
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the Quarterly Period Ended September 30, 2011

OR

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

For the transition period from to

Commission File Number 1-15839



ACTIVISION BLIZZARD, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

95-4803544

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

3100 Ocean Park Boulevard, Santa Monica, CA

(Address of principal executive offices)

90405

(Zip Code)

(310) 255-2000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant 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 No

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. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of the registrant's Common Stock outstanding at November 1, 2011 was 1,144,219,705.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Table of Contents

	Cautionary Statement	3
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	
	Condensed Consolidated Balance Sheets at September 30, 2011 and December 31, 2010	4
	Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and September 30, 2010	5
	Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and September 30, 2010	6
	Condensed Consolidated Statement of Changes in Shareholders' Equity for the nine months ended September 30, 2011	7
	Notes to Condensed Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	41
Item 4.	Controls and Procedures	42
PART II.	OTHER INFORMATION	42
Item 1.	Legal Proceedings	42
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	43
Item 5.	Other Information	44
Item 6.	Exhibits	44
SIGNATURE		45
EXHIBIT INDEX		46
CERTIFICATIONS		

CAUTIONARY STATEMENT

This Quarterly Report on Form 10-Q contains, or incorporates by reference, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements 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. Risks and uncertainties that may affect our future results include, but are not limited to, sales levels of Activision Blizzard’s titles, increasing concentration of titles, shifts in consumer spending trends, the impact of the current macroeconomic environment and market conditions within the video game industry, Activision Blizzard’s ability to predict consumer preferences, including interest in specific genres such as first-person action and massively multiplayer online games and preferences among competing hardware platforms, the seasonal and cyclical nature of the interactive game market, changing business models including digital delivery of content, competition including from used games and other forms of entertainment, possible declines in software pricing, product returns and price protection, product delays, adoption rate and availability of new hardware (including peripherals) and related software, rapid changes in technology and industry standards, litigation risks and associated costs, protection of proprietary rights, maintenance of relationships with key personnel, customers, licensees, licensors, vendors, and third-party developers, including the ability to attract, retain and develop key personnel and developers that can create high quality “hit” titles, counterparty risks relating to customers, licensees, licensors and manufacturers, domestic and international economic, financial and political conditions and policies, foreign exchange rates and tax rates, and the identification of suitable future acquisition opportunities and potential challenges associated with geographic expansion, and the other factors identified in “Risk Factors” included in Part II, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010. The forward-looking statements contained herein are based upon information available to us as of the date of this Quarterly Report on Form 10-Q and we assume no obligation to update any such forward-looking statements. Although these forward-looking statements are believed to be true when made, they 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. All other product or service names are the property of their respective owners.

Part I. FINANCIAL INFORMATION**Item 1. Financial Statements****ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(Amounts in millions, except share data)

	At September 30, 2011	At December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,469	\$ 2,812
Short-term investments	432	696
Accounts receivable, net of allowances of \$221 million and \$377 million at September 30, 2011 and December 31, 2010, respectively	139	640
Inventories	207	112
Software development	150	147
Intellectual property licenses	42	45
Deferred income taxes, net	507	648
Other current assets	136	299
Total current assets	4,082	5,399
Long-term investments	25	23
Software development	114	55
Intellectual property licenses	13	28
Property and equipment, net	167	169
Other assets	15	15
Intangible assets, net	138	160
Trademark and trade names	433	433
Goodwill	7,126	7,132
Total assets	<u>\$ 12,113</u>	<u>\$ 13,414</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 250	\$ 363
Deferred revenues	487	1,726
Accrued expenses and other liabilities	542	838
Total current liabilities	1,279	2,927
Deferred income taxes, net	95	120
Other liabilities	168	164
Total liabilities	1,542	3,211
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,142,796,893 and 1,382,479,839 shares issued at September 30, 2011 and December 31, 2010, respectively	—	—
Additional paid-in capital	9,751	12,353
Less: Treasury stock, at cost, 0 and 199,159,987 shares at September 30, 2011 and December 31, 2010, respectively	—	(2,194)
Retained earnings	849	57
Accumulated other comprehensive income (loss)	(29)	(13)
Total shareholders' equity	10,571	10,203
Total liabilities and shareholders' equity	<u>\$ 12,113</u>	<u>\$ 13,414</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Amounts in millions, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Net revenues				
Product sales	\$ 369	\$ 397	\$ 2,197	\$ 2,025
Subscription, licensing, and other revenues	385	348	1,151	994
Total net revenues	754	745	3,348	3,019
Costs and expenses				
Cost of sales — product costs	138	194	650	765
Cost of sales — massively multi-player online role-playing game ("MMORPG")	59	61	181	168
Cost of sales — software royalties and amortization	24	61	133	211
Cost of sales — intellectual property licenses	16	33	69	105
Product development	133	118	390	361
Sales and marketing	115	110	264	291
General and administrative	104	113	333	253
Restructuring	3	—	24	—
Total costs and expenses	592	690	2,044	2,154
Operating income	162	55	1,304	865
Investment and other income, net	3	14	7	15
Income before income tax expense	165	69	1,311	880
Income tax expense	17	18	325	229
Net income	<u>\$ 148</u>	<u>\$ 51</u>	<u>\$ 986</u>	<u>\$ 651</u>
Earnings per common share				
Basic	<u>\$ 0.13</u>	<u>\$ 0.04</u>	<u>\$ 0.84</u>	<u>\$ 0.53</u>
Diluted	<u>\$ 0.13</u>	<u>\$ 0.04</u>	<u>\$ 0.84</u>	<u>\$ 0.52</u>
Weighted-average shares outstanding				
Basic	1,140	1,212	1,151	1,230
Diluted	1,148	1,227	1,160	1,245
Dividends per common share	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 0.165</u>	<u>\$ 0.15</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Amounts in millions)

	For the Nine Months Ended	
	September 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 986	\$ 651
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	124	51
Depreciation and amortization	77	97
Loss on disposal of property and equipment	1	—
Amortization and write-off of capitalized software development costs and intellectual property licenses (1)	151	182
Stock-based compensation expense (2)	61	94
Excess tax benefits from stock option exercises	(21)	(11)
Changes in operating assets and liabilities:		
Accounts receivable	516	471
Inventories	(96)	(19)
Software development and intellectual property licenses	(181)	(238)
Other assets	170	218
Deferred revenues	(1,268)	(810)
Accounts payable	(117)	(60)
Accrued expenses and other liabilities	(301)	(243)
Net cash provided by operating activities	<u>102</u>	<u>383</u>
Cash flows from investing activities:		
Proceeds from maturities of investments	603	473
Payment of contingent consideration	(3)	(4)
Purchases of short-term investments	(325)	(681)
Capital expenditures	(47)	(76)
Increase in restricted cash	(18)	(35)
Net cash provided by (used in) investing activities	<u>210</u>	<u>(323)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock to employees	39	54
Repurchase of common stock	(524)	(613)
Dividends paid	(194)	(187)
Excess tax benefits from stock option exercises	21	11
Net cash used in financing activities	<u>(658)</u>	<u>(735)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<u>3</u>	<u>30</u>
Net decrease in cash and cash equivalents	(343)	(645)
Cash and cash equivalents at beginning of period	<u>2,812</u>	<u>2,768</u>
Cash and cash equivalents at end of period	<u>\$ 2,469</u>	<u>\$ 2,123</u>

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

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

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Nine Months Ended September 30, 2011
(Unaudited)
(Amounts in millions)

	Common Stock		Additional Paid-In Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount		Shares	Amount			
Balance at December 31, 2010	1,382	\$ —	\$ 12,353	(199)	\$ (2,194)	\$ 57	\$ (13)	\$ 10,203
Components of comprehensive income:								
Net income	—	—	—	—	—	986	—	986
Unrealized appreciation on investments, net of taxes	—	—	—	—	—	—	2	2
Foreign currency translation adjustment	—	—	—	—	—	—	(18)	(18)
Total comprehensive income	—	—	—	—	—	—	—	970
Issuance of common stock pursuant to employee stock options and restricted stock rights	7	—	39	—	—	—	—	39
Stock-based compensation expense related to employee stock options and restricted stock rights	—	—	77	—	—	—	—	77
Dividends (\$0.165 per common share) (See Note 13)	—	—	—	—	—	(194)	—	(194)
Shares repurchased (See Note 13)	—	—	—	(47)	(524)	—	—	(524)
Retirement of treasury shares	(246)	—	(2,718)	246	2,718	—	—	—
Balance at September 30, 2011	1,143	\$ —	\$ 9,751	—	\$ —	\$ 849	\$ (29)	\$ 10,571

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Description of business and basis of consolidation and presentation

Description of Business

Activision Blizzard, Inc. is a worldwide online, personal computer (“PC”), console, handheld and mobile game publisher. The terms “Activision Blizzard,” the “Company,” “we,” “us,” and “our” are used to refer collectively to Activision Blizzard, Inc. and its subsidiaries.

The common stock of Activision Blizzard is traded on The NASDAQ Stock Market under the ticker symbol “ATVI.” Vivendi S.A. (“Vivendi”) owned approximately 63% of Activision Blizzard’s outstanding common stock at September 30, 2011.

We maintain significant operations in the United States, Canada, the United Kingdom, France, Germany, Ireland, Italy, Sweden, Spain, the Netherlands, Australia, South Korea and China.

Basis of Consolidation and Presentation

Activision Blizzard prepared the accompanying unaudited condensed consolidated financial statements in accordance with the rules and regulations of the Securities and Exchange Commission for interim reporting. As permitted under those rules and regulations, certain notes or other information that are normally required by accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted if they substantially duplicate the disclosures contained in the annual audited consolidated financial statements. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair statement of our financial position and results of operations in accordance with U.S. GAAP have been included in the accompanying unaudited condensed consolidated financial statements.

The accompanying unaudited condensed consolidated financial statements include the accounts and operations of Activision Blizzard. All intercompany accounts and transactions have been eliminated. The condensed consolidated financial statements have been prepared in conformity with U.S. GAAP. The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements. Actual results could differ from these estimates and assumptions.

Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

The Company considers events or transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosures.

2. Summary of significant accounting policies

Revenue Recognition

Revenue Arrangements with Multiple Deliverables

On January 1, 2011, we adopted amendments to an accounting standard related to revenue recognition for arrangements with multiple deliverables (which standard, as amended, is referred to herein as the “new accounting principles”). The new accounting principles establish a selling price hierarchy for determining the selling price of a deliverable and require the application of the relative selling price method to allocate the arrangement consideration to each deliverable in a multiple deliverables revenue arrangement. Certain of our revenue arrangements have multiple deliverables and, as such, are accounted for under the new accounting principles. These revenue arrangements include product sales consisting of both software and hardware deliverables (such as peripherals or other ancillary collectors’ items sold together with physical “boxed” software) and our sales of *World of Warcraft* boxed products, expansion packs and value-added services, each of which is considered with the related subscription

[Table of Contents](#)

services for these purposes. Our assessment of deliverables and units of accounting does not change under the new accounting principles.

Pursuant to the guidance of ASU 2009-13, when a revenue arrangement contains multiple elements, such as hardware and software products, licenses and/or services, we allocate revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor-specific-objective-evidence (“VSOE”) if it is available, third-party evidence (“TPE”) if VSOE is not available, or best estimated selling price (“BESP”) if neither VSOE nor TPE is available. In multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is then allocated to each software deliverable using the guidance for recognizing software revenue.

As noted above, when neither VSOE nor TPE is available for a deliverable, we use BESP. We do not have significant revenue arrangements that require BESP for the three or nine months ended September 30, 2011. The inputs we use to determine the selling price of our significant deliverables include the actual price charged by the Company for a deliverable that the Company sells separately, which represents the VSOE, and the wholesale prices of the same or similar products, which represents TPE. The pattern and timing of revenue recognition for deliverables and allocation of the arrangement consideration did not change upon the adoption of the new accounting principles. Also, we do not expect the adoption of the new accounting principles to have a material effect on our financial statements in the periods after our initial adoption.

Product Sales

We recognize revenue from the sale of our products upon the transfer of title and risk of loss to our customers and once any performance obligations have been completed. Certain products are sold to customers with a street date (*i.e.*, the earliest date these products may be sold by retailers). For these products, we recognize revenue on the later of the street date and the sale date. Revenue from product sales is recognized after deducting the estimated allowance for returns and price protection.

For our software products with online functionality, we evaluate whether those features or functionality are more than an inconsequential separate deliverable in addition to the software product. This evaluation is performed for each software product and any online transaction, such as a digital download of a title or product add-ons, when it is released.

When we determine that a software title contains online functionality that constitutes a more-than-inconsequential separate service deliverable in addition to the product, principally because of its importance to gameplay, we consider our performance obligations for this title to extend beyond the sale of the game. VSOE of fair value does not exist for the online functionality, as we do not separately charge for this component of the title. As a result, we recognize all of the software-related revenue from the sale of the title ratably over the estimated service period, which is estimated to begin the month after the later of the sale date and the street date of the title. In addition, we initially defer the costs of sales for the title (excluding intangible asset amortization), and recognize the costs of sales as the related revenues are recognized. Cost of sales includes manufacturing costs, software royalties and amortization, and intellectual property licenses costs.

We recognize revenues from *World of Warcraft* boxed product, expansion packs and value-added services, in each case with the related subscription service revenue, ratably over the estimated service periods beginning upon activation of the software and delivery of the related services. Revenues attributed to the sale of *World of Warcraft* boxed software and related expansion packs are classified as product sales and revenues attributable to subscriptions and other value-added services are classified as subscription, licensing and other revenues.

Revenues for software products with more-than-inconsequential separate service deliverables and *World of Warcraft* products are recognized over the estimated service periods, which range from a minimum of five months to a maximum of less than a year.

[Table of Contents](#)

For our software products with features we consider to be incidental to the overall product offering and an inconsequential deliverable, such as products which provide limited online features at no additional cost to the consumer, we recognize the related revenue from them upon the transfer of title and risk of loss of the product to our customer.

With respect to online transactions, such as online downloads of titles or product add-ons that do not include a more-than-inconsequential separate service deliverable, revenue is recognized when the fee is paid by the online customer to purchase online content, the product is available for download and is activated for gameplay. In addition, persuasive evidence of an arrangement must exist and collection of the related receivable must be probable.

Sales incentives and other consideration given by us to our customers, such as rebates and product replacement fees, are considered adjustments of the selling price of our products and are reflected as reductions to revenue. Sales incentives and other consideration that represent costs incurred by us for assets or services received, such as the appearance of our products in a customer's national circular ad, are reflected as sales and marketing expenses when the benefit from the sales incentive is separable from sales to the same customer and we can reasonably estimate the fair value of the benefit.

Subscription Revenues

Subscription revenues are derived from *World of Warcraft*, a game that is playable through Blizzard's servers on a subscription-only basis. After the first month of free usage that is included with the *World of Warcraft* boxed software, the *World of Warcraft* end user may enter into a subscription agreement for additional future access. Revenues associated with the sale of subscriptions via boxed software and prepaid subscription cards, as well as prepaid subscriptions sales, are deferred until the subscription service is activated by the consumer and recognized ratably over the subscription period. Revenue from internet gaming rooms in Asia is recognized upon usage of the time packages sold. Value-added service revenues associated with subscriptions are recognized ratably over the estimated service periods.

Licensing Revenues

Third-party licensees in Russia, China and Taiwan distribute and host Blizzard's *World of Warcraft* game in their respective countries under license agreements with Blizzard. We receive royalties from the licensees as a result. We recognize these royalties as revenues based on the end users' activation of the underlying prepaid time, if all other performance obligations have been completed, or based on usage by the end user when we have continuing service obligations. We recognize any upfront licensing fee received over the term of the contracts.

With respect to license agreements that provide customers the right to make multiple copies in exchange for guaranteed amounts, revenue is generally recognized upon delivery of a master copy. Per copy royalties on sales that exceed the guarantee are recognized as earned. In addition, persuasive evidence of an arrangement must exist and collection of the related receivable must be probable.

Breakage Revenues

World of Warcraft boxed product sales and subscription revenues are recognized upon activation of the game. We analyze historical activation patterns over time to determine when the likelihood of activation ever occurring becomes remote. We recognize revenues from subscriptions that have not yet been activated, prepaid subscription cards, as well as prepaid subscription sales, when the likelihood of future activation occurring is remote (defined as "breakage revenues").

Other Revenues

Other revenues primarily include licensing activity of intellectual property other than software to third-parties. Revenue is recorded upon receipt of licensee statements, or upon the receipt of cash, provided the license period has begun.

