

ACTIVISION INC /NY  
Form DEF 14A  
July 30, 2007

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**  
INFORMATION REQUIRED IN PROXY STATEMENT

**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**ACTIVISION, INC.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**3100 Ocean Park Boulevard  
Santa Monica, California 90405**

**July 30, 2007**

**Dear Stockholder:**

You are cordially invited to attend the 2007 Annual Meeting of Stockholders of Activision, Inc. The meeting will be held on Thursday, September 27, 2007, beginning at 9:00 a.m., Pacific Daylight Saving Time, at The Beverly Hills Hotel, 9641 Sunset Boulevard, Beverly Hills, California 90210.

Information about the meeting and the matters on which stockholders will act is included in the Notice of Annual Meeting of Stockholders and Proxy Statement that follow. Also included is a proxy card and postage paid return envelope.

It is important that your shares be represented at the Annual Meeting. Whether or not you plan to attend, you are urged to promptly vote your shares by proxy. You may vote electronically using the web site address or toll-free telephone number included on your proxy card. You may also vote by mail. If you choose to vote by mail, please complete, sign, date and return your proxy card in the enclosed envelope as soon as possible. If you are able to attend the meeting and wish to vote in person, you may withdraw your proxy at that time.

Sincerely,

Robert A. Kotick  
*Chairman and Chief Executive Officer*

Brian G. Kelly  
*Co-Chairman*

Michael Griffith  
*President and  
Chief Executive Officer,  
Activision Publishing, Inc.*

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3100 Ocean Park Boulevard  
Santa Monica, California 90405

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD SEPTEMBER 27, 2007**

**To the Stockholders of Activision, Inc.:**

The 2007 Annual Meeting of Stockholders of Activision, Inc. (the "Company") will be held at The Beverly Hills Hotel, 9641 Sunset Boulevard, Beverly Hills, California 90210, on Thursday, September 27, 2007, at 9:00 a.m., Pacific Daylight Saving Time, for the following purposes:

1. To elect eight directors of the Company to hold office until the next annual meeting of stockholders and until their respective successors are duly elected and qualified.
2. To approve the Activision, Inc. 2007 Incentive Plan.
3. To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending March 31, 2008.
4. To act upon a stockholder proposal regarding diversity of the Board of Directors.
5. To act upon a stockholder proposal regarding a stockholder advisory vote on executive compensation.

The foregoing items of business are described more fully in the Proxy Statement accompanying this Notice.

The Board of Directors of the Company has fixed the close of business on July 23, 2007 as the record date for determining the stockholders entitled to receive notice of, and to vote at, the Annual Meeting.

**STOCKHOLDERS ARE CORDIALLY INVITED TO ATTEND THE MEETING IN PERSON.**

**YOUR VOTE IS IMPORTANT. ACCORDINGLY, WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, YOU ARE URGED TO PROMPTLY VOTE YOUR SHARES BY PROXY. YOU MAY VOTE ELECTRONICALLY USING THE WEB SITE ADDRESS OR TOLL-FREE TELEPHONE NUMBER INCLUDED ON THE ACCOMPANYING PROXY CARD. YOU MAY ALSO VOTE BY MAIL. IF YOU CHOOSE TO VOTE BY MAIL, PLEASE COMPLETE, SIGN, DATE AND RETURN THE ACCOMPANYING PROXY CARD AS SOON AS POSSIBLE. NO POSTAGE IS REQUIRED IF THE PROXY CARD IS MAILED FROM WITHIN THE UNITED STATES IN THE ENVELOPE PROVIDED. STOCKHOLDERS WHO ARE PRESENT AT THE ANNUAL MEETING MAY WITHDRAW THEIR PROXY AND VOTE IN PERSON IF THEY SO DESIRE. IT IS IMPORTANT THAT YOU PROVIDE YOUR PROXY PROMPTLY SO THAT THE COMPANY CAN AVOID THE ADDITIONAL EXPENSE OF FURTHER SOLICITATION.**

By Order of the Board of Directors

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George L. Rose  
*Secretary*

**July 30, 2007**  
**Santa Monica, California**

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**PROXY STATEMENT  
ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON SEPTEMBER 27, 2007**

**TABLE OF CONTENTS**

PROCEDURAL MATTERS	1
PROPOSALS	3
PROPOSAL 1 ELECTION OF DIRECTORS	3
PROPOSAL 2 APPROVAL OF THE 2007 INCENTIVE PLAN	6
PROPOSAL 3 RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	20
PROPOSAL 4 STOCKHOLDER PROPOSAL DIVERSITY ON THE BOARD OF DIRECTORS	21
PROPOSAL 5 STOCKHOLDER PROPOSAL STOCKHOLDER ADVISORY VOTE ON EXECUTIVE COMPENSATION	23
EQUITY COMPENSATION PLAN INFORMATION	26
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	27
CORPORATE GOVERNANCE MATTERS	29
EXECUTIVE OFFICERS AND KEY EMPLOYEES	35
EXECUTIVE COMPENSATION	37
DIRECTOR COMPENSATION	73
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	76
COMPENSATION COMMITTEE REPORT	76
AUDIT COMMITTEE REPORT	77
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S FEES	78
SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE	79
STOCKHOLDER PROPOSALS FOR 2008 ANNUAL MEETING	79
FINANCIAL AND OTHER INFORMATION	79
OTHER MATTERS	80
ANNEX A	A-1

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**PROXY STATEMENT**

**ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON SEPTEMBER 27, 2007**

**PROCEDURAL MATTERS**

**General**

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors (the "Board") of Activision, Inc., a Delaware corporation (the "Company"), of proxies from holders ("Stockholders") of the Company's issued and outstanding shares of common stock, par value \$.000001 per share ("Common Stock"). The proxies being solicited will be used at the Annual Meeting of Stockholders to be held on Thursday, September 27, 2007, at The Beverly Hills Hotel, 9641 Sunset Boulevard, Beverly Hills, California 90210, at 9:00 a.m., Pacific Daylight Saving Time, and at any adjournment or postponement of such meeting (the "Annual Meeting"), for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. This Proxy Statement and enclosed proxy card are first being mailed to Stockholders on or about August 13, 2007.

**Record Date and Quorum**

Stockholders of record at the close of business on July 23, 2007 are entitled to notice of, and to vote at, the Annual Meeting. On the record date, there were 285,973,312 shares of Common Stock outstanding. Each share of Common Stock outstanding on the record date is entitled to one vote on each matter presented for action at the Annual Meeting. A majority of the outstanding shares of Common Stock must be present in person or by proxy at the Annual Meeting in order for a quorum to be present. Proxies representing abstentions and broker non-votes will be included for purposes of determining whether a quorum is present at the Annual Meeting. A "broker non-vote" occurs when a broker, bank or other nominee who holds shares for a beneficial owner to be represented at the meeting does not vote on a particular proposal because the broker, bank or other nominee does not have discretionary voting power with respect to that item and has not received instructions on point from such beneficial owner.

**Required Votes**

In the election of directors (Proposal 1), you may either vote "for" each nominee or expressly withhold your vote with respect to a nominee. The directors are elected by a plurality of the votes cast at the Annual Meeting, which means the eight director nominees receiving the highest number of votes will be elected. Accordingly, shares not present and shares present but not voted (because such vote is expressly withheld or is simply not cast) will have no effect on the voting outcome with respect to the election of directors.

