

ACTIVISION INC /NY

FORM 10-Q (Quarterly Report)

Filed 8/15/1995 For Period Ending 6/30/1995

Address	3100 OCEAN PARK BLVD STE 1000 SANTA MONICA, California 90405
Telephone	310-255-2000
CIK	0000718877
Industry	Software & Programming
Sector	Technology
Fiscal Year	03/31

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1995

O R

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

For the transition period from _____ to _____

Commission File Number 0-12699

ACTIVISION, INC.

(Exact name of registrant as specified in its charter)

DELAWARE 94-

2606438

(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

11601 WILSHIRE BLVD., LOS ANGELES, CA 90025
(Address of principal executive offices) (Zip Code)

(310) 473-9200
(Registrant's telephone number, including area code)

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

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

The number of shares of the registrant's Common Stock outstanding as of August 14, 1995 was 14,183,594.

ACTIVISION, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ACTIVISION, INC. AND SUBSIDIARIES Condensed Consolidated Balance Sheets

(in thousands except share data)

	June 30, 1995	March 31, 1995
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 33,633	\$ 37,355
Accounts receivable, net	2,761	5,566
Inventories, net	2,756	1,972
Prepaid software and license royalties	2,798	1,082
Other assets	535	342
	-----	-----
Total current assets	42,483	46,317
Property and equipment, net	2,020	1,643
Other assets	63	60
Excess purchase price over identifiable assets acquired, net	20,542	20,863
	-----	-----
Total assets	\$ 65,108	\$ 68,883
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,367	\$ 2,516
Accrued expenses	2,442	3,153
Deferred revenue	1,631	-
	-----	-----
Total current liabilities	7,440	5,669
Other liabilities	505	510
	-----	-----
Total liabilities	7,945	6,179
	-----	-----
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$.000001 par value, 100,000,000 shares authorized, 14,183,594 shares issued and outstanding as of June 30, 1995 and March 31, 1995, respectively	-	-
Additional paid-in capital	67,669	67,667
Accumulated deficit	(10,350)	(4,822)
Cumulative foreign currency translation	(156)	(141)
	-----	-----

Total shareholders' equity	57,163	62,704
Total liabilities and shareholders' equity	\$ 65,108	\$ 68,883

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

ACTIVISION, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations For the quarters ended June 30,

(in thousands except loss per share data)

(Unaudited)

	1995	1994
Net revenues	\$ 3,319	\$ 3,249
Cost of goods sold	1,554	1,809
Gross profit	1,765	1,440
Operating expenses:		
Product development	4,579	1,315
Sales and marketing	1,893	1,268
General and administrative	986	747
Amortization of intangible assets	321	321
Total operating expenses	7,779	3,651
Operating loss	(6,014)	(2,211)
Other income (expense):		
Interest, net	525	349
Loss before provision for income taxes	(5,489)	(1,862)
Provision for income taxes	39	11
Net loss	\$ (5,528)	\$ (1,873)
Net loss per common share	\$ (0.39)	\$ (0.14)
Number of shares used in computing net loss per common share	14,184	13,850

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

ACTIVISION, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
For the quarters ended June 30,

(in thousands)

Increase (Decrease) in Cash

	1995	1994
Net cash used in operating activities	\$ (3,069)	\$ (1,039)
Cash flows from investing activities:		
Capital expenditures	(638)	(263)
Net cash used in investing activities	(638)	(263)
Cash flows from financing activities:		
Payments under line of credit agreements	-	(1,675)

Borrowings under line of credit agreements	-	1,675
	-----	-----
Net cash provided by financing activities	-	-
	-----	-----
Effect of exchange rate changes on cash	(15)	(61)
	-----	-----
Net decrease in cash and cash equivalents	(3,722)	(1,363)
	-----	-----
Cash and cash equivalents at beginning of period	37,355	38,093
	-----	-----
Cash and cash equivalents at end of period	\$ 33,633	\$ 36,730
	=====	=====

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

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of Activision, Inc. and its subsidiaries. The information furnished is unaudited and reflects all adjustments which, in the opinion of management, are necessary to provide a fair statement of the results for the interim periods presented. The financial statements should be read in conjunction with the financial statements included in the Company's Annual Report on Form 10-K for the year ended March 31, 1995.