[Table of Contents](#)

3. Inventories

Our inventories consist of the following (amounts in millions):

	At September 30, 2011	At December 31, 2010
Finished goods	\$ 143	\$ 98
Purchased parts and components	64	14
Inventories	<u>\$ 207</u>	<u>\$ 112</u>

4. Intangible assets, net

Intangible assets, net consist of the following (amounts in millions):

	At September 30, 2011			
	Estimated useful lives	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				
License agreements	3 - 10 years	\$ 88	\$ (77)	\$ 11
Game engines	2 - 5 years	32	(32)	—
Internally-developed franchises	11 - 12 years	309	(184)	125
Distribution agreements	4 years	18	(16)	2
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite	386	—	386
Acquired trade names	Indefinite	47	—	47
Total		<u>\$ 880</u>	<u>\$ (309)</u>	<u>\$ 571</u>

	At December 31, 2010			
	Estimated useful lives	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				
License agreements	3 - 10 years	\$ 88	\$ (74)	\$ 14
Game engines	2 - 5 years	32	(30)	2
Internally-developed franchises	11 - 12 years	309	(167)	142
Distribution agreements	4 years	18	(16)	2
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite	386	—	386
Acquired trade names	Indefinite	47	—	47
Total		<u>\$ 880</u>	<u>\$ (287)</u>	<u>\$ 593</u>

Amortization expense of intangible assets was \$7 million and \$22 million for the three and nine months ended September 30, 2011, respectively. Amortization expense of intangible assets was \$21 million and \$50 million for the three and nine months ended September 30, 2010, respectively.

The carrying amounts as of September 30, 2011 and December 31, 2010 in the tables above reflect a new cost basis for license agreements, game engines and internally-developed franchises due to impairment charges taken for the year ended December 31, 2010. The new cost basis represents the original gross carrying amount, less accumulated amortization and impairment charges of the impaired assets as of December 31, 2010.

At September 30, 2011, future amortization of definite-lived intangible assets is estimated as follows (amounts in millions):

[Table of Contents](#)

2011 (remaining three months)	\$	48
2012		36
2013		18
2014		10
2015		8
Thereafter		18
Total	\$	<u>138</u>

5. Income taxes

The income tax expense of \$17 million for the three months ended September 30, 2011 reflected an effective tax rate of 10.7%. The effective tax rate of 10.7% for the three months ended September 30, 2011 differed from the statutory rate of 35.0%, primarily due to foreign income taxes levied at relatively lower rates, geographic mix in profitability, recognition of federal and California research and development credits and federal domestic production deductions and the beneficial impact from certain discrete items recognized in the quarter as we filed our tax returns.

For the nine months ended September 30, 2011, the tax rate was based on our projected annual effective tax rate for 2011, and also included certain discrete tax items recorded during the period. Our tax expense of \$325 million for the nine months ended September 30, 2011 reflected an effective tax rate of 24.8%, which was slightly lower than the effective tax rate of 26.0% for the nine months ended September 30, 2010, primarily due to the recognition of federal research and development credits and lower taxes in certain states.

The overall effective income tax rate for the year could be different from the effective tax rate for the three and nine months ended September 30, 2011 and will be dependent, in part, on our profitability for the remainder of the year. In addition, our effective income tax rates for the remainder of 2011 and future periods will depend on a variety of factors, such as changes in the mix of income by tax jurisdiction, applicable accounting rules, applicable tax laws and regulations, rulings and interpretations thereof, developments in tax audits and other matters, and variations in the estimated and actual level of annual pre-tax income or loss. Further, the effective tax rate could fluctuate significantly on a quarterly basis and could be adversely affected by the extent that income (loss) before income tax expenses (benefit) is lower than anticipated in foreign regions where taxes are levied at lower statutory rates and/or higher than anticipated in our domestic region where taxes are levied at higher statutory rates.

The Internal Revenue Service ("IRS") is currently examining the Company's federal tax returns for the 2009 tax year. The Company also has several state and non-U.S. audits pending. Although the final resolution of the Company's global tax disputes is uncertain, based on current information, in the opinion of the Company's management, the ultimate resolution of these matters will not have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations. However, an unfavorable resolution of the Company's global tax disputes could have a material adverse effect on the Company's business and results of operations in an interim period in which the matters are ultimately resolved.

6. Software development and intellectual property licenses

The following table summarizes the components of our software development costs and intellectual property licenses (amounts in millions):

	At September 30, 2011	At December 31, 2010
Internally developed software costs	\$ 172	\$ 142
Payments made to third-party software developers	92	60
Total software development costs	<u>\$ 264</u>	<u>\$ 202</u>
Intellectual property licenses	\$ 55	\$ 73

Amortization, write-offs and impairments are comprised of the following (amounts in millions):

[Table of Contents](#)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Amortization of capitalized software development costs and intellectual property licenses	\$ 28	\$ 50	\$ 158	\$ 217
Write-offs and impairments	—	1	—	16

7. Comprehensive income and accumulated other comprehensive income (loss)

Comprehensive Income

The components of comprehensive income were as follows (amounts in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net income	\$ 148	\$ 51	\$ 986	\$ 651
Other comprehensive income (loss):				
Foreign currency translation adjustment	(58)	48	(18)	15
Unrealized appreciation on investments, net of taxes	—	—	2	—
Other comprehensive income (loss)	(58)	48	(16)	15
Comprehensive income	<u>\$ 90</u>	<u>\$ 99</u>	<u>\$ 970</u>	<u>\$ 666</u>

The components of accumulated other comprehensive income (loss) were as follows (amounts in millions):

	At September 30, 2011	At December 31, 2010
Foreign currency translation adjustment	\$ (29)	\$ (11)
Unrealized depreciation on investments, net of deferred income taxes of \$0 at September 30, 2011 and \$(1) at December 31, 2010	—	(2)
Accumulated other comprehensive income (loss)	<u>\$ (29)</u>	<u>\$ (13)</u>

Income taxes were not provided for foreign currency translation items as these are considered indefinite investments in non-U.S. subsidiaries.

8. Fair value measurements

Fair Value Measurements on a Recurring Basis

Financial Accounting Standards Board (“FASB”) literature regarding fair value measurements for financial and non-financial assets and liabilities establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of “observable inputs” and minimize the use of “unobservable inputs.” The three levels of inputs used to measure fair value are as follows:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets or other inputs that are observable or can be corroborated by observable market data.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

[Table of Contents](#)

The table below segregates all assets that are measured at fair value on a recurring basis (which means they are so measured at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date (amounts in millions):

	Fair Value Measurements at September 30, 2011 Using				Balance Sheet Classification
	As of September 30, 2011	Quoted Prices in Active Markets for Identical Financial Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Financial assets:					
Money market funds	\$ 2,329	\$ 2,329	\$ —	\$ —	Cash and cash equivalents
U.S. treasuries with original maturities of three months or less	11	11	—	—	Cash and cash equivalents
U.S. treasuries and government agency securities	391	391	—	—	Short-term investments
ARS held through Morgan Stanley Smith Barney LLC	25	—	—	25	Long-term investments
Total financial assets at fair value	<u>\$ 2,756</u>	<u>\$ 2,731</u>	<u>\$ —</u>	<u>\$ 25</u>	

	Fair Value Measurements at December 31, 2010 Using				Balance Sheet Classification
	As of December 31, 2010	Quoted Prices in Active Markets for Identical Financial Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Financial assets:					
Money market funds	\$ 2,216	\$ 2,216	\$ —	\$ —	Cash and cash equivalents
U.S. treasuries and foreign government bonds with original maturities of three months or less	332	332	—	—	Cash and cash equivalents
U.S. treasuries and government agency securities	672	672	—	—	Short-term investments
ARS held through Morgan Stanley Smith Barney LLC	23	—	—	23	Long-term investments
Foreign exchange contract derivatives	1	—	1	—	Other assets—current
Total financial assets at fair value	<u>\$ 3,244</u>	<u>\$ 3,220</u>	<u>\$ 1</u>	<u>\$ 23</u>	

The following tables provide a reconciliation of the beginning and ending balances of our financial assets and financial liabilities classified as Level 3 by major categories (amounts in millions) at September 30, 2011 and 2010, respectively:

[Table of Contents](#)

	Level 3	
	ARS (a)	Total financial assets at fair value
Balance at January 1, 2011	\$ 23	\$ 23
Total unrealized gains included in other comprehensive income	2	2
Balance at September 30, 2011	<u>\$ 25</u>	<u>\$ 25</u>

	Level 3			
	ARS (a)	ARS rights from UBS (b)	Total financial assets at fair value	Other financial liabilities
Balance at January 1, 2010	\$ 77	\$ 7	\$ 84	\$ (23)
Total gains (losses) (realized/unrealized) included in investment and other income, net	7	(7)	—	13
Purchases of acquired sales, issuances and settlements	(61)	—	(61)	—
Balance at September 30, 2010	<u>\$ 23</u>	<u>\$ —</u>	<u>\$ 23</u>	<u>\$ (10)</u>
The amount of total gains(losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2010	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 13</u>

(a) Fair value measurements of the auction rate securities (“ARS”) have been estimated using an income-approach model (specifically, discounted cash-flow analysis). When estimating the fair value, we consider both observable market data and non-observable factors, including credit quality, duration, insurance wraps, collateral composition, maximum rate formulas, comparable trading instruments and the likelihood of redemption. Significant assumptions used in the analysis include estimates for interest rates, spreads, cash flow timing and amounts, and holding periods of the securities. Assets measured at fair value using significant unobservable inputs (Level 3) represent 1% of our financial assets measured at fair value on a recurring basis at September 30, 2011.

In June 2010, we sold the remainder of our ARS held with UBS at par and recognized a gain of \$7 million, which is included within investment and other income, net in our condensed consolidated statement of operations for the nine months ended September 30, 2010.

(b) ARS rights from UBS represented an offer from UBS providing us with the right to require UBS to purchase our ARS held through UBS at par value. To value the ARS rights, we considered the intrinsic value, time value of money, and our assessment of the credit worthiness of UBS. We exercised our ARS rights with UBS on June 30, 2010 and recorded a loss of \$7 million, which is included within investment and other income, net in our condensed consolidated statement of operations for the nine months ended September 30, 2010.

Foreign Currency Forward Contracts Not Designated as Hedges

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. To mitigate our risk from foreign currency fluctuations we periodically enter into currency derivative contracts, primarily swaps and forward contracts with maturities of twelve months or less, with Vivendi as our principal counterparty. We do not hold or purchase any foreign currency contracts for trading or speculative purposes and we do not designate these forward contracts or swaps as hedging instruments.

[Table of Contents](#)

Accordingly, we report the fair value of these contracts in our condensed consolidated balance sheet with changes in fair value recorded in our condensed consolidated statement of operations. The fair value of foreign currency contracts is estimated based on the prevailing exchange rates of the various hedged currencies as of the end of the period.

Fair Value Measurements on a Non-Recurring Basis

We measure the fair value of certain assets on a non-recurring basis, generally annually or when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. For the nine-month period ended September 30, 2011, there were no impairment charges related to assets that are measured on a non-recurring basis.

The table below presents intangible assets that are not subject to recurring fair value measurement at December 31, 2010 (amounts in millions):

	Fair Value Measurements at December 31, 2010 Using				Total Losses
	As of December 31, 2010	Quoted Prices in Active Markets for Identical Financial Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Non-financial assets:					
Intangible assets, net	\$ —	\$ —	\$ —	\$ —	\$ 326
Total non-financial assets at fair value	\$ —	\$ —	\$ —	\$ —	\$ 326

We considered the continued economic downturn within our industry in 2010 and the change in the buying habits of casual consumers while planning for 2011 during the fourth quarter of 2010. This resulted in a significant revision of our outlook for retail sales of software and a strategy change to, among other things, focus on fewer title releases in the casual genre and discontinue the development of music-based titles. As we considered this change in strategy to be an indicator of a potential impairment of our intangible assets, we updated our future projected revenue streams for certain franchises in the casual games and music genres. We performed recoverability tests and, where applicable, measured the impairment of the related intangible assets in accordance with ASC Subtopic 360-10.

Determining whether an impairment has occurred requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the estimated remaining useful life over which these cash flows will occur, the amount of these cash flows and the asset's residual value, if any. For intangible assets that do not pass the recoverability test, the measurement of an impairment loss requires a determination of fair value, which is based on the best information available. Based on the characteristics of the assets being valued and the availability of information, the Company used the income approach, which presumes that the value of an asset can be estimated by the net economic benefit to be received over the estimated remaining useful life of the asset, discounted to present value. We derived the required cash flow estimates from our historical experience and our internal business plans and applied an appropriate discount rate. Based on this analysis, we recorded impairment charges of \$67 million, \$9 million and \$250 million to license agreements, game engines and internally-developed franchises intangible assets, respectively, for the year ended December 31, 2010 within our Activision Publishing Inc. segment.

9. Restructuring

On February 3, 2011, the Board of Directors of the Company approved a restructuring plan (the “2011 Restructuring”) involving a focus on the development and publication of a reduced slate of titles on a going-forward basis, including the discontinuation of the development of music-based games, the closure of the related business unit and the cancellation of other titles then in production, along with a related reduction in studio headcount and corporate overhead.

The following table details the amount of the 2011 Restructuring reserves included in accrued expenses and other liabilities in the condensed consolidated balance sheet at September 30, 2011 (amounts in millions):

	Severance	Facilities costs	Contract termination costs	Total
Balance at December 31, 2010	\$ —	\$ —	\$ —	\$ —
Costs charged to expense	19	4	1	24
Costs paid or otherwise settled	(14)	—	(1)	(15)
Balance at September 30, 2011	<u>\$ 5</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$ 9</u>

The 2011 Restructuring charges for the three and nine months ended September 30, 2011 were \$3 million and \$24 million, respectively. These charges, as well as the 2011 Restructuring reserve balances at September 30, 2011, were recorded within our Activision Publishing, Inc. segment. We have substantially completed the 2011 Restructuring and we do not expect to incur significant additional restructuring expenses relating thereto.

We have completed our implementation of our organizational restructuring plan as a result of the business combination (the “Business Combination”) by and among the Company (then known as Activision, Inc.), SeGO Merger Corporation, a wholly-owned subsidiary of the Company, Vivendi S.A. (“Vivendi”), VGAC LLC, a wholly-owned subsidiary of Vivendi, and Vivendi Games, Inc., a wholly-owned subsidiary of VGAC LLC, consummated in July 2008. There were minimal cash payments and no additional charges in our condensed consolidated statement of operations for the three and nine months ended September 30, 2011 relating to that restructuring and we do not expect to incur additional restructuring expenses relating thereto.

10. Operating segments and geographic region

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.

Currently, we operate under three operating segments:

Activision Publishing, Inc.

Activision Publishing, Inc. (“Activision”) is a leading international developer and publisher of interactive software products and content. Activision develops games based on both internally-developed and licensed intellectual property. Activision markets and sells games it develops and, through our affiliate label program, games developed by certain third-party publishers. We sell games both through retail channels and by digital download. 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; the Nintendo Dual Screen (“DS”) handheld game systems; the PC; Apple iOS devices and other handheld and mobile devices.

Blizzard Entertainment, Inc.

Blizzard Entertainment, Inc. (“Blizzard”) develops, markets and sells role-playing action and strategy PC-based computer games, including games in the multiple-award winning Diablo and StarCraft franchises. Blizzard also develops, hosts, and supports its online subscription-based games in the massively multi-player online role-playing game (“MMORPG”) category in which it is a leader in terms of both subscriber base and revenues generated through its World of Warcraft franchise. Blizzard also maintains a proprietary online-game related service, Battle.net. Blizzard distributes its products and generates revenues

[Table of Contents](#)

worldwide through various means, including: subscriptions (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.

