Activision Blizzard, Inc.
Form 10-K
February 25, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2010

OR

o **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 1-15839

ACTIVISION BLIZZARD, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-4803544**
(State or other jurisdiction of ncorporation or organization)	(I.R.S. Employer Identification No.)
3100 Ocean Park Boulevard, Santa Monica, CA	**90405**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(310) 255-2000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of Each Exchange on Which Registered

Common Stock, par value $.000001 per share	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes o No ý

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ý	Accelerated Filer o	Non-accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

The aggregate market value of the registrant's Common Stock held by non-affiliates on June 30, 2010 (based on the closing sale price of $10.49 per share as reported on the NASDAQ) was $5,230,965,691.

The number of shares of the registrant's Common Stock outstanding at February 18, 2011 was 1,182,249,613.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement, to be filed with the Securities and Exchange Commission with respect to the 2011 Annual Meeting of Shareholders which is expected to be held on June 2, 2011, are incorporated by reference into Part III of this Annual Report.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

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PART I

EXPLANATORY NOTE

On July 9, 2008, a business combination (the "Business Combination") by and among Activision, Inc., Sego Merger Corporation, a wholly-owned subsidiary of Activision, Inc., Vivendi S.A. ("Vivendi"), VGAC LLC, a wholly- owned subsidiary of Vivendi , and Vivendi Games, Inc. ("Vivendi Games"), a wholly-owned subsidiary of VGAC LLC, was consummated. As a result of the consummation of the Business Combination, Activision, Inc. was renamed Activision Blizzard, Inc. ("Activision Blizzard"). For accounting purposes, the Business Combination is treated as a "reverse acquisition," with Vivendi Games deemed to be the acquirer. The historical financial statements of Activision Blizzard, Inc. prior to July 10, 2008 are those of Vivendi Games, Inc.

CAUTIONARY STATEMENT

This Annual Report on Form 10-K contains, or incorporates by reference, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements consist of any statement other than a recitation of historical fact and include, but are not limited to: (1) projections of revenues, expenses, income or loss, earnings or loss per share, cash flow 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 "outlook," "forecast," "will," "could," "should," "would," "to be," "plans," "believes," "may," "expects," "intends," "anticipates," "estimate," "future," "positioned," "potential," "project," "remain," "scheduled," "set to," "subject to," "upcoming" and other similar expressions to help identify forward-looking statements. 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 at the date on which this Form 10-K was first filed. Some of the risk factors that could cause our actual results to differ from those stated in forward-looking statements can be found in "Risk Factors" included in Part I, Item 1A of this Report. The forward-looking statements contained herein are based upon information available to us as of the date of this Annual Report on Form 10-K and we assume no obligation to update any such forward-looking statements. Forward-looking statements believed to be true when made may ultimately prove to be incorrect. These statements are not guarantees of our future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and may cause actual results to differ materially from current expectations.

Activision Blizzard's names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or trade names of Activision Blizzard.

Item 1. BUSINESS

Overview

Activision Blizzard is a worldwide online, personal computer ("PC"), console, handheld, and mobile game publisher of interactive entertainment. Through Activision Publishing, Inc. ("Activision"), we are a leading international publisher of interactive software products and content. Activision develops and publishes video games on various consoles, handheld platforms and the PC platform through internally developed franchises and license agreements. Activision currently offers games that operate on the Sony Computer Entertainment Inc. ("Sony") PlayStation 3 ("PS3"), Nintendo Co. Ltd. ("Nintendo") Wii ("Wii"), and Microsoft Corporation ("Microsoft") Xbox 360 ("Xbox 360") console systems; Nintendo Dual Screen ("NDS") and Nintendo DSi ("DSi") handheld devices; the PC; the Apple iPhone ("iPhone"), the Apple iPad ("iPad") and other mobile devices. Through Blizzard Entertainment, Inc. ("Blizzard"), we are the leader in terms of subscriber base and revenues generated in the subscription-based massively multiplayer online role-playing game ("MMORPG") category.

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Blizzard internally develops and publishes PC-based computer games and maintains its proprietary online-game related service, Battle.net.

Our Activision business involves the development, marketing, and sale of products through retail channels or digital downloads, by license or from our affiliate label program with certain third-party publishers. Activision is focusing its efforts in the areas we believe have the most opportunity for growth and higher profitability, and we have reduced investments in areas we believe have less profit potential and limited growth opportunities. Investments are being focused on proven intellectual properties to develop deep, high-quality content that offers engaging online multiplayer gaming experiences. During 2010, Activision released *Call of Duty: Black-Ops*, which set new interactive entertainment launch retail sales records with over $650 million of retail sales within five days of launch, exceeding the prior year's record-setting launch of *Call of Duty: Modern Warfare 2,* according to our internal estimates. The *Call of Duty* franchise has provided players with a sustained online gaming experience, and has established a large online gaming community. Activision has also recognized that new digital distribution channels have emerged that offer efficiency and convenience for audiences and additional profit opportunities and recurring revenue models for content creators. As such, Activision is also focused on the delivery of new digital content and online services for the *Call of Duty* franchise. In addition, Activision is currently developing sequels to build on the continued success of the *Call of Duty* franchise and we expect to expand the *Call of Duty* franchise into China. Activision also expects to continue to release several other titles that economically utilize key licensed intellectual properties, such as Marvel's *Spider-Man* and *X-Men* franchises, MGM/Eon's *James Bond* franchise, Hasbro's *Transformers* franchise and the long-standing *Cabela's* hunting franchise, among others.

While focusing on our proven intellectual properties, we are also making strategic investments to develop new intellectual property. We have established a long-term alliance with Bungie, the developer of game franchises including *Halo, Myth* and *Marathon,* to bring Bungie's next big action game universe to market. We also expect to release *Skylanders Spyro's Adventure*, an innovative new game that will enable players to transport real-world toys into the virtual worlds of a video game through the use of "smart toys."

Blizzard is the development studio and publisher best known as the creator of *World of Warcraft* and the multiple award winning *Diablo*, *StarCraft*, and *World of Warcraft* franchises. Blizzard distributes its products and generates revenues worldwide through various means, including: subscriptions (which consist of fees from individuals playing *World of Warcraft,* including sales of prepaid-cards and other value-added service revenues such as realm transfers, faction changes, and other character customizations within *World of Warcraft* gameplay); retail sales of physical "boxed" products; online download sales of PC products; and licensing of software to third-party or related party companies that distribute *World of Warcraft* and *StarCraft II*. Blizzard has released three expansion packs to *World of Warcraft* *World of Warcraft: The Burning Crusade*, *World of Warcraft: Wrath of the Lich King*, and the third expansion pack, *World of Warcraft: Cataclysm*, which released in all regions other than China in December 2010. In August 2010, Blizzard released the second *World of Warcraft* expansion pack, *World of Warcraft: Wrath of the Lich King,* in China. Also, in July 2010, the company launched the sequel to *StarCraft*, *StarCraft II: Wings of Liberty*. In conjunction with the release of *StarCraft II: Wings of Liberty*, Blizzard launched a new version of its 24/7 online gaming service, Battle.net, facilitating the creation of user generated content, digital distribution and online social connectivity amongst the *World of Warcraft* and *StarCraft* players. Blizzard is currently developing a sequel in the *Diablo* franchise, *StarCraft II*'s first expansion pack, *Heart of the Swarm*, and a new massive multiplayer online ("MMO") game.

Our distribution business consists of operations in Europe that provide warehousing, logistical, and sales distribution services to third-party publishers of interactive entertainment software, our own publishing operations, and manufacturers of interactive entertainment hardware.

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The Company

Activision, Inc. was originally incorporated in California in 1979 and was reincorporated in Delaware in December 1992. As described in the explanatory note above, Activision, Inc. consummated a business combination with Vivendi Games during the year ended December 31, 2008 and was renamed Activision Blizzard, Inc. Activision Blizzard is a public company traded on the NASDAQ under the ticker symbol "ATVI."

Our Strategy

Our objective is to continue to be a worldwide leader in the development, publishing, and distribution of quality interactive entertainment software, online content and services that deliver a highly satisfying entertainment experience.

Continue to Improve Profitability. We continually strive to manage risk and increase our operating leverage and efficiency with the goal of increased profitability. We believe the key factors affecting our future profitability will be the success of our core properties, proven franchises and genres, cost discipline, and our ability to leverage the continued growth of online and digital revenue opportunities.

Create Shareholder Value. We continue to focus on enhancing shareholder return through growing operating margin, maintaining a strong balance sheet and generating strong cash flows. As a result, we expect to continue to achieve long-term growth and have been able to provide value to our shareholders through stock repurchase programs and cash dividends.

Grow Through Continued Strategic Acquisitions and Alliances. We intend to continue to evaluate the expansion of our resources and intellectual properties library through acquisitions, strategic relationships, and key license transactions. We will also continue to evaluate opportunities to increase our proven development expertise through the acquisition of, or investment in, selected experienced software development firms.

Focus on Delivery of Digital Content and Online Services. We continue to shift towards digital delivery of content and to establish and develop direct and long-term relationships with our gamers. We will also continue to support, maintain and enhance *World of Warcraft* and *Call of Duty* online communities. We believe that focusing our efforts on online product innovations, such as additional online content, services and social connectivity provides lasting value enhancement to our global communities of players.

Competition

We compete for the leisure time and discretionary spending of consumers with other video game companies, as well as with other providers of different forms of entertainment, such as motion pictures, television, social networking, online casual entertainment and music.

The interactive entertainment industry is intensely competitive and new interactive entertainment software products and platforms are regularly introduced. Our competitors vary in size from small companies with limited resources to large corporations with greater financial, marketing, and product development resources than we have. Due to their different focuses and allocation of resources, certain of our competitors may spend more money and time on developing and testing products, undertake more extensive marketing campaigns, adopt more aggressive pricing policies, pay higher fees to licensors for desirable motion picture, television, sports and character properties, and pay more to third-party software developers. In addition, competitors with large product lines and popular titles typically have greater leverage with retailers, distributors, and other customers who may be willing to promote titles with less consumer appeal in return for access to such competitor's most popular titles. We believe that the main competitive factors in the interactive entertainment industry include: product

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features, game quality and playability; brand name recognition; compatibility of products with popular platforms; access to distribution channels; online capability and functionality; ease of use; price; marketing support; and quality of customer service.

We compete primarily with other publishers of personal computer, online and video game console interactive entertainment software. In addition to third-party software competitors, integrated video game console hardware and software companies, such as Sony, Nintendo, and Microsoft, compete directly with us in the development of software titles for their respective platforms. In addition, certain major media companies, such as Time Warner, Inc., which have been investing in social gaming and video game products, have increased competition within the industry. Further, a number of software publishers have developed and commercialized, or are currently developing, online games for use by consumers over the Internet, and we expect new competitors to continue to emerge in the MMORPG category. Lastly, we compete with mobile-game publishers for alternative handheld devices such as Apple's iPhone, Apple's iPad and other emerging mobile devices.

Employees

We had approximately 7,600 total full-time and part-time employees at December 31, 2010. At December 31, 2010, approximately 138 of our full-time employees were subject to term employment agreements with us. These agreements generally commit the employees to employment terms of between one and five years from the commencement of their respective agreements. Most of the employees subject to these agreements are executive officers or key members of the product development, sales, or marketing divisions. These individuals perform services for us as executives, directors, producers, associate producers, computer programmers, game designers, sales directors, or marketing product managers. In our experience, entering into employment agreements with these employees reduces our turnover during the development, production, and distribution phases of our entertainment software products and allows us to plan more effectively for future development and marketing activities.

A small number of our employees in France, Spain and Germany are subject to collective bargaining agreements. To date, we have not experienced any labor-related work stoppages.

Intellectual Property

Like other entertainment companies, our business is significantly based on the creation, acquisition, exploitation and protection of intellectual property. Some of this intellectual property is in the form of software code, patented technology, and other technology and trade secrets that we use to develop our games and to make them run properly. Other intellectual property is in the form of audio-visual elements that consumers can see, hear and interact with when they are playing our games.

We develop some of our products from wholly-owned intellectual properties that we create within our own studios. We also acquire the rights to include proprietary intellectual property in our products through acquisitions. In addition, we obtain intellectual property through licenses and service agreements. These agreements typically limit our use of the licensed rights in products for specific time periods. In addition, our products that play on game consoles and handheld platforms include technology that is owned by the console or wireless device manufacturer, and licensed non-exclusively to us for use. We also license technology from providers other than console manufacturers. While we may have renewal rights for some licenses, our business and the justification for the development of many of our products is dependent on our ability to continue to obtain the intellectual property rights from the owners of these rights on reasonable terms and at reasonable rates.

We actively engage in enforcement and other activities to protect our intellectual property. We typically own the copyright to the software code, as well as the brand or title name trademark under

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which our products are marketed. We register copyrights, trademarks and patents in the United States and other countries as appropriate.

We often distribute our PC products using copy protection technology or other technological protection measures to prevent piracy and the use of unauthorized copies of our products. In addition, console manufacturers typically incorporate technological protections and other security measures in their consoles in an effort to prevent the use of unlicensed product. We are actively engaged in enforcement and other activities to protect against unauthorized copying and piracy, including monitoring online channels for distribution of pirated copies, and participating in various enforcement initiatives, education programs and legislative activity around the world.

Operating Segments

We operate three operating segments: (i) Activision Publishing, Inc. and its subsidiaries publishing interactive entertainment software products and downloadable content which includes studios, assets, and titles previously included in Vivendi Games' Sierra Entertainment operating segment prior to the Business Combination ("Activision"), (ii) Blizzard Entertainment, Inc. and its subsidiaries publishing real-time strategy, role-playing PC games and online subscription-based games in the MMORPG category ("Blizzard"), and (iii) Activision Blizzard Distribution distributing interactive entertainment software and hardware products ("Distribution"). These three operating segments form Activision Blizzard's core operations. Activision Blizzard's non-core exit operations ("Non-Core") represent legacy Vivendi Games' divisions or business units that we have exited, divested or wound down as part of our restructuring and integration efforts as a result of the Business Combination, but that do not meet the criteria for separate reporting of discontinued operations. Prior to July 1, 2009, Non-Core activities were managed as a stand-alone operating segment; however, in light of the minimal activities and insignificance of Non-Core activities, as of that date we ceased their management as a separate operating segment and, consequently, we are no longer providing separate operating segment disclosure. In accordance with the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") regarding disclosures about segments of an enterprise and related information, all prior period segment information has been restated to conform to this new segment presentation.

Activision Publishing Segment ("Activision") Business Overview

Strategy

Create, Acquire, and Maintain Strong Franchises. Activision focuses on development and publishing activities principally for products and content that are, or have the potential to become, franchises with sustainable mass consumer appeal and recognition. It is our experience that these products and content can then serve as the basis for sequels, prequels, and related new products and content that can be released over an extended period of time. We believe that the publishing and distribution of products and content based on proven franchises enhances predictability of revenues and the probability of high unit volume sales and operating profits. We own the highly successful intellectual property *Call of Duty* and intend to continue development of owned franchises in the future. We have entered into a series of strategic relationships with the owners of intellectual properties pursuant to which we have acquired the rights to publish products based on franchises such as, Hasbro Properties Group ("Hasbro"), MGM Interactive and EON Productions Ltd. ("MGM & EON"), Mattel, Inc. ("Mattel"), and Marvel Entertainment, Inc. ("Marvel"). We also have an exclusive 10-year alliance with Bungie, a developer of successful game franchises, to bring Bungie's next big action game universe to market.

Execute Disciplined Product Selection and Development Processes. The success of our publishing business depends, in significant part, on our ability to develop high quality games that will generate high unit volume sales. Our publishing units have implemented a formal control process for the

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selection, development, production, and quality assurance of our products. We apply this process, which we refer to as the "Greenlight Process," to all of our products, whether externally or internally developed. The Greenlight Process includes in-depth reviews of each project at several important stages of development by a team that includes many of our highest-ranking operating managers and coordination among our sales, marketing and development staff at each step in the process.

We develop our products using a combination of our internal development resources and external development resources acting under contract with us. We typically select our external developers based on their track records and expertise in producing products in the same category. One developer will often produce the same game for multiple platforms and will produce sequels to the original game. We believe that selecting and using development resources in this manner allows us to leverage the particular expertise of our internal and external development resources, which we believe enhances the quality of our products and timing of releases.

Focused Product Offerings, Diversity in Platforms and Geographies. We believe Activision has aligned its product offerings and cost structure to position the business for long term growth. Through our online-enabled products and content, we believe we are best positioned to take advantage of retail and digital distribution channels that allow us to deliver content to a diversity of gamers ranging from children to adults and from core gamers and mass-market consumers to "value" buyers, who seek budget-priced software, in a variety of geographies. Presently, the majority of products that we develop, publish, and distribute operate on the PS3, Xbox 360, and Wii console systems, NDS, DSi, the iPhone, iPad, and the PC. The emerging and rapidly growing online-enabled platforms, in which we will support in-game integration and bring together online experience and gameplay, will continue to be our focus. We typically offer our products for use on multiple platforms to reduce the risks associated with any single platform, leverage our costs over a larger installed hardware base, and increase unit sales. We intend to continue to offer both online and packaged software and games with localized content in different geographies.

