002	\$ 136,714

The components of accumulated other comprehensive income (loss) for the years ended March 31, 2007 and 2006 were as follows (amounts in thousands):

	Foreign Currency	Unrealized Appreciation (Depreciation) on Investments	Accumulated Other Comprehensive Income (Loss)
Balance, March 31, 2006	\$ 9,013	\$ 7,356	\$ 16,369
Other comprehensive income (loss)	12,057	(8,224)	3,833
Balance, March 31, 2007	\$ 21,070	\$ (868)	\$ 20,202

Comprehensive income is presented net of taxes of \$0.6 million related to unrealized depreciation on investments. Income taxes were not provided for foreign currency translation items as these are considered indefinite investments in non-U.S. subsidiaries.

17. Supplemental Cash Flow Information

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

	2007	For the years ended March 31, 2006	2005
Non-cash investing and financing activities:			
Subsidiaries acquired with common stock	\$ 30,000	\$ 2,793	\$ 1,191
Change in unrealized appreciation (depreciation) on investments	(8,224)	10,576	(3,317)
Common stock payable, related to acquisition	39,000		
Adjustment-prior period purchase allocation	51	(260)	(2,384)
Supplemental cash flow information:			
Cash paid for income taxes	\$ 3,677	\$ 4,698	\$ 12,178
Cash received for interest, net	35,345	25,912	10,543

18. Quarterly Financial and Market Information (Unaudited)

(Amounts in thousands, except per share data)	June 30(a)	For the quarters ended		Mar. 31	For the year ended
		Sept. 30	Dec. 31		
Fiscal 2007:					
Net revenues	\$ 188,069	\$ 188,172	\$ 824,259	\$ 312,512	\$ 1,513,012
Cost of sales	137,800	141,078	483,180	216,007	978,065
Operating income (loss)	(33,449)	(37,410)	173,120	(29,114)	73,147
Net income (loss)	(18,309)	(24,302)	142,820	(14,422)	85,787
Basic earnings (loss) per share	(0.07)	(0.09)	0.51	(0.05)	0.31
Diluted earnings (loss) per share	(0.07)	(0.09)	0.46	(0.05)	0.28
Common stock price per share:					
High	15.11	16.00	18.19	19.20	19.20
Low	10.71	10.47	14.22	16.05	10.47
Fiscal 2006:					
Net revenues	\$ 241,093	\$ 222,540	\$ 816,242	\$ 188,125	\$ 1,468,000
Cost of sales	172,270	141,458	498,325	128,309	940,362
Operating income (loss)	(14,319)	(27,788)	83,893	(26,560)	15,226
Net income (loss)	(4,247)	(14,230)	67,856	(9,128)	40,251
Basic earnings (loss) per share	(0.02)	(0.05)	0.25	(0.03)	0.15
Diluted earnings (loss) per share	(0.02)	(0.05)	0.23	(0.03)	0.14
Common stock price per share:					
High	13.88	17.30	18.03	15.93	18.03
Low	10.64	12.07	12.94	11.81	10.64

a) On June 7, 2007, we filed an Amended Quarterly Report on Form 10-Q/A to restate our unaudited consolidated financial statements as of June 30, 2006 and for the three months ended June 30, 2006 and 2005 and the related disclosures to correct our stock-based compensation expense and related tax effects as discussed in the Form 10-Q/A.

The following table reflects the impact of the non-cash charges for stock-based compensation expense and related tax effects:

	For the three months ended June 30, 2006		
	As previously reported	Adjustments	As restated
Net revenues	\$ 188,069	\$	\$ 188,069
Cost of sales	137,789	11	137,800
Operating loss	(32,786)	(663)	(33,449)
Net loss	(17,826)	(483)	(18,309)
Basic loss per share	(0.06)	(0.01)	(0.07)
Diluted loss per share	(0.06)	(0.01)	(0.07)

19. Recently Issued Accounting Standards and Laws

Edgar Filing: Madden Michael - Form 3

In February 2006, the FASB issued Statement No. 155 (SFAS No. 155), *Accounting for Certain Hybrid Financial Instruments* An amendment of FASB Statements No. 133 and 140. SFAS No. 155 amends FASB Statements No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* to resolve issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133; establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and amends Statement 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. We do not expect that the adoption of SFAS No. 155 will have a material effect on our financial position or results of operations.