Approval of the Activision, Inc. 2007 Incentive Plan (the "2007 Plan") (Proposal 2), ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered accounting firm for the Company's current fiscal year (Proposal 3) and adoption of each Stockholder proposal (Proposals 4 and 5) require the affirmative vote of a majority of the votes cast on the proposal at the Annual Meeting. Accordingly, shares not present and shares present but not voted (because of an express abstention or broker non-vote or because such vote is simply not cast) will have no effect on the voting outcome with respect to these proposals.

Because the election of directors (Proposal 1) and the ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered accounting firm for the

Company's current fiscal year (Proposal 3) are each a routine proposal, if you hold your shares in "street name" and do not give your broker or nominee instructions as to how to vote your shares with respect to this proposal, your broker or nominee will have discretionary authority to vote your shares under applicable rules. Because approval of the 2007 Plan (Proposal 2) and each of the Stockholder proposals (Proposals 4 and 5) are non-routine proposals, if you hold your shares in "street name" and do not give your broker or nominee instructions as to how to vote your shares with respect to any of these three proposals, under applicable rules your broker or nominee will not have discretionary authority to vote your shares, in which case such shares will be considered a broker non-vote with respect to such proposal.

### **Proxies**

Whether or not you are able to attend the Annual Meeting, you are urged to vote your shares by proxy. You may vote electronically using the web site address or toll-free telephone number included on your proxy card. You may also vote by mail. If you choose to vote by mail, please complete, sign, date and return your proxy card as soon as possible. If you are able to attend the meeting and wish to vote in person, you may withdraw your proxy at that time. The Common Stock represented by all proxies received by the Company prior to the Annual Meeting, and not revoked prior to being voted at the Annual Meeting, will be voted at the Annual Meeting as directed. If no directions are specified, such proxies will be voted FOR each of the director nominees named in this Proxy Statement, FOR approval of the 2007 Plan (Proposal 2), FOR ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered accounting firm for the Company's current fiscal year (Proposal 3) and AGAINST adoption of each Stockholder proposal (Proposals 4 and 5). Any Stockholder may revoke or change such Stockholder's proxy at any time before the proxy is voted at the Annual Meeting by (1) sending a written notice of revocation of the proxy to the Secretary of the Company at the Company's principal executive offices, (2) delivering a subsequently dated proxy by telephone, Internet or mail, or (3) voting in person at the Annual Meeting.

### **Costs of Proxy Solicitation**

The Company will bear the entire cost of this proxy solicitation, including the preparation, assembly, printing and mailing of this Proxy Statement, the proxy card and any additional solicitation materials sent by the Company to Stockholders. The Company has hired Morrow & Co. to assist with the distribution of proxy materials and solicitation of votes at a cost of approximately \$7,500 plus any amount for disbursements and out-of-pocket expenses. The Company may reimburse brokerage firms and other persons representing beneficial owners of Common Stock for their expenses in forwarding the proxy materials to such beneficial owners. In addition, proxies may be solicited by directors, officers and regular employees of the Company, without additional compensation, personally or by telephone.



**PROPOSALS****PROPOSAL 1  
ELECTION OF DIRECTORS****General**

Stockholders will elect eight directors at the Annual Meeting. Those elected will serve until the Company's next annual meeting of Stockholders and until their respective successors are duly elected and qualified.

The Board has nominated each person listed below to stand for election at the Annual Meeting. Except where otherwise instructed, proxies solicited by this Proxy Statement will be voted for the election of each such nominee. However, if any nominee shall become unable to stand for election as a director at the Annual Meeting, the proxy may be voted for a substitute designated by the Board.

Each of the nominees currently serves as a director of the Company and has consented to be named in this Proxy Statement and to continue to serve as a director if elected at the Annual Meeting.

**Nominees**

The following table sets forth the names of the nominees and certain information about them (including their terms of service):

Name of Nominee	Age	Principal Occupation	Director Since
Robert A. Kotick	44	Chairman and Chief Executive Officer of the Company	1991
Brian G. Kelly	44	Co-Chairman of the Company	1995
Ronald Doornink	53	Senior Advisor to the Company	2003
Robert J. Corti (1)(2)	57	Chairman of the Board of Avon Products Foundation	2003
Barbara S. Isgur (1)(3)	65	Consultant	1991
Robert J. Morgado (1)(2)(3)	64	Chairman of Maroley Media Group	1997
Peter J. Nolan (3)	49	Managing Partner of Leonard Green & Partners, L.P.	2003
Richard Sarnoff (2)	48	Executive Vice President of Random House, Inc.	2005

(1) Member of the Audit Committee.

(2) Member of the Nominating/Corporate Governance Committee.

(3) Member of the Compensation Committee.

*Mr. Kotick* has been a director, Chairman and Chief Executive Officer of the Company since February 1991. Since March 2003, Mr. Kotick has served on the board of directors of Yahoo! Inc., an Internet content and service provider, and as a member of that board's nominating and corporate governance committee. He is also a member of the Board of Trustees for The Center for Early Education and is chairman of the Committee of Trustees at the Los Angeles County Museum of Art.

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*Mr. Kelly* has held various positions of responsibility with the Company since 1991, including serving as a director of the Company since July 1995 and Co-Chairman of the Company since

October 1998. Mr. Kelly holds a B.A. degree in accounting from Rutgers University and a J.D. degree from Fordham University School of Law.

*Mr. Doornink* has been a director of the Company since April 2003 and a Senior Advisor to the Company since December 2005. He previously served as President of the Company from 1998 to December 2005. He also served as Chairman of Activision Publishing, Inc., the Company's only direct operating subsidiary and the holding company for all other active subsidiaries ("Activision Publishing"), from June 2005 to December 2005 and as Chief Executive Officer of Activision Publishing from March 2002 to June 2005. Prior to joining the Company in 1998, Mr. Doornink served as President of the Hunt-Wesson snack food division of ConAgra Foods, Inc. for three years. Prior to that, Mr. Doornink worked at The Procter & Gamble Company, a manufacturer of consumer goods products, for 13 years. Mr. Doornink holds an undergraduate degree in economics from the Hogere Economische School of Arnhem in The Netherlands and an M.B.A. degree from Columbia University.

*Mr. Corti* has been a director of the Company since December 2003 and serves as chairperson of the Audit Committee. Mr. Corti has more than 25 years of experience at Avon Products, Inc., a global manufacturer and marketer of beauty and related products. Mr. Corti joined Avon Products, Inc.'s tax department as a tax associate in 1976 and held positions of increasing responsibility in Avon Products, Inc.'s finance department throughout his tenure there. He served as the Executive Vice President and Chief Financial Officer of Avon Products, Inc. from 1998 until he retired from his positions as Chief Financial Officer in November 2005 and Executive Vice President in March 2006. Since June 2006, Mr. Corti has served on the board of directors of Bacardi Limited, a wine and spirits group. Mr. Corti also serves as Chairman of the board of directors of the Avon Products Foundation. Mr. Corti holds a B.A. degree in Accounting from Queens College and an M.B.A. degree in Taxation from St. John's University. Mr. Corti is also a certified public accountant.

*Ms. Isgur* has been a director of the Company since February 1991. Since her retirement in 1998, she has provided consulting services. She previously served as a Senior Vice President of Stratagem, Inc., an investment banking firm specializing in the software industry, from 1993 to 1998, as President of BSI Consulting, a software development and services firm, from 1990 to 1993, as a Vice President of Needham & Co., a high technology investment banking firm, from 1989 to 1990, as a Vice President of Manufacturers Hanover Securities, an investment banking firm, during 1988, as a principal of D.H. Brown Associates, a research and consulting firm, from 1985 to 1988 and as a Vice President and microcomputer industry analyst at Paine Webber, Incorporated from 1981 to 1985.