Products

In recent years, Activision has been best known for its success in the first-person action category from the *Call of Duty* original intellectual property, including the latest release, *Call of Duty: Black Ops,* which continues to set sell through records with over $650 million of retail sales during the first five days from launch in November 2010, according to our internal estimates. We plan on continuing to develop this franchise. *Call of Duty* has achieved approximately $4.2 billion life-to-date revenue and has an active global community of millions of players. *Call of Duty: Black Ops*, released in the fourth quarter of 2010, is also setting online usage records that illustrate the game has become one of the leading global entertainment experiences of all time. Activision also develops products spanning other genres, including first person action, action/adventure, role-playing, simulation and strategy.

In 2011, we expect to continue to build on the success of our *Call of Duty* franchise. In the first quarter of calendar year 2011, Activision Publishing released *Call of Duty: Black Ops First Strike,* the first add-on map pack for *Call of Duty: Black* Ops. The map pack launched on Xbox Live on February 1, 2011 and will be available on PS3 and the PC later in the quarter. Activision is also focused on the delivery of new digital content and online services for the *Call of Duty* franchise. We also expect to introduce *Skylanders Spyro's Adventure,* an innovative new game that will enable players to transport real-world toys into the virtual worlds of a video game through the use of "smart toys". Additionally, we expect to release several other titles including two movie-based titles (*X-Men: First Class* and *Transformers: Dark of the Moon)* and games based on the best-selling *Spider-Man* franchise, the toy *Bakugan*, the TV shows *Wipe Out* and *Family Guy*, as well as the long-standing *Cabela's* hunting franchise.

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Product Development and Support

Activision develops and produces titles using a model in which a core group of creative, production, and technical professionals, in coordination with our marketing and finance departments, have responsibility for the entire development and production process including the supervision and coordination of internal and external resources. This team assembles the necessary creative elements to complete a title using, where appropriate, outside programmers, artists, animators, scriptwriters, musicians and songwriters, sound effects and special effects experts, and sound and video studios. Activision believes that this model allows us to supplement internal expertise with top quality external resources on an as-needed basis.

In addition, Activision often engages independent third-party developers to create products on Activision's behalf. We either own these products or have rights to commercially exploit these products. In other circumstances, a third-party developer may retain ownership of the intellectual property and/or technology included in the product and reserve certain exploitation rights. Activision typically selects these independent third-party developers based on their expertise in developing products in a specific category for specific platforms. Each of our third-party developers is under contract with us, either for a single or multiple titles. From time to time, Activision also acquires the license rights to publish and/or distribute software products that are or will be independently created by third-party developers. In such cases, the agreements with these developers provide us with exclusive publishing and/or distribution rights for a specific period of time, often for specified platforms and territories. In either case, Activision often has the ability to publish and/or distribute sequels, conversions, enhancements, and add-ons to the product initially being produced by the independent developer and Activision frequently has the right to engage the services of the original developer with regard to the further product development.

In consideration for the services that independent third-party developers provide the developers receive a royalty, which is generally based on net sales or operating income of the developed products. Typically, developers also receive an advance, which Activision recoups from the royalties otherwise payable to the developers. The advance generally is paid in "milestone" stages. The payment at each stage is tied to the completion and delivery of a detailed performance milestone. Working with independent developers allows us to reduce our fixed development costs, share development risks with the third-party developers, take advantage of the third-party developers' expertise in connection with certain categories of products or certain platforms, and gain access to proprietary development technologies.

In April 2010, Activision entered into an exclusive 10-year relationship with Bungie, the developer of game franchises including *Halo, Myth* and *Marathon,* to bring Bungie's next big action game universe to market. Under the terms of the agreement, Activision will have exclusive, worldwide rights to publish and distribute all future Bungie games based on the new intellectual property on multiple platforms and devices.

Activision provides various forms of product support to both our internally and externally developed titles. Activision quality assurance personnel are involved throughout the development and production of each title published. Activision subjects all such products to extensive testing before release to ensure compatibility with all appropriate hardware systems and configurations and to minimize the number of bugs and other defects found in the products. To support our products after release, Activision provides its customers online access on a 24-hour basis as well as live telephone operators who answer the help lines during regular business hours.

Marketing, Sales, and Distribution

Activision's marketing efforts include activities on the Internet (including on Facebook, Twitter, YouTube, and other online social networks and websites), public relations, print and broadcast advertising, coordinated in-store and industry promotions (including merchandising and point of purchase displays), participation in cooperative advertising programs, direct response vehicles, and product sampling through demonstration software distributed through the Internet or the digital online services provided by Microsoft, Sony and Nintendo. From time to time, we also receive marketing support from hardware manufacturers, mass appeal consumer products related to a game, and retailers in connection with their own promotional efforts. In addition, certain of our products contain software that enables customers to "electronically register" their purchases with us online.

We believe that our strong proven franchises and genres generate a loyal and devoted customer base that continues to purchase our sequels as a result of their dedication to the franchise and satisfaction from previous product purchases. We therefore market these sequels, expansion packs and downloadable content toward the established customer base as well as to broader audiences. In addition, we believe that we derive benefits from our continued marketing of licensed properties, as well as marketing and promotional activities of the intellectual property owners.

North American Sales and Distribution. Our products are available for sale or rental in thousands of retail outlets in North America. Our North American retail customers include, among others, Best Buy, GameStop, Target, Toys "R" Us, and Wal-Mart.

In the United States ("U.S.") and Canada, our products are sold on a direct basis to mass-market retailers, consumer electronics stores, discount warehouses and game specialty stores. We believe that a direct relationship with retail accounts results in more effective inventory management, merchandising, and communications than would be possible through indirect relationships. We have implemented electronic data interchange linkages with many of our retailers to facilitate the placing and shipping of orders. We also sell our products to a limited number of distributors.

International Sales and Distribution. Our products are sold internationally on a direct-to-retail basis, through third-party distribution and licensing arrangements, and through our wholly-owned European distribution subsidiaries. We conduct our international publishing activities through offices in the United Kingdom ("U.K."), Germany, France, Italy, Spain, Norway, the Netherlands, Sweden, Australia and Ireland. We often seek to maximize our worldwide revenues and profits by releasing high-quality foreign language releases concurrently with English language releases and by continuing to expand the number of direct selling relationships we maintain with key retailers in major territories.

On a worldwide basis, our largest customer, GameStop, accounted for approximately 12% of consolidated net revenues for the year ended December 31, 2010. Two of our customers, GameStop and Wal-Mart, each accounted for approximately 10% and 11% of consolidated net revenues for the years ended December 31, 2009 and 2008, respectively.

Digital Distribution. Online and digital distribution channels are emerging rapidly and growing. Some of our products and content are sold in a digital format, which allows consumers to purchase and download the content at their convenience directly to their PC, console systems or wireless devices. We partner with digital distributors to leverage this growing method of distribution. We also make available to our customers value-added downloadable content to enhance their gaming experience through the digital online services provided by Microsoft, Sony and Nintendo.

Affiliate Labels. In addition to our own products, we distribute a select number of interactive entertainment products that are developed and marketed by other third-party publishers through our "affiliate label" programs in North America, Europe, and the Asia Pacific region. The distribution of other publishers' products allows us to increase the efficiencies of our sales force and provides us with the ability to better ensure adequate shelf presence at retail stores for all of the products that we distribute. Services we provide under our affiliate label programs include order solicitation, in-store marketing, logistics and order fulfillment, and sales channel management, as well as other accounting and general administrative functions. Our current affiliate label partners include LucasArts, as well as

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several affiliate label partners in our "value" business, which offers budget-priced software to the public. Each affiliate label relationship is unique and may pertain only to distribution in certain geographic territories and may be further limited only to a specific title or titles for specific platforms.

Manufacturing

Activision prepares a set of master program copies, documentation, and packaging materials for our products for each hardware platform on which the product will be released. With respect to products for use on the Sony, Nintendo, and Microsoft systems, our disk duplication, packaging, printing, manufacturing, warehousing, assembly, and shipping are performed by third-party subcontractors and Company-owned distribution facilities.

To maintain protection over their hardware technologies, Sony, Nintendo, and Microsoft generally specify or control the manufacturing and assembly of finished products. We deliver the master materials to the licensor or its approved replicator, which then manufactures finished goods and delivers them to us for distribution under our label. At the time our product unit orders are filled by the manufacturer, we become responsible for the costs of manufacturing and the applicable per unit royalty on such units, even if the units do not ultimately sell.

Blizzard Entertainment Segment ("Blizzard") Business Overview

Strategy

Maintain and Build upon Our Leadership Position in the MMORPG Category and PC Online Categories. Blizzard plans to maintain and build upon our leadership position in the MMORPG genre by regularly providing new content, game features and online services to further solidify the loyalty of our subscriber base, as well as to expand our global game footprint to new geographies.

We believe that the PC online platform will remain a growing category throughout the world. The large and growing PC installed base in all regions and the continuing development of broadband connectivity facilitates online games and community experiences while creating access to new potential customers. Given the success of *World of Warcraft* and *StarCraft* in Asia, we expect to continue to be well positioned to capture the growing consumer demand in this region. Blizzard is among the few companies with video game franchises created and developed in the U.S. that have gained and retained success in Asia with World of Warcraft and StarCraft. Titles in those series have been among the most played games in the region for many years. During 2009, Blizzard entered into licensing arrangements for *World of Warcraft*, *StarCraft II*, Battle.net and *Warcraft III* with an affiliated company of NetEase.com, Inc. in China. Further, as *World of Warcraft* is a server-based game, only playable online, Blizzard is one of the few companies that can target markets that have been dominated by piracy and monetize former illegitimate players as well as expand in markets that have not been penetrated by consoles, but offer a large PC installed base.

Products

Blizzard is a leading company in the subscription-based MMORPG category. *World of Warcraft* was initially launched in November 2004 and today is available in North America, Europe (including Russia), Southeast Asia, China, Korea, Australia, New Zealand, Malaysia, Singapore, Chile, Brazil,

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Argentina, and the regions of Taiwan, Hong Kong and Macau. As of December 31, 2010, more than 12 million gamers worldwide were subscribed* to play Blizzard's *World of Warcraft*. *World of Warcraft* is

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World of Warcraft subscribers are defined to include: (1) individuals who have paid a subscription fee or have an active prepaid card to play *World of Warcraft*, (2) those who have purchased the game and are within their free month of access, and (3) Internet Game Room players who have accessed the game over the last thirty days. The definition of subscribers does not include any players under free promotional subscriptions, expired or cancelled subscriptions, or expired prepaid cards.

available in various languages based on the regions in which it is played and has earned awards and praise from publications around the world. Blizzard launched an expansion pack to *World of Warcraft*, *World of Warcraft: The Burning Crusade*, in January 2007 in North America, Europe, Australia, New Zealand, Singapore, Malaysia, and Thailand; in South Korea in February 2007; in Taiwan, Hong Kong, and Macau in April 2007; and in China in September 2007. Blizzard launched the second *World of Warcraft* expansion pack, *World of Warcraft: Wrath of the Lich King,* in November 2008 in all territories except China, where it launched in August 2010. On December 7, 2010, Blizzard launched the third *World of Warcraft* expansion pack, *World of Warcraft: Cataclysm*, in all regions in which the game is supported, other than China. Revenues associated with the *World of Warcraft* franchises accounted for 89%, 98%, and 97% of Blizzard's consolidated net revenues for the years ended December 31, 2010, 2009, and 2008, respectively.

Additionally, in July 2010, Blizzard launched the sequel to StarCraft, *StarCraft II: Wings of Liberty* simultaneously around the world, including in North America, Europe (including Russia), Southeast Asia, Korea, Australia, New Zealand, Chile, Brazil, Argentina, and the regions of Taiwan, Hong Kong and Macau. In conjunction with the release of *StarCraft II: Wings of Liberty*, Blizzard launched a new version of its 24/7 online gaming service, Battle.net, providing user generated content, digital distribution and online social connectivity amongst the *World of Warcraft* and *StarCraft* players. Blizzard is currently developing a sequel in the *Diablo* franchise, *StarCraft II*'s first expansion pack, *Heart of the Swarm*, and a new MMO game.

Product Development and Support

As a development studio, creator and publisher of the *World of Warcraft*, *Diablo*, and *StarCraft* franchises, Blizzard focuses on creating well-designed, high quality games. Product development is handled internally by a strong core group of talented designers, producers, programmers, artists, and sound engineers. To maintain its current subscribers and attract new subscribers, Blizzard continues to develop new patches to upgrade *World of Warcraft*. In addition to its headquarters in Irvine, California, Blizzard maintains offices in or around Austin, Texas; Paris, France; Cork, Ireland; Seoul, South Korea; Singapore; Shanghai, China; and Taipei, Taiwan to provide 24/7 game support to *World of Warcraft* players in their native language, enhance online community management, and tailor marketing initiatives to specific regions.

Marketing, Sales, and Distribution

Blizzard distributes its products and generates revenues worldwide through various means: subscriptions (which consist of fees from individuals playing *World of Warcraft*, prepaid cards, and other value-added services such as the ability to change "factions", the ability to transfer "realms" and other character customizations), retail sales of physical "boxed" product, online download sales of PC products, and licensing of software to third-party or related party companies that distribute *World of Warcraft* and *StarCraft II*. Many of its services and products are digitally enabled, which allows us to take advantage of this emerging and rapidly growing channel and to reinforce Blizzard's long-term relationships with its gamers. In addition, Blizzard operates the online game service, Battle.net, which attracts millions of active players, making it one of the largest online-game related services in the world. Battle.net powers Blizzard's *StarCraft II: Wings of Liberty* and *World of Warcraft*, and is expected to power future releases from Blizzard. The service offers players advanced communications features, social networking, player matching and digital content delivery and is designed to allow people to connect regardless of what Blizzard game they are playing.

Activision Blizzard Distribution Segment ("Distribution") Business Overview

We distribute interactive entertainment hardware and software products in Europe through our European distribution subsidiaries: Centresoft in the U.K. and NBG in Germany. These subsidiaries act as wholesalers in the distribution of products and also provide packaging, logistical and sales services. They provide services to our publishing operations and to various third-party publishers, including Sony, Nintendo, and Microsoft. Centresoft is Sony's preferred distributor of PlayStation products to the independent retail sector of the U.K.

We entered into the distribution business to obtain distribution capacity in Europe for our own products, while supporting the distribution infrastructure with third-party sales, and to diversify our operations in the European market. Centresoft and our other distribution subsidiaries operate in accordance with strict confidentiality procedures to provide independent services to various third-party publishers.

Additional Financial Information

See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 14 of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for certain additional information regarding operating segments and geographic areas. See the Critical Accounting Policies section under Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of our practices with regard to several working capital items, such as rights of returns, and inventory practices. See the Management's Overview of Business Trends under Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the impact of seasonality on our business.

Available Information

Our website is located at *http://www.activisionblizzard.com*. Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are available free of charge through our website. The information found on our website is not a part of, and is not incorporated by reference into, this or any other report that we file with or furnish to the Securities and Exchange Commission ("SEC").

The public may also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 (information on the operation of the Public Reference Room is available by calling the SEC at 1-800-SEC-0330). The SEC also maintains a web site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at *http://www.sec.gov*.

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Item 1A.   RISK FACTORS

We wish to caution the reader that the following important risk factors, and those risk factors described elsewhere in this report or in our other filings with the Securities and Exchange Commission, could cause our actual results to differ materially from those sated in forward-looking statements contained in this document and elsewhere. These risks are not presented in order of importance or probability of occurrence.

If general economic conditions do not improve, demand for our products could continue to decline.

Our products involve discretionary spending on the part of consumers. Consumers are generally more willing to make discretionary purchases, including purchases of products like ours, during periods in which favorable economic conditions prevail. As a result, our products are sensitive to general economic conditions and economic cycles. In recent years, adverse worldwide economic conditions, including declining consumer confidence, global economic recession, rising unemployment and volatile gasoline prices, have led consumers to delay or reduce discretionary spending, including purchases of some types of our products. If conditions do not improve, these delays or reductions in purchases may continue. We may also increase our selling and promotional expenses in an effort to offset reduced consumer spending. A continued reduction or shift in domestic or international consumer spending could negatively impact our business, results of operations and financial condition.

We depend on a relatively small number of franchises for a significant portion of our revenues and profits.

A significant portion of our revenues has historically been derived from products based on a relatively small number of popular franchises and these products are responsible for a disproportionately high percentage of our profits. For example, our top two franchises, *Call of Duty* and *World of Warcraft*, accounted for approximately 62% of our consolidated net revenues, and a significantly higher percentage of our operating income, in 2010. We expect that a limited number of popular franchises will continue to produce a disproportionately high percentage of our revenues and profits. Due to this dependence on a limited number of franchises, the failure to achieve anticipated results by one or more products based on these franchises may significantly harm our business and financial results.

Our business is "hit" driven. If we do not deliver "hit" titles, or if consumers prefer competing products, our sales could suffer.

While many new products are regularly introduced in our industry, increasingly only a relatively small number of high-quality "hit" titles account for a significant portion of net revenue, and an even greater portion of net profit. It is difficult to produce high-quality products and to predict prior to production and distribution what products will be well received, even if they are well-reviewed, high-quality titles. Competitors may develop titles that imitate or compete with our "hit" titles, and take sales away from them or reduce our ability to command premium prices for those titles. "Hit" products published by our competitors may take a larger share of consumer spending than anticipated, which could cause our product sales to fall below expectations. Consumers may lose interest in a genre of games we produce. If we do not continue to develop consistently high-quality and well received products, or if our competitors develop more successful products or offer competitive products at lower prices, our revenues, margins, and profitability could decline. In addition, our own "hit" products could compete with our other titles, reducing sales for those other titles. Further, a failure by us to develop a high-quality product, or our development of a product that is otherwise not well received, could harm our reputation and increase the likelihood that our future products will be similarly poorly received.

