Notes to Consolidated Financial Statements

each of the quarters in the year ended March 31, 2004, the historical stock price volatility used was based on a weekly stock price observation, using an average of the high and low stock prices of our common stock, which resulted in an expected stock price volatility ranging from 47% to 52%. Management believes such amounts are more representative of prospective trends. For purposes of the above pro forma disclosure, the fair value of options granted is amortized to stock-based employee compensation cost over the period(s) in which the related employee services are rendered. Accordingly, the pro forma stock-based compensation cost for any period will typically relate to options granted in both the current period and prior periods.

For options granted during fiscal 2004, 2003 and 2002, the per share weighted average fair value of options with exercise prices equal to market value on the date of grant was $2.77, $4.37 and $3.05, respectively. The per share weighted average estimated fair value of Employee Stock Purchase Plan shares granted during the years ended March 31, 2004, 2003 and 2002 was $1.50, $2.17 and $1.96, respectively.

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

Common stock warrants are granted to non-employees in connection with the development of software and acquisition of licensing rights for intellectual property. In accordance with EITF No. 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring or in Connection With Selling Goods or Services," the fair value of common stock warrants granted is determined as of the measurement date and is capitalized, expensed and amortized consistent with our policies relating to software development and intellectual property license costs.

Related Parties

In August 2001, we elected to our Board of Directors an individual who is a partner in a law firm that has provided legal services to Activision for more than 10 years. For the years ended March 31, 2004, 2003 and 2002, the fees we paid to the law firm account for less than 1% of the firm's total revenues. We believe that the fees charged to us by the law firm are competitive with the fees charged by other law firms.

Reclassifications

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

2. Stock Splits

In April 2003, the Board of Directors approved a three-for-two split of our outstanding common shares effected in the form of a 50% stock dividend. The split was paid on June 6, 2003 to shareholders of record as of May 16, 2003. In February 2004, the Board of Directors approved a second three-for-two split of our outstanding common shares effected in the form of a 50% stock dividend. The split was paid on March 15, 2004 to shareholders of record as of February 23, 2004. The par value of our common stock was maintained at the pre-split amount of $.000001. The consolidated financial statements and Notes thereto, including all share and per share data, have been restated as if the stock splits had occurred as of the earliest period presented.

3. Acquisitions

During the three years ended March 31, 2004, we separately completed the acquisition of six privately held interactive software development companies. We accounted for these acquisitions in accordance with SFAS No. 141, "Business Combinations." SFAS No. 141 addresses financial accounting and reporting for business combinations, requiring that the purchase method be used to account and report for all business combinations. These acquisitions