*Mr. Morgado* has been a director of the Company since February 1997 and serves as chairperson of both the Compensation Committee and the Nominating/Corporate Governance Committee. Mr. Morgado is Chairman of Maroley Media Group, a media entertainment investment company he established in 1995. He previously served as Chairman and Chief Executive Officer of the Warner Music Group, Inc. from 1985 to 1995. Mr. Morgado serves on the boards of directors of the Maui Arts & Cultural Center and New Milford Hospital in Connecticut. He is also a member of the board of managers of Nest Top, LLC, the controlling shareholder of Nest Family and Nest Learning Systems, a children's entertainment company. Mr. Morgado holds a B.A. degree from Chaminade University of Honolulu and an M.P.A. degree from The State University of New York.

*Mr. Nolan* has been a director of the Company since December 2003. Mr. Nolan is a managing partner of Leonard Green & Partners, L.P., a private equity firm. Prior to becoming a partner at Leonard Green & Partners, L.P. in 1997, Mr. Nolan served as a Managing Director and Co-Head of Donaldson, Lufkin and Jenrette's Los Angeles Investment Banking Division from 1990 to 1997, as a First Vice President in corporate finance at Drexel Burnham Lambert from 1986 to 1990, and as a Vice President at Prudential Securities, Inc. from 1982 to 1986. Prior to 1986, Mr. Nolan worked at Manufacturers Hanover Trust Company, a financial institution. He serves on the boards of directors of Rand McNally & Company, Inc., a mapping and navigation company, and FTD Group, Inc., a provider

of floral-related products and services. Mr. Nolan also serves on the board of managers of AsianMedia Group LLC, an Asian-language media company in the United States. Mr. Nolan holds both a B.S. degree in Agricultural Economics and Finance and an M.B.A. degree from Cornell University.

*Mr. Sarnoff* has been a director of the Company since August 2005. Since 1998, Mr. Sarnoff has been Executive Vice President of Random House, Inc., a general trade book publisher. He has also served as President of Random House Corporate Development Group since 2000 and President of Random House Ventures, L.L.C. since 1999. Mr. Sarnoff serves on the supervisory board of Bertelsmann AG, the parent company of Random House, Inc., and is the elected Chairman of the Bertelsmann Management Representative Committee. Since Mr. Sarnoff joined Random House's predecessor company, Bantam Doubleday Dell in 1987, he has held various positions of increasing responsibility, including Director of Marketing of the Bantam Publishing Division, Vice President of Strategic Planning and Senior Vice President and General Manager of the Diversified Publishing Group. Mr. Sarnoff also served as Chief Financial Officer of Bantam Doubleday Dell and later served as Chief Financial Officer of Random House, Inc. after the companies were combined. Mr. Sarnoff serves on the boards of directors of The Princeton Review, Inc., an educational preparation company, Audible, Inc., a provider of spoken audio for computer-based listening or mobile playback, and Oak Hill Capital Fund II, a private equity fund. Mr. Sarnoff holds a B.A. degree from Princeton University and an M.B.A. degree from Harvard Business School.

**Required Vote and Board Recommendation**

The directors will be elected by a plurality of the votes cast at the Annual Meeting.

**The Board recommends that you vote FOR the election  
of each nominee for director.**

**PROPOSAL 2**  
**APPROVAL OF THE 2007 INCENTIVE PLAN**

**General**

Equity-based compensation has been a major component of the Company's compensation programs over an extended period of time. The Company's equity-based compensation programs are broad-based, and a substantial majority of the equity awarded under these programs has been and continues to be awarded to employees who are not executive officers. The Board believes that the ability of the Company to grant equity-based compensation has been a significant factor in the Company's ability to achieve its growth objectives and enhance stockholder value. Without a new equity incentive plan, in the near future the Company will no longer have the continuing ability to utilize equity-based compensation as a meaningful component of its compensation programs, putting the Company at a significant competitive disadvantage and compromising the Company's ability to enhance stockholder value. Accordingly, based on the recommendation of the Compensation Committee, on July 27, 2007, the Board, subject to Stockholder approval, adopted the 2007 Plan.

**Importance of Equity-Based Compensation**

The Board believes that the ability of the Company to utilize equity-based compensation as a meaningful component of its compensation programs is critically important for the continued success of the Company. The principal factors shaping the Board's view in this regard are as follows:

*Recruiting and Retention; Expansion through Acquisition.* In the industry in which the Company competes, the Company's ability to use equity-based compensation is vital in order for it to attract and retain executive, creative and technical talent and other key employees and to expand through strategic acquisitions. In particular, the market for creative and technical talent is extremely competitive in the interactive entertainment software industry, and, due to its small size relative to the size of the companies with which it competes for talent, the Company has been aggressive in its equity-based compensation program.

*Motivation.* The Company's ability to use equity-based compensation is fundamental to its ability to motivate its employees to achieve the Company's growth objectives.

*Alignment with Stockholder Interests.* The Company's ability to use equity-based compensation gives it the most effective means to align the interests of employees with those of Stockholders because equity-based compensation directly links the employee's compensation to an increase in the value of the Common Stock.

The Board believes that the following charts support statistically the favorable impact of the Company's historical use of equity-based compensation on the Company's growth and stockholder value. As these charts illustrate, (1) the Company has had an increase in its annual net revenue from \$572 million in fiscal 2000 to \$1.5 billion in fiscal 2007, reflecting a compound annual growth rate of 15%, (2) the Company has had a cumulative total stockholder return on the Common Stock such that \$100,000 invested in the Common Stock on March 31, 2000 would have grown to approximately \$942,000 on March 31, 2007, based on the closing market price of Common Stock as reported on the Nasdaq on March 30, 2007, and (3) the Company has had an increase in shareholders' equity from \$141 million at the end of fiscal 2000 to \$1.4 billion at the end of fiscal 2007, reflecting a compound annual growth rate of 39%.

**Net Revenue**  
(dollars in millions)

**Cumulative Total Return on \$100,000**  
**Invested on March 31, 2000**  
(dollars)

**Shareholders' Equity**  
(dollars in millions)

**Aggressive Management of Dilutive Impact**

As the Company has grown, it has become more focused with respect to the impact of its equity grants on Stockholders. The Board recognizes the importance of keeping the dilutive impact of equity-based compensation on Stockholders within a range of reasonableness. The Company is striving for a low rate of dilution as compared to the companies with which it competes. For the last few fiscal years, the Company has generally been limiting the size and frequency of equity grants made to its executive officers. In addition, the Company has established and closely adhered to guidelines for awards to other employees. Most recently, the Company has begun utilizing restricted shares, and intends to use restricted share units, as part of its equity-based compensation program for a portion of its employees. The use of restricted shares and restricted share units, which are more valuable than options exercisable for the same number of shares, as part of the equity-based compensation program helps lower potential dilution because it results in the use of fewer shares in individual grants. During the three-year period including fiscal 2005, fiscal 2006 and fiscal 2007, the Company maintained annual net dilution from equity-based compensation awards (as measured for any particular year by the number of shares of Common Stock issued as or issuable in respect of grants made in such fiscal year, less the number of shares forfeited or that were issuable in respect of awards cancelled in such fiscal year, as a percentage of the total number of shares of Common Stock outstanding at the end of such fiscal year) at an average of 2.05%. The Company's goal is to maintain annual net dilution from equity-based compensation awards at an average of less than 2.0% during the three-year period including fiscal 2008, fiscal 2009 and fiscal 2010. However, circumstances, such as extraordinary recruiting and retention efforts and acquisitions, may result in annual net dilution from equity-based compensation awards exceeding 2.0% for a particular year during such three-year period.