In March 2006, the FASB issued Statement No. 156 (SFAS No. 156), *Accounting for Servicing of Financial Assets* an amendment of FASB Statement No. 140. SFAS No. 156 amends Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset

F-40

by entering into a servicing contract in certain situations; requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; permits either the amortization method or the fair value measurement method, as subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities; permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights; and requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective in the first fiscal year that begins after September 15, 2006. We do not expect that the adoption of SFAS No. 156 will have a material effect on our financial position or results of operations.

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, an interpretation of SFAS No. 109. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest, and penalties, accounting in interim periods, disclosure, and transition. In addition, FIN 48 excludes income taxes from the scope of SFAS No. 5, *Accounting for Contingencies*. FIN 48 is effective for fiscal years beginning after December 15, 2006. Differences between the amounts recognized in the consolidated balance sheets prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. We are currently evaluating the effect that the adoption of FIN 48 will have on our results of operations and financial position.

In September 2006, the FASB issued Statement No. 157 (SFAS No. 157), *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We do not expect that the adoption of SFAS No. 157 will have a material effect on our financial position or results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108, *Financial Statements – Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 requires the use of both the iron curtain and rollover approach in quantifying the materiality of misstatements. SAB 108 also discusses the implications of misstatements uncovered upon the application of SAB 108 in situations when a registrant has historically been using either the iron curtain approach or the rollover approach. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 had no impact on our financial position or results of operations.

In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS No. 158). This new standard aims to make it easier for investors, employees, retirees and other parties to understand and assess an employer's financial position and its ability to fulfill the obligations under its benefit plans. SFAS No. 158 requires employers to fully recognize in their financial statements the obligations associated with single-employer defined benefit pension plans, retiree healthcare plans, and other postretirement plans. Specifically, it requires a company to (1) recognize on its balance sheet an asset for a plan's overfunded status or a liability for a plan's underfunded status, (2) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year, and (3) recognize changes in the funded status of a plan through comprehensive income in the year in which the changes occur. The adoption of SFAS No. 158 had no impact on our financial position or results of operations.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. The provisions of SFAS No. 159 are effective for financial statements issued for fiscal years beginning after November 15, 2007. We are evaluating

if we will adopt SFAS No. 159 and what impact the adoption will have on our Consolidated Financial Statements if we adopt.

20. Subsequent Events

On May 11, 2007, Activision completed its acquisition of DemonWare, the leading provider of network middleware technologies for console and PC games headquartered in Dublin, Ireland. The acquisition is expected to enable Activision to gain efficiencies related to online game development and to position the company to take advantage of the growth in online gameplay that is expected to be driven by the next-generation consoles.

On June 8, 2007, with respect to unexercised options subject to Section 409A of the Internal Revenue Code held by employees who are not executive officers, Activision commenced an offer to amend the exercise price of these options to eliminate the grantee's Section 409A tax liability consistent with Internal Revenue Service guidance. Pursuant to the offer, the Company will also make a cash payment in January 2008 to employees who accept the offer, in an amount equal to the difference between the original exercise price of each amended option and the amended exercise price of each amended option. The offer with respect to all eligible options is considered a modification of those options for financial reporting purposes. Pursuant to the accounting standards in effect under SFAS 123R (revised 2004), the fair value of the modified options (including for this purpose the cash payments that become payable pursuant to the terms of the offer) will be recognized as compensation expense over the remaining requisite service period with the fair value created as a result of cash payments that become payable pursuant to the terms of the offer recognized as compensation expense at the expiration of the offer period on July 6, 2007. In addition, a portion of the compensation costs associated with the original award may be accelerated and recognized as compensation expense at the expiration of the offer period as a result of the cash payment.

SCHEDULE II

ACTIVISION, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

Col. A Description	Col. B Balance at Beginning of Period	Col. C Additions (A)	Col. D Deductions (B)	Col. E Balance at End of Period
Year ended March 31, 2007				
Allowance for sales returns and price protection	\$ 95,150	\$ 143,456	\$ (148,963)	\$ 89,643
Allowance for doubtful accounts	3,103	(1,804)	476	1,775
Deferred tax valuation allowance	35,555		(35,173)	382
Year ended March 31, 2006				
Allowance for sales returns and price protection	\$ 67,603	\$ 262,555	\$ (235,008)	\$ 95,150
Allowance for doubtful accounts	1,588	5,149	(3,634)	3,103
Deferred tax valuation allowance	25,666	9,943	(54)	35,555
Year ended March 31, 2005				
Allowance for sales returns and price protection	\$ 44,538	\$ 172,156	\$ (149,091)	\$ 67,603
Allowance for doubtful accounts	2,490	(1,451)	549	1,588
Deferred tax valuation allowance	18,857	7,703	(894)	25,666

(A) Includes increases in allowance for sales returns, price protection, doubtful accounts, and deferred tax valuation due to normal reserving terms and allowance accounts acquired in conjunction with acquisitions.