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

2. ACCOUNTS RECEIVABLE

Accounts receivable comprise (amounts in thousands):

	June 30, 1995	March 31, 1995
Accounts receivable	\$ 7,590	\$ 10,035
Less:		
Allowance for doubtful accounts	(568)	(528)
Allowance for sales returns and price protection	(4,261)	(3,941)
	-----	-----
	\$ 2,761	\$ 5,566
	=====	=====

The provision for bad debt expense for the quarters ended June 30, 1995 and 1994 was approximately \$54,000 and \$72,000 respectively. The provision for sales returns and price protection for the quarters ended June 30, 1995 and 1994 was approximately \$977,000 and \$522,000 respectively.

3. INVENTORIES

Inventories comprise (amounts in thousands):

	June 30, 1995	March 31, 1995
Finished goods	\$ 1,858	\$ 1,769
Purchased parts and components	898	203
	-----	-----
	\$ 2,756	\$ 1,972
	=====	=====

4. DEFERRED REVENUE

The Company defers recognition of revenue from licensing agreements until the completion by the Company of its future obligations under such agreements including, but not limited to, the achievement of technological feasibility of the products or assets to be delivered under such obligations and future collectibility. Deferred revenue of \$1,631,000 as of June 30, 1995 represents minimum guarantee payments received by the Company in advance of future deliveries of products and/or assets under such agreements.

5. AMORTIZATION OF INTANGIBLE ASSETS

Effective April 1, 1992, the Disc Company, Inc. ("TDC"), a Delaware corporation and a wholly-owned subsidiary of International Consumer Technologies Corporation, was merged with and into the Company, with the Company as the surviving corporation. The excess of the purchase price over the estimated fair values of the net assets acquired was recorded as an intangible asset in the amount of \$24,417,000. This intangible asset is being amortized on a straight-line basis over a 20 year period. Amortization was approximately \$305,000 for each of the quarters ended June 30, 1995 and 1994. The Company systematically evaluates current and expected cash flow from operations on a non-discounted basis for the purpose of assessing the recoverability of recorded intangible assets. Some of the factors considered in this evaluation include operating results, business plans, budgets and economic projections. Should such factors indicate that recoverability might be impaired, the Company would appropriately adjust the recorded amount of the intangible asset and/or the period over which the recorded intangible asset is amortized.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Net revenues by territory were as follows (amount in thousands):

	Quarter ended June 30,		Percent Increase (Decrease)	Percent of Worldwide Revenues Quarter ended June 30,	
	1995	1994		1995	1994
NET REVENUES:					
North America:					
Set-top systems	\$ 481	\$ 334	44%	15%	10%
Desk-top systems	1,498	1,143	31%	45%	35%
On-Line, OEM, licensing & other	204	926	(78%)		6%
Total North American Net Revenues	2,183	2,403	(9%)	66%	74%
Europe:					
Set-top systems	2	185	(99%)	-	6%
Desk-top systems	58	106	(45%)	2%	3%
On-Line, OEM, licensing & other	10	35	(71%)	-	1%
Total European Net Revenues	70	326	(79%)	2%	10%
Japan:					
Set-top systems	131	270	(51%)	4%	8%
Desk-top systems	235	15	1,467%	7%	1%
On-Line, OEM, licensing & other	473	80	491%	14%	2%
Total Japanese Net Revenues	839	365	130%	25%	11%
Australia (including New Zealand):					
Set-top systems	71	2	3,450%	2%	-
Desk-top systems	156	134	16%	5%	4%
On-Line, OEM, licensing & other	-	19	(100%)	-	1%
Total Australian Net Revenues	227	155	46%	7%	5%
Total Worldwide Net Revenues	\$ 3,319	\$ 3,249	2%	100%	100%

Net revenues by source were as follows:

	Quarter Ended June 30,			
	1995		1994	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Activision Studios	\$ 2,747	82.8%	\$ 3,001	92.4%
Activision Business Development	572	17.2%	248	7.6%
	\$ 3,319	100.0%	\$ 3,249	100.0%

For purposes of the foregoing presentation, net revenues from set-top systems relate to sales of those entertainment software products designed by the Company for operation on a hardware device that is connected to a television set and displayed on a television screen. Examples of set-top systems include Super Nintendo Entertainment System, Sega Genesis, Sega Saturn, Sony Playstation, Atari Jaguar, CD-I and 3DO Multiplayer. The Company designs products for operation on many of these systems, and normally it is required to pay a license fee for the right to create products for a particular system. Net revenues from desk-top systems relate to sales of those entertainment software products designed by the Company for operation through a personal computer's operating system software and that is displayed on the computer's monitor. Examples of computer operating systems include MS-DOS, Windows and the Macintosh operating system. The Company generally is not obligated to pay a license fee for the right to produce desk-top products.