The Board believes that the following chart demonstrates statistically the Company's aggressive management of the dilutive impact of its equity-based compensation programs in recent years.

**Net Dilution**  
(%)

- 
- (1) In fiscal 2006, equity awards involving 2,985,809 shares of Common Stock in the aggregate were granted to four new senior executives in connection with the commencement of their employment with the Company. Excluding the effect of such grants, net dilution from equity awards in fiscal 2006 would have been 1.7%.

**Effect on Existing Equity Incentive Plans**

If the 2007 Plan is approved by Stockholders, the Company will cease to make awards under the following equity incentive plans (collectively, the "Rolled-Up Plans"):

Activision, Inc. 1998 Incentive Plan, as amended;

Activision, Inc. 1999 Incentive Plan, as amended;

Activision, Inc. 2001 Incentive Plan, as amended;

Activision, Inc. 2002 Incentive Plan, as amended;

Activision, Inc. 2002 Executive Incentive Plan, as amended;

Activision, Inc. 2002 Studio Employee Retention Incentive Plan, as amended; and



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Activision, Inc. 2003 Incentive Plan, as amended.

The Rolled Up Plans will remain in effect and continue to govern outstanding awards thereunder.

Pursuant to its terms, the Company may no longer makes awards under the Activision, Inc. 1991 Stock Option and Stock Award Plan, as amended (the "1991 Plan"). The 1991 Plan remains in effect and continues to govern outstanding awards thereunder.

If the 2007 Plan is approved by Stockholders, all future equity awards will be granted under the 2007 Plan, and the Company will not make any new awards under the Rolled-Up Plans. Making future grants under only one plan will enable the Company to establish uniform guidelines for equity awards at all levels and is expected to significantly simplify administration of the Company's equity-based compensation programs.

**2007 Plan Appropriately Sized**

The Board has reserved 15,000,000 shares of Common Stock for issuance under the 2007 Plan. If Stockholders approve the 2007 Plan, at that time the number of shares reserved for issuance under the 2007 Plan will be increased to reflect the number of shares then reserved for issuance but not subject to outstanding awards under the Rolled-Up Plans. Thereafter, the number of shares reserved for issuance under the 2007 Plan will be further increased from time to time by:

the number of shares relating to awards outstanding under any Rolled-Up Plan at the time the 2007 Plan is approved by Stockholders that:

expire, or are forfeited, terminated or cancelled, without the issuance of shares;

are settled in cash in lieu of shares; or

are exchanged, prior to the issuance of shares of Common Stock, for awards not involving Common Stock; and

if the exercise price of any option outstanding under any Rolled-Up Plan at the time the 2007 Plan is approved by Stockholders is, or the tax withholding requirements with respect to any award outstanding under any Rolled-Up Plan at the time the 2007 Plan is approved by Stockholders are, satisfied by withholding shares otherwise then deliverable in respect of the award or the actual or constructive transfer to the Company of shares already owned, the number of shares equal to the withheld or transferred shares.

The following table sets forth for (1) the 2007 Plan, (2) the Rolled-Up Plans, and (3) the 2007 Plan and the Rolled-Up Plans on a combined basis:

the number of shares of Common Stock reserved for issuance thereunder and not subject to outstanding awards;

the number of shares of Common Stock reserved for issuance thereunder in respect of outstanding awards of options;

the number of restricted shares of Common Stock issued thereunder, which are outstanding but subject to forfeiture; and

the total number of all such shares as a percentage of the outstanding shares of Common Stock on a fully diluted basis (see footnote 1 to the table below).

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The information included in the table with respect to the Rolled-Up Plans is as of July 18, 2007.

Plan or Arrangement	Number of Shares of Common Stock Reserved for Issuance		Restricted Shares of Common Stock Outstanding But Subject to Forfeiture (#)	All Such Shares as a Fully Diluted Percentage of Common Stock Outstanding (%) (1)
	Not Subject to Outstanding Option Awards	Subject to Outstanding Option Awards		
	(#)	(#)		
2007 Plan	15,000,000			4.2
Rolled-Up Plans	3,861,079	44,824,598	338,558	13.6
<b>Combined Total</b>	<b>18,861,079</b>	<b>44,824,598</b>	<b>338,558</b>	<b>17.8</b>

(1)

The fully diluted percentage of outstanding Common Stock was calculated by dividing (a) the sum of (i) the number of shares reserved for issuance under the 2007 Plan or the Rolled-Up Plan, as the case may be, and (ii) with respect to the Rolled-Up Plans, the number of restricted shares outstanding but subject to forfeiture, by (b) 359,654,519, the sum of (i) 285,960,477, the total number of shares outstanding as of July 18, 2007, including the 338,558 restricted shares outstanding but subject to forfeiture, (ii) 15,000,000, the number of shares reserved for issuance under the 2007 Plans, (iii) 3,861,079, the number of shares reserved for issuance but not subject to outstanding awards under the Rolled-Up Plans as of July 18, 2007, (iv) 44,824,598, the number of shares reserved for issuance and subject to outstanding awards under the Rolled-Up Plans as of July 18, 2007, (v) 388,845, the number of shares reserved for issuance in respect of options under the 1991 Plan as of July 18, 2007, (vi) 8,304,789, the number of shares reserved for issuance in respect of options held by certain individuals that were not issued under a plan as of July 18, 2007, and (vii) 1,314,731, the number of shares remaining available for issuance under the Company's employee stock purchase plans as of July 18, 2007.

Based on the foregoing, assuming that after July 18, 2007, (1) no further awards are made under the Rolled-Up Plans, (2) all outstanding option awards under the Rolled-Up Plans are cancelled without the issuance of shares of Common Stock, and (3) all outstanding restricted shares of Common Stock issued under the Rolled-Up Plans are forfeited, the maximum number of shares of Common Stock available for issuance under the 2007 Plan (subject to adjustment as provided in the 2007 Plan in the event of stock splits, stock dividends, the issuance of rights and certain other events) would constitute 17.8% of the shares of Common Stock outstanding on a fully diluted basis (see footnote 1).

As a result of the historical increase in the market value of the Common Stock over time, holders of a substantial portion of options issued by the Company have continued to hold a significant portion of their options rather than promptly exercise options after they become exercisable. As of July 18, 2007, based on the \$18.21 per share closing market price of Common Stock as reported on Nasdaq on such date, there were outstanding exercisable, in-the-money options to purchase 33,964,094 shares of Common Stock in the aggregate that had not yet been exercised, including options to purchase 25,270,460 shares of Common Stock outstanding under the Rolled-Up Plans. If all such options outstanding had been exercised as of July 18, 2007, based on the assumptions set forth above the maximum number of shares of Common Stock that could be available for issuance under the 2007 Plan (subject to adjustment as provided in the event of stock splits, stock dividends, the issuance of rights and certain other events) would constitute 10.8% of the shares of Common Stock outstanding on a fully diluted basis.

If the 2007 Plan is approved by Stockholders, the Board currently expects that no new equity incentive plans and no amendments to the 2007 Plan will be required for the next several fiscal years, though such expectations could change depending on, among other things, the recruiting, retention and acquisition efforts during such period.

## Importance of Stockholder Approval

The Board believes that approval of the 2007 Plan by Stockholders is critically important for the continued success of the Company and enhancement of stockholder value. If the 2007 Plan is not approved by Stockholders, the Company will soon no longer be able to use equity-based compensation as a meaningful component of compensation. In this regard, the Board believes that the following points are worth noting:

*Failure to obtain Stockholder approval would place the Company at a severe disadvantage from a retention and recruitment perspective.* In the interactive entertainment software industry, the Company's inability to use equity-based compensation would place it at a severe competitive disadvantage with respect to the recruitment and retention of executive, creative, technical and other talent.