The future success of our business depends on our ability to release popular products in a timely manner.

The life of any given console or hand-held game product is relatively short and generally involves a relatively high level of sales during the first few months after the product's introduction, followed by a rapid decline in sales. Because revenues associated with an initial product launch generally constitute a high percentage of the total revenues associated with the life of a product, delays in product releases or disruptions following the commercial release of one or more new products could have an adverse effect on our operating results and cause our operating results to be materially different from expectations. It is therefore important for us to be able to continue to develop many high quality new products that are popularly received and to release those products in a timely manner. If we are unable to continue to do so, our business and financial results may be negatively affected.

Our market is subject to rapid technological change, and if we do not adapt to, and appropriately allocate our new resources among, emerging technologies, our revenues would be negatively affected.

Technology changes rapidly in the interactive entertainment industry. We must continually anticipate and adapt our products to emerging technologies. When we choose to incorporate a new technology into a product or to develop a product for a new platform, operating system or media format, we often are required to make a substantial investment one to two years prior to the introduction of the product. If we invest in the development of video games incorporating a new technology or for a new platform that does not achieve significant commercial success, our revenues from those products likely will be lower than we anticipated and may not cover our development costs. If, on the other hand, we elect not to pursue the development of products incorporating a new technology or for new platforms that achieve significant commercial success, our revenues would also be adversely affected, and it may take significant time and resources to shift product development resources to that technology or platform. Any such failure to adapt to, and appropriately allocate resources among, emerging technologies would harm our competitive position, reduce our share and significantly increase the time we take to bring popular products to market.

If we fail to successfully manage our new product development, or if we fail to anticipate the issues associated with such development, our business may suffer.

Our business model is evolving and we believe that our growth will depend upon our ability to successfully develop and sell new types of products and to otherwise expand the methods by which we reach our consumers, including via digital distribution. Developing new products and distribution channels will require substantial up-front expenditures. If such products or distribution channels do not achieve expected market acceptance or generate sufficient revenues upon introduction, whether because of competition or otherwise, we may not be able to recover the substantial development and marketing costs associated with those products and distribution channels. In addition, expanding our business model will add complexity to our business and require us to effectively adapt our business and management processes to address the unique challenges and different requirements of any new areas in which we operate, which we may not be able to do, for lack of institutional expertise or otherwise. If any of these occur, our revenues, margins, and profitability could decline.

Competition within and to the interactive entertainment industry is intense, and competitors may succeed in reducing our sales.

We compete with other publishers of PC and video game console interactive entertainment software. Those competitors vary in size from small companies with limited resources to very large corporations with significantly greater financial, marketing, and product development resources than we have. For example, integrated video game console hardware and software companies such as Sony, Nintendo and Microsoft compete directly with us in the development of software titles for their respective platforms. Further, certain major media companies, such as the Time Warner, Inc., have

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been investing in video game products and have increased competition within the industry. Our competitors may spend more money and time on developing and testing products, undertake more extensive marketing campaigns, adopt more aggressive pricing policies, pay higher fees to licensors for desirable motion picture, television, sports, music and character properties, pay more to third-party software developers, or otherwise develop more commercially successful products for the PC or video game platforms than we do. In addition, competitors with large product lines and popular titles typically have greater leverage with retailers, distributors, and other customers who may be willing to promote titles with less consumer appeal in return for access to those competitors' more popular titles.

We also compete with other forms of interactive entertainment, such as casual games like iPhone applications and other mobile phone games, and games developed for use by consumers on the iPad or social networking sites, most of which are currently free to play. Increased consumer acceptance and increases in the availability of such games or other online games, availability and consumer acceptance of technology which allows users to play games on televisions without consoles, or technological advances in online game software or the Internet could result in a decline in platform-based software and negatively impact sales of our console and hand-held products.

Additionally, we compete with other forms of entertainment and leisure activities. For example, the overall growth in the use of the Internet and online services such as social networking sites by consumers may pose a competitive threat if customers and potential customers spend less of their available time using interactive entertainment software and more using the Internet, including those online services.

We have taken, and continue to take, cost-reduction actions. Our ability to complete these actions and the impact of such actions on our business may be limited by a variety of factors. The cost-reduction actions, in turn, may expose us to additional development risk and have an adverse effect on our revenue and profitability.

A significant portion of our selling and general and administrative expense is comprised of personnel and facilities. We have been reducing costs by discontinuing the development and publication of titles, closing facilities and reducing our employee population. The impact of these cost-reduction actions on our revenue and profitability may be influenced by factors including:

- our ability to successfully complete these ongoing efforts, in a manner that is timely enough to offset an immediate shortfall in revenues and profit, or at all;

- our ability to generate the level of cost savings we expect or that are necessary to enable us to effectively compete even if these efforts are successfully completed;

- decreases in employee morale and the failure to execute upon our business plan due to the loss of employees; and

- our ability to retain or recruit key employees.

The uncertainty of current worldwide economic conditions makes budgeting and forecasting very difficult.

We are unable to predict the likely duration of the current adverse economic conditions in the U.S. and other countries, and all of the effects those conditions may have on our business. In particular, the uncertainty of current worldwide economic conditions subjects our forecasts to heightened risks and uncertainties.

Vivendi owns a majority of our outstanding shares of common stock and the interests of Vivendi and its subsidiaries may conflict with the interests of our other shareholders.

Vivendi and its subsidiaries currently own approximately 61% of our issued and outstanding shares of common stock.

As a result of the Business Combination, Vivendi has the ability to nominate a majority of our board of directors and determine the outcome of certain matters submitted to our stockholders, such as the approval of significant transactions and the declaration of dividends on our common stock. As a result, actions that may be supported by a majority of stockholders other than Vivendi may be blocked by Vivendi. In addition, Vivendi's ownership may affect the liquidity in the market for our common stock.

Furthermore, the ownership position and governance rights of Vivendi may discourage a third party from proposing a change of control or other strategic transaction concerning Activision Blizzard. As a result, our common stock may trade at prices that do not reflect a "control premium" to the same extent as do the stocks of similarly situated companies that do not have a stockholder with an ownership interest as large as Vivendi's ownership interest.

We are a "controlled company" within the meaning of NASDAQ rules and, as a result, are exempt from certain corporate governance requirements.

For so long as Vivendi or any other entity or group owns more than 50% of the total voting power of our common shares, we will be a "controlled company" within the meaning of NASDAQ rules and, as a result, qualify for exemptions from certain corporate governance requirements. As a controlled company, we are exempt from several NASDAQ standards, including the requirements:

- that a majority of our Board consists of independent directors;
- that our prospective directors be nominated solely by independent directors; and
- that the compensation of our executive officers be determined solely by independent directors.

We currently rely on these exemptions and as a result, a majority of our Board is not independent (as defined by the NASDAQ rules). In addition, while we have a nominating and corporate governance committee and a compensation committee, these committees do not consist entirely of independent directors. Accordingly, our stockholders do not have the same protections afforded to stockholders of companies that are subject to all of the NASDAQ corporate governance requirements.

Subject to certain limitations, Vivendi may sell common stock at any time, which could cause our stock price to decrease.

Vivendi may sell the shares of our stock that it owns, including pursuant to a registered underwritten public offering under the Securities Act of 1933, as amended (the "Securities Act"), or in accordance with Rule 144 under the Securities Act. We have entered into an investor agreement with Vivendi, which includes registration rights and which gives Vivendi the right to require us to register all or a portion of its shares at any time, subject to certain limitations. The sale of a substantial number of shares of common stock by Vivendi within a short period of time could cause our stock price to decrease, and make it more difficult for us to raise funds through future offerings of common stock.

Our sales may decline substantially without warning and in a brief period of time because a substantial portion of our sales are made to a relatively small number of key customers and because we do not have long-term contracts for the sale of our products.

In the U.S. and Canada, Activision has primarily sold its boxed products on a direct basis to mass-market retailers, consumer electronics stores, discount warehouses, and game specialty stores.

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Activision boxed products are sold internationally on a direct-to-retail basis, through third-party distribution and licensing arrangements and through our wholly-owned European distribution subsidiaries. Activision's sales are made primarily on a purchase order basis without long-term agreements or other forms of commitments. We had one customer, GameStop, which accounted for approximately 12% of our consolidated net revenues in 2010. We had two customers, GameStop and Wal-Mart, which accounted for 12% and 18% of consolidated gross receivables at December 31, 2010, respectively. The loss of, or significant reduction in sales to, any of Activision's principal retail customers or distributors could significantly harm our business and financial results. The concentration of sales in a small number of large customers also could make us more vulnerable to collection risk if one or more of these large customers becomes unable to pay for our products or seeks protection under the bankruptcy laws. In addition, having such a large portion of our total net revenue concentrated in a few customers reduces our negotiating leverage with these customers.

Our business is subject to the risks and uncertainties of international trade.

We conduct business throughout the world, and we derive a substantial amount of revenue from international trade, particularly from Europe, Asia and Australia. We expect that international revenues will continue to account for a significant portion of our total revenues in the future and, moreover, believe that our growth will depend on increased sales in emerging markets in Asia and elsewhere.

As such, we are, and may be increasingly, subject to risks inherent in foreign trade generally, as well as risks inherent in doing business in emerging markets, including increased tariffs and duties, fluctuations in currency exchange rates, shipping delays, increases in transportation costs, international political, regulatory and economic developments and differing local business practices, all of which may impact operating margins or make it more difficult, if not impossible, for us to conduct business in foreign markets.

A deterioration in relations between either us or the U.S. and any country in which we have significant operations or sales, or the implementation of government regulations in such a country, including China in particular, could result in the adoption or expansion of trade restrictions that harm our business and operating results. For instance, to operate in China, *World of Warcraft, StarCraft II* and any other game must have regulatory approval. A decision by the Chinese government to revoke its approval for *World of Warcraft* or to decline to approve *StarCraft II* or the *World of Warcraft: Cataclysm* expansion pack or any other products we desire to sell in China in the future would adversely impact our operating results. Additionally, in the past, legislation has been implemented in China that has required modifications to the *World of Warcraft* software. The future implementation of similar laws in China or any other country in which we have operations or sales may require engineering modifications to our products that are not cost-effective, if even feasible at all, or could degrade the customer experience to the point where customers cease to purchase such products.

We are also subject to risks that our operations outside the U.S. could be conducted by our employees, contractors, representatives or agents in ways that violate the Foreign Corrupt Practices Act or other similar anti-bribery laws. While we have policies and procedures intended to ensure compliance with these laws, our employees, contractors, representatives and agents may take actions that violate our policies. Moreover, it may be more difficult to oversee the conduct of any such persons who are not our employees, potentially exposing us to greater risk from their actions. Any violations of those laws by any of those persons could have a negative impact on our business.

Further, if government regulations or restrictions prevent us from repatriating internationally derived revenue into the U.S., or a country's tax structure makes repatriation prohibitively expensive, we may not transfer such revenue into the U.S., which could affect our ability to reinvest or utilize such amounts in our business.

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In addition, cultural differences may affect consumer preferences and limit the popularity of titles that are "hits" in the U.S or require us to modify the content of the games or the method by which we charge our customers for the games in order to be successful. If we do not correctly assess consumer preferences in the countries in our market, our sales and revenue may be lower than expected.

Our business may be harmed if our distributors, retailers or other parties with which we do business cannot honor their existing credit arrangements, default on their obligations to us, or seek protection under the bankruptcy laws.

We rely on various business partners for several important aspects of our business, including distribution of our products, product development and intellectual property licensing. Some of these business partners are highly-leveraged or small businesses that may be particularly vulnerable to difficult economic conditions. As a result of current economic conditions, we are subject to heightened counterparty risks, including the risks that our business partners may default on their obligations to us or seek protection under the bankruptcy laws.

For example, retailers and distributors in the interactive entertainment industry have from time to time experienced significant fluctuations in their businesses and a number of them have failed. We typically make sales to most retailers and some distributors on unsecured credit, with terms that vary depending upon the customer's credit history, solvency, credit limits, and sales history, as well as whether the customer can obtain sufficient credit insurance. Challenging economic conditions may impair the ability of our customers to pay for products they have purchased, and as a result, our reserves for doubtful accounts and write-off of accounts receivable could increase and, even if increased, may turn out to be insufficient. Moreover, even in cases where we have insolvency risk insurance to protect against a customer's bankruptcy, insolvency, or liquidation, this insurance typically contains a significant deductible and co-payment obligation, and does not cover all instances of non-payment. As a result, a payment default by, or the insolvency or business failure of, a significant customer could significantly harm our business and financial results.

The insolvency or business failure of other types of business partners could result in disruptions to the manufacturing or distribution of our products or the cancellation of contractual arrangements that we consider to be favorable.

The increasing importance of digital sales to our business exposes us to the risks of that business model, including greater competition

The proportion of our revenue derived from digital content delivery as compared to traditional retail sales is increasing. This will also require us to dedicate capital to developing and implementing alternative marking strategies, which we may not do successfully. The increased importance of digital content delivery in the industry overall increases our potential competition, as the minimum capital needed to produce and publish a game delivered digitally may be significantly less than that needed to produce and publish one that is purchased through retail distribution and is played on a game console. It may also reduce overall demand for our distribution services. If either occurs, our revenues, margins, and profitability could decline.

We are exposed to seasonality in the sale of our products.

The interactive entertainment industry is highly seasonal, with the highest levels of consumer demand occurring during the year-end holiday buying season. As a result, net revenues, gross profits, and operating income have historically been highest during the second half of the year. Receivables and credit risk are likewise higher during the second half of the year as customers stock up on our products for the holiday season. Further, delays in development, licensor approvals, or manufacturing can also

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affect the timing of the release of products, causing us to miss key selling periods such as the year-end holiday buying season.

As online functionality has become an increasingly important feature of our software products, we may need to defer the recognition of an increasing amount of revenue, which may adversely affect the net revenue, net income and earnings per share that we will report under U.S. GAAP in any given period.

As online functionality has become a more important component of gameplay, an increasing number of our online-enabled games contain a more-than-inconsequential separate service deliverable in addition to the product, and our performance obligations for these games extend beyond the sale of the games. Vendor-specific objective evidence of fair value does not exist for the online services, as we do not plan to separately charge for this component of online-enabled games. As a result, we recognize revenues from the sale of certain online-enabled games for certain platforms ratably over an estimated service period. In addition, we defer the costs of sales of those titles. If we are required to recognize a greater portion of the revenue of a sale after shipment, or if we are required to recognize revenue over a longer service period, there may be an adverse effect on our reported net revenue, net income and earnings per share under accounting principles generally accepted in the United States of America.

We may permit our customers to return products and to receive pricing concessions which could reduce net revenues and results of operations.

We are exposed to the risk of product returns and price protection with respect to our distributors and retailers. Return policies allow distributors and retailers to return defective, shelf-worn, damaged and certain other products in accordance with terms granted. Price protection, when granted and applicable, allows these distributors and retailers a credit against amounts owed with respect to merchandise unsold by them. We may permit product returns from, or grant price protection to, our customers under certain conditions. These conditions may include compliance with applicable payment terms, delivery of weekly inventory and sell-through reports, and consistent participation in the launches of premium title releases. We may also consider other factors, including the facilitation of slow-moving inventory and other market factors. When we offer price protection, it may be offered with respect to a particular product to all of our retail customers (although only customers who meet the conditions detailed above are entitled to such price protection). Activision also offers a 90-day limited warranty to its end users that Activision products will be free from manufacturing defects. Although we maintain a reserve for returns and price protection, and although we may place limits on product returns and price protection, we could be forced to accept substantial product returns and provide substantial price protection to maintain our relationships with retailers and our access to distribution channels. Product returns and price protection that exceed our reserves could significantly harm our business and financial results.

Changes in tax rates or exposure to additional tax liabilities could adversely affect our operating results and financial condition.

We are subject to income taxes in the U.S. and in various other jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and, in the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are required to estimate future taxes. Although we currently believe our tax estimates are reasonable, the estimate process is inherently uncertain, and such estimates are not binding on tax authorities. The effective tax rate could be adversely affected by changes in the business, including the mix of earnings in countries with differing statutory tax rates, changes in tax elections, and changes in applicable tax laws, as well as other factors. Further, tax determinations are regularly subject to audit by tax authorities and developments in those audits could adversely affect our income tax provision.

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Should the ultimate tax liability exceed estimates, our income tax provision and net income could be adversely affected.

We are also required to pay taxes other than income taxes, such as payroll, sales, use, value-added, net worth, property, and goods and services taxes, in both the U.S. and various other jurisdictions. Tax authorities regularly examine these non-income taxes. There can be no assurance that the outcomes from these examinations, changes in the business or changes in applicable tax rules will not have an adverse effect on our operating results and financial condition.

The development of quality products requires substantial up-front expenditures, and we may not be able to recover those costs for our future products.

Consumer preferences for games are usually cyclical and difficult to predict, and even the most successful titles remain popular for only limited periods of time, unless refreshed with new content or otherwise enhanced. In order to remain competitive, we must continuously develop new products or enhancements to existing products. The amount of lead time and cost involved in the development of quality products is increasing, and the longer the lead time involved in developing a product and the greater the allocation of financial resources to such product, the more critical it is that we accurately predict consumer demand for such product. If our future products do not achieve expected market acceptance or generate sufficient revenues upon introduction, we may not be able to recover the substantial development and marketing costs associated with those products, and our financial results could suffer.

