NEUMAN, WILLIAMS, ANDERSON & OLSON
77 WEST WASHINGTON STREET
CHICAGO, ILLINOIS 60602

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March 5, 1984

Thomas A. Briody, Esquire
Corporate Patent Counsel
North American Philips Corporation
580 White Plains Road
Tarrytown, New York 10591

Re: Magnavox v. Activision

Dear Tom:

We have received and enclosed herewith a copy of Activision's 10Q Statement for its quarter ending December 31, 1983. As you will see, it generally confirms the information stated in our February 21 letter concerning Activision's loss for that quarter.

Very truly yours,

NEUMAN, WILLIAMS, ANDERSON & OLSON

By _____
James T. Williams

JTW:de
Enclosure

cc: Robert T. Mayer - w/o encls.
Algy Tamoshunas - w/o encls.
Louis Etlinger - w/encls.
T. W. Anderson - w/o encls.

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549



Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For Quarter Ended December 31, 1983. Commission File Number 2-83372*.

ACTIVISION, INC.

(Exact name of registrant as specified in its charter)

California (State or other jurisdiction of incorporation or organization)	94-2606438 (I.R.S. Employer Identification No.)
2350 Bayshore Frontage Road Mountain View, California (Address of principal executive offices)	94043 (Zip Code)



Registrant's telephone number, including area code: (415) 960-0410.

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 X No ___.

The number of shares of the registrant's Common Stock outstanding as of December 31, 1983 was 32,667,325.

*Refers to registration statement on Form S-1. Registrant has not yet filed under the Securities Exchange Act of 1934 and, accordingly, does not currently have a 1934 Act filing number.

ACTIVISION, INC. AND SUBSIDIARIES

INTRODUCTORY NOTE

Registrant conducted an initial public offering of its common stock on June 9, 1983. Accordingly, this Form 10-Q is the third report filed by Registrant pursuant to the reporting requirements of the Securities Exchange Act of 1934.

ACTIVISION, INC.

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ACTIVISION, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(In thousands except share information)

ASSETS

	December 31, 1983 (unaudited)	March 31, 1983
Current assets:		
Cash and temporary cash investments	$ 8,457	$ 2,403
Accounts receivable, less allowances for doubtful accounts and sales returns of $9,490 at December 31 and $5,016 at March 31	10,520	22,974
Inventories	23,010	21,186
Prepaid and refundable income taxes	13,234	3,484
Other current assets	1,339	1,027
Total current assets	56,560	51,074
Fixed assets	8,315	5,204
Other assets	468	181
	$ 65,343	$ 56,459

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 3,115	$ 9,265
Accrued liabilities	7,060	5,878
Income taxes payable	0	7,493
Total current liabilities	10,175	22,636
Deferred income taxes	335	239
Subordinated notes payable to shareholders	550	550
Total liabilities	11,060	23,425
Shareholders' equity:		
Preferred stock, no par value: Authorized: 10,000,000 shares Issued and outstanding: None		
Common stock, no par value: Authorized: 100,000,000 shares Issued and outstanding: 32,667,325 at December 31 and 29,696,800 at March 31	33,610	362
Retained earnings	20,673	32,672
Total shareholders' equity	54,283	33,034
	$ 65,343	$ 56,459

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

ACTIVISION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	Dec. 31, 1983	Jan. 1, 1983	Dec. 31, 1983	Jan. 1, 1983
Net sales	$ 10,167	$ 50,057	$ 49,620	$ 112,760
Costs and expenses:				
Cost of sales	7,683	13,074	20,310	31,743
Sales and marketing expenses	12,290	23,900	36,937	45,360
General and administrative expenses	5,502	3,900	15,968	9,641
Operating income (loss).	(15,308)	9,183	(23,595)	26,016
Interest income, net	313	8	1,108	316
Income (loss) before provision (credit) for income taxes	(14,995)	9,191	(22,487)	26,332
Provision (credit) for income taxes	(6,889)	4,495	(10,488)	12,880
Net income (loss)	$ (8,106)	$ 4,696	$ (11,999)	$ 13,452
Net income (loss) per common and common equivalent share..	$ (.25)	$ .16	$ (.38)	$ .45
Number of common and common equivalent shares used in computing net income (loss) per share	32,717	29,897	31,966	29,979