*Failure to obtain Stockholder approval would hinder the Company's ability to expand through acquisitions.* As the interactive entertainment software industry continues to consolidate and the Company continues to search for additional acquisition opportunities in an increasingly competitive environment, the Company's inability to use equity-based compensation in connection with suitable acquisitions and the integration of acquired businesses into its existing business would hinder the ability of the Company to continue to expand through acquisitions.

*Failure to obtain Stockholder approval would significantly increase the Company's cash compensation expense.* As a result of limitations on the Company's ability to use equity-based compensation as part of its recruitment, retention and acquisition efforts, the Company would have to increase its use of cash compensation, thereby significantly increasing the Company's cash compensation expense.

Stockholder approval of the 2007 Plan is necessary in order for the Company to (1) meet the stockholder approval requirements of the Nasdaq, (2) take tax deductions for certain compensation resulting from awards granted thereunder qualifying as performance-based compensation under Section 162(m) of the Internal Revenue Code, as amended (the "Code"), and (3) grant incentive stock options ("ISOs") thereunder.

## Highlights of the 2007 Plan

The 2007 Plan authorizes the Compensation Committee of the Board (or, if the Board determines, another committee of the Board) to provide equity-based compensation in the form of stock options, share appreciation rights ("SARs"), restricted shares, restricted share units, performance shares, performance units and other performance- or value-based awards structured by the Compensation Committee within parameters set forth in the 2007 Plan ("custom awards"), including custom awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares of Common Stock or factors that may influence the value of Common Stock or that are valued based on performance of the Company or any of its subsidiaries or business units or other factors designated by the Compensation Committee, as well as incentive bonuses, for the purpose of providing the Company's directors, officers, employees and consultants incentives and rewards for superior performance. Some of the key features of the 2007 Plan that reflect the Company's commitment to effective management of incentive compensation are as follows:

*Limitations on Grants.* Subject to adjustment for stock splits, stock dividends, the issuance of rights and certain other events described in the 2007 Plan, in addition to the annual grant limitations described under "Summary of the 2007 Plan Shares Available Under the 2007 Plan," the 2007 Plan contains the following grant limitations:

*Limits on ISOs.* The number of shares that may be issued or transferred by the Company upon the exercise of ISOs may not exceed 15,000,000 in the aggregate; and

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*Limits on Awards Other than Options and SARs.* The number of shares that may be issued or transferred by the Company as or pursuant to awards other than options or SARs may not exceed 7,500,000 in the aggregate, including no more than 3,000,000 in the aggregate as or pursuant to custom awards.

*No Repricing or Replacement of Options.* The 2007 Plan prohibits the amendment of options to reduce the exercise price or the replacement of options with options having a lower exercise price without Stockholder approval.

*No In-the-Money Option or SAR Grants.* The 2007 Plan prohibits the grant of options or SARs with an exercise or base price less than the fair market value of the Common Stock on the date of grant.

*Section 162(m) Qualification.* The 2007 Plan is designed to allow awards made under the 2007 Plan, including incentive bonuses, to qualify as performance-based compensation under Section 162(m) of the Code.

*Independent Administration.* The Compensation Committee of the Board, which consists of only independent directors, will administer the 2007 Plan if it is approved by Stockholders.

The Company currently anticipates that its equity-based compensation program will primarily utilize a combination of options, restricted shares and restricted share units. Equity grants to executive officers will generally vest on a pro rata basis over three years or will vest in their entirety on the third anniversary of the date of grant, subject to the possible earlier vesting if the Company meets or exceeds corporate operating income targets established by the Compensation Committee. Equity grants to all other employees of the Company will generally vest on a pro rata basis over a three- or five- year period. However, the Company will monitor competitive compensation practices and may from time to time modify its own equity grant practices.

### Summary of the 2007 Plan

*The following summary of the principal terms and provisions of the 2007 Plan is qualified in its entirety by the terms of the 2007 Plan, which is included as Appendix A attached to this Proxy Statement and incorporated herein by reference.*

#### *Shares Available Under the 2007 Plan*

Subject to adjustment as provided in the 2007 Plan in the event of stock splits, stock dividends, the issuance of rights and certain other events, the number of shares of Common Stock that may be issued or transferred under the 2007 Plan will not exceed 15,000,000 as such number is increased as described under " 2007 Plan Appropriately Sized" above. Under the 2007 Plan:

shares relating to awards that expire, or are forfeited, terminated or cancelled, without the issuance of shares, awards that are settled in cash in lieu of shares and awards that are exchanged, with the Compensation Committee's permission, prior to the issuance of shares of Common Stock, for awards not involving Common Stock, will again be available for issuance or transfer under the 2007 Plan;

if the exercise price of any option is, or the tax withholding requirements with respect to any award granted under the 2007 Plan are, satisfied by withholding shares otherwise then deliverable in respect of the award or the actual or constructive transfer to the Company of shares already owned, a number of shares equal to the withheld or transferred shares will again be available for issuance or transfer under the 2007 Plan; and

if a SAR is exercised and settled in shares, a number of shares equal to the difference between the total number of shares exercised and the number of shares actually issued or transferred will again be available for issuance or transfer under the 2007 Plan, with the result being that only the number of shares actually issued or transferred upon exercise of the SAR are counted against the maximum number of shares of Common Stock available for issuance or transfer under the 2007 Plan.

Shares utilized under the 2007 Plan may be newly issued shares, treasury shares or a combination of the foregoing.



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In addition to the aggregate limits described in " Highlights of the 2007 Plan," the 2007 Plan contains the following individual annual grant limitations:

*Limits on Options and SARs.* The number of shares issuable or transferable in respect of options and SARs granted to any one participant in a single fiscal year may not exceed 2,000,000 in the aggregate;

*Limits on Restricted Shares and Restricted Share Units.* The number of (1) restricted shares granted to any one participant in a single fiscal year and (2) shares issuable or transferable in respect of restricted share units granted to such participant in such year, may not exceed 1,000,000 in the aggregate;

*Limits on Performance Shares.* The number of performance shares granted to any one participant in a single fiscal year may not exceed 1,500,000 in the aggregate;

*Limits on Performance Units.* The value of performance units granted to any one participant in a single fiscal year may not exceed \$2,000,000 in the aggregate (with the value of any such grant to be determined as of the date of such grant);

*Limits on Incentive Bonuses.* The amount of any incentive bonus payable under the 2007 Plan to any one participant for a single fiscal year may not exceed \$4,000,000; and

*Limits on Custom Awards.* The number of shares issuable or transferable in respect of custom awards granted to any one participant in a single fiscal year may not exceed 1,500,000 in the aggregate and the value of any custom award that does not involve the issuance or transfer of shares may not exceed \$2,000,000 in the aggregate (with the value of any such award to be determined as of the date of such award).

### ***Eligibility***

Directors, officers and other employees of and consultants to the Company and its subsidiaries are eligible to participate in the 2007 Plan. We currently estimate that approximately 2,000 individuals will be eligible to be selected by the Compensation Committee to receive awards under the 2007 Plan. This group of eligible participants currently includes 13 directors and executive officers.

### ***Types of Awards Authorized***

The 2007 Plan provides for the granting of stock options, SARs, restricted shares, restricted share units, performance shares, performance units, dividend equivalents and custom awards. Awards granted under the 2007 Plan will be upon such terms as may be approved by the Compensation Committee and set forth in an award agreement. An award will contain such terms and provisions, consistent with the 2007 Plan, as the Compensation Committee may approve, including provisions for the acceleration of vesting or the lapse, expiration or termination of restrictions or other conditions upon the occurrence of certain events, including change of control events.