A substantial portion of our revenue and profitability depends on the success of our Call of Duty franchise in the first-person action game category. If we do not maintain our leadership position in this category, our financial results could suffer.

Activision Blizzard is a leading global developer, publisher and distributor in terms of revenues in the first-person action game category, due to the popularity of Activision's *Call of Duty* franchise. Revenues from this game comprise a significant portion of our consolidated revenues. To remain a leader in the first-person action game category, it is important that we continue develop new games in the *Call of Duty* franchise that are favorably received by both our existing customer base and new customers. A number of software publishers have developed and commercialized, or are currently developing, first-person action games which pose a threat to the popularity of *Call of Duty*, and we expect new competitors to continue to emerge in the first-person action category. If consumer demand for *Call of Duty* games declines and we have not introduced new first-person action games or other products that replace *Call of Duty's* potentially decreasing revenue, or added other sources of revenue, our financial condition could suffer. Additionally, if consumer preferences trend away from first-person action games, our revenue and profitability may decline.

A substantial portion of our revenue and profitability depends on the subscription-based massively multiplayer online role-playing game category. If we do not maintain our leadership position in this category, our financial results could suffer.

Blizzard is the leading global developer, publisher and distributor in terms of subscriber base and revenues in the subscription-based MMORPG category, due primarily to the popularity of Blizzard's *World of Warcraft* and related expansion packs. Subscription revenues from this game comprise a significant portion of our consolidated revenues. To remain the leader in the MMORPG category, it is important that we continue to refresh *World of Warcraft* or develop new MMORPG products that are favorably received by both our existing customer base and new customers. A number of software publishers have developed and commercialized, or are currently developing, online games for use by consumers over the Internet which pose a threat to the popularity of *World of Warcraft*, and we expect new competitors to continue to emerge in the MMORPG category. If consumer demand for *World of*

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Warcraft games declines and we have not introduced new MMORPG or other products that replace *World of Warcraft*'s potentially decreasing revenue, or added other sources of revenue, our financial condition could suffer. Additionally, if new technologies are developed that replace MMORPG games, consumer preferences trend away from MMORPG games or new business models emerge that offer online subscriptions for free or at a substantial discount to current MMORPG subscription fees, our revenue and profitability may decline.

A substantial portion of Activision Blizzard's revenues is derived from subscriptions paid by World of Warcraft subscribers. If we are unable to sustain this business model or these customers cancel their subscriptions, our results of operations may suffer.

A substantial portion of our revenues is generated by subscription fees paid by consumers who play *World of Warcraft*. Typically, *World of Warcraft* subscribers purchase one to three month memberships that are cancelable, without penalty, at the end of the membership period. If *World of Warcraft* subscribers become dissatisfied, they may chose not to renew their memberships in order to engage in other forms of entertainment (including competing MMORPG offerings) and we may not be able to replace lost subscribers. Additionally, if general economic conditions do not improve, consumers may decrease their discretionary spending on entertainment items such as MMORPG games and users may choose not to renew their *World of Warcraft* subscriptions. A decrease in the overall subscription base of *World of Warcraft* could substantially harm our operating results.

We depend on servers to operate our MMORPG business and other games of ours that have online features. If we were to lose server capacity, for any reason, our business could suffer.

Our business relies on the continuous operation of our data servers. Any broad-based catastrophic server malfunction, a significant intrusion by hackers that circumvents our security measures, or a failure of our disaster recovery service would likely interrupt the operation of our MMORPG game, *World of Warcraft*, and other games of ours with online features and could result in the loss of sales for such games (including subscription-based sales for *World of Warcraft*). An extended interruption of service could also harm our reputation and operating results.

We must project our future server needs and make advance purchases of servers to accommodate expected business demands. If we underestimate the amount of server capacity our business requires or if our business were to grow more quickly than expected, our customers may experience service problems, such as slow or interrupted gaming access. Insufficient server capacity may result in decreased sales, a loss of our customer base, and adverse consequences to our reputation. Conversely, if we overestimate the amount of server capacity required by our business, we may incur additional operating costs that would adversely affect our operating margins.

If we do not continue to attract and retain skilled personnel, we will be unable to effectively conduct our business.

Our success depends to a significant extent on our ability to identify, hire, retain and utilize the abilities of qualified personnel, particularly personnel with the specialized skills needed to create the high-quality "hit" titles upon which our business is substantially dependent. The software industry is characterized by a high level of employee mobility and aggressive recruiting among competitors for employees with technical, marketing, sales, product development, and management skills. We may have difficulties in attracting and retaining skilled personnel or may incur significant costs in order to do so. If we are unable to attract additional qualified employees or retain and utilize the services of key personnel, our business and financial results could be negatively impacted.

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A substantial portion of World of Warcraft's subscribers pays their subscription fees using credit cards. Credit card fraud could have a negative impact on our business and operating results.

A substantial portion of the subscription revenue generated by *World of Warcraft* is paid by subscribers using credit cards. At times, there may be attempts to use fraudulently obtained credit card numbers to pay for *World of Warcraft* upgrades or subscriptions. Additionally, the credit card numbers of *World of Warcraft*'s subscribers are maintained in a proprietary database that may be compromised internally or externally. As fraudulent schemes become more sophisticated, it may become more difficult and more costly for us to detect credit card fraud and protect subscriber information. An increase in credit card fraud could have an adverse effect on our business and operating results.

We may not accurately predict the amount of Internet bandwidth necessary to sustain our online gaming businesses.

Our online gaming businesses are dependent on the availability of sufficient Internet bandwidth. An increase in the price of bandwidth could have an adverse effect on operating margins since we may not be able to increase our prices or subscriber levels to compensate for such costs. Because of the importance of our online business to our revenues and results of operations, our ability to access adequate bandwidth to support our business is critical. To secure bandwidth access, we have entered into arrangements with several bandwidth providers and entered into long-term contracts with some of them to secure future bandwidth capacity. If the price of bandwidth were to decrease, our contractual commitments to pay higher prices could affect our ability to compete with other video game producers.

Conversely, because we purchase additional bandwidth based on anticipated growth, our bandwidth capacity is sometimes larger than necessary to sustain our existing needs. If our projected online business growth is delayed or does not occur, we will incur larger bandwidth expenses than necessary. If we underestimate the amount of bandwidth that our online business requires, and our purchased bandwidth capacity is insufficient to meet demand, our business and reputation may suffer.

The importance to our business of the "smart toys" related to one of our expected new titles will expose us to hardware manufacturing and shipping risks, including availability of sufficient third-party manufacturing capacity and increases in manufacturing and shipping costs.

A new title we expect to launch in 2011, *Skylanders Spyro's Adventure*, will involve "smart toys" consisting of action figures and an electronic "portal" which, when used together, will allow a player to store and access information about his character's performance in the game. We anticipate that many of the manufacturers of those "smart toys" will be located in China. Anything that impacts the ability of those manufacturers to produce or otherwise supply the toys for us or increases their costs of production, including the utilization of such manufacturer's capacity by another company, changes in safety, environmental or other regulations applicable to the toys and the manufacturing thereof, natural or manmade disasters that disrupt manufacturing, transportation or communications, labor shortages, civil unrest or issues generally negatively impacting international companies operating in China, increases in the price of petroleum or other raw materials, increases in fuel prices and other shipping costs, and increases in local labor costs in China, may adversely impact our ability to supply those toys to the market and the prices we must pay for those toys, and therefore our financial performance. Moreover, the failure of those manufacturers to consistently deliver action figures and portals meeting the quality and safety standards we require could adversely impact our financial performance.

Sales of one of our expected new titles may be affected by the availability of toys, which will increase our exposure to imbalances between projected and actual demand.

Skylanders Spyro's Adventure will involve "smart toys" consisting of action figures and an electronic "portal" which, when used together, will allow a player to store and access information about his

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character's performance in the game. We intend to sell the toys both bundled with the software for the title and on a stand-alone basis. Consumers may not want to buy the related software if they cannot also buy the "smart toys". If we underestimate demand or otherwise are unable to produce sufficient quantities of toys of an acceptable quality or allocate too few toys to geographic markets where demand exceeds supply, we will forego revenue. This may also create greater opportunities for competitors to develop competitive product offerings. In addition, if we overestimate demand and make too many toys, or allocate too many toys to geographic markets where there is insufficient demand, we will incur unrecoverable manufacturing costs for unsold units as well as for unsold game software. In either case, toy manufacturing and allocation decisions may negatively affect our financial performance.

If we are unable to successfully develop or market owned intellectual property, we may publish fewer successful titles and our revenues may decline.

Some of our products are based on intellectual property that we have developed internally or acquired from third parties. Consumers have historically preferred titles which are part of established franchises to titles based on new intellectual property, and if new intellectual property does not gain market acceptance, whether because we are unable to successfully create consumer appeal and brand recognition or otherwise, our revenues, margins, and profitability could decline. Further, if the popularity of our owned intellectual property declines, our revenues, margins, and profitability could decline, and we may have to write off the unrecovered portion of the underlying intellectual property assets, any of which could harm our business and financial results.

If we are unable to maintain or acquire licenses to intellectual property, we may publish fewer "hit" titles and revenues may decline.

Some of our products are based on intellectual property and other character or story rights licensed from third parties. These license and distribution agreements are limited in scope and time, and we may not be able to renew key licenses when they expire or to include new products in existing licenses. Our loss of a significant number of intellectual property licenses or relationships with licensors, or inability to obtain additional licenses of significant commercial value, could have an adverse effect on our ability to develop new products and therefore on our business and financial results. Additionally, the failure of intellectual property we license to be, or remain, popularly received could impact the market acceptance of those products in which the intellectual property is included. Such lack of market acceptance could result in the write-off of the unrecovered portion of acquired intellectual property assets, which could harm our business and financial results. Furthermore, the competition for these licenses and distribution agreements is often intense. Competition for these licenses may also increase the advances, guarantees, and royalties that must be paid to the licensor.

We may be subject to intellectual property claims.

As the number of interactive entertainment software products increases and the features and content of these products continue to overlap, software developers increasingly may become subject to infringement claims. Many of our products are highly realistic and feature materials that are based on real world examples, which may be the subject of intellectual property infringement claims of others. In addition, our products often utilize complex, cutting-edge technology that may become subject to emerging intellectual property rights of others. Although we take steps to avoid knowingly violating the intellectual property rights of others, it is possible that third parties still may claim infringement. From time to time, we receive communications from third parties regarding such claims. Existing or future infringement claims against us, whether valid or not, may be time consuming, distracting to management and expensive to defend.

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Intellectual property litigation or claims could force us to do one or more of the following:

- cease selling, incorporating, supporting or using products or services that incorporate the challenged intellectual property;
- obtain a license from the holder of the infringed intellectual property, which if available at all, may not be available on commercially favorable terms;
- redesign the affected interactive entertainment software products, which could result in additional costs, delay introduction and possibly reduce commercial appeal of the affected products; or
- pay damages to the holder of the infringed intellectual property for past infringements.

Any of these actions may harm our business and financial results.

Fluctuations in currency exchange rates may have a negative impact on our results of operations.

We transact business in various currencies other than the U.S. dollar and have significant international sales and expenses denominated in currencies other than the U.S. dollar, subjecting us to currency exchange rate risks. A substantial portion of our international sales and expenses are denominated in local currencies, including certain major currencies, such as the euro and U.K. pound, and emerging market currencies, such as the South Korean won and Chinese renminbi, which could fluctuate against the U.S. dollar. We have, in the past, utilized currency derivative contracts to hedge certain foreign exchange exposures, with hedge tenors of generally less than 12 months, as well as managing these exposures with natural offsets. We may also, from time to time, hedge non-U.S. dollar earnings. Our principal counterparty in respect of currency derivative contracts is Vivendi, though we periodically evaluate and may use similar arrangements with other counterparties. There can be no assurance that we will continue these programs, or that we will be successful in managing exposure to currency exchange rate risks.

We rely on independent third parties to develop some of our software products.

We rely on independent third-party software developers to develop some of our software products. Because we depend on these developers, we are subject to the following risks:

- continuing strong demand for top-tier developers' resources, combined with the recognition they receive in connection with their work, may cause developers who worked for us in the past either to work for a competitor in the future or to renegotiate agreements with us on terms less favorable to us;
- limited financial resources and business expertise and inability to retain skilled personnel may force developers out of business prior to completing products or require us to fund additional costs; and
- a competitor may acquire the businesses of key developers or sign them to exclusive development arrangements. In either case, we would not be able to continue to engage such developers' services for our products, except for those developers that are contractually obligated to complete development for us.

Increased competition for skilled third-party software developers also has compelled us to agree to make significant advance payments on royalties to game developers. If the products subject to these arrangements do not generate sufficient revenues to recover these royalty advances, we would have to write-off unrecovered portions of these payments, which could harm our business and financial results. Typically, we pay developers a royalty based on a percentage of net revenues from product sales, less agreed upon deductions, but from time to time, we have agreed to pay developers fixed per unit

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product royalties after royalty advances are fully recouped. To the extent that sales prices of products on which we have agreed to pay a fixed per unit royalty are marked down, our profitability could be adversely affected.

Our platform licensors set the royalty rates and other fees that must be paid to publish games for their platforms, and therefore have significant influence on our costs.

We pay a licensing fee to the hardware manufacturer for each copy of a product manufactured for that manufacturer's game platform. In order to publish products for new hardware platforms, we must take a license from the platform licensor which gives the platform licensor the opportunity to set the fee and/or price that we must pay in order to publish games for that platform. Similarly, the platform licensors have retained the flexibility to change their fee structures and/or pricing for online gameplay and features for their consoles and the manufacturing of products. The control that platform licensors have over the fee structures and/or pricing for their platforms and online access makes it difficult for us to predict our costs and profitability in the medium to long term. It is also possible that platform licensors will not renew our existing licenses. Any increase in fee structures and/or pricing, or nonrenewal of licenses, could have a significant negative impact on our business models and profitability, particularly for Activision, as the publishing of products for console systems is the largest portion of Activision's business.

Our business is highly dependent on the success, timely release and availability of new video game platforms and on the continued availability of existing video game platforms, as well as our ability to develop commercially successful products for these platforms.

We derive a substantial portion of our revenue from the sale of products for play on video game platforms manufactured by third parties, such as Sony's PlayStation 3 and PlayStation Portable, Microsoft's Xbox 360 and Nintendo's Wii and NDS. For example, sales of products for consoles accounted for 52% of our consolidated net revenue in 2010. The success of our business is driven in large part by the availability of an adequate supply of these video game platforms, our ability to accurately predict which platforms will be successful in the marketplace, and our ability to develop commercially successful products for these platforms. We must make product development decisions and commit significant resources well in advance of the anticipated introduction of a new platform. A new platform for which we are developing products may be delayed, may not succeed or may have a shorter life cycle than anticipated. Alternatively, a platform for which we have not devoted significant resources could be more successful than initially anticipated, causing us to miss a meaningful revenue opportunity. Additionally, if the platforms for which we are developing products are not released when anticipated, are not available in adequate quantities to meet consumer demand, or do not attain wide market acceptance, our revenues may suffer, we may be unable to fully recover our investment in developing those products, and our financial performance may be harmed.

Transitions in console platforms could adversely affect the market for interactive entertainment software.

In 2005, Microsoft released the Xbox 360 and, in 2006, Sony and Nintendo introduced the PlayStation 3 and Wii, respectively. When new console platforms are announced or introduced into the market, consumers typically reduce their purchases of game console entertainment software products for current console platforms in anticipation of new platforms becoming available. During these periods, sales of game console entertainment software products we publish may slow or even decline until new platforms are introduced and achieve wide consumer acceptance. This decline may not be offset by increased sales of products for the new console platforms. As console hardware moves through its life cycle, hardware manufacturers typically enact price reductions and decreasing prices may put downward pressure on software prices. During platform transitions, we may simultaneously incur costs both in continuing to develop and market new titles for prior-generation video game platforms, which may not sell at premium prices, and also in developing products for current-generation platforms, which will not generate immediate or near-term revenue. As a result, our operating results during platform transitions may be more volatile and more difficult to predict than during other times, and such volatility may cause greater fluctuations in our stock price.

We must make significant expenditures to develop products for new platforms that may not be successful.

We must make substantial product development and other investments in a particular platform well in advance of introduction of the platform and may be required to realign our product portfolio and development efforts in response to market changes. Furthermore, development costs for new console platforms are greater than such costs for current console platforms. If increased costs are not offset by higher revenues and other cost efficiencies, operating results will suffer and our financial position will be harmed. If the platforms for which we develop new software products or modify existing products do not attain significant market penetration, we may not be able to recover our development costs, which could be significant, and our business and financial results could be significantly harmed.

If we are unable to sustain launch pricing on current-generation titles, our operating results will suffer.

We expect to be able to price current-generation titles for the Microsoft Xbox 360, Sony's PlayStation 3 and the Nintendo Wii at a premium launch level, but if we are unable to sustain launch pricing on these current-generation titles, whether because retailers elect to price these products at a lower price, due to competitive pressure or otherwise, we may experience a negative effect on our margins and operating results.

Platform licensors are our chief competitors and frequently control the manufacturing of, and have broad approval rights over, our console and handheld video game products.