(B) Includes actual write-offs of sales returns, price protection, uncollectible accounts receivable, net of recoveries, and foreign currency translation and other adjustments, and deferred taxes.

EXHIBIT INDEX

Exhibit Number	Exhibit
3.1	Amended and Restated Certificate of Incorporation of Activision Holdings, dated June 9, 2000 (incorporated by reference to Exhibit 2.5 of Activision's Form 8-K, filed June 16, 2000).
3.2	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Activision Holdings dated as of June 9, 2000 (incorporated by reference to Exhibit 2.7 of Activision's Form 8-K, filed June 16, 2000).
3.3	Certificate of Designation of Series A Junior Preferred Stock of Activision, Inc. dated as of December 27, 2001 (incorporated by reference to Exhibit 3.4 of Activision's Form 10-Q for the quarter ended December 31, 2001).
3.4	Certificate of Amendment of Amended and Restated Certificate of Incorporation, as amended, of Activision, Inc., dated as of April 4, 2005 (incorporated by reference to Exhibit 3.1 of Activision's Form 8-K, filed April 5, 2005).
3.5	Certificate of Designation of Series A Junior Preferred Stock of Activision, Inc. dated August 4, 2005 (incorporated by reference to Exhibit 3.1 of Activision's Form 8-K, filed August 5, 2005).
3.6	Second Amended and Restated Bylaws of Activision, Inc. dated September 15, 2005 (incorporated by reference to Exhibit 3.1 of Activision's Form 8-K, filed September 19, 2005).
4.1	Rights Agreement dated as of April 18, 2000, between Activision, Inc. and Continental Stock Transfer & Trust Company, which includes as exhibits the form of Right Certificates as Exhibit A, the Summary of Rights to Purchase Series A Junior Preferred Stock as Exhibit B and the form of Certificate of Designation of Series A Junior Preferred Stock of Activision as Exhibit C, (incorporated by reference to Activision's Registration Statement on Form 8-A, Registration No. 001-15839, filed April 19, 2000).
10.1	Activision, Inc. 1991 Stock Option and Stock Award Plan, as amended (incorporated by reference to Exhibit 10.1 of Activision's Form 10-K for the year ended March 31, 2002).
10.2	Activision, Inc. 1998 Incentive Plan, as amended (incorporated by reference to Exhibit 10.4 of Activision's Form 10-Q for the quarter ended September 30, 2001).

E-1

Edgar Filing: Madden Michael - Form 3

- 10.3 Activision, Inc. 1999 Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended June 30, 2002).
- 10.4 Activision, Inc. 2001 Incentive Plan, as amended (incorporated by reference to Exhibit 10.2 of Activision's Form 10-Q for the quarter ended June 30, 2002).
- 10.5 Activision, Inc. 2002 Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended June 30, 2003).
- 10.6 Activision, Inc. 2002 Executive Incentive Plan (incorporated by reference to Exhibit 4.1 of Activision's Form S-8, Registration No. 333-100114 filed September 26, 2002).
- 10.7 Activision, Inc. 2002 Studio Employee Retention Incentive Plan (incorporated by reference to Exhibit 4.1 of Activision's Form S-8, Registration No. 333-103323 filed February 19, 2003).
- 10.8 Activision, Inc. Second Amended and Restated 2002 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 of Activision's Form 8-K, filed March 8, 2005).
- 10.9 Activision, Inc. 2002 Second Amended and Restated Employee Stock Purchase Plan for International Employees (incorporated by reference to Exhibit 10.2 of Activision's Form 8-K, filed March 8, 2005).
- 10.10 Activision, Inc. Amended and Restated 2003 Incentive Plan, effective as of July 26, 2005 (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended June 30, 2005).
- 10.11 Form of Stock Option Certificate for grants issued pursuant to the 1998 Incentive Plan of Activision, Inc. (adopted May 24, 2005) (incorporated by reference to Exhibit 10.1 of Activision's Form 8-K, filed May 31, 2005).
- 10.12 Form of Stock Option Certificate for grants issued pursuant the 1999 Incentive Plan of Activision, Inc. (adopted May 24, 2005) (incorporated by reference to Exhibit 10.2 of Activision's Form 8-K, filed May 31, 2005).
- 10.13 Form of Stock Option Agreement for grants issued pursuant the 2001 Incentive Plan of Activision, Inc. (adopted May 24, 2005) (incorporated by reference to Exhibit 10.3 of Activision's Form 8-K, filed May 31, 2005).