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 impairment of intangible assets. The CODM does not review any information regarding total assets on an operating segment basis, and accordingly, no disclosure is made with respect thereto. Information on the operating segments and reconciliations of total segment net revenues from external customers and total segment income (loss) from operations to consolidated net revenues and income before income tax expense for the three and nine months ended September 30, 2011 and 2010 are presented below (amounts in millions):

[Table of Contents](#)

	Three months ended September 30,			
	2011		2010	
	2011	2010	2011	2010
	Net revenues		Income from operations before income tax expense	
Activision	\$ 253	\$ 314	\$ (36)	\$ (43)
Blizzard	297	481	120	246
Distribution	77	62	1	1
Operating segments total	627	857	85	204
Reconciliation to consolidated net revenues / operating income and consolidated income before income tax expense:				
Net effect from deferral of net revenues and related cost of sales	127	(112)	105	(97)
Stock-based compensation expense	—	—	(18)	(34)
Restructuring	—	—	(3)	—
Amortization of intangible assets	—	—	(7)	(18)
Consolidated net revenues / operating income	\$ 754	\$ 745	162	55
Investment and other income, net			3	14
Consolidated income before income tax expense			\$ 165	\$ 69

	Nine months ended September 30,			
	2011		2010	
	2011	2010	2011	2010
	Net revenues		Income from operations before income tax expense	
Activision	\$ 898	\$ 983	\$ 42	\$ (88)
Blizzard	968	1,086	425	559
Distribution	214	185	1	(1)
Operating segments total	2,080	2,254	468	470
Reconciliation to consolidated net revenues / operating income and consolidated income before income tax expense:				
Net effect from deferral of net revenues and related cost of sales	1,268	765	943	539
Stock-based compensation expense	—	—	(61)	(94)
Restructuring	—	—	(24)	(3)
Amortization of intangible assets	—	—	(22)	(47)
Consolidated net revenues / operating income	\$ 3,348	\$ 3,019	\$ 1,304	\$ 865
Investment and other income, net			7	15
Consolidated income before income tax expense			\$ 1,311	\$ 880

Geographic information for the three and nine months ended September 30, 2011 and 2010 is based on the location of the selling entity. Net revenues from external customers by geographic region were as follows (amounts in millions):

[Table of Contents](#)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net revenues by geographic region:				
North America	\$ 360	\$ 406	\$ 1,687	\$ 1,675
Europe	323	281	1,385	1,142
Asia Pacific	71	58	276	202
Total consolidated net revenues	<u>\$ 754</u>	<u>\$ 745</u>	<u>\$ 3,348</u>	<u>\$ 3,019</u>

Net revenues by platform were as follows (amounts in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net revenues by platform:				
Online subscriptions*	\$ 336	\$ 289	\$ 1,090	\$ 890
Console	277	298	1,711	1,642
Hand-held	19	23	82	101
PC and Other	45	73	251	201
Total platform net revenues	677	683	3,134	2,834
Distribution	77	62	214	185
Total consolidated net revenues	<u>\$ 754</u>	<u>\$ 745</u>	<u>\$ 3,348</u>	<u>\$ 3,019</u>

*Revenue from online subscriptions consists of revenue from all *World of Warcraft* products, including subscriptions, boxed products, expansion packs, licensing royalties, and value-added services.

We did not have any single external customer that accounted for 10% or more of net revenues for the three or nine months ended September 30, 2011 and 2010.

11. Goodwill

The changes in the carrying amount of goodwill by operating segment for the nine months ended September 30, 2011 are as follows (amounts in millions):

	Activision	Blizzard	Distribution	Total
Balance at December 31, 2010	\$ 6,942	\$ 178	\$ 12	\$ 7,132
Tax benefit credited to goodwill	(8)	—	—	(8)
Issuance of contingent consideration	3	—	—	3
Foreign exchange	(1)	—	—	(1)
Balance at September 30, 2011	<u>\$ 6,936</u>	<u>\$ 178</u>	<u>\$ 12</u>	<u>\$ 7,126</u>

The tax benefit credited to goodwill represents the tax deduction resulting from the exercise of stock options that were outstanding and vested at the consummation of the Business Combination and included in the purchase price of the Company, to the extent that the tax deduction did not exceed the fair value of those options. Conversely, to the extent that the tax deduction did exceed the fair value of those options, the tax benefit is credited to additional paid-in capital.

Issuance of contingent consideration consists of additional purchase consideration paid during 2011 in relation to a previous acquisition.

12. Computation of basic/diluted earnings per common share

The following table sets forth the computation of basic and diluted earnings per common share (amounts in millions, except per share data):

[Table of Contents](#)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Numerator:				
Consolidated net income	\$ 148	\$ 51	\$ 986	\$ 651
Less: Distributed earnings to unvested stock-based awards that participate in earnings	—	—	(3)	(2)
Less: Undistributed earnings allocated to unvested stock-based awards that participate in earnings	(2)	—	(11)	(4)
Numerator for basic and diluted earnings per common share - net income available to common shareholders	146	51	972	645
Denominator:				
Denominator for basic earnings per common share - weighted-average common shares outstanding	1,140	1,212	1,151	1,230
Effect of potential dilutive common shares under the treasury stock method:				
Employee stock options	8	15	9	15
Denominator for diluted earnings per common share - weighted-average common shares outstanding plus dilutive effect of employee stock options	1,148	1,227	1,160	1,245
Basic earnings per common share	\$ 0.13	\$ 0.04	\$ 0.84	\$ 0.53
Diluted earnings per common share	\$ 0.13	\$ 0.04	\$ 0.84	\$ 0.52

Our unvested restricted stock rights are considered participating securities since these securities have non-forfeitable rights to dividends or dividend equivalents during the contractual period of the award. Since the unvested restricted stock rights are considered participating securities, we are required to use the two-class method in our computation of basic and diluted earnings per common share. For both the three and nine months ended September 30, 2011, we had outstanding unvested restricted stock rights for 17 million shares of common stock on a weighted-average basis. For both the three and nine months ended September 30, 2010, we had outstanding unvested restricted stock rights for 11 million shares of common stock on a weighted-average basis.

Potential common shares are not included in the denominator of the diluted earnings per common share calculation when inclusion of such shares would be anti-dilutive. Therefore, options to acquire 23 million and 31 million shares of common stock were not included in the calculation of diluted earnings per common share for the three and nine months ended September 30, 2011, respectively, and options to acquire 25 million and 24 million shares of common stock were not included in the calculation of diluted earnings per common share for the three and nine months ended September 30, 2010, respectively, as the effect of their inclusion would be anti-dilutive.

13. Capital transactions

Repurchase Program

On February 3, 2011, our Board of Directors authorized a new stock repurchase program (the “2011 Stock Repurchase Program”) under which we may repurchase up to \$1.5 billion of our common stock, 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

[Table of Contents](#)

program. During the nine months ended September 30, 2011, we repurchased 45 million shares of our common stock for \$502 million pursuant to the 2011 Stock Repurchase Program. Additionally, in October 2011, we settled the purchase of 0.5 million shares of our common stock that we had committed to repurchase in September 2011 pursuant to this program for \$6 million.

On February 10, 2010, our Board of Directors authorized a stock repurchase program (the “2010 Stock Repurchase Program”) under which we were authorized to repurchase up to \$1 billion of our common stock. The 2010 Stock Repurchase Program expired on December 31, 2010. In January 2011, we settled a \$22 million purchase of 1.8 million shares of our common stock that we had committed to repurchase in December 2010 pursuant to the 2010 Stock Repurchase Program.

Dividend

On February 9, 2011, our Board of Directors approved a cash dividend of \$0.165 per common share to be paid on May 11, 2011 to shareholders of record as of March 16, 2011, and on May 11, 2011, we made a cash dividend payment of \$192 million to such shareholders. On August 12, 2011, the Company made dividend equivalent payments of \$2 million related to this cash dividend to the holders of restricted stock units.

14. Commitments and contingencies

At September 30, 2011, we did not have any significant changes to our commitments since December 31, 2010. See Note 18 of the Notes to Consolidated Financial Statements included in Item 8 of the Annual Report on Form 10-K for the year ended December 31, 2010 for more information regarding our commitments.

Legal Proceedings

After concluding an internal human resources inquiry into breaches of contract and insubordination by two senior employees at Infinity Ward, the Company terminated its employment of Jason West and Vince Zampella on March 1, 2010. On March 3, 2010, West and Zampella filed a complaint against the Company in Los Angeles Superior Court for breach of contract and wrongful termination, among other claims. In their complaint, West and Zampella alleged damages, including punitive damages, in excess of \$36 million and declaratory relief, an amount they have since significantly increased during discovery. On April 9, 2010, the Company filed a cross complaint against West and Zampella, asserting claims for breach of contract and fiduciary duty, among other claims. The Company is seeking damages and declaratory relief.

In addition, 38 current and former employees of Infinity Ward filed a complaint against the Company in Los Angeles Superior Court on April 27, 2010 (*Alderman et al. v. Activision Publishing, Inc. et al.*). An amended complaint was filed on July 8, 2010, which added seven additional plaintiffs. On October 5, 2010, five plaintiffs, all current employees of Infinity Ward, filed dismissals without prejudice. There are currently 40 plaintiffs in the case. The plaintiffs have asserted claims for breach of contract, violation of the Labor Code of the State of California, conversion and other claims. In their complaint, the plaintiffs claimed that the Company failed to pay them bonuses and other compensation allegedly owed to them in an amount at least between \$75 million and \$125 million, plus punitive damages, an amount they have since increased in discovery responses to approximately \$300 million, plus punitive damages. On October 12, 2010, the court consolidated this matter with the West and Zampella matter.

On January 18, 2011, the court granted the Company’s motion to amend its cross complaint against West and Zampella to add allegations with respect to them and to add Electronic Arts, Inc. as a party. On January 31, 2011, the case was transferred to the complex division.

Some of the parties have filed, and are likely to file, additional pre-trial motions, including dispositive motions, and discovery continues in the ordinary course of the litigation. The court has set a trial date of May 7, 2012.

The Company has accrued, and will continue to accrue, appropriate amounts related to bonuses and other monies allegedly owed in connection with this matter. Due to the inherent uncertainties of litigation, other potential outcomes are reasonably possible, including outcomes which are above the amount of the accrual. The Company does not expect this lawsuit to have a material impact on the Company’s business, financial condition, results of operation or liquidity. However, an unfavorable resolution of this lawsuit above the amount of the accrual could have a material adverse effect on the Company’s business and results of operations in an interim period in which the lawsuit is ultimately resolved.

[Table of Contents](#)

In addition, we are party to other routine claims and suits brought by us and against us in the ordinary course of business, including disputes arising over intellectual property rights, contractual claims, employment laws, regulations and relationships, and collection matters. In the opinion of management, after consultation with legal counsel, the outcome of such routine claims and lawsuits will not have a material adverse effect on our business, financial condition, results of operations, or liquidity.

15. Related party transactions

Treasury

Our foreign currency risk management program seeks to reduce risks arising from foreign currency fluctuations. We use derivative financial instruments, primarily currency forward contracts and swaps, with Vivendi as our principal counterparty. The gross notional amount of outstanding foreign exchange swaps was \$61 million and \$138 million at September 30, 2011 and December 31, 2010, respectively. A pre-tax net unrealized loss of less than a million and loss of \$1 million for the three months ended September 30, 2011 and 2010, respectively, resulted from the foreign exchange contracts and swaps with Vivendi and were recognized in the condensed consolidated statements of operations. A pre-tax net unrealized loss of less than a million and unrealized gain of \$3 million for the nine months ended September 30, 2011 and 2010, respectively, resulted from the foreign exchange contracts and swaps with Vivendi and were recognized in the condensed consolidated statements of operations.

Other

Activision Blizzard has entered into various transactions and agreements, including cash management services, investor agreement, and music royalty agreements with Vivendi and its subsidiaries and affiliates. None of these services, transactions and agreements with Vivendi and its subsidiaries and affiliates is material either individually or in the aggregate to the condensed consolidated financial statements as a whole.

16. Recently issued accounting pronouncements

In May 2011, the FASB issued an update to the accounting rules for fair value measurement to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards (“IFRS”). This update changes certain fair value measurement principles and enhances the disclosure requirements for fair value measurements. This update does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards within U.S. GAAP or IFRS. This update is effective for interim and annual periods beginning after December 15, 2011 and is applied prospectively. Early adoption is prohibited. We are currently evaluating the impact, if any, of this new accounting update on our consolidated financial statements.

In June 2011, the FASB issued an update to the accounting on comprehensive income to increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS. This update requires that all non-owner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. Further, this update does not affect how earnings per share is calculated or presented. This update is effective for interim and annual periods beginning after December 15, 2011 and is applied retrospectively. Early adoption is permitted. We do not expect that the adoption of this guidance will have a material impact on our consolidated financial statements.

In September 2011, the FASB issued an update to the authoritative guidance related to goodwill impairment testing. This update gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the two-step test mandated prior to the update. If, after assessing the totality of events and circumstances, a company determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then it must perform the two-step test. Otherwise, a company may skip the two-step test. Companies are not required to perform the qualitative assessment and may, instead proceed directly to the first step of the two-part test. This update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. While we are in the process of assessing whether we will early adopt this update, we currently do not expect that adopting it will have a material impact on our consolidated financial statements.

Item 2. 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. 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 developer and publisher of interactive software products and content. Activision develops games based on both internally-developed and licensed intellectual property. Activision markets and sells games it develops and, through our affiliate label program, games developed by certain third-party publishers. We sell games both through retail channels and by digital download. 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; the Nintendo Dual Screen ("DS") handheld game systems; the PC; Apple iOS devices and other handheld and mobile devices.

Blizzard Entertainment, Inc.

Blizzard Entertainment, Inc. ("Blizzard") develops, markets and sells role-playing action and strategy PC-based computer games, including games in the multiple-award winning Diablo and StarCraft franchises. Blizzard also develops, hosts, and supports its online subscription-based games in the massively multi-player online role-playing game ("MMORPG") category in which it is a leader in terms of both subscriber base and revenues generated through its World of Warcraft franchise. Blizzard also maintains a proprietary online-game related service, Battle.net. Blizzard distributes its products and generates revenues worldwide through various means, including: subscriptions (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 Highlights

For the three months ended September 30, 2011, Activision Blizzard had net revenues of \$754 million as compared to net revenues of \$745 million in the same period in 2010, and earnings per diluted share of \$0.13 as compared to earnings per diluted share of \$0.04 in the same period in 2010.

For the three months ended September 30, 2011, net revenues from digital online channels (as defined below) increased by 18% year-over-year to \$427 million, or 57% of total consolidated net revenues, as compared to \$363 million, or 49% of total consolidated net revenues, in the same period in 2010. Further, for the three months ended September 30, 2011, net revenues from digital online channels, excluding the impact of changes in deferred net revenues (a non-GAAP financial measure), increased by 6% year-over-year to \$386 million, or 62% of total consolidated net revenues as compared to \$363 million, or 42% of total consolidated net revenues, in the same period in 2010. Please refer to the reconciliation between GAAP and non-GAAP financial measures below.

For the nine months ended September 30, 2011, Activision Blizzard had net revenues of \$3.3 billion as compared to net revenues of \$3.0 billion in the same period in 2010, and earnings per diluted share of \$0.84 as compared to earnings per diluted share of \$0.52 in the same period in 2010.

For the nine months ended September 30, 2011, net revenues from digital online channels grew by 25% year-over-year to \$1.3 billion, or 38% of total consolidated net revenues, as compared to \$1.0 billion, or 34% of total consolidated net revenues, in the same period in 2010. Further, net revenues from digital online channels, excluding the impact of changes in deferred net revenues (a non-GAAP financial measure), grew by 16% year-over-year to \$1.3 billion, or 60% of total consolidated net

[Table of Contents](#)

revenues, for the nine months ended September 30, 2011 as compared to \$1.1 billion, or 48% of total consolidated net revenues, in the same period in 2010.

According to The NPD Group, with respect to the U.S., and Charttrack and Gfk, with respect to Europe, during the nine months ended September 30, 2011, based on sales from retail channels, *Call of Duty: Black Ops* was the #1 best selling title in dollars for all platforms in aggregate in the U.S. and Europe for each of the first three quarters of 2011, and *StarCraft II: Wings of Liberty* was the #1 best-selling PC title in dollars in the U.S. and Europe.

Additional Highlights

On February 3, 2011, our Board of Directors approved a new stock repurchase program (the “2011 Stock Repurchase Program”) under which we may repurchase up to \$1.5 billion of our common stock until the earlier of March 31, 2012 or a determination by the Board of Directors to discontinue the repurchase program. As of September 30, 2011, we have repurchased 45 million shares of common stock under this program for an aggregate purchase price of approximately \$502 million. Additionally, in October 2011, we settled the purchase of 0.5 million shares of our common stock that we had committed to repurchase in September 2011 pursuant to this program for \$6 million.

On February 9, 2011, the Board of Directors declared a cash dividend of \$0.165 per common share to be paid on May 11, 2011 to shareholders of record as of March 16, 2011. On May 11, 2011, we made an aggregate cash dividend payment of \$192 million to such shareholders. On August 12, 2011, we made dividend equivalent payments of \$2 million related to this cash dividend to the holders of restricted stock units.

Product Release Highlights

During the nine months ended September 30, 2011, we released the following *Call of Duty: Black Ops* downloadable content packs on Microsoft’s Xbox 360, Sony’s Play Station Network and the PC: *Call of Duty: Black Ops First Strike*, *Call of Duty: Black Ops Escalation*, *Call of Duty: Black Ops Annihilation*, and *Call of Duty: Black Ops Resurrection*. In addition, we released *Transformers: Dark of the Moon*, *X-Men: Destiny*, *Nascar The Game 2011*, *Wipeout: In the Zone* and *Cabela’s Big Game Hunter 2012*, as well as a selection of other casual titles. In July 2011, we launched *World of Warcraft: Cataclysm* in China. We also released Lucas Arts’ title *Lego Star Wars III*, which we publish on behalf of Lucas Arts in Europe and certain countries in Asia Pacific.