Generally, when we develop interactive entertainment software products for hardware platforms offered by Sony, Nintendo, or Microsoft, the products are manufactured exclusively by that hardware manufacturer or their approved replicator.

The agreements with these manufacturers include certain provisions, such as approval rights over all software products and related promotional materials and the ability to change the fee they charge for the manufacturing of products, which allow them substantial influence over the cost and the release schedule of such interactive entertainment software products. In addition, because each of the manufacturers is also a publisher of games for its own hardware platforms and manufactures products for all of its other licensees, a manufacturer may give priority to its own products or those of our competitors in the event of insufficient manufacturing capacity. Accordingly, Sony, Nintendo, or Microsoft could cause unanticipated delays in the release of our products as well as increases to projected development, manufacturing, marketing, or distribution costs, which could harm our business and financial results.

In addition, platform licensors control our ability to provide online game capabilities for console platform products and in large part establish the financial terms and/or pricing on which these products and services are offered to consumers. Currently, Microsoft provides online capabilities for the Xbox 360, Sony provides online capabilities for PlayStation 3 products, and Nintendo provides online capabilities for the Wii. In each case, compatibility code and/or the consent of the licensor are required for us to include online capabilities in its console products. As these capabilities become more significant, the failure or refusal of licensors to approve our products may harm our business and financial results.

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We may face difficulty obtaining access to retail shelf space necessary to market and sell our products effectively.

Retailers typically have a limited amount of shelf space and promotional resources, and there is intense competition among consumer interactive entertainment software products for high quality retail shelf space and promotional support from retailers. To the extent that the number of products and platforms increases, competition for shelf space may intensify and may require us to increase our marketing expenditures. Retailers with limited shelf space typically devote the most and highest quality shelf space to those products expected to be best sellers. We cannot be certain that our new products will consistently achieve such "best seller" status. Due to increased competition for limited shelf space, retailers and distributors are in an increasingly better position to negotiate favorable terms of sale, including price discounts, price protection, marketing and display fees, and product return policies. Our products constitute a relatively small percentage of most retailers' sales volume. We cannot be certain that retailers will continue to purchase our products or to provide those products with adequate levels of shelf space and promotional support on acceptable terms. A prolonged failure in this regard may significantly harm our business and financial results.

Increased sales of used video game products could lower our sales.

Certain of our larger customers sell used video games, which are generally priced lower than new video games and do not result in any revenue to the publisher of the games. The market for these games may be growing. Sales of used video games could negatively affect our sales of new video games and have an adverse impact on our operating results.

We may not be able to maintain our distribution relationships with key vendors and customers.

Our NBG and Centresoft subsidiaries distribute interactive entertainment software and hardware products and provide related services in Germany and the U.K., respectively, and via export in other European countries for a variety of entertainment software publishers, many of which are our competitors, and hardware manufacturers. From time to time, these subsidiaries also maintain exclusive relationships to serve certain retail customers. These services are generally performed subject to limited-term arrangements. Although we expect to use reasonable efforts to retain these vendors and retail customer relationships, we may not be successful in this regard. The cancellation or non-renewal of one or more of these arrangements could adversely affect our business and financial results.

Our products may be subject to legal claims.

In prior years, at least two lawsuits have been filed against numerous video game companies, including against Activision, by the families of victims who were shot and killed by teenage gunmen in attacks perpetrated at schools. These lawsuits alleged that the video game companies manufactured and/or supplied these teenagers with violent video games, teaching them how to use a gun and causing them to act out in a violent manner. These lawsuits have been dismissed. Similar additional lawsuits may be filed in the future. Although our general liability insurance carrier has agreed to defend lawsuits of this nature with respect to the prior lawsuits, it is uncertain whether insurance carriers would do so in the future, or if such insurance carriers would cover all or any amounts for which we might be liable if such future lawsuits are not decided in our favor. If such future lawsuits are filed and ultimately decided against us and the relevant insurance carrier does not cover the amounts for which we may be liable, it could have an adverse effect on our business and financial results. Payment of significant claims by insurance carriers may make insurance coverage materially more expensive or unavailable in the future, thereby exposing us to additional risk.

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If our products contain defects, our business and reputation could be harmed significantly.

Software products as complex as the ones we publish may contain undetected errors and defects. This risk is often higher when such products are first introduced or when new versions are released. Failure to avoid, or to timely detect and correct, such errors or defects could result in loss of, or delay in, market acceptance, and could significantly harm our business, financial results, and reputation.

Our products are subject to the threat of piracy and unauthorized copying, and inadequate intellectual property laws and other protections could prevent us from enforcing or defending our proprietary technologies. We may also face legal risks arising out of user-generated content.

We regard our software as proprietary and rely on a variety of methods, including a combination of copyright, patent, trademark and trade secret laws and employee and third-party nondisclosure agreements, to protect our proprietary rights. We own or license various copyrights, patents, and trademarks. We are aware that some unauthorized copying occurs, and if a significantly greater amount of unauthorized copying of our software products were to occur, it could cause harm to our business and financial results.

Policing unauthorized use of our products is difficult, and software piracy (including online piracy) is a persistent problem for us,. Further, the laws of some countries where our products are or may be distributed either do not protect their products and intellectual property rights to the same extent as the laws of the U.S., or are poorly enforced. Legal protection of our rights may be ineffective in such countries. In addition, though we take steps to make the unauthorized copying and distribution of our products more difficult and to otherwise enforce and police our rights, as do the manufacturers of consoles on which some of those games (and a majority of those games published by Activision) are played, our efforts and the efforts of the console manufacturers may not be successful in controlling the piracy of our products in all instances. Organized pirate operations have been expanding globally. In addition, the proliferation of technology designed to circumvent the protection measures used in our products, the availability of broadband access to the Internet, the ability to download pirated copies of games from various Internet sites and peer-to-peer networks, and the widespread proliferation of Internet cafes using pirated copies of our products all have contributed to an expansion in piracy. This could have a negative effect on our growth and profitability in the future.

Moreover, as user-generated content increases, our ability to protect our intellectual property rights and to avoid infringing intellectual property rights of others may diminish. We cannot be certain that existing intellectual property laws will provide adequate protection for our products in connection with emerging technologies.

Data breaches involving the source code for our products or customer or employee data stored by us could adversely affect our reputation and revenues.

We store the source code and game assets for our interactive entertainment software products as created. In addition, we store confidential information with respect to our customers and employees. A breach of the systems on which such source code and assets, account information (including personally identifiable information) and other sensitive data is stored could lead to piracy of our software or fraudulent activity resulting in claims and lawsuits against us in connection with data security breaches. A data intrusion into a server for a game with online features, such as *World of Warcraft* or *Call of Duty*, could also disrupt the operation of such game. If we are subject to data security breaches, we may have a loss in sales or be forced to pay damages or other amounts, which could adversely affect profitability. In addition, any damage to our reputation resulting from a data breach could have an adverse impact on our revenues and future growth prospects, or increased costs arising from the implementation of additional security measures.

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Our products are subject to ratings by the Entertainment Software Rating Board and similar agencies. Our failure to obtain our target ratings for our products could negatively impact our sales.

The Entertainment Software Rating Board (the "ESRB") is a self-regulatory body in the U.S. that provides consumers of interactive entertainment software with ratings information, including information relating to violence, nudity or sexual content contained in software titles. Certain countries other than the U.S. have also established similar rating systems as prerequisites for product sales in those countries. In some countries, a company may be required to modify its products to comply with the requirements of the rating systems, which could delay or disrupt the release of any given product, or may prevent its sale altogether in certain territories. The relevant ESRB ratings include "Everyone" (age 6 and older), "Everyone 10+" (age 10 and older), "Teen" (age 13 and over), or "Mature" (age 17 and over). Certain of our titles have received a "Mature" rating. None of our titles has received the "Adults Only" rating (18 and over). If we are unable to obtain the ratings we have targeted for our products as a result of changes in the ESRB's ratings standards or for other reasons, including the adoption of legislation in this area, our business and prospects could be negatively affected.

Our business, products, and distribution are subject to increasing regulation of content in key territories. If we do not successfully respond to these regulations, our business may suffer.

Legislation is continually being introduced that may affect both the content and the distribution of our products. Those laws and regulations vary by territory. For example, privacy laws in the U.S. and Europe impose various restrictions on the collection, storage and use of personal information.

In addition, many foreign countries, such as China and Germany, have laws that permit governmental entities to restrict the content and/or advertising of interactive entertainment software or prohibit certain types of content. In the U.S, numerous laws have been introduced at one time or another at the federal and state levels which attempt to restrict the content of games or the distribution of such products.

The adoption and enforcement of such legislation in the U.S. and other countries in which we do business may harm the sales of our products, as the products we are able to offer to our customers and the size of the potential market for our products may be limited. We may also be required to modify certain of our product development processes or alter our marketing strategies to comply with new and possibly inconsistent regulations, which could be costly or delay the release of our products.

Our results of operations or reputation may be harmed as a result of offensive consumer-posted content.

We are subject to risks associated with the collaborative online features in our games which allow consumers to post narrative comment, in real time, which is visible to other players. Despite our efforts to restrict inappropriate consumer content, from time to time objectionable and offensive consumer content may be posted to a gaming or other site with online chat features or game forums which allow consumers to post comments. We may be subject to lawsuits, governmental regulation or restrictions, and consumer backlash (including decreased sales and harmed reputation), as a result of consumers posting offensive content, any of which could harm our operating results. We may also be subject to consumer backlash from comments made in response to postings we make on social media sites such as Facebook, YouTube and Twitter, which could similarly harm our reputation or operating results.

If one or more of our titles were found to contain objectionable undisclosed content, our business could suffer.

Throughout the history of the interactive entertainment industry, many video games have been designed to include certain hidden content and gameplay features that are accessible through the use of in-game cheat codes or other technological means that are intended to enhance the gameplay experience. However, in some cases, objectionable undisclosed content or features have been found in our and other publishers' interactive entertainment software products. In a few cases, the ESRB has

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reacted to discoveries of undisclosed content and features in other publisher's products by changing the rating that was originally assigned to the product, requiring the publisher to change the game and/or game packaging and/or fining the publisher. Retailers have on occasion reacted to the discovery of such undisclosed content by removing these games from their shelves, refusing to sell them, and demanding that their publishers accept them as product returns. Likewise, some interactive entertainment software consumers have reacted to the revelation of undisclosed content by refusing to purchase such games, demanding refunds for games they have already purchased, refraining from buying other games published by the company whose game contained the objectionable material, and, on at least one occasion, filing a lawsuit against the publisher of the product containing such content.

We have implemented preventive measures designed to reduce the possibility of objectionable undisclosed content from appearing in the video games we publish. Nonetheless, these preventive measures are subject to human error, circumvention, overriding, and reasonable resource constraints. If a video game we publish is found to contain undisclosed content, we could be subject to any of these consequences and our reputation could be harmed, which could have a negative impact on our operating results and financial condition, and our business and financial performance could be significantly harmed.

We engage in strategic transactions and may encounter difficulties in integrating acquired businesses or otherwise realizing the anticipated benefits of the transactions.

As part of our business strategy, we acquire, make investments in and enter into strategic alliances and joint ventures with complementary businesses from time to time. These transactions may involve significant risks and uncertainties, including: (A) in the case of an acquisition, (i) the difficulty in integrating the acquired business and operations in an efficient and effective manner, (ii) any liabilities assumed as part of the acquisition, and (iii) the potential loss of key employees of the acquired businesses, and, (B) in the case of an investment, alliance or joint venture, our ability to cooperate with our partner. If any such transaction involves an entity outside of the United States, it may also subject us to the risks and uncertainties of international trade, including the risk that our operations outside the U.S. could be conducted by our employees, contractors, representatives or agents in ways that violate the Foreign Corrupt Practices Act or other similar anti-bribery laws Further, any such transaction may involve the risk that our senior management's attention will be excessively diverted from our other operations, the risk that our industry does not evolve as anticipated and that any intellectual property or personnel skills acquired do not prove to be those needed for our future success, and the risk that our strategic objectives, cost savings or other anticipated benefits are otherwise not achieved. Any of the foregoing could adversely affect our business and results of operations.

Our involvement in joint ventures decreases our ability to manage risk.

We conduct some of our operations through joint ventures in which we share control with our joint venture partners. Although we enter into joint venture arrangements in order to share risks with our joint venture partners, these arrangements may also decrease our ability to manage risk. As with any joint venture arrangement, differences in views among the joint venture participants may result in delayed decisions or in failures to agree on major issues. There is the risk that our joint venture partners may at any time have economic, business or legal interests or goals that are inconsistent with ours. There is also risk that our joint venture partners may be unable to meet their economic or other obligations and we may be required to fulfill those obligations alone. Failure by us, or an entity in which we have a joint venture interest, to adequately manage the risks associated with any joint ventures could have an adverse effect on the financial condition or results of operations of our joint ventures and, in turn, our business and operations.

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We anticipate entering into additional joint ventures with other entities. We cannot assure that we will undertake such joint ventures or, if undertaken, that such joint ventures will be successful or produce the anticipated benefits.

Historically, our stock price has been highly volatile.

The trading price of our common stock has been, and could continue to be, subject to wide fluctuations in response to many factors, including for example, but without limitation:

- quarter to quarter variations in results of operations;
- the announcement of new products;
- the announcement of lower prices on competing products;
- product development or release schedules;
- general conditions in the computer, software, entertainment, media or electronics industries, and in the worldwide economy;
- timing of the introduction of new platforms and delays in the actual release of new platforms;
- hardware manufacturers' announcements of price changes for hardware platforms;
- consumer acceptance of hardware platforms;
- consumer spending trends;
- the outcome of lawsuits or regulatory investigations in which we may become involved;
- changes in earnings estimates or buy/sell recommendations by analysts;
- sales or acquisitions of common stock by our directors or executive management, or by Vivendi and its affiliates; and
- investor perceptions and expectations regarding our products, plans and strategic position, and those of our competitors and customers.

In addition, the public stock markets have been experiencing extreme price and trading volume volatility. This volatility has significantly affected the market prices of securities of many technology companies for reasons often unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of our common stock.

Catastrophic events may disrupt our business.

Our corporate headquarters are located in the Los Angeles, California area, which is near a major earthquake fault. A major earthquake or other catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems, or otherwise prevents us from conducting our normal business operations, could harm our operating results.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Our principal corporate and administrative offices are located at 3100 Ocean Park Boulevard, Santa Monica, California 90405 under a lease set to expire in December 2020. Other significant leased facilities include: our Blizzard offices located in Irvine, California 92612 and our North America

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distribution warehouse located in Fresno, California 93725, for which the leases are set to expire in November 2014 and February 2016, respectively.

The following is a summary of the principal leased offices we maintained as of December 31, 2010:

Purpose	North America	Europe	Asia	Total
	Square footage of leased properties			
Corporate Offices	140,151	9,203		149,354
Activision Product Development & Publishing Facilities (Activision Segment)	473,331	143,292	31,637	648,260
Blizzard Product Development & Publishing Facilities (Blizzard Segment)	444,742	86,000	5,600	536,342
Distribution Facilities (Distribution Segment)	364,256	502,700		866,956
Sales offices	14,394			14,394
Total	1,436,874	741,195	37,237	2,215,306

In total, we lease approximately 50 facilities in 19 countries, including the Argentina, Australia, Canada, China, Denmark, France, Germany, Ireland, Italy, Mexico, the Netherlands, Norway, Singapore, South Korea, Spain, Sweden, Taiwan, United States and the U.K. We anticipate no difficulty in extending the leases of our facilities or obtaining comparable facilities in suitable locations, as needed, and we consider our facilities to be adequate for our current needs.

Item 3. LEGAL PROCEEDINGS

The discussion in Note 18 to the Consolidated Financial Statements regarding legal proceedings is incorporated herein by reference.

Item 4. (Removed and Reserved)

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PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is quoted on the NASDAQ National Market under the symbol "ATVI."

The following table sets forth, for the periods indicated, the high and low reported sale prices for our common stock. At February 18, 2011, there were 1,810 holders of record of our common stock.

	High	Low
2009		
First Quarter Ended March 31, 2009	$ 10.99	$ 8.14
Second Quarter Ended June 30, 2009	13.14	9.85
Third Quarter Ended September 30, 2009	13.00	10.79
Fourth Quarter Ended December 31, 2009	12.96	10.25
2010		
First Quarter Ended March 31, 2010	$ 12.18	$ 9.93
Second Quarter Ended June 30, 2010	12.58	9.99
Third Quarter Ended September 30, 2010	12.09	10.32
Fourth Quarter Ended December 31, 2010	12.65	10.78

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Stock Performance Graph

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Activision Blizzard Inc. under the Exchange Act or the Securities Act of 1933, as amended.

The graph below matches the cumulative 69-month total return of holders of our common stock with the cumulative total returns of the NASDAQ Composite index and the RDG Technology Composite index. The graph assumes that the value of the investment in our common stock and in each of the indexes (including reinvestment of dividends) was $100 on March 31, 2005 and tracks each such investment through December 31, 2010.

For periods prior to July 9, 2008, before the Business Combination, the share price information for the Company is for Activision, Inc. In connection with the Business Combination, Activision, Inc. changed its name to Activision Blizzard, Inc. and its fiscal year end from March 31 to December 31.