E-2

Edgar Filing: Madden Michael - Form 3

- 10.14 Form of Stock Option Agreement for grants issued pursuant the 2002 Executive Incentive Plan of Activision, Inc. (adopted May 24, 2005) (incorporated by reference to Exhibit 10.4 of Activision's Form 8-K, filed May 31, 2005).
- 10.15 Form of Executive Stock Option Agreement for grants to Robert Kotick or Brian Kelly issued pursuant the 2003 Incentive Plan of Activision, Inc. (adopted May 2005) (incorporated by reference to Exhibit 10.40 of Activision's Form 10-K for the year ended March 31, 2005).
- 10.16 Form of Non-Executive Stock Option Agreement for grants to non-executives issued pursuant the 2003 Incentive Plan of Activision, Inc. (adopted May 2005) (incorporated by reference to Exhibit 10.41 of Activision's Form 10-K for the year ended March 31, 2005).
- 10.17 Form of Non-Employee Director Stock Option Agreement for grants to non-employee directors issued pursuant the 2003 Incentive Plan of Activision, Inc. (adopted May 2005).
- 10.18 Notice of Share Option Award for grants to persons other than non-employee directors issued pursuant to the 2003 Incentive Plan of Activision, Inc. (adopted June 13, 2007).
- 10.19 Notice of Share Option Award for grants to non-employee directors issued pursuant to the 2003 Incentive Plan of Activision, Inc. (adopted June 13, 2007).
- 10.20 Notice of Restricted Share Award for grants issued pursuant to the 2003 Incentive Plan of Activision, Inc. (adopted June 13, 2007).
- 10.21 Notice of Restricted Share Unit Award for grants issued pursuant to the 2003 Incentive Plan of Activision, Inc. (adopted June 13, 2007).
- 10.22 Amended and Restated Employment Agreement, dated May 22, 2000, between Activision, Inc. and Robert A. Kotick (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended September 30, 2000).
- 10.23 Amendment, dated July 22, 2002, to Employment Agreement dated May 22, 2000 between Activision, Inc. and Robert A. Kotick (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended September 30, 2002).

Edgar Filing: Madden Michael - Form 3

- 10.24 Amendment, dated December 29, 2006, to Employment Agreement dated May 22, 2000 between Activision, Inc. and Robert A. Kotick (incorporated by reference to Exhibit 10.1 of Activision's Form 8-K filed January 8, 2007).
- 10.25 Stock Option Agreement, dated May 22, 2000, between Activision, Inc. and Robert A. Kotick (incorporated by reference to Exhibit 10.2 of Activision's Form 10-Q for the quarter ending September 30, 2000).
- 10.26 Amended and Restated Employment Agreement, dated May 22, 2000, between Activision, Inc. and Brian G. Kelly (incorporated by reference to Exhibit 10.3 of Activision's Form 10-Q for the quarter ending September 30, 2000).
- 10.27 Amendment, dated July 22, 2002, to Employment Agreement dated May 22, 2000 between Activision, Inc. and Brian G. Kelly (incorporated by reference to Exhibit 10.2 of Activision's Form 10-Q for the quarter ended September 30, 2002).
- 10.28 Amendment, dated December 29, 2006, to Employment Agreement dated May 22, 2000 between Activision, Inc. and Brian G. Kelly (incorporated by reference to Exhibit 10.1 of Activision's Form 8-K filed January 8, 2007).
- 10.29 Employment Agreement, dated July 22, 2002, between Ronald Doornink and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.6 of Activision's Form 10-Q for the quarter ended June 30, 2002).
- 10.30 Amendment, dated February 27, 2003, to Employment Agreement dated July 22, 2002 between Activision Publishing, Inc. and Ronald Doornink (incorporated by reference to Exhibit 10.34 of Activision's Form 10-K for the year ended March 31, 2005).
- 10.31 Amendment, dated June 1, 2004, to Employment Agreement dated July 22, 2002, between Activision Publishing, Inc. and Ronald Doornink (incorporated by reference to Exhibit 10.5 of Activision's Form 10-Q for the quarter ended June 30, 2004).
- 10.32 Amendment, dated June 15, 2005, to Employment Agreement dated July 22, 2002 between Activision Publishing, Inc. and Ronald Doornink (incorporated by reference to Exhibit 10.5 of Activision's Form 10-Q for the quarter ended June 30, 2005).
- 10.33 Employment agreement, dated November 20, 2002, between Activision Publishing, Inc. and George Rose (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended December 31, 2002).

