

ACTIVISION INC /NY
Form 10-Q
August 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 June 30, 2007

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 0-12699

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)

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

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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 August 1, 2007 was 285,478,565.

ACTIVISION, INC. AND SUBSIDIARIES

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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, will, would, 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 I Item 1A. of our Annual Report on Form 10-K for the fiscal year ended March 31, 2007. All references to we, us, our, Activision or the Company in the following discussion and analysis mean Activision, Inc. and its subsidiaries.

FINANCIAL INFORMATION.

Item 1. Financial Statements.**ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)

	June 30, 2007 (Unaudited)	March 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 343,981	\$ 384,409
Short-term investments	619,815	570,440
Accounts receivable, net of allowances of \$115,560 and \$91,418 at June 30, 2007 and March 31, 2007, respectively	197,964	148,694
Inventories	92,529	91,231
Software development	104,944	107,779
Intellectual property licenses	13,143	27,784
Deferred income taxes	50,197	51,564
Other current assets	20,507	19,332
Total current assets	1,443,080	1,401,233
Software development	9,180	23,143
Intellectual property licenses	68,645	72,490
Property and equipment, net	48,706	46,540
Deferred income taxes	41,933	48,791
Other assets	6,473	6,376
Goodwill	221,049	195,374
Total assets	\$ 1,839,066	\$ 1,793,947
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	\$ 109,662	\$ 136,517
Accrued expenses	249,940	204,652
Total current liabilities	359,602	341,169
Other liabilities	17,971	41,246
Total liabilities	377,573	382,415
Commitments and contingencies (Note 13)		
Shareholders equity:		
Preferred stock, \$.000001 par value, 3,750,000 shares authorized, no shares issued at June 30, 2007 and March 31, 2007		
Series A Junior Preferred stock, \$.000001 par value, 1,250,000 shares authorized, no shares issued at June 30, 2007 and March 31, 2007		
Common stock, \$.000001 par value, 450,000,000 shares authorized, 284,621,350 and 283,310,734 shares issued and outstanding at June 30, 2007 and March 31, 2007, respectively		
Additional paid-in capital	983,373	963,553
Retained earnings	455,603	427,777
Accumulated other comprehensive income	22,517	20,202
Total shareholders equity	1,461,493	1,411,532

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Total liabilities and shareholders' equity	\$ 1,839,066	\$ 1,793,947
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The accompanying notes are an integral part of these consolidated financial statements.

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ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)
(In thousands, except per share data)

	For the three months ended June 30,	
	2007	2006
Net revenues	\$ 495,455	\$ 188,069
Costs and expenses:		
Cost of sales product costs	217,229	108,623
Cost of sales software royalties and amortization	78,252	19,261
Cost of sales intellectual property licenses	32,479	9,916
Product development	32,897	25,625
Sales and marketing	68,712	36,179
General and administrative	35,794	21,914
Total costs and expenses	465,363	221,518
Operating income (loss)	30,092	(33,449)
Investment income, net	11,562	8,275
Income (loss) before income tax provision (benefit)	41,654	(25,174)
Income tax provision (benefit)	13,828	(6,865)
Net income (loss)	\$ 27,826	\$ (18,309)
Basic earnings (loss) per share	\$ 0.10	\$ (0.07)
Weighted-average common shares outstanding	283,563	278,335
Diluted earnings (loss) per share	\$ 0.09	\$ (0.07)
Weighted-average common shares outstanding assuming dilution	311,993	278,335

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

ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

	For the three months ended June 30,	
	2007	2006
Cash flows from operating activities:		
Net income (loss)	\$ 27,826	\$ (18,309)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Deferred income taxes	7,306	(6,797)
Realized gain on sale of short-term investments		(2)
Depreciation and amortization	8,730	4,421
Amortization of capitalized software development costs and intellectual property licenses (1)	77,661	21,116
Stock-based compensation expense (2)	8,160	5,849
Tax benefit of stock options	400	2,763
Excess tax benefit from stock option exercises	(370)	(2,005)
Changes in operating assets and liabilities (net of effects of acquisitions):		
Accounts receivable	(49,165)	(25,469)
Inventories	(1,298)	1,012
Software development and intellectual property licenses	(42,299)	(44,862)
Other assets	(2,931)	637
Accounts payable	(26,731)	(22,058)
Accrued expenses and other liabilities	(783)	(19,969)
Net cash provided by (used in) operating activities	6,506	(103,673)
Cash flows from investing activities:		
Capital expenditures	(7,348)	(2,631)
Cash payments to effect business combinations, net of cash acquired	(3,659)	(30,500)
Increase in restricted cash	(8,413)	
Purchases of short-term investments	(187,495)	(63,455)
Proceeds from sales and maturities of short-term investments	145,864	80,967
Net cash used in investing activities	(61,051)	(15,619)
Cash flows from financing activities:		
Proceeds from issuance of common stock to employees	11,182	4,837
Excess tax benefit from stock option exercises	370	2,005
Net cash provided by financing activities	11,552	6,842
Effect of exchange rate changes on cash	2,565	3,142
Net decrease in cash and cash equivalents	(40,428)	(109,308)
Cash and cash equivalents at beginning of period	384,409	354,331
Cash and cash equivalents at end of period	\$ 343,981	\$ 245,023

(1) Excludes amortization of stock-based compensation expense.

(2) Includes the net effects of capitalization and amortization of stock-based compensation expense.

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