COMPARISON OF 69 MONTH CUMULATIVE TOTAL RETURN*

Among Activision Blizzard, Inc., the NASDAQ Composite Index
and the RDG Technology Composite Index

*

100 invested on 3/31/05 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	3/05	3/06	3/07	3/08	12/08	12/09	12/10
Activision Blizzard, Inc.	**100.00**	**124.23**	**170.63**	**246.04**	**155.68**	**200.18**	**227.24**
NASDAQ Composite	**100.00**	**116.44**	**123.31**	**117.13**	**80.99**	**117.60**	**138.24**
RDG Technology Composite	**100.00**	**118.16**	**122.41**	**118.74**	**79.77**	**128.27**	**144.98**

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The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Cash Dividends

On February 9, 2011, our Board of Directors approved a cash dividend of $0.165 per common share payable on May 11, 2011 to shareholders of record of the Company's common stock on March 16, 2011. On February 10, 2010, our Board of Directors declared a cash dividend of $0.15 per common share payable on April 2, 2010 to shareholders of record at the close of business on February 22, 2010 and, on April 2, 2010, we made a cash dividend payment to such shareholders. Additionally, on October 22, 2010, the Company made dividend equivalent payments related to the 2010 cash dividend to the holders of restricted stock units. We did not pay cash dividends in 2009.

Upon completion of the Business Combination on July 9, 2008, Vivendi Games returned $79 million of capital to Vivendi and distributed its excess cash on-hand, as defined in the Business Combination Agreement, of $79 million to Vivendi.

Future dividends will depend upon our earnings, financial condition, cash requirements, future prospects, and other factors deemed relevant by our Board of Directors. There can be no assurances that dividends will be declared in the future.

Return of capital to Vivendi related to settlement of pre-Business Combination taxes

Prior to the Business Combination, Vivendi Games' income taxes are presented in the financial statements as if Vivendi Games were a stand-alone taxpayer even though Vivendi Games' operating results are included in the consolidated federal, certain foreign, and state and local income tax returns of Vivendi or Vivendi's subsidiaries. Based on the subsequent filing of these tax returns by Vivendi or Vivendi's subsidiaries, we determined that the amount paid by Vivendi Games was greater than the actual amount due (and settled) based upon filing of these returns. This difference between the amount paid and the actual amount due (and settled) represents a return of capital to Vivendi, which was required in accordance with the terms of the Business Combination agreement immediately prior to the close of the Business Combination.

Stock Splits

In July 2008, the Board of Directors approved a two-for-one split of our outstanding common stock effected in the form of a stock dividend ("the split"). The stock dividend was issued on September 5, 2008 to shareholders of record as of August 25, 2008. The par value of our common stock was maintained at the pre-split amount of $.000001 per share. The Consolidated Financial Statements and Notes thereto, including all share and per share data, have been restated as if the split had occurred as of the earliest period presented.

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Issuer Purchase of Equity Securities (amounts in millions, except number of shares and per share data)

The following table provides the number of shares purchased and average price paid per share during each quarter of 2010, the total number of shares purchased as part of our publicly announced share repurchase programs, and the approximate dollar value of shares that could still be purchased under our $1 billion stock repurchase program as of the end of the relevant period.

Period	**Total number of shares repurchased(1)**	**Average price paid per share**	**Total number of shares purchased as part of publicly announced plans or programs**	**Approximate dollar value of shares that may yet to be purchased under the plan (in millions)**
January 1, 2010 March 31, 2010	9,819,847	$ 10.91	9,819,847	$ 908
April 1, 2010 June 30, 2010	22,552,956	10.75	22,552,956	666
July 1, 2010 September 30, 2010	24,154,962	10.90	24,154,962	402
October 1, 2010 October 31, 2010	300,100	10.81	300,100	399
November 1, 2010 November 30, 2010	9,014,217	11.63	9,014,217	294
December 1, 2010 December 31, 2010	19,631,407	12.13	19,631,407	(1)
Subtotal for the fourth quarter of 2010	28,945,724	11.96	28,945,724	
Total	85,473,489	$ 11.22	85,473,489	

(1) In January 2010, we settled a $15 million purchase of 1.3 million shares of our common stock that we had agreed to repurchase in December 2009 pursuant to the stock repurchase program authorized by our Board of Directors in 2008 and amended by the Board in 2009 under which we were authorized to repurchase up to $1.25 billion of our common stock until December 31, 2009. Purchases during the period from February 2010 through December 2010 were made pursuant to the stock repurchase program authorized by our Board of Directors on February 10, 2010, pursuant to which we were authorized to repurchase up to $1 billion of our common stock from time to time on the open market or in private transactions, including structured or accelerated transactions, until December 31, 2010. In addition to the repurchases in the table, in January 2011, we settled the purchase of 1.8 million shares of our common stock at an average price per share of $12.48 for $22 million that we had agreed to repurchase in December 2010 pursuant to that stock repurchase program.

On February 3, 2011, our Board of Directors approved a stock repurchase program pursuant to which we may repurchase up to $1.5 billion of the Company's common stock from time to time on the open market or in private transactions, including structured or accelerated transactions, on terms and conditions to be determined by the Company, until the earlier of March 31, 2012 and a determination by the Board of Directors to discontinue the repurchase program.

Item 6. SELECTED FINANCIAL DATA

On July 9, 2008, a business combination (the "Business Combination") by and among Activision, Inc., Sego Merger Corporation, a wholly-owned subsidiary of Activision, Inc., Vivendi S.A. ("Vivendi"), VGAC LLC, a wholly-owned subsidiary of Vivendi, and Vivendi Games, Inc. ("Vivendi Games"), a wholly-owned subsidiary of VGAC LLC, was consummated. As a result of the

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consummation of the Business Combination, Activision, Inc. was renamed Activision Blizzard, Inc. For accounting purposes, the Business Combination is treated as a "reverse acquisition," with Vivendi Games deemed to be the acquirer. The historical financial statements of Activision Blizzard, Inc. prior to July 9, 2008 are those of Vivendi Games, Inc. (see Note 1 of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K). Therefore, 2010, 2009 and 2008 financial data is not comparable with prior periods.

The following table summarizes certain selected consolidated financial data, which should be read in conjunction with our Consolidated Financial Statements and Notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K. The selected consolidated financial data presented below at and for each of the years in the five-year period ended December 31, 2010 is derived from our Consolidated Financial Statements. All amounts set forth in the following tables are in millions, except per share data.

	For the Years Ended December 31,				
	2010	**2009**	**2008**	**2007**	**2006**
Statement of Operations Data:					
Net Revenues	$ 4,447	$ 4,279	$ 3,026	$ 1,349	$ 1,018
Net income (loss)	418(1)	113(2)	(107)	227	139
Basic net income (loss) per share(3)	0.34	0.09	(0.11)	0.38	0.24
Diluted net income (loss) per share(3)	0.33	0.09	(0.11)	0.38	0.24
Cash dividends declared per share(4)	0.15				
Balance Sheet Data:					
Total assets	$ 13,406	$ 13,742	$ 14,465	$ 879	$ 758

(1) In the fourth quarter of 2010, we recorded $326 million of impairment charges within our Activision segment. These charges consisted of impairments of $67 million, $9 million and $250 million to license agreements, game engines and internally developed franchises intangible assets, respectively.

(2) In the fourth quarter of 2009, we recorded $409 million of impairment charges within our Activision segment. These charges consisted of impairments of $24 million, $12 million and $373 million to license agreements, game engines and internally developed franchise intangible assets, respectively.

(3) *Stock Split* In July 2008, the Board of Directors approved a two-for-one split of our outstanding shares of common stock effected in the form of a stock dividend ("the split"). The stock dividend was issued on September 5, 2008 to shareholders of record at August 25, 2008.

(4) *Cash Dividends* On February 9, 2011, our Board of Directors declared a cash dividend of $0.165 per share to be paid on May 11, 2011 to shareholders of record at the close of business on March 16, 2011. On February 10, 2010, our Board of Directors declared a cash dividend of $0.15 per common share payable on April 2, 2010 to shareholders of record at the close of business on February 22, 2010. Future dividends will depend upon our earnings, financial condition, cash requirements, future prospects and other factors deemed relevant by our Board of Directors. There can be no assurances that dividends will be declared in the future. Prior to the cash dividend declared in February 2010, the Company had never paid a regular cash dividend.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business Overview

Activision Blizzard, Inc. is a worldwide online, personal computer ("PC"), console, handheld, and mobile game publisher of interactive entertainment. The terms "Activision Blizzard," the "Company," "we," "us," and "our" are used to refer collectively to Activision Blizzard, Inc. and its subsidiaries. Based upon our organizational structure, we conduct our business through three operating segments as follows:

Activision Publishing, Inc.

Activision Publishing, Inc. ("Activision") is a leading international publisher of interactive software products and downloadable content. Activision develops and publishes video games on various consoles, handheld platforms and the PC platform through internally developed franchises and license agreements. Activision currently offers games that operate on the Sony Computer Entertainment, Inc. ("Sony") PlayStation 3 ("PS3"), Nintendo Co. Ltd. ("Nintendo") Wii ("Wii"), and Microsoft Corporation ("Microsoft") Xbox 360 ("Xbox 360") console systems; Nintendo Dual Screen ("NDS") and Nintendo DSi ("DSi") handheld devices; the PC; the Apple iPhone ("iPhone"), the Apple iPad ("iPad") and other mobile devices. Our Activision business involves the development, marketing, and sale of products through retail channels or digital downloads, by license, or from our affiliate label program with certain third-party publishers.

Blizzard Entertainment, Inc.

Blizzard Entertainment, Inc. ("Blizzard") is a leader in terms of subscriber base and revenues generated in the subscription-based massively multi-player online role-playing game ("MMORPG") category. Blizzard internally develops and publishes PC-based computer games and maintains its proprietary online-game related service, Battle.net. Our Blizzard business involves the development, marketing, sales and support of role playing action and strategy games. Blizzard also develops, hosts, and supports its online subscription-based games in the MMORPG category. Blizzard is the development studio and publisher best known as the creator of *World of Warcraft* and the multiple award winning *Diablo*, *StarCraft*, and *World of Warcraft* franchises. Blizzard distributes its products and generates revenues worldwide through various means, including: subscription revenues (which consist of fees from individuals playing *World of Warcraft*, prepaid cards and other value-added service revenues such as realm transfers, faction changes, and other character customizations within the *World of Warcraft* gameplay); retail sales of physical "boxed" products; online download sales of PC products; and licensing of software to third-party or related party companies that distribute *World of Warcraft* and *StarCraft II*.

Activision Blizzard Distribution

Activision Blizzard Distribution ("Distribution") consists of operations in Europe that provide warehousing, logistical, and sales distribution services to third-party publishers of interactive entertainment software, our own publishing operations, and manufacturers of interactive entertainment hardware.

Business Combination

On July 9, 2008, a business combination (the "Business Combination") by and among Activision, Inc., Sego Merger Corporation, a wholly-owned subsidiary of Activision, Inc., Vivendi S.A. ("Vivendi"), VGAC LLC, a wholly-owned subsidiary of Vivendi, and Vivendi Games, Inc. ("Vivendi Games"), a wholly-owned subsidiary of VGAC LLC, was consummated. As a result of the consummation of the Business Combination, Activision, Inc. was renamed Activision Blizzard, Inc. For accounting purposes, the Business Combination is treated as a "reverse acquisition," with Vivendi Games deemed to be the acquirer. The historical financial statements of Activision Blizzard, Inc. prior to July 10, 2008 are those of Vivendi Games.

Activision Blizzard's Non-Core Exit Operations

Activision Blizzard's non-core exit operations ("Other" or "Non-Core") represent legacy Vivendi Games' divisions or business units that we have exited, divested or wound down as part of our restructuring and integration efforts as a result of the Business Combination described above, but that do not meet the criteria for separate reporting of discontinued operations. Prior to July 1, 2009, Non-Core activities were managed as a stand-alone operating segment; however, in light of the minimal activities and insignificance of Non-Core activities, as of that date we ceased their management as a separate operating segment. Consequently, we are no longer providing separate operating segment disclosure and have reclassified our prior periods' segment presentation so that it conforms to the current period's presentation.

Key Industry Dynamics

Overall, the installed base of current-generation console systems and handheld devices has continued to significantly expand. As of December 2010, according to The NPD Group with respect to North America and Charttrack and Gfk with respect to Europe, the installed base of current generation console systems and handhelds devices grew to 267 million units, an increase of 50 million units or 23% from December 2009. Additionally, the online-enabled consoles (the Microsoft Xbox 360 and the Sony PS 3) grew to 74 million units at December 2010, an increase of 19 million units, or 35%, year-over-year.

Further, according to the same sources for North America and Europe, for the year ended December 31, 2010, retail sales of software for high-definition online-enabled platforms (Microsoft Xbox 360, Sony PS 3, and the PC) experienced an increase of 13% versus prior year, while software sales for the Wii and handheld devices were collectively down by 24%, resulting in an overall decrease in retail software sales of 7%.

The sales of highly-rated core games with online functionality, such as *Call of Duty: Black Ops*, have continued to trend upwards and have gained share. According to the same information sources, first-person action genres increased retail share by 29% in 2010 as compared to 2009 in North America and Europe, collectively. On the other hand, considerable weakness in casual consumer titles, particularly in the music and casual genres, which declined in 2010, compared to 2009, was reflected in the decline in the retail sales of software for the Wii and handheld devices.

Notably, digital distribution channels continue to experience significant growth and are estimated to be up approximately 14% over prior year for North America and Europe, based on our internal estimates. We also estimate that increasing revenues from the digital channel helped to offset weakness at retail, resulting in a total decrease of only 3% year-over-year for the industry. We include downloadable games and content, massively multiplayer online subscriptions and value-added services, and mobile and social games in our estimates of revenues from this digital channel.

Business Results and Highlights

Notwithstanding the above-mentioned industry dynamics, Activision Blizzard's overall results were strong in 2010. Consolidated net revenues were $4.447 billion, and consolidated net income was $418 million, which included a $326 million non-cash pre-tax charge from the impairment of finite-lived intangible assets reflecting the impact of the weaker sales in the casual and music genres. The

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Company grew revenues, operating income, operating margin and earnings per share as compared to the same period in 2009 and generated $1.376 billion in net cash from operating activities for 2010.

Also, according to The NPD Group with respect to North America and Charttrack and Gfk for Europe and Activision Blizzard internal estimates, as applicable, during 2010:

- Activision Blizzard was the #1 publisher in North America and Europe, collectively;
- Activision Blizzard was the #1 publisher in North America on Xbox 360, PS3 and PC, collectively;
- Activision's *Call of Duty: Black Ops* was the #1 title overall and has achieved more than $1 billion in retail sales worldwide;
- Blizzard Entertainment's *World of Warcraft: Cataclysm*, which was launched on December 7, 2010, sold through more than 3.3 million copies worldwide to consumers during its first 24 hours of release, making it the fastest-selling PC game of all time and sold through more than 4.7 million copies in its first month of release; and
- In North America and Europe, Activision Blizzard had three of the top five PC titles: *StarCraft II, World of Warcraft: Cataclysm* and *Call of Duty: Black Ops*.

In addition, during the December quarter, in North America and Europe, *Call of Duty: Black Ops* was the #1 best-selling console title in revenues and the *Call of Duty* franchise was the #1 franchise overall according to The NPD Group with respect to North America and Charttrack and Gfk with respect to Europe.

In April 2010, Bungie, a developer of successful game franchises, and Activision announced an exclusive 10-year alliance to bring Bungie's next big action game universe to market.

On February 3, 2011, our Board of Directors authorized a new stock repurchase program under which we may repurchase up to $1.5 billion of our common stock until the earlier of March 31, 2012 and a determination by the Board of Directors to discontinue the repurchase program.

On February 9, 2011, our Board of Directors declared a cash dividend of $0.165 per common share to be paid on May 11, 2011 to shareholders of record at the close of business on March 16, 2011.

Product Release Highlights

The following games, among other titles, were released during the year ended December 31, 2010:

Activision Publishing:

How to Train Your Dragon
Zhu Zhu Pets
Cabela's Monster Buck Hunter
Shrek Forever After
Blur
Call of Duty: Modern Warfare 2 map packs
Transformers: War For Cybertron
Singularity
Spider-Man: Shattered Dimensions
Guitar Hero: Warriors of Rock
DJ Hero 2
Tony Hawk: SHRED
Cabela's Dangerous Hunts
James Bond 007: Bloodstone
GoldenEye 007
Bakugan: Defenders of the Core
Call of Duty: Black Ops

Blizzard Entertainment:

StarCraft II: Wings of Liberty

World of Warcraft: Cataclysm

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On August 31, 2010, Blizzard Entertainment and NetEase.com, Inc. launched *World of Warcraft: Wrath of the Lich King*, the second expansion for *World of Warcraft*, in mainland China. As of December 31, 2010, more than 12 million gamers worldwide were subscribed to play *World of Warcraft*.

In 2011, we expect to continue to build on the success of our *Call of Duty* franchise. We also expect to introduce *Skylanders Spyro's Adventure,* an innovative new game that will enable players to transport real-world toys into the virtual worlds of a video game through the use of "smart toys". Additionally, we expect to release several other titles including two movie-based titles (*X-Men: First Class* and *Transformers: Dark of the Moon*) and games based on the best-selling *Spider-Man* franchise, the toy *Bakugan*, the TV shows *Wipe Out* and *Family Guy*, as well as the long-standing *Cabela's* hunting franchise. In the first quarter of calendar year 2011, Activision Publishing released *Call of Duty: Black Ops First Strike*, the first add-on map pack for *Call of Duty: Black Ops*. The map pack launched on Xbox Live on February 1, 2011 and will be available on PS3 and the PC later in the quarter.