Edgar Filing: Madden Michael - Form 3

- 10.34 Amendment, dated March 30, 2005, to the Employment Agreement dated November 20, 2002 between Activision Publishing, Inc. and George Rose (incorporated by reference to Exhibit 10.51 of Activision's Form 10-K for the year ended March 31, 2005).
- 10.35 Employment Agreement, dated May 10, 2005, between Charles J. Huebner and Activision Publishing, Inc (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended December 31, 2005).
- 10.36 Amendment, dated March 30, 2007, to Employment Agreement dated May 10, 2005 between Charles J. Huebner and Activision Publishing, Inc.
- 10.37 Employment Agreement, dated June 15, 2005, between Michael Griffith and Activision Publishing, Inc (incorporated by reference to Exhibit 10.2 of Activision's Form 10-Q for the quarter ended June 30, 2005).
- 10.38 Stock Option Agreement, dated June 15, 2005, between Michael Griffith and Activision, Inc. (incorporated by reference to Exhibit 10.3 of Activision's Form 10-Q for the quarter ended June 30, 2005).
- 10.39 Restricted Stock Agreement, dated June 15, 2005, between Michael Griffith and Activision, Inc. (incorporated by reference to Exhibit 10.4 of Activision's Form 10-Q for the quarter ended June 30, 2005).
- 10.40 Employment Agreement, dated September 9, 2005, between Thomas Tippl and Activision Publishing, Inc (incorporated by reference to Exhibit 10.1 of Activision's Form 10-Q for the quarter ended September 30, 2005).
- 10.41 Stock Option Agreement, dated October 3, 2005, between Thomas Tippl and Activision, Inc. (incorporated by reference to Exhibit 10.2 of Activision's Form 10-Q for the quarter ended September 30, 2005).
- 10.42 Restricted Stock Agreement, dated October 3, 2005, between Thomas Tippl and Activision, Inc. (incorporated by reference to Exhibit 10.3 of Activision's Form 10-Q for the quarter ended September 30, 2005).
- 10.43 Employment Agreement, dated September 18, 2006, between Brian Hodous and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.2 of Activision's Form 10-Q for the quarter ended December 31, 2006).
- 10.44 Letter Agreement, dated September 6, 2006, between Brian Hodous and Activision, Inc.
- 10.45 Stock Option Agreement, dated as of November 3, 2006, between Activision and Brian Hodous.

Edgar Filing: Madden Michael - Form 3

- 10.46 Restricted Stock Agreement, dated as of November 3, 2006, between Activision and Brian Hodous.
- 10.47 Restricted Stock Agreement, dated as of November 3, 2006, between Activision and Brian Hodous.
- 10.48 Employment Agreement, dated October 1, 2006, between Robin Kaminsky and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.3 of Activision's Form 10-Q for the quarter ended December 31, 2006).
- 10.49 PlayStation 2 CD-ROM/DVD-ROM Licensed Publisher Agreement, dated as of April 1, 2000, between Sony Computer Entertainment America Inc. and Activision, Inc. (incorporated by reference to Exhibit 10.9 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).*
- 10.50 Letter regarding Modification of Territory for PlayStation 2 CD-ROM/DVD-ROM Licensed Publisher Agreement, dated as of June 11, 2004, from Sony Computer Entertainment America Inc. to Activision, Inc.
- 10.51 PlayStation 2 Licensed Publisher Agreement, dated as of March 23, 2001, between Sony Computer Entertainment Europe Limited and Activision UK Limited (incorporated by reference to Exhibit 10.10 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).*
- 10.52 PlayStation Portable (PSP) Licensed PSP Publisher Agreement, dated September 15, 2004, between Sony Computer Entertainment America Inc. and Activision, Inc. (incorporated by reference to Exhibit 10.46 of Activision's Form 10-K for the year ended March 31, 2005).*
- 10.53 PlayStation Portable (PSP) Licensed PSP Publisher Agreement, dated September 27, 2005, between Sony Computer Entertainment Europe Limited and Activision UK Limited (incorporated by reference to Exhibit 10.60 of Activision's Form 10-K for year ended March 31, 2006).*
- 10.54 Global PlayStation 3 Format Licensed Publisher Agreement, dated March 5, 2007, between Sony Computer Entertainment America, Inc. and Activision. Inc.*
- 10.55 First Renewal License Agreement for the Game Boy Advance Video Game System (EEA, Australia, and New Zealand), dated September 14, 2004, between Nintendo Co., Ltd. and Activision, Inc. (incorporated by reference to Exhibit 10.44 of Activision's Form 10-K for the year ended March 31, 2005).*