The 2007 Plan also provides that the Compensation Committee may from time to time authorize payment of an incentive bonus to a participant who is, or is determined by the Compensation Committee to be likely to become, a "covered employee" within the meaning of Section 162(m) of the Code (generally, the chief executive officer and the three other highest paid officers other than the chief financial officer), which incentive compensation will become payable upon the achievement of specified Management Objectives, as described below. Such incentive bonuses will be payable upon such terms and conditions as the Compensation Committee may determine in accordance with the terms of the 2007 Plan. The payment of an incentive bonus under the 2007 Plan that becomes payable to a participant may be made in cash, in shares of Common Stock or a combination thereof, as determined by the Compensation Committee.

### *Management Objectives*

The 2007 Plan contemplates that the Compensation Committee will establish "Management Objectives" for purposes of any grants of performance shares, performance units or incentive bonuses. Under the 2007 Plan, the Compensation Committee may also establish Management Objectives in connection with grants of stock options, SARs, restricted shares, restricted share units, dividend credits and custom awards. For example, the Compensation Committee may specify Management Objectives that must be achieved as a condition to exercising options or SARs or to result in termination or early termination of the restrictions applicable to restricted shares or restricted share units.

Subject to the limits described below, Management Objectives may be described in terms of either Company-wide objectives or objectives that are related to the performance of the individual participant or a subsidiary, division, department, region or function. The Compensation Committee may provide, in connection with the setting of Management Objectives, that any evaluation of performance may include or exclude certain items, including, without limitation, asset write downs, litigation or claim judgments or settlements, the effect of changes in tax laws, accounting principles or other laws or provisions affecting reported results, any reorganization and restructuring programs, extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's Annual Report on Forms 10-K for the applicable year, acquisitions or divestitures and foreign exchange gains and losses. To the extent such inclusions or exclusions affect the awards to "covered employees" within the meaning of Section 162(m) of the Code, they will be prescribed in a form that meets the requirements of Section 162(m) of the Code for deductibility.

Management Objectives applicable to any award to a participant who is, or is determined by the Compensation Committee to be likely to become, a "covered employee" within the meaning of Section 162(m) of the Code, will be limited to specified levels of or relative peer company performance in any one or more of the following objectives, or any combination thereof, as determined by the Compensation Committee in its sole discretion: adjusted net earnings; appreciation in and/or maintenance of the price of Common Stock (or any other publicly-traded securities of the Company), including, without limitation, comparisons with various stock market indices; attainment of strategic and operational initiatives; budget; cash flow (including, without limitation, free cash flow); cost of capital; cost reduction; earnings and earnings growth (including, without limitation, earnings per share, earning before taxes, earnings before interest and taxes and earnings before interest, taxes, depreciation and amortization); market share; market value added; net income; net sales; operating profit and operating income; pretax income before allocation of corporate overhead and bonus; quality; recruitment and development of associates; maintenance of internal controls over financial reporting and corporate governance practices; reductions in costs; return on assets and return on net assets; return on equity; return on invested capital; sales and sales growth; successful acquisition/divestiture; and total stockholder return and improvement of stockholder return.

If the Compensation Committee determines that a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which it conducts its business, or other events or circumstances, render previously established Management Objectives unsuitable, the Compensation Committee may in its discretion modify such Management Objectives or the minimum acceptable level of achievement, in whole or in part, as the Compensation Committee deems appropriate and equitable, except in the case of a "covered employee" where such action would result in the loss of the otherwise available exemption under Section 162(m) of the Code. In such case, the Compensation Committee may not make any modification of the Management Objectives or minimum acceptable level of achievement with respect to such "covered employee."

### *Administration and Amendments*

The 2007 Plan is to be administered by the Compensation Committee. The Compensation Committee will have sole discretion to interpret any provision of the 2007 Plan or an award



thereunder, make any determination necessary or advisable for the administration of the 2007 Plan and awards thereunder, and waive any condition or right of the Company under an award or discontinue or terminate an award. Without intending to limit the generality or effect of the foregoing, any decision or determination made by the Compensation Committee with respect to the 2007 Plan or an award thereunder will be made by the Compensation Committee in its sole and absolute discretion, subject to the terms of the 2007 Plan. The interpretation and construction by the Compensation Committee of any provision of the 2007 Plan or of any award, and any determination by the Compensation Committee pursuant to any provision of the 2007 Plan or of any such award, will be final and conclusive.

The Compensation Committee may amend the 2007 Plan from time to time without further approval by Stockholders, except where the amendment must be approved by Stockholders in order to comply with applicable legal requirements or the requirements of the principal securities exchange, association or quotation system on which Common Stock is listed or quoted. Without intending to limit the generality or effect of the foregoing, if an amendment to the 2007 Plan would increase the number of shares of Common Stock that may be issued or transferred upon the exercise of ISOs, then such amendment will be subject to Stockholder approval and will not be effective unless and until such approval has been obtained.

Subject to the foregoing, the Compensation Committee may amend the terms of any award granted under the 2007 Plan prospectively or retroactively, except in the case of a covered employee where such action would result in the loss of the otherwise available exemption of the award under Section 162(m) of the Code. No amendment to any award may materially and adversely affect the rights of any participant taken as a whole without his or her consent.

#### *Change of Control*

Awards under the 2007 Plan may provide that, upon a change of control of the Company, such awards will become vested or earned, in whole or in part. For example, an award of options or SARs may provide that unvested options or SARs will become vested and immediately exercisable, either in whole or in part, upon a change of control. Similarly, awards of restricted shares, restricted share units, performance shares and performance units, custom awards and incentive bonuses may provide that the restrictions or other conditions prescribed by the Compensation Committee, if any, with respect thereto will automatically lapse, expire and terminate, and such awards will be deemed to be earned, in whole or in part, upon a change of control.

#### *Transferability*

The 2007 Plan expressly provides that, with the Company's consent, which may be granted or withheld in its sole and absolute discretion, a participant may transfer an award for estate planning purposes or pursuant to a domestic relations order, provided the transferee executes an agreement, in form satisfactory to the Company, to be bound by the terms and conditions of the 2007 Plan and the award being transferred. Unless otherwise permitted by the Compensation Committee, except as described in the immediately preceding sentence (1) no award or other derivative security granted under the 2007 Plan is transferable by a participant except, upon death, by will or the laws of descent and distribution and (2) stock options and SARs are exercisable during the optionee's lifetime only by him or her or by his or her guardian or legal representative.

#### *Adjustments*

The number of shares authorized under the 2007 Plan, the number of, and, if applicable, amounts payable for, shares subject to outstanding awards and the various limits contained in the 2007 Plan will be adjusted in the event of stock dividends, extraordinary dividends, stock splits, combinations of shares, recapitalizations, mergers, consolidations, spin-offs, split-offs, spin-outs, split-ups, reorganizations, liquidations, issuances of rights or warrants, and similar events. In the event of any

such transaction or event or in the event of a change of control, the Compensation Committee, in its discretion, may provide in substitution for any or all outstanding awards under the 2007 Plan such alternative consideration (including cash), if any, as it, in good faith, may determine to be equitable in the circumstances and may require the surrender of all awards so replaced. The Compensation Committee will also make or provide for such adjustments in the number of shares available under the 2007 Plan and the other limitations contained in the 2007 Plan as is appropriate to reflect any transaction or event described above. The 2007 Plan also provides that, without limiting the generality of the foregoing, in the event that the Company issues warrants or other rights to acquire common shares on a pro-rata basis to all Stockholders, the Compensation Committee will make such adjustments in the number of shares authorized under the 2007 Plan and in the limits contained in the 2007 Plan as it may determine to be equitable, including proportionately increasing the number of authorized shares or any such limit.