International Operations

International sales are a fundamental part of our business. Net revenues from international sales accounted for approximately 46%, 48%, and 50% of our total consolidated net revenues for the years ended December 31, 2010, 2009 and 2008, respectively. We maintain significant operations in the United States, Canada, the United Kingdom, Germany, France, Italy, Spain, Australia, Sweden, South Korea, Norway, Denmark, China, and the Netherlands. We believe that it is important to develop content locally that is specifically directed toward local cultures and customs to succeed internationally. Our international business is subject to risks typical of an international business, including, but not limited to, foreign currency exchange rate volatility. Accordingly, our future results could be materially and adversely affected by changes in foreign currency exchange rates.

Management's Overview of Business Trends

Online Content and Digital Downloads

We provide our products through both the retail channel and through digital online delivery methods. Many of our video games that are available through retailers as packaged software products such as DVDs are also available by direct digital download through the Internet (both from websites that we own and from others owned by third parties). We also offer downloadable content and add-ons to our products (*e.g.*, new multi-player map packs and additional songs). Digital online-delivered content is generally offered to consumers for a one-time fee. Our subscription based services are digitally delivered and hosted by Blizzard Entertainment's proprietary online gaming service, Battle.net. Digital revenues have become an increasingly important part of our business and we continue to focus on and grow them. For 2010 compared to 2009, our sales through digital channels grew year-over-year.

Current Generation of Game Consoles

The current generation of game consoles began with Microsoft's launch of the Xbox 360 in 2005, and continued in 2006 when Sony and Nintendo launched the PS3 and the Wii, respectively. We have seen a significant decline in PS2 revenues during 2010 and 2009 as compared to 2008, suggesting that this prior-generation platform is very close to being completely replaced by the current generation of consoles. Overall console sales remained strong in 2010, with an installed base of hardware in the U.S. and Europe of 267 million units as of December 31, 2010, representing an increase of 23% in units year-over-year, according to The NPD Group, with respect to the U.S., and Charttrack and Gfk, with respect to Europe. The installed base of PS3 and Xbox 360 hardware units increased 35% year-over-year, while the installed base of Wii hardware units increased only 24% year-over-year. We will continue to monitor game console sales to manage our product delivery on each platform in a manner we believe to be most effective.

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Concentration of Top Titles

The concentration of retail revenues among key core titles has continued as a trend in the overall interactive software industry. According to The NPD Group, the top 10 titles accounted for 23% of the sales in the U.S. video game industry in 2010, as compared to 21% in 2009. Similarly, a significant portion of our revenues has historically been derived from video games based on a few popular franchises and these video games are responsible for a disproportionately high percentage of our profits. For example, our two key franchises of *Call of Duty* and *World of Warcraft*, accounted for over 62% of our net revenues, and a significantly higher percentage of our operating income, in 2010. We expect that a limited number of popular franchises will continue to produce a disproportionately high percentage of our revenues and profits.

Seasonality

The interactive entertainment industry is highly seasonal. We have historically experienced our highest sales volume in the year-end holiday buying season, which occurs in the fourth quarter, and our lowest sales volume in the second quarter of our calendar year. We defer the recognition of a significant amount of net revenue related to our software titles containing online functionality that constitutes a more-than-inconsequential separate service deliverable over an extended period of time (i.e., typically six months to less than a year). As a result, the quarter in which we generate the highest sales volume may be different than the quarter in which we recognize the highest amount of net revenue. Our results can also vary based on a number of factors, including title release dates, consumer demand for our products, market conditions and shipment schedules.

Focused Product Offering and Restructuring Plan

Driven by a desire to improve operating margin by focusing Activision's resources on titles it believes have the best potential for success and the anticipation of a continuing weak environment for casual and music-based games, we will be implementing a restructuring plan involving a focus on the development and publication of a reduced slate of titles on a going-forward basis. Specifically, we will be disbanding our Guitar Hero business unit and discontinuing the development of all music-based games, including the Guitar Hero title we had previously planned for 2011. In addition, we decided to discontinue development on *True Crime: Hong Kong* due to the concentration of competitive titles in that genre. The restructuring plan will also involve a re-alignment of our cost structure to correspond to our more focused product slate and a related reduction in studio headcount and corporate overhead. The reduction will result in the separation of approximately 500 employees.

As a result of this shift in our focus, in 2011, we expect fewer overall releases but a more focused slate than in the past two years. As such, we expect our top line net revenues to be down year-over-year, primarily due to lower revenues from products with low-to-no profitability. In addition, since Blizzard had two major releases in 2010 and has not yet announced a launch date for its next global release, we are currently assuming two fewer titles from Blizzard in 2011 and, accordingly, lower revenues.

Consolidated Statements of Operations Data

Note The historical financial statements prior to July 10, 2008 are those of Vivendi Games only. The financial information of the businesses operated by Activision, Inc. prior to the Business Combination is included from the date of the Business Combination (i.e. from July 10, 2008 onwards), but not for prior periods.

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The following table sets forth consolidated statements of operations data for the periods indicated in dollars and as a percentage of total net revenues (amounts in millions):

	For the Years Ended December 31,					
	2010		2009		2008	
Net revenues:						
Product sales	$ 3,087	69%	$ 3,080	72%	$ 1,872	62%
Subscription, licensing, and other revenues	1,360	31	1,199	28	1,154	38
Total net revenues	4,447	100	4,279	100	3,026	100
Costs and expenses:						
Cost of sales product costs	1,350	31	1,432	33	1,160	38
Cost of sales MMORPG	241	5	212	5	193	7
Cost of sales software royalties and amortization	338	8	348	8	267	9
Cost of sales intellectual property licenses	197	4	315	7	219	7
Product development	642	14	627	15	592	20
Sales and marketing	520	12	544	13	464	15
General and administrative	364	8	395	9	271	9
Impairment of intangible assets	326	7	409	10		
Restructuring			23	1	93	3
Total costs and expenses	3,978	89	4,305	101	3,259	108
Operating income (loss)	469	11	(26)	(1)	(233)	(8)
Investment and other income, net	23	1	18	1	46	2
Income (loss) before income tax expense	492	12	(8)		(187)	(6)
Income tax expense (benefit)	74	2	(121)	(3)	(80)	(2)
Net income (loss)	$ 418	10%	$ 113	3%	$ (107)	(4)%

Operating Segment Results

Our operating segments are consistent with our internal organizational structure, the manner in which our operations are reviewed and managed by our Chief Executive Officer, who is our Chief Operating Decision Maker ("CODM"), the manner in which operating performance is assessed and resources are allocated, and the availability of separate financial information. We do not aggregate operating segments.

The CODM reviews segment performance exclusive of the impact of the change in deferred net revenues and related cost of sales with respect to certain of our online-enabled games, stock-based compensation expense, restructuring expense, amortization of intangible assets and purchase price accounting related adjustments, impairment of intangible assets, integration and transaction costs, and other*. Information on the operating segments and reconciliations of total segment net revenues and

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total segment income (loss) from operations to consolidated net revenues and operating income (loss) for the years ended December 31, 2010, 2009, and 2008 are presented below (amounts in millions):

	For the Years Ended December 31,				
	2010	2009	2008	Increase/ (decrease) 2010 v 2009	Increase/ (decrease) 2009 v 2008
Segment net revenues:					
Activision	$ 2,769	$ 3,156	$ 2,152	$ (387)	$ 1,004
Blizzard	1,656	1,196	1,343	460	(147)
Distribution	378	423	227	(45)	196
Operating segment net revenue total	4,803	4,775	3,722	28	1,053
Reconciliation to consolidated net revenues:					
Net effect from deferral of net revenues	(356)	(497)	(713)	141	216
Other*		1	17	(1)	(16)
Consolidated net revenues	$ 4,447	$ 4,279	$ 3,026	$ 168	$ 1,253
Segment income from operations:					
Activision	$ 511	$ 663	$ 307	$ (152)	$ 356
Blizzard	850	555	704	295	(149)
Distribution	10	16	22	(6)	(6)
Operating segment income from operations total	1,371	1,234	1,033	137	201
Reconciliation to consolidated operating (loss) income:					
Net effect from deferral of net revenues and related cost of sales	(319)	(383)	(496)	64	113
Stock-based compensation expense	(131)	(154)	(90)	23	(64)
Restructuring	(3)	(23)	(93)	20	70
Amortization of intangible assets and purchase price accounting related adjustments	(123)	(259)	(292)	136	33
Impairment of intangible assets	(326)	(409)		83	(409)
Integration and transaction costs		(24)	(29)	24	5
Other*		(8)	(266)	8	258
Total consolidated operating income (loss)	$ 469	$ (26)	$ (233)	$ 495	$ 207

* Represents Non-Core activities, which are legacy Vivendi Games' divisions or business units that we have exited, divested or wound down as part of our restructuring and integration efforts as a result of the Business Combination. Prior to July 1, 2009, Non-Core activities were managed as a stand-alone operating segment; however, in light of the minimal activities and insignificance of Non-Core activities, as of that date we ceased their management as a separate operating segment and consequently, we are no longer providing separate operating segment disclosure and have reclassified our prior periods' segment presentation so that it conforms to the current period's presentation.

Note The historical financial statements prior to July 10, 2008 are those of Vivendi Games only. The financial information of the businesses operated by Activision, Inc. prior to the Business Combination is included from the date of the Business Combination (i.e. from July 10, 2008 onwards), but not for prior periods. We also provide a discussion and analysis of the operating segments for the years ended December 31, 2010, 2009, and 2008 in the Supplemental Pro Forma Information section

below as the pro forma basis provides greater comparability for the Activision and Distribution segments as the Supplemental Pro Forma Information reflects pre-Business Combination businesses previously operated by Activision, Inc. The Blizzard segment is not affected by any of the pro forma adjustments.

For better understanding of the differences in presentation between our segment results and the consolidated results, the following explains the nature of each reconciling item.

Net Effect from Deferral of Net Revenues and Related Cost of Sales

We have determined that some of our game's online functionality represents an essential component of gameplay and as a result a more-than-inconsequential separate deliverable. As such, we are required to recognize the revenues of these game titles over the estimated service periods. The product life may range from a minimum of five months to a maximum of less than a year. The related cost of sales is deferred and recognized to match revenues. In the table above, we present the amount of net revenues and related cost of sales separately for each period as a result of the accounting treatment.

Stock-Based Compensation Expense

We expense our stock-based awards using the grant date fair value over the vesting periods of the stock awards. In the case of liability awards, the liability is subject to revaluation based on the then-current stock price. Included within stock-based compensation are the net effects of capitalization, deferral, and amortization. The stock-based compensation expenses for each period are presented above.

Restructuring

We implemented an organizational restructuring plan in the third quarter of 2008 as a result of the Business Combination. The restructuring activities included severance costs, facility exit costs, write offs of assets and liabilities and exit costs from the cancellation of projects. On June 30, 2009, we had completed the majority of our organizational restructuring activities as a result of the Business Combination and do not expect any material costs relating to this item going forward as we have completed these restructuring activities.

However, on February 3, 2011, the Board of Directors of the Company approved a new restructuring plan expected to be implemented in the quarter ending March 31, 2011, resulting in a net pretax charge in the first two quarters of 2011, which is expected to total between $35 and $50 million, comprised of severance costs, the costs of other separation benefits and other exit costs. This represents a subsequent event that occurs after the balance sheet date.

Amortization of Intangible Assets and Purchase Price Accounting Related Adjustments

All of our intangible assets are the result of the Business Combination and other acquisitions. We amortize the intangible assets over their estimated useful lives based on the pattern of consumption of the underlying economic benefits. The amount presented in the table represents the effect of the amortization of intangible assets as well as other purchase price accounting adjustments, where applicable, in our consolidated statements of operations.

Impairment of Intangible Assets

We recorded a non-cash impairment charge on finite-lived intangible assets of $326 million and $409 million for the years ended December 31, 2010 and 2009, respectively, reflecting a continuing weaker environment for the casual game and music genres.

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Integration and Transaction Costs

These costs were incurred to effect the Business Combination and included activities such as merging systems and streamlining the business processes of the combined company of Activision Blizzard. We do not expect any further costs relating to this item going forward as we have completed our integration and transaction activities.

Segment Net Revenues

Activision

Activision's net revenues decreased for 2010 as compared to 2009, primarily due to the following:

- Release of fewer key titles in 2010 than in 2009 and weaker sales of games in the music and casual genres. In 2010, Activision released twelve key titles compared to the release of sixteen key titles in 2009; and

- *Blur* and *Singularity*, two new intellectual properties that were released in the second quarter of 2010, had only limited market success. While establishing successful new intellectual properties has always been difficult, the economic environment made it particularly challenging in 2010.

The decreases were partially offset by the:

- Strong performance from *Call of Duty: Black Ops,* which was released in the fourth quarter of 2010;

- Continued strong performance of *Call of Duty: Modern Warfare 2,* which was released in November 2009;

- Launch of the *Call of Duty: Modern Warfare 2 Stimulus Package* map pack on Microsoft Xbox Live ("XBLive") in the first quarter of 2010 and on PlayStation Network ("PSN") in the second quarter of 2010; and

- Launch of the *Call of Duty: Modern Warfare 2 Resurgence* map pack on XBLive in the second quarter of 2010 and on PSN in the third quarter of 2010.

For 2009, net revenues from the Activision segment increased as compared to 2008 primarily due to the following:

- As a result of the consummation of the Business Combination, net revenues of $685 million from the Activision businesses operated by Activision, Inc. for the six months ended June 30, 2009 were included in 2009, but not in 2008;

- Launches of two new intellectual properties, *DJ Hero* and *PROTOTYPE* in 2009; and

- Strong performance from *Call of Duty: Modern Warfare 2*, which was released in November 2009.

These were partially offset by weaker performance of the *Guitar Hero* franchise in 2009 versus 2008.

Blizzard

Blizzard's net revenues increased for 2010 as compared to 2009 primarily as a result of the release of *World of Warcraft: Cataclysm* in the fourth quarter of 2010 and *StarCraft II: Wings of Liberty* in the third quarter of 2010. The increase in net revenues also reflects growth in sales of value-added services related to *World of Warcraft*, which consist of transactions such as realm transfers, faction changes, and other character customizations within the *World of Warcraft* gameplay. The China region business was also back online for the full year of 2010 and Blizzard successfully launched *World of Warcraft: Wrath of the Lich King* in China in August 2010.

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Blizzard's net revenues decreased for the year ended December 31, 2009 as compared to 2008 primarily due to no new releases in 2009 and an interruption of *World of Warcraft* in China from June 2009 to September 2009 as a result of a license transfer. This compared to 2008 with the successful November 2008 release of the second expansion pack of *World of Warcraft: Wrath of the Lich King*. This decrease was partially offset by an increase in other value-added service revenues.

Distribution

Distribution's net revenues decreased in 2010 as compared to 2009, primarily due to weakness in the interactive software industry in the United Kingdom ("U.K.") resulting in lower sales from U.K. independent retailers and warehousing services.

The increase in Distribution net revenues for 2009 as compared to 2008 was primarily due to the consummation of Business Combination in which net revenues of $148 million from the Distribution businesses operated by Activision, Inc. for the six months ended June 30, 2009 were included in the year ended December 31, 2009, but not in 2008.

Segment Income from Operations

Activision

Activision's operating income decreased in 2010 as compared to 2009, primarily due to the following:

- Release of fewer key titles in 2010 than in 2009 and weaker sales of games in the music and casual genres;
- Limited market success of two new intellectual properties, *Blur* and *Singularity*; and
- Higher inventory obsolescence of peripherals and write offs as a result of cancellations of certain titles (*e.g.,* a Guitar Hero title that had been planned for release in 2011 and *True Crime: Hong Kong*).

These negative impacts on operating income were partially offset by:

- Stronger performance from our *Call of Duty* franchise in both retail and digital channels;
- A positive shift in the sales mix to higher-margin digital products;
- Lower sales and marketing expenses as a result of fewer releases; and
- Savings realized from headcount reductions within certain administrative functions in the first quarter of 2010.

Activision's operating income increased in 2009 as compared to 2008, primarily due to the following:

- The increase in revenues from Activision as noted previously; and
- Lower operating expenses stemming from continuing effective cost-containment strategies.

Blizzard

Blizzard's operating income increased for 2010 as compared to 2009, primarily due to:

Release of *World of Warcraft: Cataclysm* in the fourth quarter of 2010 and *StarCraft II: Wings of Liberty* in the third quarter of 2010;

Increase in sales of value-added services related to *World of Warcraft*; and

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The China region business being back online for full year of 2010 and the successful launch of *World of Warcraft: Wrath of the Lich King* in China in August 2010.

Blizzard's operating income for 2009 decreased as compared to 2008, primarily as a result of the following:

The decrease in net revenues noted previously; and

Incremental investments made by Blizzard for customer service and for product development for the sequel to *StarCraft*, the next *World of Warcraft* expansion pack, and enhancing Battle.net.