Net revenues from Activision Studios relate to those entertainment software products (both set-top and desk-top) designed, developed and produced through the Company's Activision Studios division and that are owned by the Company. Net revenues from Activision Business Development relate to those entertainment software products developed by third parties for which the Company acquires all or certain distribution rights. Such distribution rights may take the form of a co-ownership arrangement or a license, and the Company's obligation to incur marketing, promotion, sales and advertising expenses in connection with the rights being acquired may vary from product to product.

Net revenues for the quarter ended June 30, 1995 increased 2% from the same period last year. The increase was primarily due to increased licensing revenues in Japan. North American set-top revenues for the quarter ended June 30, 1995 increased 44% from the same period last year. The increase was primarily due to continuing sales of "Pitfall: The Mayan Adventure" which was originally released in the third quarter of the prior fiscal year. North American desk-top revenues for the quarter ended June 30, 1995 increased 31% from the same period last year due to CD-based software releases during the quarter, including "Paparazzi," "Activision's Atari Action Pack 2," and the "Infocom Collections" series. European net revenues decreased due to the absence of any significant new release during the quarter. Japan licensing and other revenues for the quarter ended June 30, 1995 increased 491% from the same period last year primarily due to the licensing of "Pitfall: The Mayan Adventure", "Shanghai Great Moments" and "Return to Zork" for certain platforms in the territory.

Cost of Goods Sold

Cost of goods related to product sales represents the manufacturing and related costs of computer software and video games. Manufacturers of the Company's computer software are located in the United States and Europe and are readily available. Video games are manufactured by the respective video game console manufacturers, Nintendo and Sega, who require significant lead time to fulfill the Company's orders.

Also included in cost of goods is royalty expense related to amounts due to developers, title owners or other royalty participants based on product sales. Various contracts are maintained with developers, product title owners or other royalty participants which state a royalty rate and term of agreement, among other items. The decrease in cost of goods sold is related to the decrease in product sales.

Gross Profit	Quarter Ended June 30, 1995		Quarter Ended June 30, 1994	
	Amount	Gross Profit Percentage	Amount	Gross Profit Percentage
Set-top systems	\$ 23	3.4%	\$ -	-%
Desk-top systems	1,117	57.4%	675	48.3%
On-Line, OEM, licensing & other	625	91.0%	765	72.2%
	-----	-----	-----	-----
Total gross profit	\$ 1,765	53.2%	\$ 1,440	44.3%
	=====	=====	=====	=====

Overall gross profit percentage on total revenues for the quarter ended June 30, 1995 was higher than for the same period in the prior year due to the increased concentration of higher profit margin CD-based products and license revenue.

Operating Expenses

	Quarter Ended June 30,			
	1995		1994	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Product development	\$ 4,579	138.0%	\$ 1,315	40.5%
Sales and marketing	1,893	57.0%	1,268	39.0%
General and administrative	986	29.7%	747	23.0%
Amortization of excess purchase price and reorganization expenses	321	9.7%	321	9.9%
	-----	-----	-----	-----
Total operating expenses	\$ 7,779	234.4%	\$ 3,651	112.4%
	=====	=====	=====	=====

Product development expenses increased both in amount and as a percentage of revenues due to higher head count expenditures related to the increased number of products in product development and the increase in production costs associated with live-action video production, enhanced audio content and technology on such products. Approximately 89% of product development expenses relate to products which will be released later in the current fiscal year. Sales and marketing expenses also increased both in amount and as a percentage of revenues as a result of expanded advertising and marketing programs for both specific product releases and corporate awareness programs as well as increased head count related expenses. General and administrative expenses increased due to an increase in head count related expenses as compared to the same period in the prior year.

Other Income (Expense)

Interest income was \$525,000 and \$349,000 for the quarters ended June 30, 1995 and 1994, respectively. The substantial increase was due to the higher yields earned on cash and cash equivalents during the current fiscal quarter as compared to the same period in the prior year.