Activision Blizzard Recent and Upcoming Product Releases

On October 16, 2011, we launched *Skylanders: Spyro’s Adventure*, a new intellectual property that combines the use of toys with video games delivering a new game play experience to our audiences. In October 2011, we also released *Spiderman: Edge of Time* and *Wipeout: Season 2*. On November 1, 2011, we released *Cabela’s Survival: Shadows of Katmai*, *Cabela’s Adventure Camp* and *GoldenEye 007: Reloaded* from the James Bond franchise. On November 8, 2011, we released the next installment in the Call of Duty franchise, *Call of Duty: Modern Warfare 3*, and debuted *Call of Duty: Elite*, an innovative new digital platform that provides both free services and premium subscription-based services for the Call of Duty franchise. Further, during the fourth quarter of 2011, we also expect to release *Rapala for Kinect* and a selection of other casual titles.

Looking forward, Blizzard has announced its intention to ship *Diablo III* in early 2012, and has announced plans for the fourth *World of Warcraft* expansion — *World of Warcraft: Mists of Pandaria*.

Management’s Overview of Business Trends

We provide our products through both retail channels and digital online delivery methods. Many of our video games that are available through retailers as physical “boxed” software products such as DVDs are also available by direct digital download over the Internet (both from websites that we own and from others owned by third parties). We also offer downloadable content as add-ons to our products (e.g., new multi-player content packs). Such digital online-delivered content is generally offered to consumers for a one-time fee. We also offer subscription based services for *World of Warcraft*, which are digitally delivered and hosted by Blizzard Entertainment’s proprietary online-game related service, Battle.net. In November 2011, we launched *Call of Duty: Elite*, an innovative new digital platform that provides both free services and premium subscription-based services for the Call of Duty franchise. Digital revenues have become an increasingly important part of our business and we continue to focus on and develop products that can be delivered via digital online channels. We currently define digital online channel-related sales as revenues from subscriptions and licensing royalties, value added services, downloadable content, digitally distributed products and wireless devices. This definition may differ from that used by our competitors or other companies. For the quarter ended September 30, 2011, our sales through digital online channels grew by \$64 million as compared to the same period in 2010. For the nine months ended September 30, 2011, our

[Table of Contents](#)

sales through digital online channels grew by \$252 million as compared to the same period in 2010. We believe, based on our internal estimates, that sales in the overall video games digital market for the nine-month period were up double digits year-over-year.

Conditions in the retail channels of the video games industry have remained challenging during the first nine months of 2011. In the U.S. and Europe, retail sales within the industry experienced a combined overall decrease of 8% for the first nine months of 2011, as compared to the same period in 2010, according to The NPD Group, Charttrack and Gfk. The majority of the overall decline is attributable to the weakened market for software for the Nintendo Wii and handheld platforms, which declined by 18% year-over-year, while sales for high definition platforms (*i.e.*, Xbox 360 and PS3) and PC declined by just 1% in that same period, all according to The NPD Group, Charttrack and Gfk. Since our more focused slate of titles is concentrated on products for high definition platforms and involves limited offerings in the music and casual genres, particularly on Nintendo Wii and handheld platforms, and an increasing portion of our revenues is from digital channels, our results have been less impacted by the overall decline in retail software sales than the overall industry.

The continuing downward pressure in the retail channels suggests an increasing shift towards digital distribution. Consistent with that, we experienced year-over-year growth of net revenues from digital online channels as a percentage of our total net revenues. This digital revenue growth positively impacted operating margin, and helped us achieve favorable operating margins for the three and nine months ended September 30, 2011. We intend to continue to invest resources and capital in our higher-margin products that can be delivered via digital online channels for the remainder of 2011, as we seek to extend our leadership to be the largest digital video games publisher and expand our core brands in this channel. Please refer to the reconciliation between GAAP and non-GAAP financial measures below.

[Table of Contents](#)

Consolidated Statements of Operations Data

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):

	<u>Three months ended September 30,</u>				<u>Nine months ended September 30,</u>			
	<u>2011</u>		<u>2010</u>		<u>2011</u>		<u>2010</u>	
Net revenues:								
Product sales	\$ 369	49%	\$ 397	53%	\$ 2,197	66%	\$ 2,025	67%
Subscription, licensing, and other revenues	385	51	348	47	1,151	34	994	33
Total net revenues	<u>754</u>	<u>100</u>	<u>745</u>	<u>100</u>	<u>3,348</u>	<u>100</u>	<u>3,019</u>	<u>100</u>
Costs and expenses:								
Cost of sales — product costs	138	18	194	27	650	19	765	25
Cost of sales — MMORPG	59	8	61	8	181	5	168	6
Cost of sales — software royalties and amortization	24	3	61	8	133	4	211	7
Cost of sales — intellectual property licenses	16	2	33	4	69	2	105	3
Product development	133	18	118	16	390	12	361	12
Sales and marketing	115	15	110	15	264	8	291	10
General and administrative	104	14	113	15	333	10	253	8
Restructuring	3	—	—	—	24	1	—	—
Total costs and expenses	<u>592</u>	<u>78</u>	<u>690</u>	<u>93</u>	<u>2,044</u>	<u>61</u>	<u>2,154</u>	<u>71</u>
Operating income	162	22	55	7	1,304	39	865	29
Investment and other income, net	3	—	14	2	7	—	15	—
Income before income tax expense	165	22	69	9	1,311	39	880	29
Income tax expense	17	2	18	2	325	10	229	7
Net income	<u>\$ 148</u>	<u>20%</u>	<u>\$ 51</u>	<u>7%</u>	<u>\$ 986</u>	<u>29%</u>	<u>\$ 651</u>	<u>22%</u>

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 impairment of intangible assets. The CODM does not review any information regarding total assets on an operating segment basis and, accordingly, no disclosure is made with respect thereto. Information on the operating segments and reconciliations of total segment net revenues and total segment income (loss) from operations to consolidated net revenues and income before income tax expense from external customers for the three and nine months ended September 30, 2011 and 2010 are presented below (amounts in millions):

[Table of Contents](#)

	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Increase (Decrease)	2011	2010	Increase (Decrease)
Segment net revenues:						
Activision	\$ 253	\$ 314	\$ (61)	\$ 898	\$ 983	\$ (85)
Blizzard	297	481	(184)	968	1,086	(118)
Distribution	77	62	15	214	185	29
Operating segment net revenue total	<u>627</u>	<u>857</u>	<u>(230)</u>	<u>2,080</u>	<u>2,254</u>	<u>(174)</u>
Reconciliation to consolidated net revenues:						
Net effect from deferral of net revenues	127	(112)		1,268	765	
Consolidated net revenues	<u>\$ 754</u>	<u>\$ 745</u>		<u>\$ 3,348</u>	<u>\$ 3,019</u>	
Segment income (loss) from operations:						
Activision	\$ (36)	\$ (43)	\$ 7	\$ 42	\$ (88)	\$ 130
Blizzard	120	246	(126)	425	559	(134)
Distribution	1	1	—	1	(1)	2
Operating segment income from operations total	<u>85</u>	<u>204</u>	<u>(119)</u>	<u>468</u>	<u>470</u>	<u>(2)</u>
Reconciliation to consolidated operating income and consolidated income before income tax expense:						
Net effect from deferral of net revenues and related cost of sales	105	(97)		943	539	
Stock-based compensation expense	(18)	(34)		(61)	(94)	
Restructuring	(3)	—		(24)	(3)	
Amortization of intangible assets	<u>(7)</u>	<u>(18)</u>		<u>(22)</u>	<u>(47)</u>	
Consolidated operating income	162	55		1,304	865	
Investment and other income, net	3	14		7	15	
Consolidated income before income tax expense	<u>\$ 165</u>	<u>\$ 69</u>		<u>\$ 1,311</u>	<u>\$ 880</u>	

Segment Net Revenues

Activision

Activision's net revenues decreased for the three and nine months ended September 30, 2011 as compared to the same periods in 2010, primarily due to a more focused slate, with the release of fewer key titles in 2011 than in 2010 and lower catalogue sales of games in the music and casual games genres. Activision released three titles in the third quarter of 2011, *X-Men: Destiny*, Cabela's *Big Game Hunter 2012* and *Quest for Zhu*, as compared to eight titles in the third quarter of 2010. These lower net revenues were partially offset by the continued strong catalogue performance from the Call of Duty franchise, the stronger performance of downloadable content packs associated with *Call of Duty: Black Ops* as compared to the downloadable content packs associated with *Call of Duty: Modern Warfare 2* released in the prior year, as well as a greater number of content packs for the Call of Duty franchise released in the current year versus the prior year, and favorable movement in foreign exchange rates. Further, the release in the first quarter of 2011 of *Lego Star Wars III*, which we publish on behalf of Lucas Arts in Europe and certain countries in Asia Pacific, generated additional net revenues in the current year.

Blizzard

Blizzard's net revenues decreased for the three and nine months ended September 30, 2011 as compared to the same periods in 2010, primarily because there were no new releases during 2011 as compared to the release of *StarCraft II: Wings of Liberty* in July

[Table of Contents](#)

2010. These lower net revenues were partially offset by net revenues generated in 2011 from *World of Warcraft: Cataclysm*, which was released in December 2010, and *World of Warcraft: Wrath of the Lich King*, which was released in China in August 2010, the increasing sales of value-added services in China since their launch in December 2010, and favorable movement in foreign exchange rates. At September 30, 2011, the worldwide subscriber base for *World of Warcraft* was 10.3 million, compared to a subscriber base of 11.1 million at June 30, 2011. Despite an initial increase in subscribers following the launch of *World of Warcraft: Cataclysm* in China early in the quarter, the majority of the decline in subscribers for the quarter occurred in Asia. In general, the average revenue per subscriber is lower in Asia than in the U.S. and Europe. Looking forward, the company's objective is to deliver new game content for *World of Warcraft* in all regions to further appeal to the gaming community.

Distribution

Distribution's net revenues increased for the three and nine months ended September 30, 2011 as compared to the same periods in 2010, primarily due to several additional sales opportunities and favorable movement in foreign exchange rates.

Segment Income from Operations

Activision

For the three months ended September 30, 2011, Activision's operating loss decreased slightly as compared to the same period in the prior year, despite the decrease in Activision's net revenues as previously described. The improvement was primarily attributable to a greater mix of products with higher margins, including products distributed through digital online channels, cost savings realized from the 2011 Restructuring, and a decrease in amortization of capitalized software development costs and intellectual property license expenses as we have fewer titles released during the period of 2011 as compared to the same period in 2010. However, an increase in sales and marketing in support of the launch of *Skylanders: Spyro's Adventure* and the Call of Duty franchise, and additional legal expenses, negatively impacted operating income in the quarter.

For the nine months ended September 30, 2011, Activision's operating income increased substantially over the prior year, from an operating loss of \$88 million to operating income of \$42 million, despite the decrease in Activision's net revenues as previously described. Similar to the third quarter, the increased operating income was primarily attributable to a greater mix of products with higher margins and cost savings realized from the 2011 Restructuring. The increase in Activision's operating income for the nine months was also attributable to a decrease in amortization of capitalized software development costs and intellectual property license expenses as we have fewer titles released during the period of 2011 as compared to the same period in 2010, and a decrease in product development expenses. These improvements to operating income were partially offset by an increase in legal expenses.

Blizzard

Blizzard's operating income decreased for the three and nine months ended September 30, 2011 as compared to the same periods in 2010, primarily as a result of the decrease in net revenues previously described, as well as Blizzard's investment in customer services and data centers, and lower capitalization of product development costs. Partially offsetting these negative impacts, Blizzard's results were positively impacted by a decrease in sales and marketing expenses as compared to the same periods in 2010, which were primarily incurred to support the release of *StarCraft II: Wings of Liberty* in July 2010, and favorable movement in foreign exchange rates.

Non-GAAP Financial Measures

The analysis of revenues by distribution channel is presented both on a GAAP (including the impact from change in deferred revenues) and non-GAAP (excluding the impact from change in deferred revenues) basis. We use this non-GAAP measure internally to monitor our operating performance. We believe this is appropriate because this non-GAAP measure enables an analysis of performance based on the timing of actual transactions with our customers, which is consistent with the way the Company is measured by investment analysts and industry data sources. In addition, excluding the impact from change in deferred net revenue provides a much more timely indication of trends in our sales and other operating results. While we believe that this non-GAAP measure is useful in evaluating our business, this information should be considered as supplemental in nature and is not meant to be considered in isolation from or as a substitute for the related financial information prepared in accordance with GAAP. In addition, this non-GAAP financial measure may not be the same as non-GAAP measures presented by other companies.

We currently define digital online channels-related sales as revenues from subscriptions and licensing royalties, value added services, downloadable content, digitally distributed products, and wireless devices.

[Table of Contents](#)

The following table provides a reconciliation between GAAP and non-GAAP net revenues by distribution channel for the three and nine months ended September 30, 2011 and 2010 (amounts in millions):

	Three months ended September 30,		Increase (Decrease)	Nine months ended September 30,		Increase (Decrease)
	2011	2010		2011	2010	
GAAP net revenues by distribution channel						
Retail channels	\$ 250	\$ 320	\$ (70)	\$ 1,856	\$ 1,808	\$ 48
Digital online channels	427	363	64	1,278	1,026	252
Total Activision and Blizzard	677	683	(6)	3,134	2,834	300
Distribution	77	62	15	214	185	29
Total consolidated GAAP net revenues	754	745	9	3,348	3,019	329
Change in deferred net revenues						
Retail channels	(86)	112		(1,240)	(816)	
Digital online channels	(41)	—		(28)	51	
Total changes in deferred net revenues	(127)	112		(1,268)	(765)	
Non-GAAP net revenues by distribution channel						
Retail channels	164	432	(268)	616	992	(376)
Digital online channels	386	363	23	1,250	1,077	173
Total Activision and Blizzard	550	795	(245)	1,866	2,069	(203)
Distribution	77	62	15	214	185	29
Total non-GAAP net revenues (1)	\$ 627	\$ 857	\$ (230)	\$ 2,080	\$ 2,254	\$ (174)

(1) Total non-GAAP net revenues presented also represents our total operating segment net revenues.

The increases in GAAP net revenues from digital online channels for the three and nine months ended September 30, 2011 as compared to the same periods of 2010 were primarily due to the continuing success of the Call of Duty franchise and revenues generated from World of Warcraft franchise, as well as the digital release of *StarCraft II: Wings of Liberty* in July 2010, resulting in more deferred revenues recognized during the periods as compared to the same periods in 2010.

The increases in non-GAAP net revenues from digital online channels for the three and nine months ended September 30, 2011 as compared to the same periods of 2010 were attributable to the stronger performance of downloadable content packs associated with *Call of Duty: Black Ops*, as well as a greater number of content packs released in 2011 versus the prior year, a higher number of full game downloads from the Call of Duty and World of Warcraft franchises, and favorable movement in foreign exchange rates. These increases were partially offset by the decrease of full game downloads of *StarCraft II: Wings of Liberty* which was released in July 2010. The decreases in non-GAAP net revenues from retail channels for the three and nine months ended September 30, 2011 as compared to the same periods in 2010 were the result of our more focused slate, with the release of fewer key titles, and directionally consistent with the conditions in the retail channels of the video games industry. The decrease was partially offset by the continued strong performance of the Call of Duty franchise and revenues generated from the World of Warcraft franchise.

Consolidated Results

Net Revenues by Geographic Region

The following table details our consolidated net revenues by geographic region for the three and nine months ended September 30, 2011 and 2010 (amounts in millions):

	Three months ended September 30,		Increase (Decrease)	Nine months ended September 30,		Increase (Decrease)
	2011	2010		2011	2010	
Geographic region net revenues:						
North America	\$ 360	\$ 406	\$ (46)	\$ 1,687	\$ 1,675	\$ 12
Europe	323	281	42	1,385	1,142	243
Asia Pacific	71	58	13	276	202	74
Consolidated net revenues	\$ 754	\$ 745	\$ 9	\$ 3,348	\$ 3,019	\$ 329

[Table of Contents](#)

The increase / (decrease) in deferred revenues recognized by geographic region for the three and nine months ended September 30, 2011 and 2010 was as follows (amounts in millions):

	Three months ended September 30,		Increase (Decrease)	Nine months ended September 30,		Increase (Decrease)
	2011	2010		2011	2010	
Increase/(decrease) in deferred revenues recognized by geographic region:						
North America	\$ 72	\$ (41)	\$ 113	\$ 703	\$ 462	\$ 241
Europe	45	(53)	98	499	280	219
Asia Pacific	10	(18)	28	66	23	43
Total impact on consolidated net revenues	\$ 127	\$ (112)	\$ 239	\$ 1,268	\$ 765	\$ 503

As previously discussed, the Company's net revenues for the three and nine months ended September 30, 2011 were negatively impacted by a more focused slate in 2011, with the release of fewer key titles than in 2010, lower catalogue sales of games in the music and casual games genres, and no new releases from Blizzard during 2011 as compared to the release of *StarCraft II: Wings of Liberty* in July 2010. These negative impacts largely offset the positive impact of continued strong performance from the Call of Duty franchise and revenues generated from the World of Warcraft franchise. These factors impacted net revenues in all regions.

Consolidated net revenues for North America decreased for the three months ended September 30, 2011 but increased slightly for the nine months ended September 30, 2011 as compared to the same periods in 2010. The decrease for the three-month period is primarily due to the reasons discussed above, and partially offset by the increase in deferred revenues recognized.

