

ACTIVISION INC /NY
Form 10-Q
June 07, 2007

UNITED STATES

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 September 30, 2006

OR

**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 001-15839

ACTIVISION, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

3100 Ocean Park Boulevard, Santa Monica, CA
(Address of principal executive offices)

95-4803544

(I.R.S. Employer Identification No.)

90405
(Zip Code)

(310) 255-2000

(Registrant's telephone number, including area code)

Edgar Filing: ACTIVISION INC /NY - Form 10-Q

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 for 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The number of shares of the registrant's Common Stock outstanding as of June 1, 2007 was 283,310,734.

ACTIVISION, INC. AND SUBSIDIARIES

INDEX

Explanatory Note

PART I.

FINANCIAL INFORMATION

Item 1.

Financial Statements

Consolidated Balance Sheets as of September 30, 2006 (Unaudited) and March 31, 2006

Consolidated Statements of Operations for the three and six months ended September 30, 2006 (Unaudited) and September 30, 2005, as restated (Unaudited)

Consolidated Statements of Cash Flows for the six months ended September 30, 2006 (Unaudited) and September 30, 2005, as restated (Unaudited)

Consolidated Statement of Changes in Shareholders' Equity for the six months ended September 30, 2006 (Unaudited)

Notes to Consolidated Financial Statements for the three and six months ended September 30, 2006 (Unaudited)

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3.

Quantitative and Qualitative Disclosures about Market Risk

Item 4.

Controls and Procedures

PART II.

OTHER INFORMATION

Item 1.

Legal Proceedings

Item 1A.

Risk Factors

Item 4.

Submission of Matters to a Vote of Security Holders

Item 6.

Exhibits

SIGNATURES

CERTIFICATIONS

CAUTIONARY STATEMENT

This Quarterly Report on Form 10-Q contains, or incorporates by reference, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, but are not limited to, (1) projections of revenues, expenses, income or loss, earnings or loss per share, cash flow projections or other financial items; (2) statements of our plans and objectives, including those relating to product releases; (3) statements of future economic performance; and (4) statements of assumptions underlying such statements. We generally use words such as anticipate, believe, could, estimate, expect, forecast, future, intend, may, plan, positioned, potential, project, scheduled, set to, subject to, upcoming and other similar expressions to help identify forward-looking statements. These forward-looking statements are subject to business and economic risk, reflect management's current expectations, estimates and projections about our business, and are inherently uncertain and difficult to predict. Our actual results could differ materially. The forward-looking statements contained herein speak only as of the date on which they were made, and we disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of this Quarterly Report. Risks and uncertainties that may affect our future results include, but are not limited to, those discussed under the heading Risk Factors, included in Part II, Item 1A. All references to we, us, our, Activision or the Company in the following discussion and analysis mean Activision, Inc. and its subsidiaries.

EXPLANATORY NOTE

Restatement of Consolidated Financial Results

We recently completed a voluntary review of our historical stock option granting practices and a restatement of our consolidated financial statements as of and for the fiscal years ended March 31, 2006, 2005 and 2004 and related disclosures and a restatement of our selected consolidated financial data as of and for the fiscal years ended March 31, 2006, 2005, 2004, 2003 and 2002 and our unaudited quarterly financial data for each of the quarters in the fiscal years ended March 31, 2006 and 2005. The impacts of the restatement adjustments extend to periods from the fiscal year ended March 31, 1994 through the fiscal quarter ended June 30, 2006.

The restatement reflected the findings of a special subcommittee of independent members of our Board of Directors, which was established in July 2006 to review our historical stock option granting practices (the Special Subcommittee). The Special Subcommittee conducted its investigation with the assistance of Munger Tolles & Olson LLP as its independent counsel and Deloitte & Touche USA LLP (Deloitte) as forensic accounting experts retained by counsel. The Special Subcommittee found that 3,450 of the option grants reviewed, covering 148,747,202 shares, required measurement date corrections. As a result, we recorded approximately \$66.7 million in additional pre-tax (\$45.4 million after-tax) non-cash stock-based compensation expense over the thirteen year period from April 1, 1993 through March 31, 2006 in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), and \$0.6 million in additional pre-tax non-cash stock-based compensation expense during the quarter ended June 30, 2006 in accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment. More than 80% or \$55.4 million of the \$66.7 million relates to periods through March 31, 2003 and 4% or \$2.6 million of the non-cash pre-tax expense relates to the year ended March 31, 2006. Separately, the restatement reflects an additional \$1.7 million pre-tax charge (\$1.1 million after-tax) related to recently identified insufficient payroll tax withholdings in fiscal 2005.

This Quarterly Report on Form 10-Q should be read in conjunction with our Amended Annual Report on Form 10-K/A for the year ended March 31, 2006 filed with the SEC on May 25, 2007 and our Amended Quarterly Report on Form 10-Q/A for the three months ended June 30, 2006 filed with the SEC on June 7, 2007. Information regarding the effect of the restatement on our financial position and results of operations is provided in Note 2 of the Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Report and Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of this Report.

Financial information included in our previously filed reports on Form 10-K and Form 10-Q, the related opinions of our independent registered public accounting firm, and all earnings press releases and similar communications issued by us, for all periods ended on or before June 30, 2006 should not be relied upon and are superseded in their entirety by the information in our Amended Annual Report on Form 10-K/A for the year ended March 31, 2006 filed

Edgar Filing: ACTIVISION INC /NY - Form 10-Q

with the SEC on May 25, 2007 and our amended Quarterly Report on Form 10-Q/A for the three months ended June 30, 2006 and our Quarterly Report on Form 10-Q for the three months ended September 30, 2006 filed with the SEC on June 7, 2007.

All share and per share information presented in this report has been adjusted to reflect splits and dividends of our common stock.

4

PART I. **Financial Information.**
Item 1. Financial Statements.

ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	September 30, 2006 (Unaudited)	March 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 189,721	\$ 354,331
Short-term investments	557,674	590,629
Accounts receivable, net of allowances of \$76,734 and \$98,253 at September 30, 2006 and March 31, 2006, respectively	97,086	28,782
Inventories	71,063	61,483
Software development	95,694	40,260
Intellectual property licenses	23,996	4,973
Deferred income taxes	6,484	9,664
Other current assets	37,917	25,933
Total current assets	1,079,635	1,116,055
Software development	22,094	20,359
Intellectual property licenses	71,100	82,073
Property and equipment, net	45,185	45,368
Deferred income taxes	121,085	52,545
Other assets	5,676	1,409
Goodwill	188,254	100,446
Total assets	\$ 1,533,029	\$ 1,418,255
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 83,418	\$ 88,994
Accrued expenses	169,195	104,862
Total current liabilities	252,613	193,856
Other liabilities	41,070	1,776
Total liabilities	293,683	195,632
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Preferred stock, \$.000001 par value, 3,750,000 shares authorized, no shares issued at September 30, 2006 and March 31, 2006		