Provision for Income Taxes

The income taxes of approximately \$39,000 and \$11,000 recorded in the provision for income taxes for the quarters ended June 30, 1995 and 1994, respectively, represent foreign taxes withheld. These foreign taxes may be available in the future as tax credits against future tax liability. In addition, the Company has significant net operating losses which may be carried forward against any future taxable income for both federal and state tax purposes.

Net Income (Loss)

For the reasons noted above, there was an increase in the net loss recorded for the quarter ended June 30, 1995 as compared to the net loss for the quarter ended June 30, 1994. Net loss for the quarter ended June 30, 1995 was \$5,528,000 compared to a net loss of \$1,873,000 for the same period of the prior fiscal year.

Revenues and profits are very seasonal in the software publishing industry with the fourth calendar quarter generally considered the strongest due to increased sales for the holiday season. The Company participates in a highly dynamic and volatile industry, which is affected by seasonality, changing technology, limited platform cycles, hit products, competition, component supplies, consumer spending, economic trends and other factors. In addition, factors specific to the Company such as the timing and availability of new video game and computer software titles may affect the predictability of financial results and may contribute further to the volatility of the Company's stock price. Thus, results for the period should not be annualized and are not expected to be indicative of annual results. In addition, as a result of the foregoing factors, the Company's common stock price has experienced significant volatility historically, and may be subject to continued volatility.

In addition to the historically volatile elements noted, the industry is expected to undergo significant change due in part to the introduction or planned introduction of numerous new hardware platforms and electronic delivery systems and the entry and participation of new companies in interactive media. The difficulties in predicting which new platforms will be commercially successful, the timing of such platforms' releases, and which new companies entering the interactive arena will have a material impact on the industry, cause additional uncertainty in predicting financial results of the Company.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital decreased \$5.6 million from March 31, 1995 to June 30, 1995. The Company had approximately \$33.6 million in cash and cash equivalents at June 30, 1995. At June 30, 1995, net accounts receivable and inventories were approximately \$5.5 million, a decrease of approximately \$2.0 million from approximately \$7.5 million as of March 31, 1995. The decrease is due to the collections of receivable balances in the first quarter of the fiscal year and a decrease in revenues from the fourth quarter of the prior fiscal year.

As of June 30, 1995, total accounts payable and accrued liabilities were approximately \$6.1 million versus \$5.7 million at March 31, 1995. The increase at June 30, 1995 is related to a increase in operating expenses in the first quarter of the fiscal year compared with the quarter ended June 30, 1994.

Management believes that the Company's existing capital resources are sufficient to meet its requirements for the foreseeable future. The private placements completed by the Company during the 1994 fiscal year have provided, and will continue to provide, the Company with greater resources to enable it to acquire properties for development, engage in more extensive product development and expand marketing activities, and increased working capital for operations. The Company may use a portion of its working capital to acquire or invest in other consumer software development or publishing companies; however, the Company has not entered into any agreements or understandings with regard to any such acquisitions or investments.

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

PART II. - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURES

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

Date: August 14, 1995

ACTIVISION, INC.

(Robert A. Kotick)

*Officer (Principal Executive
Officer) and Director*

*/S/Brian G. Kelly
(Brian G. Kelly)*

*Chief Financial Officer
(Principal Financial Officer)*

August 14, 1995

*/S/Barry J. Plaga
(Barry J. Plaga)*

*Chief Accounting Officer
(Principal Accounting Officer)*

August 14, 1995

ARTICLE 5

PERIOD TYPE	3 MOS
FISCAL YEAR END	MAR 31 1996
PERIOD END	JUN 30 1995
CASH	33633
SECURITIES	0
RECEIVABLES	7590
ALLOWANCES	4829
INVENTORY	2756
CURRENT ASSETS	42483
PP&E	3618
DEPRECIATION	1598
TOTAL ASSETS	65108
CURRENT LIABILITIES	7440
BONDS	0
COMMON	0
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	57163
TOTAL LIABILITY AND EQUITY	65108
SALES	3319
TOTAL REVENUES	3319
CGS	1554
TOTAL COSTS	1554
OTHER EXPENSES	7779
LOSS PROVISION	0
INTEREST EXPENSE	0
INCOME PRETAX	(5489)
INCOME TAX	39
INCOME CONTINUING	(5528)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(5528)
EPS PRIMARY	(.39)
EPS DILUTED	(.39)

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