Consolidated net revenues for Europe and Asia Pacific increased for the three and nine months ended September 30, 2011 as compared to the same periods in 2010. These increases were primarily due to the increase in deferred revenues recognized in both regions and the favorable effect of foreign currency exchange rates, partially offset by the reasons discussed above. Further, the release in the first quarter of 2011 of *Lego Star Wars III*, which we publish on behalf of Lucas Arts in Europe and certain countries in Asia Pacific, generated additional net revenues in the current year.

The increase in deferred revenues recognized for the three and nine months ended September 30, 2011 was primarily attributable to our Call of Duty and World of Warcraft franchises, particularly the success of the release of *Call of Duty: Black Ops* and of *World of Warcraft: Cataclysm*, each of which were released in the fourth quarter of 2010. Additionally, the launch of *StarCraft II: Wings of Liberty* in the third quarter of 2010 and the revenues from value-added services for *World of Warcraft* also contributed to the increase in deferred revenues recognized. Partially offsetting these impacts was the deferral of additional revenues to future periods due to the timing of releases and greater success of downloadable content packs associated with *Call of Duty: Black Ops* as compared to downloadable content packs associated with *Call of Duty: Modern Warfare 2* in the prior year. Also, there was a decrease in revenues recognized in both the three and nine month periods due to our more focused slate, with the release of few key titles in 2011 than in 2010, and lower catalogue sales of titles in the music and casual game genres.

Foreign Exchange Impact

Changes in foreign exchange rates are estimated to have a positive impact of approximately \$30 million and \$100 million on Activision Blizzard's net revenues for the three and nine months ended September 30, 2011, respectively, as compared to the same period in 2010. The change is primarily due to the weakening of the U.S. dollar relative to the British pound, the euro, and the Australian dollar in 2011 compared to 2010.

Net Revenues by Platform

The following tables detail our net revenues by platform and as a percentage of total consolidated net revenues for the three and nine months ended September 30, 2011 and 2010 (amounts in millions):

[Table of Contents](#)

	Three months ended September 30, 2011	% of total consolidated net revenues	Three months ended September 30, 2010	% of total consolidated net revenues	Increase (Decrease)
Platform net revenues:					
Online subscriptions*	\$ 336	44%	\$ 289	39%	\$ 47
PC and other	45	6	73	10	(28)
Console					
Sony PlayStation 3	96	13	109	15	(13)
Sony PlayStation 2	4	1	6	1	(2)
Microsoft Xbox 360	144	19	127	16	17
Nintendo Wii	33	4	56	8	(23)
Total console	277	37	298	40	(21)
Handheld	19	3	23	3	(4)
Total platform net revenues	677	90	683	92	(6)
Distribution	77	10	62	8	15
Total consolidated net revenues	\$ 754	100%	\$ 745	100%	\$ 9

	Nine months ended September 30, 2011	% of total consolidated net revenues	Nine months ended September 30, 2010	% of total consolidated net revenues	Increase (Decrease)
Platform net revenues:					
Online subscriptions*	\$ 1,090	33%	\$ 890	29%	\$ 200
PC and Other	251	8	201	7	50
Console					
Sony PlayStation 3	676	20	595	20	81
Sony PlayStation 2	10	—	29	1	(19)
Microsoft Xbox 360	840	25	751	25	89
Nintendo Wii	185	6	267	9	(82)
Total console	1,711	51	1,642	55	69
Handheld	82	2	101	3	(19)
Total platform net revenues	3,134	94	2,834	94	300
Distribution	214	6	185	6	29
Total consolidated net revenues	\$ 3,348	100%	\$ 3,019	100%	\$ 329

* Revenue from online subscriptions consists of revenue from all *World of Warcraft* products, including subscriptions, boxed products, expansion packs, licensing royalties, and value-added services.

The increase / (decrease) in deferred revenues recognized by platform for the three and nine months ended September 30, 2011 and 2010 was as follows (amounts in millions):

[Table of Contents](#)

	Three months ended September 30,		Increase (Decrease)	Nine months ended September 30,		Increase (Decrease)
	2011	2010		2011	2010	
Increase/(decrease) in deferred revenues recognized by platform:						
Online subscriptions	\$ 62	\$ 7	\$ 55	\$ 185	\$ 13	\$ 172
PC and other	5	(141)	146	129	(81)	210
Console						
Sony PlayStation 3	18	5	13	417	317	100
Microsoft Xbox 360	36	26	10	440	425	15
Nintendo Wii	5	(9)	14	90	91	(1)
Total console	59	22	37	947	833	114
Total handheld	1	—	1	7	—	7
Total impact on consolidated net revenues	\$ 127	\$ (112)	\$ 239	\$ 1,268	\$ 765	\$ 503

Net revenues from online subscriptions increased for the three and nine months ended September 30, 2011 as compared to the same periods in 2010, primarily driven by the recognition of deferred revenues from the release of *World of Warcraft: Cataclysm* in December 2010 and increased sales of *World of Warcraft's* value-added services.

Net revenues from PC and other decreased for the three months ended September 30, 2011 but increased for the nine months ended September 30, 2011 as compared to the same periods in 2010. The decrease for the three month period was due to the release of *StarCraft II: Wings of Liberty* in July 2010 compared to no key title releases on this platform during the third quarter of 2011. However, revenues for the nine months period benefitted from the recognition of the deferred revenues from *StarCraft II: Wings of Liberty* subsequent to its launch.

As previously discussed, a more focused slate in 2011 with the release of fewer key titles than in 2010, and lower catalogue sales of games in the music and casual games genres has resulted in lower overall net revenues for Activision Blizzard in the three and nine months ended September 30, 2011 in comparison to the prior year. Among the console platforms, the Nintendo Wii was the most significantly impacted by this change, with a decrease in revenues for the three and nine months ended September 30, 2011 as compared to same periods in 2010. For the Microsoft Xbox 360 and the Sony PlayStation 3, the continued success of the Call of Duty franchise, particularly revenues recognized in the three and nine months ended September 30, 2011 from *Call of Duty: Black Ops*, which was released in the fourth quarter of 2010, and the stronger performance of the content packs associated with *Call of Duty: Black Ops* as compared to the content packs associated with *Call of Duty: Modern Warfare 2*, had a greater overall positive impact on revenues year-over-year.

Costs and Expenses

Cost of Sales

The following tables detail the components of cost of sales in dollars and as a percentage of total consolidated net revenues for the three and nine months ended September 30, 2011 and 2010 (amounts in millions):

	Three months ended September 30, 2011	% of consolidated net revenues	Three months ended September 30, 2010	% of consolidated net revenues	Increase (Decrease)
Product costs	\$ 138	18%	\$ 194	27%	\$ (56)
MMORPG	59	8	61	8	(2)
Software royalties and amortization	24	3	61	8	(37)
Intellectual property licenses	16	2	33	4	(17)

[Table of Contents](#)

	Nine months ended September 30, 2011	% of net revenues	Nine months ended September 30, 2010	% of net revenues	Increase (Decrease)
Product costs	\$ 650	19%	\$ 765	25%	\$ (115)
MMORPG	181	5	168	6	13
Software royalties and amortization	133	4	211	7	(78)
Intellectual property licenses	69	2	105	3	(36)

Total cost of sales decreased for the three and nine months ended September 30, 2011 as compared to the same periods in 2010, primarily due to the increasing portion of our net revenues from products with higher margins, including products distributed through digital online channels, lower amortization from capitalized and deferred software development costs and intellectual property license expenses due to fewer title releases, and the decrease in amortization of intangible assets. The decreases were partially offset by Blizzard's increased investment in customer services for our subscribers and the increase in the deferred cost of sales which were recognized consistent with the increase in the deferred revenues recognized during the periods.

Product Development (amounts in millions)

	September 30, 2011	% of consolidated net revenues	September 30, 2010	% of consolidated net revenues	Increase (Decrease)
Three Months Ended	\$ 133	18%	\$ 118	16%	\$ 15
Nine Months Ended	390	12	361	12	29

Product development costs increased for the three and nine months ended September 30, 2011 as compared to the same periods in 2010. The increase for the three month period was primarily due to the lower capitalization of costs related to future titles. The increase for the nine month period was primarily due to lower capitalization of costs related to future titles, higher stock-based compensation expense and continuing investment in content for the Call of Duty franchise that can be delivered via digital online channels. The increase in both periods was partially offset by the realization of cost savings from the 2011 Restructuring and a more focused release slate.

Sales and Marketing (amounts in millions)

	September 30, 2011	% of consolidated net revenues	September 30, 2010	% of consolidated net revenues	Increase (Decrease)
Three Months Ended	\$ 115	15%	\$ 110	15%	\$ 5
Nine Months Ended	264	8	291	10	(27)

Sales and marketing expenses increased for the three months ended September 30, 2011 as compared to the same period in 2010 due to the investment to support the launches of *Skylanders: Spyro's Adventure*, *Call of Duty: Modern Warfare 3* and *Call of Duty: Elite* in the fourth quarter of 2011.

Sales and marketing expenses decreased for the nine months ended September 30, 2011 as compared to the same period in 2010 due to the reduction in the number of major title releases in 2011 as compared to the same period in 2010. This decrease was partially offset by our continued marketing support for the Call of Duty and World of Warcraft franchises.

[Table of Contents](#)

General and Administrative (amounts in millions)

	<u>September 30, 2011</u>	<u>% of consolidated net revenues</u>	<u>September 30, 2010</u>	<u>% of consolidated net revenues</u>	<u>Increase (Decrease)</u>
Three Months Ended	\$ 104	14%	\$ 113	15%	\$ (9)
Nine Months Ended	333	10	253	8	80

General and administrative expenses decreased for the three months ended September 30, 2011 as compared to the same period in 2010, primarily due to lower stock-based compensation expenses and the favorable impact from foreign currency exchange rate movement. These decreases were partially offset by higher legal expenses.

General and administrative expenses increased for the nine months ended September 30, 2011 as compared to the same period in 2010, primarily due to higher legal expenses and the unfavorable impact from foreign currency exchange rate movement.

Restructuring (amounts in millions)

	<u>September 30, 2011</u>	<u>% of consolidated net revenues</u>	<u>September 30, 2010</u>	<u>% of consolidated net revenues</u>	<u>Increase (Decrease)</u>
Three Months Ended	\$ 3	—%	\$ —	—%	\$ 3
Nine Months Ended	24	1	—	—	24

As a result of the 2011 Restructuring, we incurred restructuring expenses during the three and nine months ended September 30, 2011. We have substantially completed the 2011 Restructuring and we do not expect to incur additional significant restructuring expenses relating thereto. Restructuring expenses during the three and nine months ended September 30, 2010 were immaterial. See Note 9 of the Notes to Condensed Consolidated Financial Statements for further details.

Investment and other income, net (amounts in millions)

	<u>September 30, 2011</u>	<u>% of consolidated net revenues</u>	<u>September 30, 2010</u>	<u>% of consolidated net revenues</u>	<u>Increase (Decrease)</u>
Three Months Ended	\$ 3	—%	\$ 14	2%	\$ (11)
Nine Months Ended	7	—	15	—	(8)

Investment and other income, net decreased for the three and nine months ended September 30, 2011, as compared to the same periods in 2010, primarily due to a reduction of certain financial liabilities resulting in a gain recorded in the third quarter of 2010. The decreases were partially offset by higher yields generated from our cash and investment balances.

Income Tax Expense (amounts in millions)

	<u>September 30, 2011</u>	<u>% of Pretax income</u>	<u>September 30, 2010</u>	<u>% of Pretax income</u>	<u>Increase (Decrease)</u>
Three Months Ended	\$ 17	10.7%	\$ 18	26.1%	\$ (1)
Nine Months Ended	325	24.8	229	26.0	96

The income tax expense of \$17 million for the three months ended September 30, 2011 reflected an effective tax rate of 10.7%. The effective tax rate of 10.7% for the three months ended September 30, 2011 differed from the statutory rate of 35.0%, primarily due to foreign income taxes levied at relatively lower rates, geographic mix in profitability, recognition of federal and

[Table of Contents](#)

California research and development credits, federal domestic production deductions and the beneficial impact from certain discrete items recognized in the quarter as we filed our tax returns.

For the nine months ended September 30, 2011, the tax rate was based on our projected annual effective tax rate for 2011, and also included certain discrete tax items recorded during the period. Our tax expense of \$325 million for the nine months ended September 30, 2011 reflected an effective tax rate of 24.8%, which was slightly lower than the effective tax rate of 26.0% for the nine months ended September 30, 2010, primarily due to the recognition of federal research and development credits and lower taxes in certain states.

The overall effective income tax rate for the year could be different from the effective tax rate for the three and nine months ended September 30, 2011 and will be dependent, in part, on our profitability for the remainder of the year. In addition, our effective income tax rates for the remainder of 2011 and future periods will depend on a variety of factors, such as changes in the mix of income by tax jurisdiction, applicable accounting rules, applicable tax laws and regulations, rulings and interpretations thereof, developments in tax audits and other matters, and variations in the estimated and actual level of annual pre-tax income or loss. Further, the effective tax rate could fluctuate significantly on a quarterly basis and could be adversely affected by the extent that income (loss) before income tax expenses (benefit) is lower than anticipated in foreign regions where taxes are levied at lower statutory rates and/or higher than anticipated in our domestic region where taxes are levied at higher statutory rates.

The IRS is currently examining the Company's federal tax returns for the 2009 tax year. The Company also has several state and non-U.S. audits pending. Although the final resolution of the Company's global tax disputes is uncertain, based on current information, in the opinion of the Company's management, the ultimate resolution of these matters will not have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations. However, an unfavorable resolution of the Company's global tax disputes could have a material adverse effect on the Company's business and results of operations in an interim period in which the matters are ultimately resolved.

Liquidity and Capital Resources

Sources of Liquidity (amounts in millions)

	At September 30, 2011	At December 31, 2010	Increase (Decrease)
Cash and cash equivalents	\$ 2,469	\$ 2,812	\$ (343)
Short-term investments	432	696	(264)
	<u>\$ 2,901</u>	<u>\$ 3,508</u>	<u>\$ (607)</u>
Percentage of total assets	24%	26%	

	Nine months ended September 30,		Increase (Decrease)
	2011	2010	
Cash flows provided by operating activities	\$ 102	\$ 383	\$ (281)
Cash flows provided by (used in) investing activities	210	(323)	533
Cash flows used in financing activities	(658)	(735)	77
Effect of foreign exchange rate changes	3	30	(27)
Net decrease in cash and cash equivalents	<u>\$ (343)</u>	<u>\$ (645)</u>	<u>\$ 302</u>

Cash Flows Provided by Operating Activities

The primary drivers of cash flows provided by operating activities have typically included the collection of customer receivables generated by the sale of our products and our subscription revenues, partially offset by payments to vendors for the manufacturing, distribution and marketing of our products, payments to third-party developers and intellectual property holders, tax liabilities, and payments to our workforce. A significant operating use of our cash relates to our continued focus on customer service for our subscribers, and investment in software development and intellectual property licenses. Cash flows provided by operating activities were lower for the nine months ended September 30, 2011 as compared to the same period in 2010. The lower cash from operating activities was primarily attributable to the increased use of cash in our operations, such as the payment of taxes, restructuring expenses, and operating expenses for which we had previously accrued.

[Table of Contents](#)

Cash Flows Provided by (Used in) Investing Activities

The primary drivers of cash flows from investing activities have typically included capital expenditures, acquisitions and the net effect of purchases and sales/maturities of short-term investments. Cash flows provided by investing activities during the nine months ended September 30, 2011 mainly reflected the purchase of \$325 million of short-term investments, capital expenditures of \$47 million, primarily for property and equipment, and the receipt of \$603 million in proceeds from the maturities of investments, the majority of which consisted of U.S. treasury and government sponsored agency debt securities. Cash flows provided by investing activities were higher for the nine months ended September 30, 2011 as compared to the same period in 2010. The higher cash flows from investing activities were primarily attributable to increased proceeds from the maturities of our investments and decreased purchases of short-term investments.

Cash Flows Used in Financing Activities

The primary drivers of cash flows used in financing activities have historically related to transactions involving our common stock, including the issuance of shares of common stock to employees, payment of dividends and the repurchase of our common stock. We have not utilized debt financing as a source of cash flows. Cash flows used in financing activities during the nine months ended September 30, 2011 primarily reflected payment of a cash dividend and dividend equivalents totaling \$194 million to holders of our common stock and restricted stock units and the repurchase of 45 million shares of our common stock for \$502 million under the 2011 Stock Repurchase Program. Under the 2011 Stock Repurchase Program, we may repurchase up to \$1.5 billion of our common stock, on terms and conditions to be determined by the Company, until the earlier of March 2012 and a determination by the Board of Directors to discontinue the program. It also reflected the purchase of 1.8 million shares of our common stock for \$22 million under the stock repurchase program authorized by our Board of Directors on February 10, 2010, which expired on December 31, 2010. On February 9, 2011, the Board of Directors declared a cash dividend of \$0.165 per common share to be paid on May 11, 2011 to shareholders of record as of March 16, 2011. On May 11, 2011, we made a cash dividend payment of \$192 million to such shareholders. On August 12, 2011, we made dividend equivalent payments of \$2 million related to this cash dividend to the holders of restricted stock units. The repurchases and dividend payments were partially offset by \$39 million of proceeds from the issuance of shares of our common stock to employees in connection with stock option exercises. Cash flows used in financing activities were lower for the nine months ended September 30, 2011 as compared to the same period in 2010, primarily due to decreased share repurchase activities during the nine months ended September 30, 2011.