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

Dec 6 of 12

ACTIVISION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(In Thousands)

(Unaudited)

	Nine Months Ended	
	Dec. 31, 1983	Jan. 1, 1983
Resources provided:		
From operations:		
Net income (loss)	$ (11,999)	$ 13,452
Add charges to income not requiring a current outlay of working capital:		
Depreciation and amortization	1,595	435
Deferred income taxes	96	67
Resources provided (used) by operations	(10,308)	13,954
Issuance of common stock	33,248	134
Total resources provided	22,940	14,088
Resources applied:		
Acquisition of fixed and other assets	4,678	3,044
Other	317	42
Total resources applied	4,995	3,086
Increase in working capital	$ 17,945	$ 11,002
Increase (decrease) in working capital by components:		
Cash and temporary cash investments	$ 6,054	$ 1,013
Accounts receivable	(12,454)	6,412
Inventories	1,824	12,185
Prepaid and deferred income taxes	9,750	5,662
Other current assets	312	1,413
Accounts payable	6,150	(14,156)
Accrued liabilities	(1,184)	(1,706)
Income taxes payable	7,493	206
Short-term debt	0	(27)
Increase in working capital	$ 17,945	$ 11,002

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

ACTIVISION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dec. 31, 1983 and Jan. 1, 1983 - Unaudited)

(In Thousands)

1. In the opinion of management, the consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position as of Dec. 31, 1983 and March 31, 1983, the results of operations for the nine months and for the three months ended Dec. 31, 1983 and Jan. 1, 1983, and changes in financial position for the nine months ended Dec. 31, 1983, and Jan. 1, 1983. These statements should be read in conjunction with the March 31, 1983 Financial Statements and Notes thereto included in the Company's Prospectus filed in its Registration Statement 2-83372.

   The results of operations for the nine months and for the three months ended Dec. 31, 1983 are not necessarily indicative of the results to be expected for the full year.

2. Inventories comprise the following:

	Dec. 31, 1983	March 31, 1983
Purchased parts and components	$ 13,766	$ 15,722
Finished goods	9,242	5,464
	$ 23,010	$ 21,186

3. Fixed assets are stated at cost and comprise the following:

Machinery and equipment	$ 1,657	$ 1,191
Office furniture and equipment	8,146	4,432
Leasehold improvements	1,022	524
	$ 10,825	$ 6,147
Less accumulated depreciation and amortization	(2,510)	(943)
	$ 8,315	$ 5,204

4. Legal Proceedings - Three civil class action complaints (which were consolidated) were filed against the Company (refer to Part II. OTHER INFORMATION).

5. Subsequent to December 31, 1983, the Company renegotiated its line of credit with a bank, which expires April 30, 1985. The agreement allows the Company to borrow up to $10 million under various facilities at interest rates that generally would not exceed the bank's prime rate plus .25%. Under the agreement the Company must maintain various financial ratios and meet certain conditions as to tangible net worth. The Company is also restricted from paying dividends in excess of 10% of its net worth. The credit line is secured by accounts receivable, inventory, and certain fixed assets.

ACTIVISION, INC AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Net revenues for the Company during the third quarter of fiscal year 1984 decreased 80% as compared to the third quarter of fiscal year 1983. The Company incurred a loss of $8.1 million for the third quarter of fiscal year 1984 as compared to a profit of $4.7 million for the third quarter of fiscal 1983. Net revenues during the first three quarters of fiscal year 1984 decreased 56% as compared to the first three quarters of fiscal year 1983. Since the summer of 1983, the Company's sales were impacted by the changes in the home computer and video game hardware and software businesses which resulted in very cautious ordering by distributors and retailers. In addition, in the second and third quarters, a large flow of discontinued product from several manufacturers was released to the market at reduced prices, depressing the purchases of regular-priced new product. Net sales and net loss for the third quarter also reflect a significant increase in sales return reserves resulting from higher than expected levels of unsold inventory at retail after Christmas.