Edgar Filing: Madden Michael - Form 3

- 10.56 First Addendum to First Renewal License Agreement for the Game Boy Advance Video Game System (EEA, Australia and New Zealand), dated June 20, 2006, between Nintendo Co., Ltd. and Activision, Inc.
- 10.57 Confidential License Agreement for Nintendo GameCube (Western Hemisphere), dated as of November 9, 2001, between Nintendo of America Inc. and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.1 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).*
- 10.58 First Amendment to the Confidential License Agreement for Nintendo GameCube (Western Hemisphere), dated November 9, 2004, between Nintendo of America, Inc. and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.45 of Activision's Form 10-K for the year ended March 31, 2005).
- 10.59 First Renewal License Agreement for the Nintendo GameCube System (EEA), dated June 20, 2006, between Nintendo, Co., Ltd. and Activision, Inc.*
- 10.60 Confidential License Agreement for the Nintendo DS (Western Hemisphere), dated as of October 11, 2004, between Nintendo Co., Ltd. and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.42 of Activision's Form 10-K for the year ended March 31, 2005).*
- 10.61 License Agreement for the Nintendo DS System (EEA, Australia and New Zealand), dated June 20, 2006, between Nintendo Co., Ltd. and Activision, Inc.*
- 10.62 Microsoft Corporation Xbox Publisher License Agreement, dated as of July 18, 2001, between Microsoft Corporation and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.5 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).*
- 10.63 Amendment to Microsoft Corporation Xbox Publisher License Agreement, dated as of April 19, 2002, between Microsoft Licensing, Inc. and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.6 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).*
- 10.64 Xbox Live Distribution Amendment to the Xbox Publisher Licensing Agreement, dated as of October 28, 2002, between Microsoft Licensing, Inc. and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.7 of Activision's Form S-3, Registration No. 333-101271, filed January 14, 2003).*

Edgar Filing: Madden Michael - Form 3

- 10.65 Amendment to the Xbox Publisher Licensing Agreement, dated as of March 1, 2005, between Microsoft Licensing, GP, and Activision Publishing, Inc. (incorporated by reference to Exhibit 10.47 of Activision's Form 10-K for the year ended March 31, 2005).*
- 10.66 Microsoft Corporation Xbox 360 Publisher License Agreement, dated as of October 25, 2005, between Microsoft Licensing, GP and Activision Publishing, Inc (incorporated by reference to Exhibit 10.4 of Activision's Form 10-Q for the quarter ended December 31, 2005).*
- 10.67 Xbox 360 Disc Program Addendum to the Xbox 360 Publisher License Agreement, dated as of December 15, 2005, between Microsoft Licensing, GP and Activision Publishing, Inc (incorporated by reference to Exhibit 10.5 of Activision's Form 10-Q for the quarter ended December 31, 2005).*
- 10.68 Amendment to the Xbox 360 Publisher Licensing Agreement (Platinum/Classic Hits Program), dated as of October 1, 2006, by and between Microsoft Licensing, GP and Activision, Inc.*
- 10.69 Xbox Live Server Platform Addendum to the Xbox 360 Publisher Licensing Agreement, dated as of February 6, 2007, by and between Microsoft Licensing, GP and Activision Publishing, Inc.
- 10.70 Chart of Compensation to Non-Employee Directors (incorporated by reference to Exhibit 10.6 of Activision's Form 10-Q for the quarter ended December 31, 2005).
- 14.1 Code of Ethics for Senior Executive and Senior Financial Officers (incorporated by reference to Exhibit 14.1 of Activision's Form 10-K for the year ended March 31, 2004).
- 21.1 Principal subsidiaries of Activision.
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 31.1 Certification of Robert A. Kotick pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Michael Griffith pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Edgar Filing: Madden Michael - Form 3

- 31.3 Certification of Thomas Tippl pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Robert A. Kotick pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Michael Griffith pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.3 Certification of Thomas Tippl pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*Portions omitted pursuant to a request for confidential treatment.

E-9