Other Liquidity and Capital Resources

In addition to cash flows provided by operating activities, our primary source of liquidity was \$2.9 billion of cash and cash equivalents and short-term investments at September 30, 2011. With our cash and cash equivalents and expected cash flows provided by operating activities, we believe that we have sufficient liquidity to meet daily operations in the foreseeable future. We also believe that we have sufficient working capital (\$2.8 billion at September 30, 2011) to finance our operational requirements for at least the next twelve months, including purchases of inventory and equipment, the development, production, marketing and sale of new products, the provision of customer service for our subscribers, the acquisition of intellectual property rights for future products from third parties, and to fund our stock repurchase program and dividends.

As of September 30, 2011, the amount of cash and cash equivalents held outside of the U.S. by our foreign subsidiaries was \$1.4 billion, compared with \$1.2 billion as of December 31, 2010. If these funds are needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

Capital Expenditures

For the year ending December 31, 2011, we anticipate total capital expenditures of approximately \$95 million, primarily for property and equipment. Through the first nine months of 2011, we made aggregate capital expenditures of \$47 million.

Off-balance Sheet Arrangements

At September 30, 2011 and December 31, 2010, Activision Blizzard had no significant relationships with unconsolidated entities or financial parties, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes, that have or are reasonably likely to have a material future effect on our financial condition, changes in financial condition, revenues or expenses, results of operation, liquidity, capital expenditures, or capital resources.

Financial Disclosure

We maintain internal controls over financial reporting, which generally includes those controls relating to the preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). We also are focused on our “disclosure controls and procedures,” which as defined by the Securities and Exchange Commission (the “SEC”) are generally those controls and procedures designed to ensure that financial and non-financial information required to be disclosed in our reports filed with the SEC is reported within the time periods specified in the SEC’s rules and forms, and that such information is communicated to management, including our principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Our Disclosure Committee, which operates under the Board-approved Disclosure Committee Charter and Disclosure Controls & Procedures Policy, includes senior management representatives and assists executive management in its oversight of the accuracy and timeliness of our disclosures, as well as in implementing and evaluating our overall disclosure process. As part of our disclosure process, senior finance and operational representatives from all of our corporate divisions and business units prepare quarterly reports regarding their current quarter operational performance, future trends, subsequent events, internal controls, changes in internal controls and other accounting and disclosure relevant information. These quarterly reports are reviewed by certain key corporate finance executives. These corporate finance representatives also conduct quarterly interviews on a rotating basis with the preparers of selected quarterly reports. The results of the quarterly reports and related interviews are reviewed by the Disclosure Committee. Finance representatives also conduct reviews with our senior management team, our legal counsel and other appropriate personnel involved in the disclosure process, as appropriate. Additionally, senior finance and operational representatives provide internal certifications regarding the accuracy of information they provide that is utilized in the preparation of our periodic public reports filed with the SEC. Financial results and other financial information also are reviewed with the Audit Committee of the Board of Directors on a quarterly basis. As required by applicable regulatory requirements, the principal executive and financial officers review and make various certifications regarding the accuracy of our periodic public reports filed with the SEC, our disclosure controls and procedures, and our internal control over financial reporting. With the assistance of the Disclosure Committee, we will continue to assess and monitor, and make refinements to, our disclosure controls and procedures, and our internal controls over financial reporting.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP. These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- Revenue Recognition

Revenue Arrangements with Multiple Deliverables

On January 1, 2011, we adopted amendments to an accounting standard related to revenue recognition for arrangements with multiple deliverables (which standard, as amended, is referred to herein as the “new accounting principles”). The new accounting principles establish a selling price hierarchy for determining the selling price of a deliverable and require the application of the relative selling price method to allocate the arrangement consideration to each deliverable in a multiple deliverables revenue arrangement. Certain of our revenue arrangements have multiple deliverables and, as such, are accounted for under the new accounting principles. These revenue arrangements include product sales consisting of both software and hardware deliverables (such as peripherals or other ancillary collectors’ items sold together with physical “boxed” software) and our sales of *World of Warcraft* boxed products, expansion packs and value-added services, each of which is considered with the related subscription services for these purposes. Our assessment of deliverables and units of accounting does not change under the new accounting principles.

Pursuant to the guidance of ASU 2009-13, when a revenue arrangement contains multiple elements, such as hardware and software products, licenses and/or services, we allocate revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor-specific-objective-evidence (“VSOE”) if it is available,

[Table of Contents](#)

third-party evidence (“TPE”) if VSOE is not available, or best estimated selling price (“BESP”) if neither VSOE nor TPE is available. In multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is then allocated to each software deliverable using the guidance for recognizing software revenue.

As noted above, when neither VSOE nor TPE is available for a deliverable, we use BESP. We do not have significant revenue arrangements that require BESP for the three or nine months ended September 30, 2011. The inputs we use to determine the selling price of our significant deliverables include the actual price charged by the Company for a deliverable that the Company sells separately, which represents the VSOE, and the wholesale prices of the same or similar products, which represents TPE. The pattern and timing of revenue recognition for deliverables and allocation of the arrangement consideration did not change upon the adoption of the new accounting principles. Also, we do not expect the adoption of the new accounting principles to have a material effect on our financial statements in the periods after our initial adoption.

Product Sales

We recognize revenue from the sale of our products upon the transfer of title and risk of loss to our customers and once any performance obligations have been completed. Certain products are sold to customers with a street date (*i.e.*, the earliest date these products may be sold by retailers). For these products, we recognize revenue on the later of the street date and the sale date. Revenue from product sales is recognized after deducting the estimated allowance for returns and price protection.

For our software products with online functionality, we evaluate whether those features or functionality are more than an inconsequential separate deliverable in addition to the software product. This evaluation is performed for each software product and any online transaction, such as a digital download of a title or product add-ons, when the products are released.

When we determine that a software title contains online functionality that constitutes a more than inconsequential separate service deliverable in addition to the product, principally because of its importance to gameplay, we consider our performance obligations for this title to extend beyond the sale of the game. VSOE of fair value does not exist for the online functionality, as we do not separately charge for this component of the title. As a result, we recognize all of the software-related revenue from the sale of the title ratably over the estimated service period, which is estimated to begin the month after the later of the sale date and the street date of the title. In addition, we initially defer the costs of sales for the title (excluding intangible asset amortization), and recognize the costs of sales as the related revenues are recognized. Cost of sales includes manufacturing costs, software royalties and amortization, and intellectual property licenses costs.

We recognize revenues from *World of Warcraft* boxed product, expansion packs and value-added services, in each case with the related subscription service revenue, ratably over the estimated service periods beginning upon activation of the software and delivery of the related services. Revenues attributed to the sale of *World of Warcraft* boxed software and related expansion packs are classified as product sales and revenues attributable to subscriptions and other value-added services are classified as subscription, licensing and other revenues.

Revenues for software products with more-than-inconsequential separate service deliverables and *World of Warcraft* products are recognized over the estimated service periods, which range from a minimum of five months to a maximum of less than a year.

For our software products with features we consider to be incidental to the overall product offering and an inconsequential deliverable, such as products which provide limited online features at no additional cost to the consumer, we recognize the related revenue from them upon the transfer of title and risk of loss of the product to our customer.

With respect to online transactions, such as online downloads of titles or product add-ons that do not include a more-than-inconsequential separate service deliverable, revenue is recognized when the fee is paid by the online customer to purchase online content, the product is available for download and is activated for gameplay. In addition, persuasive evidence of an arrangement must exist and collection of the related receivable must be probable.

[Table of Contents](#)

Sales incentives and other consideration given by us to our customers, such as rebates and product placement fees, are considered adjustments of the selling price of our products and are reflected as reductions to revenue. Sales incentives and other consideration that represent costs incurred by us for assets or services received, such as the appearance of our products in a customer's national circular ad, are reflected as sales and marketing expenses when the benefit from the sales incentive is separable from sales to the same customer and we can reasonably estimate the fair value of the benefit.

- **Accounting for Income Taxes**

We record a tax provision for the anticipated tax consequences of the reported results of operations. In accordance with FASB income tax guidance ("ASC Topic 740"), the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We record a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

Management believes it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, together with the tax effects of the deferred tax liabilities, will be sufficient to fully recover the remaining deferred tax assets. In the event that all or part of the net deferred tax assets are determined not to be realizable in the future, an adjustment to the valuation allowance would be charged to earnings in the period such determination is made. The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of ASC Topic 740 and other complex tax laws. Resolution of these uncertainties in a manner inconsistent with management's expectations could have a material impact on our business and results of operations in an interim period in which the uncertainties are ultimately resolved.

Further, the Company's provision for taxes can fluctuate if estimated earnings are lower than anticipated in our foreign region with a lower tax rate and/or higher than anticipated in our domestic region with higher tax rates.

During the nine months ended September 30, 2011, there were no significant changes in the following policies, which we also consider to be critical in fully understanding and evaluating our reported financial results. Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2010 for a more complete discussion of our critical accounting policies and estimates, which also includes the areas listed below.

- Allowances for Returns, Price Protection, Doubtful Accounts, and Inventory Obsolescence
- Software Development Costs and Intellectual Property Licenses
- Fair Value Estimates
- Goodwill and Intangible Assets — Impairment Assessments
- Stock-Based Compensation

Recently Issued Accounting Pronouncements

In May 2011, the FASB issued an update to the accounting rules for fair value measurement to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards ("IFRS"). This update changes certain fair value measurement principles and enhances the disclosure requirements for fair value measurements. This update does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards within U.S. GAAP or IFRS. This update is effective for interim and annual periods beginning after December 15, 2011 and is applied prospectively. Early adoption is prohibited. We are currently evaluating the impact, if any, of this new accounting update on our consolidated financial statements.

In June 2011, the FASB issued an update to the accounting on comprehensive income to increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS. This update requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. Further, this update does not affect how earnings per share is calculated or presented. This update is effective for interim and annual periods beginning after December 15, 2011 and is

[Table of Contents](#)

applied retrospectively. Early adoption is permitted. We do not expect that the adoption of this guidance will have a material impact on our consolidated financial statements.

In September 2011, the FASB issued an update to the authoritative guidance related to goodwill impairment testing. This update gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the two-step test mandated prior to the update. If, after assessing the totality of events and circumstances, a company determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then it must perform the two-step test. Otherwise, a company may skip the two-step test. Companies are not required to perform the qualitative assessment and may, instead proceed directly to the first step of the two-part test. This update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. While we are in the process of assessing whether we will early adopt this update, we currently do not expect that adopting it will have a material impact on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the potential loss arising from fluctuations in market rates and prices. Our market risk exposures primarily include fluctuations in interest rates, foreign currency exchange rates and market prices.

Foreign Currency Exchange Rate Risk

We transact business in many different foreign currencies and may be exposed to financial market risk resulting from fluctuations in foreign currency exchange rates. Revenues and related expenses generated from our international operations are generally denominated in their respective local currencies. Primary currencies include euros, British pounds, Australian dollars, South Korean won, and Swedish krona. Currency volatility is monitored throughout the year. To mitigate our foreign currency exchange rate exposure resulting from our foreign currency-denominated monetary assets, liabilities and earnings, we periodically enter into currency derivative contracts, principally swaps and forward contracts with maturities of twelve months or less. Vivendi is our principal counterparty and the risks of counterparty non-performance associated with these contracts are not considered to be material. We expect to continue to use economic hedge programs in the future to reduce foreign exchange-related volatility if it is determined that such hedging activities are appropriate to reduce risk. We do not hold or purchase any foreign currency contracts for trading or speculative purposes. All foreign currency economic hedging transactions are backed, in amount and by maturity, by an identified economic underlying item. Our foreign exchange forward contracts are not designated as hedging instruments and are accounted for as derivatives whereby the fair value of the contracts are reported as other current assets or other current liabilities in our condensed consolidated balance sheets, and the associated gains and losses from changes in fair value are reported in investment and other income, net and general and administrative expense in the condensed consolidated statements of operations.

The gross notional amount of outstanding foreign exchange swaps was \$61 million and \$138 million at September 30, 2011 and December 31, 2010, respectively. A pre-tax net unrealized loss of less than a million and loss of \$1 million for the three months ended September 30, 2011 and 2010, respectively, and a pre-tax net unrealized loss of less than a million and unrealized gain of \$3 million for the nine months ended September 30, 2011 and 2010, respectively, resulted from the foreign exchange contracts and swaps with Vivendi and were recognized in the condensed consolidated statements of operations.

The consolidated statements of operations are translated into U.S. dollars at exchange rates indicative of market rates during each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency-denominated transactions results in reduced revenues, operating expenses, and net income from our international operations. Similarly, our revenues, operating expenses, and net income will increase for our international operations if the U.S. dollar weakens against foreign currencies. In the absence of the hedging activities described above, as of September 30, 2011, a hypothetical adverse foreign currency exchange rate movement of 10% would have resulted in potential declines in our net income of approximately \$70 million. This sensitivity analysis assumes a parallel adverse shift of all foreign currency exchange rates against the U.S. dollar; however, all foreign currency exchange rates do not always move in such manner and actual results may differ materially.

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We do not use derivative financial instruments to manage interest rate risk in our investment portfolio. Our investment portfolio consists primarily of debt instruments with high credit quality and relatively short average maturities and money market funds that invest in AAA-rated government-backed securities. Because short-term securities mature relatively quickly and must be reinvested at the then current market rates, interest income on a portfolio consisting of cash, cash equivalents or short-term securities is more subject to market fluctuations than a portfolio of longer term securities. Conversely, the fair value of such a portfolio is less sensitive to market

[Table of Contents](#)

fluctuations than a portfolio of longer term securities. At September 30, 2011, our \$2.47 billion of cash and cash equivalents were comprised primarily of money market funds. At September 30, 2011, our \$432 million of short-term investments included \$391 million of U.S. treasury and government sponsored agency debt securities and \$41 million of restricted cash. We had \$25 million in auction rate securities at fair value classified as long-term investments at September 30, 2011. The Company has determined that, based on the composition of our investment portfolio as of September 30, 2011, there was no material interest rate risk exposure to the Company's consolidated financial position, results of operations or cash flows as of that date.

Item 4. Controls and Procedures

Definition and Limitations of Disclosure Controls and Procedures.

Our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. A control system, no matter how well designed and operated, can provide only reasonable assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in our periodic reports. Inherent limitations to any system of disclosure controls and procedures include, but are not limited to, the possibility of human error and the circumvention or overriding of such controls by one or more persons. In addition, we have designed our system of controls based on certain assumptions, which we believe are reasonable, about the likelihood of future events, and our system of controls may therefore not achieve its desired objectives under all possible future events.

Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures at September 30, 2011, the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer concluded that, at September 30, 2011, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized, and reported on a timely basis, and (ii) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting.

There have not been any changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Legal Proceedings

After concluding an internal human resources inquiry into breaches of contract and insubordination by two senior employees at Infinity Ward, the Company terminated its employment of Jason West and Vince Zampella on March 1, 2010. On March 3, 2010, West and Zampella filed a complaint against the Company in Los Angeles Superior Court for breach of contract and wrongful termination, among other claims. In their complaint, West and Zampella alleged damages, including punitive damages, in excess of \$36 million and declaratory relief, an amount they have since significantly increased during discovery. On April 9, 2010, the Company filed a cross complaint against West and Zampella, asserting claims for breach of contract and fiduciary duty, among other claims. The Company is seeking damages and declaratory relief.

In addition, 38 current and former employees of Infinity Ward filed a complaint against the Company in Los Angeles Superior Court on April 27, 2010 (*Alderman et al. v. Activision Publishing, Inc. et al.*). An amended complaint was filed on July 8, 2010, which added seven additional plaintiffs. On October 5, 2010, five plaintiffs, all current employees of Infinity Ward, filed dismissals without prejudice. There are currently 40 plaintiffs in the case. The plaintiffs have asserted claims for breach of contract, violation of the Labor Code of the State of California, conversion and other claims. In their complaint, the plaintiffs claimed that the Company failed to pay them bonuses and other compensation allegedly owed to them in an amount at least between \$75 million and \$125 million, plus punitive damages, an amount they have since increased in discovery responses to

[Table of Contents](#)

approximately \$300 million, plus punitive damages. On October 12, 2010, the court consolidated this matter with the West and Zampella matter.