Supplemental Pro Forma Operating Segment Results

The consummation of the Business Combination has resulted in the businesses operated by Activision, Inc. prior to the Business Combination being included from the date of the Business Combination (i.e. from July 9, 2008 onwards), but not for prior periods. Therefore, for comparability purposes, we combined Activision, Inc.'s financial information with Activision Blizzard's reported financial information in the following table to create pro forma Activision Blizzard financial information for the year ended December 31, 2008. This pro forma information is for informational purposes only and does not reflect any operating efficiencies or inefficiencies which may have resulted from the Business Combination and therefore is not necessarily indicative of results that would have been achieved had the business been combined during the years presented. We have included a reconciliation between the reported consolidated and segment financial information to the pro forma consolidated and segment financial information. See Note 14 of the Notes to Consolidated Financial Statements for further details of our segment presentation.

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	For the years ended December 31,						
	2010	2009	2008	Increase/ (decrease) 2010 v 2009	Increase/ (decrease) 2009 v 2008	% change 2010 v 2009	% change 2009 v 2008
Pro forma segment net revenues:							
Activision	$ 2,769	$ 3,156	$ 3,279	$ (387)	$ (123)	(12)%	(4)%
Blizzard	1,656	1,196	1,343	460	(147)	38	(11)
Distribution	378	423	410	(45)	13	(11)	3
Pro forma operating segment net revenue total	4,803	4,775	5,032	28	(257)	1	(5)
Reconciliation to pro forma consolidated net revenues:							
Net effect from deferral of net revenues	(356)	(497)	(713)	141	216	28	30
Other*		1	17	(1)	(16)	(100)	(94)
Pro forma consolidated net revenues	$ 4,447	$ 4,279	$ 4,336	$ 168	$ (57)	4%	(1)%
Pro forma segment income from operations:							
Activision	$ 511	$ 663	$ 469	$ (152)	$ 194	(23)%	41%
Blizzard	850	555	704	295	(149)	53	(21)
Distribution	10	16	27	(6)	(11)	(38)	(41)
Pro forma operating segment income from operations total	1,371	1,234	1,200	137	34	11	3
Reconciliation to pro forma consolidated operating income (loss):							
Net effect from deferral of net revenues and related cost of sales	(319)	(383)	(496)	64	113	17	23
Stock-based compensation expense	(131)	(154)	(181)	23	27	15	15
Restructuring	(3)	(23)	(93)	20	70	87	75
Amortization of intangible assets and purchase price accounting related adjustments	(123)	(259)	(376)	136	117	53	31
Impairment of intangible assets	(326)	(409)		83	(409)	20	
Integration and transaction costs		(24)	(42)	24	18	100	43
Other*		(8)	(266)	8	258	100	97
Total pro forma consolidated operating income (loss)	$ 469	$ (26)	$ (254)	$ 495	$ 228	NM	90%

(*) Represents Non-Core activities, which are legacy Vivendi Games' divisions or business units that we have exited, divested or wound down as part of our restructuring and integration efforts as a result of the Business Combination. Prior to July 1, 2009, Non-Core activities were managed as a stand-alone operating segment; however, in light of the minimal activities and insignificance of Non-Core activities, as of that date we ceased their management as a separate operating segment and consequently, we are no longer providing separate operating segment disclosure and have reclassified our prior periods' segment presentation so that it conforms to the current period's presentation.

On a pro forma operating segment basis, our operating margin for the years ended December 31, 2010, 2009 and 2008 was 29%, 26% and 24%, respectively. Highlights and analysis of our individual segment net revenues and income from operations are as follows:

Pro forma Activision Segment Net Revenues

Activision's net revenues decreased for 2010 as compared to 2009, primarily due to the:

- Release of fewer key titles in 2010 than in 2009 and weaker sales of games in the music and casual genres; and
- Limited market success of the two new intellectual properties, *Blur* and *Singularity.*

These negative impacts on net revenues were partially offset by the:

- Strong performance from *Call of Duty: Black Ops,* which was released in the fourth quarter of 2010; and
- Continued strong performance of *Call of Duty: Modern Warfare 2* in retail and its related digital downloadable content.

Activision's net revenues decreased for 2009 as compared to 2008, primarily due to:

- The weakness in the economy adversely impacting the casual game and music genres and the weaker performance of the *Guitar Hero* franchise in 2009 as compared to 2008; and
- The decline in sales of PS2 platform titles due to the aging lifecycle of the PS2 platform as consumers transitioned to current-generation platforms.

Partially offsetting these negative impacts on net revenues were the:

- Increase in net revenues from the strong performance of *Call of Duty: Modern Warfare 2*; and
- Growth in online digital revenues from *Call of Duty* downloadable content.

Pro Forma Activision Segment Income from Operations

Activision's operating income decreased in 2010 as compared to 2009, primarily due to the:

- Release of fewer key titles in 2010 than in 2009 and weaker sales of games in the music and casual genres;
- Limited market success of *Blur* and *Singularity*; and
- Higher inventory obsolescence of peripherals and write-offs resulting from the cancellations of certain titles in development.

These negative impacts to operating income were partially offset by:

Stronger performance from our *Call of Duty* franchise in both retail and digital channels;

A positive shift in the sales mix of higher-margin products;

Lower sales and marketing expenses as a result of fewer releases; and

Savings realized from headcount reductions within certain administrative functions in the first quarter of 2010.

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Activision's operating income increased in 2009 as compared to 2008, primarily due to:

- Strong performance of *Call of Duty: Modern Warfare 2*, which was released in November 2009;
- The change in business mix, with fewer sales of hardware peripherals and accordingly lower product costs;
- Launches of two new intellectual properties, *DJ Hero* and *PROTOTYPE* in 2009;
- Growth in higher margin online digital revenues; and
- Lower operating expenses stemming from continuing effective cost-containment strategies.

These factors were partially offset by the decrease in net revenues described above.

Schedules of Reconciliation of Reported Consolidated and Segment Financial Information to Pro Forma Consolidated and Segment Financial Information for the Year Ended December 31, 2008

For the year ended December 31, 2008, the pro forma consolidated financial information below is comprised of Activision, Inc.'s financial information for the period January 1, 2008 to July 9, 2008 together with Activision Blizzard's reported financial information for the year ended December 31, 2008. Activision, Inc.'s financial information for the three months ended March 31, 2008 and June 30, 2008 are extracted from the quarterly information which has not been audited. Activision, Inc.'s financial information from July 1, 2008 to July 9, 2008 has not been audited. In conjunction with the Business Combination, senior management changed the manner in which they assess the operating performance of, and allocate resources to, our operating segments during the year ended December 31, 2008.

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	For the year ended December 31, 2008			
	Reported	Activision, Inc.	Pro forma adjustments(i)	Pro forma Activision Blizzard
Consolidated net revenues	$ 3,026	$ 1,310	$	$ 4,336
Reconciliation to segment net revenues:				
Net effect from deferral of net revenues	713			713
Other(ii)	(17)			(17)
Total segment net revenues	$ 3,722	$ 1,310	$	$ 5,032
Segment net revenues				
Activision	$ 2,152	$ 1,127	$	$ 3,279
Blizzard	1,343			1,343
Distribution	227	183		410
Total segment net revenues	$ 3,722	$ 1,310	$	$ 5,032
Consolidated operating income (loss)	$ (233)	$ 85	$ (106)	$ (254)
Reconciliation to segment operating income (loss):				
Net effect from deferral of net revenues and related cost of sales	496			496
Stock-based compensation expense	90	32	59	181
Restructuring	93			93
Amortization of intangible assets and purchase price accounting related adjustments	292		84	376
Integration and transaction costs	29	50	(37)	42
Other(ii)	266			266
Total segment operating income (loss) from operations	$ 1,033	$ 167	$	$ 1,200
Segment income from operations				
Activision	$ 307	$ 162	$	$ 469
Blizzard	704			704
Distribution	22	5		27
Total segment income from operations	$ 1,033	$ 167	$	$ 1,200
Consolidated net income (loss)	$ (107)	$ 60	$ (64)	$ (111)

(i) The pro forma adjustments include the increased amortization expense resulting from the application of the purchase method of accounting ($84 million for the year ended December 31, 2008), elimination of Activision, Inc.'s historical transaction costs ($37 million for the year ended December 31, 2008), and an increase in stock-based compensation expense associated with the increase in the fair value of Activision, Inc.'s unvested stock awards at the closing date of the Business Combination ($59 million for the year ended December 31, 2008). Pro forma adjustments are shown net of tax using an assumed combined federal and state statutory tax rate of 39.4%.

(ii) Represents Non-Core activities, which are legacy Vivendi Games' divisions or business units that we have exited, divested or wound down as part of our restructuring and integration efforts as a result of the Business Combination. Prior to July 1, 2009, Non-Core activities were managed as a stand-alone operating segment; however, in light of the minimal activities and insignificance of Non-Core activities, as of that date we ceased their management as a separate operating segment and consequently, we are no longer providing separate operating segment disclosure and have

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reclassified our prior periods' segment presentation so that it conforms to the current period's presentation.

Results of Operations Years Ended December 31, 2010, 2009, and 2008

Net Revenues by Geographic Region

The following table details our consolidated net revenues by geographic region for the years ended December 31, 2010, 2009, and 2008 (amounts in millions):

	For the Years ended December 31, 2010	2009	2008	Increase/ (decrease) 2010 v 2009	Increase/ (decrease) 2009 v 2008
Geographic region net revenues:					
North America	$ 2,409	$ 2,217	$ 1,494	$ 192	$ 723
Europe	1,743	1,798	1,288	(55)	510
Asia Pacific	295	263	227	32	36
Total geographic area net revenues	4,447	4,278	3,009	169	1,269
Other*		1	17	(1)	(16)
Consolidated net revenues	$ 4,447	$ 4,279	$ 3,026	$ 168	$ 1,253

The (increase)/decrease in deferred revenues by geographic region for the years ended December 31, 2010, 2009, and 2008 was as follows (amounts in millions):

	For the Years Ended December 31, 2010	2009	2008	(Increase)/ Decrease 2010 v 2009	(Increase)/ Decrease 2009 v 2008
Deferred revenues by geographic region:					
North America	$ (166)	$ (241)	$ (457)	$ 75	$ 216
Europe	(159)	(224)	(234)	65	10
Asia Pacific	(31)	(32)	(22)	1	(10)
Total change in deferred revenues by geographic region	(356)	(497)	(713)	141	216
Other*		1	17	(1)	(16)
Total impact on consolidated net revenues	$ (356)	$ (496)	$ (696)	$ 140	$ 200

* Represents Non-Core activities, which are legacy Vivendi Games' divisions or business units that we have exited, divested or wound down as part of our restructuring and integration efforts as a result of the Business Combination. Prior to July 1, 2009, Non-Core activities were managed as a stand-alone operating segment; however, in light of the minimal activities and insignificance of Non-Core activities, as of that date we ceased their management as a separate operating segment. Consequently, we are no longer providing separate operating segment disclosure and have reclassified our prior periods' segment presentation so that it conforms to the current period's presentation.

Consolidated net revenues increased in North America and Asia Pacific in 2010 as compared to the same period in 2009, primarily due to the success of the *Call of Duty* franchise, particularly the release of *Call of Duty: Black Ops* in the fourth quarter of 2010 and continued strong performance of *Call of Duty: Modern Warfare 2* during the year and the release of *World of Warcraft: Cataclysm* and *StarCraft II: Wings of Liberty* in the fourth and third quarters of 2010, respectively, as well as higher

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revenues from sales of *World of Warcraft's* value-added services. The increase in consolidated net revenues in Asia Pacific was also attributable to the China region business being back online for the full year of 2010 and its continued growth with the successful launch of *World of Warcraft: Wrath of the Lich King* in China in August 2010. The increase in consolidated net revenues for North America was partially offset by the impact of fewer titles released in 2010 and the weaker sales of games in the music and casual genres. Consolidated net revenues for Europe decreased in 2010 as compared to 2009, primarily as a result of unfavorable foreign exchange effects and the greater impact on the decrease in sales of games in the music and casual genres. The decrease was partially offset by the strong performance of the *Call of Duty* franchise in Europe, the release of *World of Warcraft: Cataclysm* and *StarCraft II* and continued growth in *World of Warcraft's* value-added services.

The greater success of *Call of Duty: Black Ops* sales at initial launch compared to *Call of Duty: Modern Warfare 2* sales at initial launch is the primary reason that less revenue was deferred during 2010 as compared to 2009. This decrease in deferred revenue was partially offset by the additional deferral of revenue as a result of the release of *World of Warcraft: Cataclysm* and value-added services in the fourth quarter of 2010.

Consolidated net revenues increased in all regions in 2009 as compared to 2008, primarily due to the post-Business Combination net revenues consisting of $690 million in North America, $507 million in Europe and $54 million in Asia Pacific from the businesses previously operated by Activision, Inc. for the six month period ended June 30, 2009 that were included in 2009 but not in 2008. The increase in North America, which was further driven by the strong performance of the Call of Duty franchise, in particular the 2009 release of *Call of Duty: Modern Warfare 2*. The increase was partially offset by the impact of weaker sales of games in the music and casual genres in 2009.

Foreign Exchange Impact

Changes in foreign exchange rates had a negative impact of approximately $54 million and $71 million on Activision Blizzard's net revenues in 2010 and 2009, respectively. The change is primarily due to the year-over-year strengthening of the U.S. dollar relative to the British pound and euros.

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Net Revenues by Platform

The following table details our net revenues by platform and as a percentage of total consolidated net revenues for the years ended December 31, 2010, 2009, and 2008 (amounts in millions):

	Year Ended December 31, 2010	% of total consolidated net revs.	Year Ended December 31, 2009	% of total consolidated net revs.	Year Ended December 31, 2008	% of total consolidated net revs.	Increase/ (decrease) 2010 v 2009	Increase/ (decrease) 2009 v 2008
Platform net revenues:								
MMORPG	$ 1,230	28%	$ 1,248	29%	$ 1,152	38%	$ (18)	$ 96
PC and other	325	7	164	4	99	3	161	65
Console								
Sony PlayStation 3	854	19	584	14	241	8	270	343
Sony PlayStation 2	35	1	174	4	284	9	(139)	(110)
Microsoft Xbox 360	1,033	23	857	19	362	12	176	495
Nintendo Wii	408	9	584	14	407	14	(176)	177
Total console	2,330	52	2,199	51	1,294	43	131	905
Handheld	184	4	244	6	237	8	(60)	7
Total platform net revenues	4,069	91	3,855	90	2,782	92	214	1,073
Distribution	378	9	423	10	227	7	(45)	196
Other*			1		17	1	(1)	(16)
Total consolidated net revenues	$ 4,447	100%	$ 4,279	100%	$ 3,026	100%	$ 168	$ 1,253

Deferred revenues by platform for the years ended December 31, 2010, 2009, and 2008 was as follows (amounts in millions):

	Years Ended December 31, 2010	2009	2008	(Increase) Decrease 2010 v 2009	(Increase) Decrease 2009 v 2008
Deferred revenues by platform:					
MMORPG	$ (191)	$ 93	$ (145)	$ (284)	$ 238
PC and other	(81)	(49)	(33)	(32)	(16)
Console					
Sony PlayStation 3	(77)	(259)	(168)	182	(91)
Microsoft Xbox 360	(15)	(284)	(248)	269	(36)
Nintendo Wii	16	2	(119)	14	121
Total console	(76)	(541)	(535)	465	(6)
Nintendo Dual Screen	(8)			(8)	
Other*		1	17	(1)	(16)
Total impact on consolidated net revenues	$ (356)	$ (496)	$ (696)	$ 140	$ 200

*

Represents Non-Core activities, which are legacy Vivendi Games' divisions or business units that we have exited, divested or wound down as part of our restructuring and integration efforts as a result of the Business Combination. Prior to July 1, 2009, Non-Core activities were managed as a stand-alone operating segment; however, in light of the minimal activities and insignificance of Non-Core activities, as of that date we ceased their management as a separate operating segment. Consequently, we are no longer providing separate operating segment disclosure and have

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reclassified our prior periods' segment presentation so that it conforms to the current period's presentation.

Net revenues from MMORPG decreased slightly in 2010 as compared to 2009, primarily as a result of lower deferred and boxed revenue recognized in 2010 due to the timing of expansion pack releases by Blizzard. While the *World of Warcraft: Wrath of the Lich King* expansion pack launched in the fourth quarter of 2008 resulted in significant deferred revenues that were recognized in 2009, the *World of Warcraft: Cataclysm* expansion pack launched in the fourth quarter of 2010, resulted in a lower percentage of deferred revenue recognized in 2010, with the majority of deferred revenues to be recognized in 2011. This decrease in revenue was partially offset by higher revenues from sales of *World of Warcraft*'s value-added services. Net revenues from PC and other increased in 2010 as compared to 2009, primarily as a result of the release of *StarCraft II: Wings of Liberty.* Net revenues from Sony PlayStation 3 and Microsoft Xbox 360 increased in 2010 as compared to 2009, primarily as a result of the success of the *Call of Duty* franchise, in particular, the strength of *Call of Duty: Modern Warfare 2* and its associated map packs in downloadable content digital formats, and the strong consumer demand for *Call of Duty: Black Ops.* Sony PlayStation 2 platform revenues continued to decline due to fewer titles published on this platform given the aging lifecycle of the Sony PlayStation 2 platform as consumers are now almost fully transitioned to the current-generation platforms. Net revenues from Nintendo Wii decreased in 2010 as compared to 2009, primarily due to the weakness in the sales in casual and music genres. Net revenues from handheld devices decreased for the same period primarily as a result of alte