The gross profit margin decreased from 72% of sales during the first three quarters of fiscal 1983 to 59% of sales during the first three quarters of fiscal 1984. The gross profit margin decreased from 74% of sales during the third quarter of fiscal 1983 to 24% of sales during the third quarter of fiscal 1984. The decreases resulted from clearance sales during the most recent two quarters of older merchandise at significantly reduced prices, which approximated manufacturing costs, and from the sales return reserve adjustment discussed above. Gross profit margains on the sales of new and active product did not change materially.

Sales, marketing and general and administrative expenses in total were 34% lower in the third quarter of fiscal 1984 than in the third quarter of fiscal 1983, primarily as a result of reduced advertising expenses and sales commissions. These expenses increased significantly as a percentage of sales during the most recent quarter compared to the same quarter last year due to the lower sales levels. The Company effected an approximate 25% staff reduction during the quarter. The third quarter did not benefit by this reduction as a result of severance payments incurred. Management anticipates that sales, marketing and general and administrative expenses will continue to vary significantly as a percentage of sales from quarter to quarter due to the seasonal nature of the Company's business.

Liquidity and Capital Resources

At December 31, 1983, the Company's working capital and stockholders' equity were substantially higher than March 31, 1983 as a result of the public sale of the Company's Common Stock on June 9, 1983. Accounts receivable decreased over 60% from March 31 and 21% from October 1 reflecting the reduced level of sales and the increase to sales reserves previously mentioned. Inventory increased 14% from March 31 as a result of the introduction of several new titles. Inventory decreased 7% from October 1 ($24.6 million) primarily as a result of the sales of older product at reduced prices.

Accounts payable and accrued liabilities decreased over 60% from March 31, due to lower business activity. An income tax receivable of $10.3 million existed at December 31, 1983, compared to an income tax payable of $7.5 million at March 31, as a result of the net operating loss experienced for the first three quarters of fiscal 1984 as well as the final tax payment made relating to fiscal 1983 earnings.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 6. Exhibits and Reports on Form 8-K.

(a) The following exhibit is furnished with this report:

Statement re: computation of per share earnings.

(b) Registrant did not file any report on Form 8-K during its fiscal quarter ended December 31, 1983.

Item 1.

Legal Proceedings

Civil class action complaints were filed against the Company in the United States District Court for the Northern District of California by S. T. Blumenfeld (Action No. C-83-4639 WHO), William B. Weinberger (Action No. C-83-4834 MHP) and Ernest C. Cadelago (Action No. C-83-20415 WAI). The three complaints were filed October 3, October 17 and December 9, 1983, respectively, on behalf of the named plaintiffs and all others who acquired the Company's common stock between June 9, 1983 and September 16, 1983, inclusive. All three actions have been consolidated.

The complaints name as co-defendants certain officers and directors, certain other shareholders who sold shares in the Company's initial public offering and the underwriters in the public offering. The complaints, which allege pendant claims under California state statutory and common law, are based upon purported misstatements and omissions in the Company's registration statement and prospectus issued in connection with the Company's public offering. Plaintiffs seek an award of damages according to proof, with interest, and recision of their stock purchases. They also seek recovery of their costs, including fees for attorneys and experts. The company believes the complaints are without merit and intends to vigorously defend against plaintiffs' claims.

ACTIVISION, INC.

COMPUTATION OF NET INCOME (LOSS) PER SHARE

(Dollar amounts in thousands except per share data)

	Three Months Ended		Nine Months Ended	
	Dec. 31, 1983	Jan.1,1983	Dec.31,1983	Jan.1,1983
Weighted average shares outstanding for the period	32,717,468	29,688,750	31,966,090	29,806,183
Net effect of stock options based on the treasury stock method	-0-	208,404	-0-	172,388
Average common and common equivalent shares outstanding	32,717,468	29,897,154	31,966,090	29,978,571
Net income (loss)	$ (8,106)	$ 4,696	$ (11,999)	$ 13,452
Net income (loss) per share	$ (.25)	$ .16	$ (.38)	$ .45