On January 18, 2011, the court granted the Company's motion to amend its cross complaint against West and Zampella to add allegations with respect to them and to add Electronic Arts, Inc. as a party. On January 31, 2011, the case was transferred to the complex division.

Some of the parties have filed, and are likely to file, additional pre-trial motions, including dispositive motions, and discovery continues in the ordinary course of the litigation. The court has set a trial date of May 7, 2012.

The Company has accrued, and will continue to accrue, appropriate amounts related to bonuses and other monies allegedly owed in connection with this matter. Due to the inherent uncertainties of litigation, other potential outcomes are reasonably possible, including outcomes which are above the amount of the accrual. The Company does not expect this lawsuit to have a material impact on the Company's business, financial condition, results of operation or liquidity. However, an unfavorable resolution of this lawsuit above the amount of the accrual could have a material adverse effect on the Company's business and results of operations in an interim period in which the lawsuit is ultimately resolved.

In addition, we are party to other routine claims and suits brought by us and against us in the ordinary course of business, including disputes arising over intellectual property rights, contractual claims, employment laws, regulations and relationships, and collection matters. In the opinion of management, after consultation with legal counsel, the outcome of such routine claims and lawsuits will not have a material adverse effect on our business, financial condition, results of operations, or liquidity.

Item 1A. Risk Factors

The reader should carefully consider, in connection with the other information in this report, the factors discussed in Part I, "Item 1A: Risk Factors" of the Company's 2010 Annual Report on Form 10-K. These factors could cause our actual results to differ materially from those stated in forward-looking statements contained in this document and elsewhere.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchase of Equity Securities

The following table provides the number of shares purchased and average price paid per share during the quarter ended September 30, 2011, the total number of shares purchased as part of our publicly announced repurchase programs, and the approximate dollar value of shares that may yet be purchased under our stock repurchase program at September 30, 2011.

Period	Total number of shares purchased (1)	Average price paid per share (\$)	Total number of shares purchased as part of publicly announced plans or programs (1)	Approximate dollar value of shares that may yet be purchased under the plans or programs (\$)
July 1, 2011—July 31, 2011	—	\$ —	—	\$ 1,020,884,422
August 1, 2011—August 31, 2011	—	—	—	1,020,884,422
September 1, 2011—September 30, 2011	1,991,457	11.61	1,991,457	997,758,050
Total	<u>1,991,457</u>	11.61	<u>1,991,457</u>	

(1) These purchases were made pursuant to the stock repurchase program (the "2011 Stock Repurchase Program") approved by our Board of Directors on February 3, 2011 and announced on February 9, 2011 pursuant to which we may repurchase up to \$1.5 billion of our 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. In addition to the repurchases in the table, in October 2011, we settled the purchase of 0.5 million shares of our common stock that we had committed to repurchase in September 2011 pursuant to the 2011 Stock Repurchase Program for \$6 million.

[Table of Contents](#)

Item 5. Other Information

10b5-1 Stock Trading Plan

The Company's directors and employees may, at a time they are not in possession of material non-public information, enter into plans ("Rule 10b5-1 Plans") to purchase or sell shares of our common stock that satisfy the requirements of Exchange Act Rule 10b5-1. Rule 10b5-1 permits trading on a pre-arranged, "automatic-pilot" basis, subject to certain conditions, including that the person for whom the plan is created (or anyone else aware of material non-public information acting on such person's behalf) not exercise any subsequent influence regarding the amount, price and dates of transactions under the plan. In addition, any such plan of the Company's directors and employees is required to be established and maintained in accordance with the Company's "Policy on Establishing and Maintaining 10b5-1 Trading Plans".

Rule 10b-5-1 Plans permit persons whose ability to purchase or sell our common stock may otherwise be substantially restricted (by quarterly and special stock-trading blackouts and by their possession from time to time of material nonpublic information) to engage in pre-arranged trading. Trades under a Rule 10b5-1 Plan by our directors and employees are not necessarily indicative of their respective opinions of our current or potential future performance at the time of the trade. Trades by our directors and executive officers pursuant to a Rule 10b5-1 Plan will be disclosed publicly through Form 144 and Form 4 filings with the SEC, in accordance with applicable laws, rules and regulations.

On September 15, 2011, Robert A. Kotick, our Chief Executive Officer, entered into a Rule 10b5-1 Plan. This Rule 10b5-1 Plan will expire no later than November 15, 2012 and, pursuant to this plan, if and when the price of our common stock is equal to or greater than various minimum price thresholds specified in the plan, certain shares covered by the Rule 10b5-1 Plan, up to an aggregate maximum of approximately 4.8 million shares, will be sold on the open market at then-prevailing market prices.

Item 6. Exhibits

The exhibits listed on the accompanying Exhibit Index are hereby incorporated by reference into this Quarterly Report on Form 10-Q.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 8, 2011

ACTIVISION BLIZZARD, INC.

/s/ THOMAS TIPPL

Thomas Tippel

*Chief Operating Officer, Chief Financial Officer and
Principal Financial Officer of
Activision Blizzard, Inc.*

/s/ STEPHEN WEREB

Stephen Wereb

*Chief Accounting Officer and
Principal Accounting Officer of
Activision Blizzard, Inc.*

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Exhibit</u>
3.1	Amended and Restated Certificate of Incorporation of Activision Blizzard, Inc., dated July 9, 2008 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K, filed July 15, 2008).
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Activision Blizzard, Inc., dated August 15, 2008 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K, filed August 15, 2008).
3.3	Amended and Restated By-Laws of Activision Blizzard, Inc., as amended and restated as of February 2, 2010 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K, filed February 5, 2010).
10.1*	Release Agreement, dated as of August 1, 2011, between George Rose and the Company.
10.2*	Consulting Agreement, dated as of August 1, 2011, among George Rose, Suffolk Ventures LLC and the Company.
31.1	Certification of Robert A. Kotick pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Thomas Tipl pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Robert A. Kotick pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Thomas Tipl pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

* Indicates a management contract or compensatory plan, contract or arrangement in which a director or executive officer of the Company participates.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2011 and December 31, 2010, (ii) Condensed Consolidated Statements of Operations for the nine months ended September 30, 2011 and September 30, 2010, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and September 30, 2010; (iv) Condensed Consolidated Statement of Changes in Shareholders' Equity for the nine months ended September 30, 2011; and (v) Notes to Condensed Consolidated Financial Statements.

In accordance with Rule 406T of Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.



RELEASE AGREEMENT

In order to settle as fully as possible all known and unknown claims I, George Rose, might have against Activision Blizzard, Inc. (the "Company") and the other Released Parties (as defined in paragraph (d), below) and the Company and the other Released Parties (in the case of individuals, solely in their corporate capacities) may have against me, the Company and I, agree as follows:

(a) **Employment Termination:** The Company and I agree that the Company will terminate my employment without cause, pursuant to Paragraph 9(b) of the Employment Agreement I entered into with the Company, dated September 11, 2009 (my "Employment Agreement"). Accordingly, the Company and I agree that my employment with the Company will end on July 31, 2011 (such date will be referred to as the "Termination Date"). In the event that the Company files a Form 8-K in conjunction with my termination, I will be provided with the right to review and provide comments to the Company in advance of the filing. Notwithstanding the foregoing, in addition to other legally required details, the disclosure will be in the approximate manner as follows: "After close to sixteen years of distinguished service, the Company and Mr. Rose amicably agreed to terminate Mr. Rose's employment relationship to allow Mr. Rose to pursue his other interests. Mr. Rose will continue to provide the Company with consulting services." The Company will provide me and/or my designated attorney with meaningful consultation and a meaningful amount of time to provide such consultation as to the form and substance of other details, provided that I understand and acknowledge that the Company is required to file Form 8-K with the SEC within the time designated by the SEC.

(b) **Benefits:** Provided this Release Agreement is fully executed within three business days after my Termination Date (but not prior to such Termination Date), and provided I do not revoke this Release Agreement as set forth in Section (g), below, the Company will pay or provide the following things to me, at least to some of which I may not be otherwise entitled. The Company will withhold taxes and report amounts to tax authorities with respect to these benefits as it determines it is required to do in accordance with applicable federal and state laws. In addition, any payments made under this Release Agreement will not be included in my compensation for purposes of calculating the benefits to which I am entitled under any employee benefit program, notwithstanding anything in that program to the contrary.

(i) **(A) Continuation of Base Salary:** Following the Termination Date, the Company will continue to pay me an amount equal to my base salary (at the rate in effect on the Termination Date (excluding overtime and any special payments) and less any applicable taxes) through December 31, 2012. Such payments will be made in equal installments and otherwise in accordance with the Company's payroll practices (including scheduled payroll dates) as in effect from time to time and will commence on the first payroll date following the 60th day after the Termination Date, provided that the first such payment will include any installments relating to the period between the Termination Date and the date on which the payments begin. I acknowledge that such payment is being made pursuant to the Employment Agreement and

certain portions of the Employment Agreement will survive as described therein, including, without limitation as described in Paragraph 11(s) of the Employment Agreement, except to the extent such sections are expressly modified by the writing contained in this Release Agreement and to the extent there is any conflict, this Release Agreement will prevail.

(B) **Pro Rata Bonus Severance:** The Company will pay me an amount equal to the annual bonus, if any, that the Company determines I would have received in accordance with the Employment Agreement for the year in which the Termination Date occurs had I remained employed through the date such bonus would otherwise have been paid, prorated based on a fraction, the numerator of which is the number corresponding to the calendar month in which the Termination Date occurs (*i.e.*, 7) and the denominator of which is 12, where, for purposes of calculating the amount of such bonus, any Activision Blizzard financial goals will be measured by actual performance and any personal goals will be deemed attained at target performance during the year. Any payment to me in accordance with the prior sentence will be made in a lump sum no later than March 15, 2012.

(ii) **Benefits Continuation:** In addition to my COBRA (Consolidated Omnibus Budget Reconciliation Act of 1986) rights under paragraph (c)(i), I will be entitled to continued coverage under any Company-sponsored medical, dental and/or vision benefit program (including any medical flexible spending arrangement (FSA)) in which I participate prior to the Termination Date and which continues to be offered by the Company (or any replacement program for such program) following my Termination Date and through December 31, 2012 (provided that the portion of the premiums equal to what I would have paid for such benefits under the applicable program if I had remained employed will be deducted from any amounts I would otherwise be entitled to receive pursuant to paragraph (b)(i) above)). Any period of coverage pursuant to this paragraph (b)(ii) will not be considered part of, and will not run concurrent with, the period of continued coverage required by COBRA. Following termination of benefits continuation, the Company will pay for one (1) full year of COBRA coverage. For avoidance of doubt, it is the parties' intention that upon termination of benefits continuation on December 31, 2012, I will have remaining the full period of COBRA coverage provided to me by law (*i.e.* currently, 18 months of coverage), of which the Company will pay for the cost of the premiums for the first twelve (12) months of COBRA coverage. Should for any reason this becomes incorrect or cost prohibitive to the Company, the Company will provide, at its expense, alternative comparable arrangements. I understand and agree that I, not the Company, will be responsible for any and all personal taxes that may result from this arrangement.

(iii) **Career Transition Services:** I will be eligible to use Company-paid career transition services under a senior executive program from a provider selected by the Company for a period of not more than six months, beginning not later than 60 days after my Termination Date.

(c) **Compensation and Benefit Plans:** Except as provided elsewhere in this Release Agreement, I waive future coverage and benefits under all disability programs for the employees of the Company, and I will cease to be eligible to participate under any stock option, bonus, incentive compensation, commission, medical, dental, life insurance, retirement, disability, and other compensation or benefit plans for the employees of the Company following the

Termination Date. Thereafter, except as provided elsewhere in this Separation Agreement, I will have no rights under any of those plans, except for the following rights, which are unaffected by this Release Agreement and will not be considered to have been paid under this Release Agreement:

(i) **Group Insurance:** I will have the right to COBRA continuation coverage as to any Company-sponsored medical, dental, or vision program in which I participate under the normal COBRA health care continuation rules, which means that I generally will be entitled to buy continued coverage under such plans for a limited period of time.

(ii) **Accrued Vacation:** I will receive a payment for my unused accrued vacation time, except to the extent I use any such time before the Termination Date.

(iii) **Qualified Plan Retirement Benefits:** I will retain my vested benefits under any qualified retirement plan of the Company, as determined under the official terms of each such plan.

(iv) **Equity Incentive Awards:** To the extent I desire to exercise any stock options I may have been previously granted that are vested but unexercised as of the Termination Date, I must exercise all such vested stock options by no later than 30 days following the Termination Date. Any of such vested stock options that are not exercised by the 30th day following the Termination Date will expire on such day. In addition, any other stock options or restricted stock units previously granted to me that have not vested by the Termination Date will expire on the Termination Date. Nothing in this Release Agreement gives me the right to exercise an option after the date on which it otherwise would expire.

(d) **Release:** I release (*i.e.*, give up) all known and unknown claims that I presently have against the Company, all current and former parents, subsidiaries, related companies, partnerships, joint ventures, or other affiliates, and, with respect to each of them, their predecessors and successors; and, with respect to each such entity, all of its past, present, and future employees, officers, directors, stockholders, owners, representatives, assigns, attorneys, agents, insurers, employee benefit programs (and the trustees, administrators, fiduciaries, and insurers of such programs), and any other persons acting by, through, under or in concert with any of the persons or entities listed in this section, and their successors (collectively, the "Released Parties"), except claims that the law does not permit me to waive by signing this Release Agreement. For example, I am releasing all common law contract, tort, negligence or other claims I might have, as well as all claims I might have under the Age Discrimination in Employment Act (ADEA), the WARN Act, Title VII of the Civil Rights Act of 1964, Sections 1981 and 1983 of the Civil Rights Act of 1866, the Americans With Disabilities Act (ADA), the Employee Retirement Income Security Act of 1974 (ERISA), the Fair Labor Standards Act (FLSA), the Family and Medical Leave Act (FMLA) and similar state or local laws (including the California Fair Employment and Housing Act). I expressly waive the protection of any law that is intended to protect against releasing unknown claims such as Section 1542 of the Civil Code of the State of California, which states that:

A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

I am not waiving any rights or claims that may arise after the date that the Released Parties execute this Release Agreement.

(e) The Released Parties (other than individuals, unless such individuals are acting in their capacities as officers, directors, employees, executives, attorneys, accountants, agents and any other affiliates of the Released Parties or on behalf of the Released Parties) release (*i.e.* give up) all known and unknown claims that the Released Parties presently have against me, except (i) claims that the law does not permit the Released Parties to waive by signing this Separation Agreement and (ii) claims based on any acts by me of theft, fraud, misappropriation of property or funds, violations of corporate governance policies and/or arising under the Employee Proprietary Information Agreement in connection with my employment and/or any criminal acts by me, all subject to applicable statutes of limitation (claims in (ii) are collectively referred to as "Unreleased Claims"). Except as to the Unreleased Claims, the Released Parties expressly waive the protection of any law that is intended to protect against releasing unknown claims such as Section 1542 of the Civil Code of the State of California, which states that:

A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

The Company is not waiving any rights or claims that may arise after the date that I execute this Release Agreement.

(f) The Company and I understand and agree that this Release Agreement will not preclude me from bringing a charge of discrimination before the Equal Employment Opportunity Commission or other governmental administrative agency. In the event such a charge is brought, however, I agree that I have released any right I might have had to receive any compensation or other monetary relief as a result of such a charge and, in the event that I am awarded any such compensation, I agree to return it to the Company.

(g) **Age Discrimination Claims and Right to Revoke this Agreement:** I understand and agree that by entering into this Release Agreement: (i) I am waiving any rights or claims that I might have under the Age Discrimination in Employment Act, as amended by the Older Workers Benefit Protection Act; (ii) I am not waiving any rights or claims that may arise after the date that I execute this Release Agreement; (iii) I have received consideration beyond that to which I was previously entitled; (iv) I have been advised in writing to consult with an attorney before signing this Release Agreement and I have thoroughly discussed all aspects of this Release Agreement with an attorney of my choice (at my own expense) to the extent I wished to do so; and (v) I have been offered the opportunity to evaluate the terms of this Release Agreement (including the attached information regarding the individuals affected by the

employment termination program) for not less than 45 days prior to the execution of this Release Agreement (and I have been instructed that I may not sign this Release Agreement until *after* my Termination Date, but no later than August 3, 2011). I understand that I may revoke this Release Agreement by written notice to the Ann Weiser, Chief Human Resources Officer at Activision Blizzard, Inc., 3100 Ocean Park Boulevard, Santa Monica, CA 90405 before seven 24-hour periods expire from the time I signed it, and the Release Agreement will become enforceable only on the expiration of this revocation period without prior revocation by me.