#### ***Withholding Taxes***

To the extent that the Company or a subsidiary is required to withhold federal, state, local or foreign taxes in connection with any payment made or benefit realized by a participant or other person under the 2007 Plan and the amounts available to the Company or subsidiary for such withholding are insufficient, it will be a condition to the receipt of such payment or the realization of such benefit that the participant or such other person make arrangements satisfactory to the Company for payment of the balance of such taxes required to be withheld, which arrangements (in the discretion of the Compensation Committee) may include relinquishment of a portion of such benefit.

#### ***Termination***

No award will be made under the 2007 Plan more than 10 years after the date on which the 2007 Plan is first approved by Stockholders, but all awards made on or prior to the tenth anniversary of Stockholder approval will continue in effect thereafter subject to the terms of such awards and of the 2007 Plan.

#### **Federal Income Tax Consequences**

The following discussion of the principal U.S. federal income tax consequences with respect to awards under the 2007 Plan is based on statutory authority and judicial and administrative interpretations as of the date of this Proxy Statement, which are subject to change at any time (possibly with retroactive effect) and may vary in individual circumstances. Therefore, the following discussion is designed to provide a general understanding of the federal income tax consequences (state, local and other tax consequences are not addressed below). *This discussion assumes that awards granted under the 2007 Plan are exempt from, or comply with, the provisions of Section 409A of the Code. This discussion is limited to the U.S. federal income tax consequences to individuals who are citizens or residents of the U.S. The U.S. federal income tax law is technical and complex and the discussion below represents only a general summary.*

#### ***Non-Qualified Stock Options***

In general, no income will be recognized by an optionee at the time a non-qualified stock option is granted. At the time of exercise of a non-qualified stock option, ordinary income will be recognized by the optionee in an amount equal to the difference between the exercise price paid for the shares and the fair market value of the shares, if unrestricted, on the date of exercise. At the time of sale of shares acquired pursuant to the exercise of a non-qualified stock option, appreciation (or depreciation) in value of the shares after the date of exercise will be treated as either short-term or long-term capital gain (or loss) depending on how long the shares have been held.

***Incentive Stock Options***

No income generally will be recognized by an optionee upon the grant or exercise of an ISO. The exercise of an ISO, however, may result in alternative minimum tax liability. If shares are issued to the optionee pursuant to the exercise of an ISO and no disqualifying disposition of such shares is made by such optionee within two years after the date of grant or within one year after the transfer of such shares to the optionee, then upon sale of such shares any amount realized in excess of the exercise price will be taxed to the optionee as a capital gain and any loss sustained will be a capital loss. If shares acquired upon the exercise of an ISO are disposed of prior to the expiration of either holding period described above, the optionee generally will recognize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of such shares at the time of exercise (or, if less, the amount realized on the disposition of such shares if a sale or exchange) over the exercise price paid for such shares. Any further gain (or loss) realized by the participant generally will be taxed as capital gain (or loss).

***Stock Appreciation Rights***

Generally, no income will be recognized by a participant in connection with the grant of a SAR. When the SAR is exercised, the participant normally will be required to include as taxable ordinary income in the year of exercise an amount equal to the amount of cash received and the fair market value of any unrestricted shares received on the exercise.

***Restricted Shares***

A recipient of restricted shares generally will be subject to tax at ordinary income rates on the fair market value of the restricted shares (reduced by any amount paid by the participant for such restricted shares) at such time as the shares are no longer subject to forfeiture or restrictions on transfer for purposes of Section 83 of the Code. However, a recipient who makes an election under Section 83(b) of the Code within 30 days of the date of grant of the shares will have taxable ordinary income on the date of grant of the shares equal to the excess of the fair market value of such shares (determined without regard to the restrictions) over the purchase price, if any, of such restricted shares. If a Section 83(b) election has not been made, any dividends received with respect to restricted shares that are subject to the restrictions generally will be treated as compensation that is taxable as ordinary income to the participant.

***Restricted Share Units***

No income generally will be recognized upon the award of restricted share units. The recipient of a restricted share unit award generally will be subject to tax at ordinary income rates on the fair market value of unrestricted shares on the date that such shares are transferred to the participant under the award (reduced by any amount paid by the participant for such restricted share units), and the capital gains/loss holding period for such shares will also commence on such date.

***Performance Shares and Performance Units***

No income generally will be recognized upon the grant of performance shares or performance units. Upon payment in respect of the earn-out of performance shares or performance units, the recipient generally will be required to include as taxable ordinary income in the year of receipt an amount equal to the amount of cash received and the fair market value of any unrestricted shares received.

***Incentive Bonuses***

The participant generally will be required to include as ordinary income in the year of receipt an amount equal to the amount of cash received and the fair market value of any non-restricted shares of Common Stock received as payment of a bonus.

*Tax Consequences to the Company or Subsidiary*

To the extent that a participant recognizes ordinary income in the circumstances described above, the Company or the subsidiary for which the participant performs services will be entitled to a corresponding deduction provided that, among other things, the income meets the test of reasonableness, is an ordinary and necessary business expense, is not an "excess parachute payment" within the meaning of Section 280G of the Code and is not disallowed by the \$1 million limitation on certain compensation of "covered employees" under Section 162(m) of the Code.

*Section 409A of the Code*

To the extent that any award granted under the 2007 Plan constitutes a deferral of compensation within the meaning of Section 409A of the Code, the Compensation Committee intends to cause the award to comply with the requirements of Section 409A. If an award does not comply with the requirements of Section 409A, penalty taxes and interest may be imposed on the participant receiving the award.

**Registration with the SEC**

The Company intends to file a Registration Statement on Form S-8 relating to the issuance of shares of Common Stock under the 2007 Plan with the Securities and Exchange Commission (the "SEC") pursuant to the Securities Act of 1933, as amended, as soon as is practicable after approval of the 2007 Plan by Stockholders.

**New Plan Benefits**

Awards under the 2007 Plan are discretionary. As a consequence, the Company cannot currently determine the number or type of awards that may be granted in the future under the 2007 Plan.

**Required Vote and Board Recommendation**

The affirmative vote of a majority of the votes cast on Proposal 2 at the Annual Meeting is required for the approval of Proposal 2.

**The Board recommends that you vote FOR the approval of the 2007 Plan.**

**PROPOSAL 3**  
**RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board has appointed PricewaterhouseCoopers LLP to serve as the Company's independent registered public accounting firm for the current fiscal year ending March 31, 2008. The Board is requesting ratification by Stockholders at the Annual Meeting of the appointment of PricewaterhouseCoopers LLP.

The Audit Committee has the responsibility for selecting auditors, and Stockholder approval is not required for the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm. However, the Company is requesting that Stockholders ratify such appointment at the Annual Meeting. In the event Stockholders fail to ratify the appointment, the Audit Committee will reconsider its selection for the next fiscal year. Even if the appointment is ratified, the Audit Committee may direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in the best interest of the Company and its Stockholders.

PricewaterhouseCoopers LLP was initially engaged as the Company's independent registered public accounting firm on March 20, 2001. During the Company's three most recently completed fiscal years, there were no disagreements between the Company and PricewaterhouseCoopers LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, and there were no reportable events as described in Item 304 of Regulation S-K promulgated by the SEC.

Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting and will have the opportunity to make a statement if they desire to do so. They are also expected to be available to respond to appropriate questions.

**Required Vote and Board Recommendation**

The affirmative vote of a majority of the votes cast on Proposal 3 at the Annual Meeting is required for approval of Proposal 3.

**The Board recommends that you vote FOR the ratification  
of the appointment of PricewaterhouseCoopers LLP.**

**PROPOSAL 4**  
**STOCKHOLDER PROPOSAL DIVERSITY ON THE BOARD OF DIRECTORS**

**Stockholder Proposal**

The Fetzer Institute, 9292 West KL Ave., Kalamazoo, Michigan 49009, which purports to own 213 shares of Common Stock and the General Board of Pension and Health Benefits of the United Methodist Church, 1201 Davis Street, Evanston, Illinois 60201, which purports to own 95,398 shares of Common Stock, have notified the Company in writing that they intend to present a resolution for action by Stockholders at the Annual Meeting. The text of the resolution and the supporting statement submitted by these Stockholders are as follows:

"DIVERSITY ON THE BOARD OF DIRECTORS 2007  
Activision

**WHEREAS**

Activision currently has a distinguished board of eight people, all of whom are white and one of whom is female.

We believe that our Board should take every reasonable step to ensure that women and persons from minority racial groups are in the pool from which Board nominees are chosen; therefore be it

**RESOLVED** that the shareholders request the Board:

1. In connection with its search for suitable Board candidates ensure that women and persons from minority racial groups are among those it considers for nomination to the Board.
2. Publicly commit itself to a policy of board inclusiveness, including steps to be taken and a timeline for implementing that policy.
3. Report to shareholders, at reasonable expense, by December 2006 [*sic*]:
  - a. On its efforts to encourage diversified representation on the board;
  - b. Whether, in the Nominating and Corporate Governance committee's procedures, diversity is included as a criterion in selecting the total membership of the Board.

**Supporting Statement**

The charter for our company's Nominating and Corporate Governance Committee gives it the responsibility to "actively seek and evaluate individuals qualified to become board members for recommendation to the Board."

In response to the recent corporate scandals, the U.S. Congress (Sarbanes-Oxley Act), the stock exchanges, and the SEC have each taken actions to enhance the independence, accountability and responsiveness of corporate boards, including requiring greater board and committee independence.

As companies seek new board members to meet the new independence standards, there is a unique opportunity to enhance diversity on the board. We believe that the judgments and perspectives that women and members of minority groups bring to board deliberations improve the quality of board decision-making and will enhance business performance by enabling a company to respond more effectively to the needs of customers worldwide.

Increasingly, institutional investors have supported a call for greater board diversity. For example, in 2002 the \$21 billion Connecticut Retirement Plans and Trust Funds launched a Board Diversity Initiative. "It has been shown that added diversity and independence helps a company's bottom line,



and increasing diversity in the boardroom to better reflect a company's workforce, customers and community is ultimately in the best interest of shareholders and our economy," said Connecticut State Treasurer, Denise Nappier.

We urge the Board to enlarge its search for qualified members by casting a wider net."

#### **Company's Statement in Opposition**

*The Board recommends that Stockholders vote AGAINST Proposal 4 for the following reasons:*

Although the Board has established no specific criteria for the selection of director candidates (except as necessary to meet applicable legal, regulatory and securities exchange requirements), the Board has indicated as a general matter that director candidates should:

show evidence of leadership in their particular field of business or expertise;

have broad experience and the ability to exercise sound business judgment;

have specific knowledge about the Company's business; and

have the ability to effectively promote the Company's business.

The Nominating/Corporate Governance Committee has a long-standing policy of (1) evaluating director candidates for recommendation to the Board based on their individual qualifications without specific regard to race, religion, national origin or gender and (2) seeking to identify the best possible director candidates based on the above-referenced criteria and other factors, such as the integrity, personal judgment, general knowledge and experience and unique talents, skills and viewpoints of the candidate. See "Corporate Governance Matters Board of Directors and Committees Criteria Used in the Selection of Director Nominees" below for further information regarding the selection of director nominees.

The Board believes that providing reports relating to its director selection process or establishing formalistic procedures and arbitrary deadlines therefor would not enhance the selection process for director candidates. Rather, the Board believes that such measures would limit the Board's ability to select the most qualified director candidates, would involve cost and time without any commensurate benefits and would not be in the best interests of the Company or its Stockholders.

#### **Required Vote and Board Recommendation**

The affirmative vote of a majority of the votes cast on Proposal 4 at the Annual Meeting is required for approval of Proposal 4.

**The Board recommends that you vote AGAINST the proposal  
regarding diversity on the Board.**



**PROPOSAL 5**  
**STOCKHOLDER PROPOSAL STOCKHOLDER ADVISORY VOTE ON EXECUTIVE COMPENSATION**

**Stockholder Proposal**

As You Sow, 311 California Street, Suite 510, San Francisco, California 94104, on behalf of Kristopher Morrison, who purports to own a number of shares of Common Stock having a value in excess of \$2,000, has notified the Company in writing that it intends to present a resolution for action by Stockholders at the Annual Meeting. The text of the resolution and the supporting statement submitted by this Stockholder are as follows:

"ADVISORY VOTE ON EXECUTIVE COMPENSATION

**RESOLVED**, that shareholders of Activision Inc. urge the board of directors to adopt a policy that company shareholders be given the opportunity at each annual meeting of shareholders to vote on an advisory resolution, to be proposed by Activision's management, to ratify the compensation of the named executive officers ("NEOs") set forth in the proxy statement's Summary Compensation Table (the "SCT") and the accompanying narrative disclosure of material factors provided to understand the SCT (but not the Compensation Discussion and Analysis). The proposal submitted to shareholders should make clear that the vote is non-binding and would not affect any compensation paid or awarded to any NEO.

**Supporting Statement**

Investors are increasingly concerned about mushrooming executive compensation which sometime appears to be insufficiently aligned with the creation of shareholder value. Additionally, recent media attention to questionable dating of stock options grants by companies has raised related investor concerns.

The SEC has created a new rule, with record support from investors, requiring companies to disclose additional information about compensation and perquisites for top executives. The rule goes into effect this year. In establishing the rule the SEC has made it clear that it is the role of market forces, not the SEC, to provide checks and balances on compensation practices.

We believe that existing U.S. corporate governance arrangements, including SEC rules and stock exchange listing standards, do not provide shareholders with enough mechanisms for providing input to boards on senior executive compensation. In contrast to U.S. practices, in the United Kingdom, public companies allow shareholders to cast an advisory vote on the "directors' remuneration report," which discloses executive compensation. Such a vote isn't binding, but gives shareholders a clear voice that could help shape senior executive compensation.

Currently U.S. stock exchange listing standards require shareholder approval of equity-based compensation plans; those plans, however, set general parameters and accord the compensation committee substantial discretion in making awards and establishing performance thresholds for a particular year. Shareholders do not have any mechanism for providing ongoing feedback on the application of those general standards to individual pay packages. (See Lucian Bebchuk & Jesse Fried, Pay Without Performance 49 (2004))

Similarly, performance criteria submitted for shareholder approval to allow a company to deduct compensation in excess of \$1 million are broad and do not constrain compensation committees in setting performance targets for particular senior executives. Withholding votes from compensation committee members who are standing for reelection is a blunt and insufficient instrument for

registering dissatisfaction with the way in which the committee has administered compensation plans and policies in the previous year.

Accordingly, we urge Activision's board to allow shareholders to express their opinion about senior executive compensation at our company by establishing an annual referendum process. The results of such a vote would, we think, provide Activision with useful information about wheth