(h) **Further Agreements:** I acknowledge and agree that:

(i) **Notwithstanding anything to the contrary contained in this Release Agreement or the Employment Agreement, I will receive any payments and benefits to which I may be entitled under subsection (b) only for the time period that I do not obtain subsequent employment and/or provide services of any kind for compensation, whether as principal, owner, partner, agent, shareholder, director, employee, consultant, advisor or otherwise, to any person, company, venture or other person or business entity (other than the Company), except as set forth in Exhibit A. If, at any time, I obtain subsequent employment or provide services as set forth in the prior sentence, I agree to promptly notify the Company, and payments and benefits to which I may be entitled under subsection (b) will cease as of the date that I commenced such employment or provision of services UNLESS THE CEO OF THE COMPANY AGREES TO WAIVE SUCH EMPLOYMENT OR PROVISION OF SERVICES, AS PERMISSIBLE. However, I will not be required to repay any payments or benefits that I received, or that were due to me, prior to the date of the commencement of such employment or provision of services. I further acknowledge and agree that if I breach any of my agreements to the Company under this Release Agreement or the Employment Agreement, my entitlement to any and all benefits pursuant to subsection (b) will immediately and permanently cease and I will not be entitled to any such benefits, and the Company may require me to repay or otherwise compensate the Company for any and all such benefits previously provided to me. NOTWITHSTANDING THE FOREGOING, THE PARTIES ACKNOWLEDGE AND AGREE THAT PURSUANT TO EXHIBIT A ATTACHED TO THIS RELEASE AGREEMENT, I AM PERMITTED TO OBTAIN CERTAIN TYPES OF EMPLOYMENT, ENGAGE IN CERTAIN BUSINESSES AND PROVIDE CERTAIN SERVICES. SHOULD ANY DISPUTE ARISE BETWEEN US AS TO THE PERMISSIBILITY OF MY EMPLOYMENT, ENGAGEMENT OR SERVICES, THE COMPANY AND I AGREE TO WORK DILIGENTLY AND QUICKLY TO RESOLVE SUCH DISPUTE BEFORE RESORTING TO LITIGATION. IN THE EVENT OF LITIGATION WITH RESPECT TO THIS OR ANY OTHER PROVISION, THE LOSING PARTY WILL PAY FOR THE REASONABLE ATTORNEY'S FEES OF THE PREVAILING PARTY.**

(ii) This Release Agreement, the Employee Proprietary Information Agreement, and the terms of my Employment Agreement which survive the termination of my employment (see e.g. Paragraph 11(s) of my Employment Agreement), constitute the entire agreement between me and the Company concerning the terms of my employment with and separation from the Company. This Release Agreement expressly supersedes all rights I otherwise would have had or obligations that the Company otherwise would have had under my

any subsequent changes to this Release Agreement. The Company would not have given me the special payments or benefits I am getting in exchange for this Release Agreement but for my representations and promises I am making by signing them.

ACCEPTED AND AGREED TO:

Activision Blizzard, Inc.

Employee

By: /s/ Chris B. Walther
Chris B. Walther
Chief Legal Officer

By: /s/ George Rose
George Rose

Date: August 1, 2011

Date: 8/1/11



CONSULTING AGREEMENT

THIS CONSULTING AGREEMENT ("Agreement") is made and entered into this 1st day of August, 2011, by and among Activision Blizzard, Inc. (the "Company"), on the one hand, and Suffolk Ventures LLC, a California limited liability company existing under the laws of the State of California ("Consultant"), and George Rose, an individual ("Rose"), on the other hand. The Company, Consultant and Rose are sometimes referred to in this Agreement individually as a "party" or collectively as "parties."

RECITALS

- A. WHEREAS, Rose is the President of Consultant and possesses substantial expertise, skill and knowledge in the video game industry in which the Company is engaged.
- B. WHEREAS, the Company wishes to utilize Rose's skills and services and, therefore, is willing to engage Consultant, as an independent contractor, to make available Rose's skills and services to the Company, and Consultant is willing to be so engaged and will provide Rose's skills and services, on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration thereof and of the covenants and conditions contained herein, the parties agree as follows:

AGREEMENT

1. TERM. This Agreement will begin on August 1, 2011, and will continue until December 31, 2012 ("Expiration Date"), unless terminated earlier in accordance with Section 12 below ("Term"). The Company will have the option to extend the Term by up to one year by notifying Consultant in writing of its intent to do so at least six (6) months prior to the original Expiration Date. The final date of any such extended Term will thereafter be referred to as the "Expiration Date" for purposes of this Agreement, and the Term will end on such date (or such earlier date on which this Agreement is terminated pursuant to Section 12). Upon the Expiration Date (or such earlier date on which this Agreement is terminated pursuant to Section 12), all obligations and rights under this Agreement will immediately lapse, subject to any provisions which survive pursuant to Section 12. The parties may, however, enter into a new agreement, if so desired, the terms of which will be subject to good faith negotiations.

2. SERVICES TO BE RENDERED. Consultant is engaged to provide (by making available the services of Rose) up to 60 hours per month, strategic and expert advice on pending litigation, public policy matters (including but not limited to the Call of Duty Endowment of which Rose currently is President), and special projects, as requested by the Company's CEO, Robert Kotick. Rose, individually and as a principal and representative of Consultant, agrees to personally (i) perform all services to be rendered to the Company;

(ii) honor all obligations, duties and requirements of Consultant pursuant to this Agreement to the same standards required of Consultant, including, without limitation, those set forth in Sections 4, 9 and 14; and (iii) be liable for all obligations of Consultant pursuant to this Agreement, including without limitation, breaches thereof; in each case, as if "Rose" were substituted for "Consultant."

2.1 Manner and Means. Except as stated herein, the Company will have no right to control the manner or the means by which Consultant performs its services for the Company. Further, the Consultant will provide its own facilities and equipment; provided, however, that the Company will allow the Consultant to use one of the Company's offices and/or the Company's other facilities and/or equipment from time to time as determined by the Company solely for the purposes of facilitating Consultant's fulfillment of its obligations pursuant to this Agreement. In that regard, the Company agrees that Consultant will be able to use an office to be selected by the Company on sole or shared basis for performing its obligations pursuant to this Agreement. Consultant may also purchase for no more than current book value Rose's cell phone with the number [] and cell card, and the Company will transfer to Rose ownership of the current AT&T cell plan associated with such account(s) or make other similar arrangements, so long as Consultant assumes all liabilities associated with such cell phone and cell card. Consultant may also purchase for no more than current book value Rose's Dell M1210 laptop computer and Rose's desktop computer. Consultant will have parking access for Rose free of charge. Rose will be permitted to park in any available parking spot when visiting the Company's premises. Rose will be issued a "contractors badge" for access to Company premises and Rose's office.

2.2 Sole Responsibility. Consultant (with Rose acting as its representative) understands that this Agreement is with Consultant and Rose alone, and that Consultant and Rose are solely responsible to see that its terms are met.

3. STANDARD OF PERFORMANCE. Consultant agrees that it will at all times faithfully and industriously and to the best of its ability, experience and talents, perform all of the duties that may be reasonably required of and from it pursuant to the terms of this Agreement. Consultant's services will be performed at such times as are convenient to Consultant. In this regard, Consultant agrees to be available to the Company during normal business hours in the United States, unless Consultant is travelling outside the United States.

4. OWNERSHIP.

4.1. Assignment. Consultant agrees that all copyrightable material, notes, records, drawings, designs, inventions, improvements, developments, discoveries and trade secrets conceived, discovered, developed or reduced to practice by Consultant in performing the Services under this Agreement, solely or in collaboration with others, during the term of this Agreement that relate in any manner to the business of the Company that Consultant may be directed to undertake, investigate or develop or that Consultant may become associated with in work, investigation or development in the Company's line of business, (collectively, "Inventions"), are the sole property of the Company. Consultant also agrees to assign (or cause to be assigned) and hereby assigns fully to the Company all Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating to all Inventions.

4.2. Further Assurances. Consultant agrees to assist Company, or its designee, at the Company's expense, in every proper way to secure the Company's rights in Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating to all Inventions in any and all countries, including the disclosure to the Company of all pertinent information and data with respect to all Inventions, the execution of all applications, specifications, oaths, assignments and all other instruments that the Company may deem necessary in order to apply for and obtain such rights and in order to assign and convey to the Company, its successors, assigns and nominees the sole and exclusive right, title and interest in and to all Inventions, and any copyrights, patents, mask work rights or other intellectual property rights relating to all Inventions. Consultant also agrees that Consultant's obligation to execute or cause to be executed any such instrument or papers will continue after the termination of this Agreement.

4.3. Attorney-in-Fact. Consultant agrees that, if the Company is unable because of Consultant's unavailability, dissolution, or for any other reason, to secure Consultant's signature for the purpose of applying for or pursuing any application for any United States or foreign patents or mask work or copyright registrations covering the Inventions assigned to the Company in Section 4.1, then Consultant hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Consultant's agent and attorney-in-fact, to act for and on Consultant's behalf to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of patents, copyright and mask work registrations with the same legal force and effect as if executed by Consultant.

5. COMPENSATION. As compensation for the consulting services to be rendered by Consultant hereunder, upon presentation of a proper invoice from Consultant, the Company will pay to Consultant a fee of \$89,559.00 per quarter, in arrears, which will be payable quarterly on January 1, April 1, July 1 and October 1; provided that the first such payment due on October 1, 2011 will be in the amount of \$59,705.88, pro-rated based on the actual time this Agreement is in effect during the July through September quarter of 2011. The Company will endeavor to make timely payments after receipt of a proper invoice from Consultant, but will have a grace period of 5 business day to make each payment by direct deposit to Consultant's bank account as informed by Consultant. The Consultant's invoice will be directed to the Chief Legal Officer of Activision Blizzard for processing.

6. INDEPENDENT CONTRACTOR. Consultant will render services to the Company as an independent contractor and not as an employee or partner of the Company. Consultant will be under the control of the Company as to the result of his services only and not as to the means by which said result is to be accomplished. Consultant will, subject to its compliance with all ethical standards and the express provisions of this Agreement, retain sole and absolute discretion and judgment with respect to the manner of rendering the services contemplated of it under this Agreement.

7. NO AGENCY. Consultant acknowledges that nothing stated in this Agreement will be construed as constituting the parties hereto as principal/agent and that it will not have, or represent that it has, any power, right or authority to bind the Company or to assume or create any obligation or responsibility, express or implied, on behalf of the Company or in the

Company's name. Accordingly, Consultant warrants that it will not hold itself out as an agent of the Company, and will not purport to bind the Company in any way, including entering into any agreement with a third party.

8. NO WITHHOLDING BY THE COMPANY. Pursuant to the intention of the parties, the Company will not be responsible for withholding or paying any amount for workers' compensation insurance or any federal, state or local income, payroll or social security tax of any type whatsoever including, but not limited to, federal and California income taxes, federal social security taxes, or California unemployment taxes or disability insurance, with respect to any compensation payable to Consultant hereunder. Consultant fully understands that Consultant, and not the Company, will make its own payments and reports to the proper governmental agencies as required by law.

9. FIDUCIARY DUTY AND DUTY OF LOYALTY. Consultant acknowledges that it will come in possession of and in connection with rendering services required under the Agreement will obtain access to the Company's Confidential Information (as defined in Section 14 below) during the term of the Agreement, and accordingly Consultant will have a fiduciary duty and an undivided duty of loyalty to the Company such that it will not, during the term of this Agreement, (i) render managerial, advisory, consulting or other services to any third party in the interactive entertainment or video game industries, other than in connection with Smart Games (as defined in the following sentence), during the term of this Agreement; (ii) engage in any activities for itself or any third party that would cause reputational harm to the Company; or (iii) perform services for itself or any third party, if doing so threatens to or actually requires it to reveal or utilize the Company's Confidential Information. "Smart Games" means non-entertainment "game" applications, such as medical applications, educational applications, personal development applications, business training applications and public policy applications, which may be delivered via computers, handheld devices or consoles.

10. REIMBURSEMENT OF EXPENSES. Subject to written approval by the CEO of the Company, or any other individual designated by him in writing, the Company will reimburse Consultant for those travel, promotional and similar expenditures incurred by Consultant which the Company determines are reasonably necessary for the proper discharge of Consultant's duties under this Agreement and for which Consultant submits appropriate receipts and indicates the amount, date, location and business character, in accordance with the Company's reimbursement policy, which will be provided to Consultant in due course. In that regard, Consultant's travel accommodations, should travel be required, will be consistent with travel policies applicable to Company's senior executive officers at the time of travel.

11. INDEMNIFICATION.

(a) Consultant agrees to indemnify and hold harmless the Company and its directors, officers and employees from and against all taxes, losses, damages, liabilities, costs and expenses, including attorneys' fees and other legal expenses, arising directly or indirectly from or in connection with (i) any grossly negligent, reckless or intentionally wrongful act of Consultant or Consultant's assistants, employees or agents, (ii) any failure by Consultant to pay any and all taxes which are due in relation to the services provided pursuant to this Agreement, (iii) any breach by the Consultant or Consultant's assistants, principles,

representatives, officers, directors, employees or agents of any of the covenants contained in this Agreement, (iv) any failure of Consultant to perform the services in accordance with all applicable laws, rules and regulations, or (v) any violation or claimed violation of a third party's rights resulting in whole or in part from the Company's use of the work product of Consultant under this Agreement and resulting from a grossly negligent, reckless or intentionally wrongful act by Consultant. Notwithstanding the foregoing, Consultant's maximum liability pursuant to this Section 11 will not exceed \$3.0 million; provided, however, such limitation will not apply to fraud, theft, misappropriation, bad faith, breaches of confidentiality or any criminal or intentionally wrongful act.

(b) The Company agrees to indemnify and hold harmless the Consultant and its directors, officers and employees from and against all taxes, losses, damages, liabilities, costs and expenses, including attorneys' fees and other legal expenses, arising directly or indirectly from or in connection with (i) any grossly negligent, reckless or intentionally wrongful act of the Company or the Company's officers, directors, employees or agents, or (ii) any breach by the Company or Company's officers, directors, employees or agents of any of the covenants contained in this Agreement. Notwithstanding the foregoing, Company's maximum liability pursuant to this section will not exceed \$3.0 million; provided, however, such limitation will not apply to any fraud, theft, bad faith, or any criminal or intentionally wrongful act.

12. TERMINATION.

12.1 Early Termination. Notwithstanding the provisions of Section 1 above, in the case of a material breach of this Agreement by one party, the other party will have the right to terminate this Agreement with no advance notice if, after providing the breaching party with notice of the breach, the breaching party fails to cure the breach within thirty (30) days after receipt of written notice of the breach.

12.2 Effect of Early Termination.

(a) In the event this agreement terminates pursuant to Section 12.1 above as a result of uncured breach by Consultant, Consultant will be entitled to receive payment for any earned but unpaid amounts up to the termination date and any unpaid amounts of expenses already properly incurred, as full and final satisfaction of the terms of this Agreement. Consultant will have no further claims against the Company for compensation hereunder.

(b) Upon such termination, all rights and duties of the Company and Consultant toward each other will cease, except Section 4, Section 6, Section 7, Section 8, Section 11, Section 14, and Section 15 (specifically 15.3, 15.4, 15.5, 15.6, 15.7, and 15.8), all of which will survive termination of this Agreement.

13. ASSIGNABILITY. This Agreement is personal between Consultant and the Company. Consultant will not assign Consultant's rights or delegate its duties under this Agreement, in whole or in part, without the written consent of the Company. The Company will have the right to assign its rights and delegate its duties under this Agreement in whole or in part to its parent or subsidiary or in the event of a merger, consolidation, acquisition of all or

substantially all of its business or assets, without the consent of Consultant, provided that the assigned party assumes the Company's obligations in writing. In the event this Agreement is assigned in accordance with the terms hereof, the obligations of the Company and Consultant hereunder will be binding on their successors or assigns, whether by merger, consolidation, acquisition of all or substantially all of its business or assets, or otherwise.

14. CONFIDENTIAL INFORMATION OF THE COMPANY. Consultant, during the term of this Agreement, will develop, have access to and become acquainted with confidential information of the Company, and which is regularly used in the operation of the businesses of such entities.

14.1. Definition. "Confidential Information" means any non-public information that relates to the actual or anticipated business or research and development of the Company, technical data, trade secrets or know-how, including, but not limited to, research, product plans or other information regarding Company's products or services and markets there for, customer lists and customers (including, but not limited to, customers of the Company on whom Consultant called or with whom Consultant became acquainted during the term of this Agreement), software, developments, inventions, processes, formulas, technology, designs, drawing, engineering, hardware configuration information, marketing, finances or other business information. Confidential Information does not include information that (i) has become publicly known and made generally available through no wrongful act of Consultant or its officers, directors and affiliates; (ii) has been rightfully received by Consultant or its officer, directors and affiliates from a third party who is authorized to make such disclosure; or (iii) Consultant can verify has been independently developed or otherwise learned by it, its officers, directors or affiliates without reference to or knowledge of the Company's corresponding confidential information.

14.2. Nonuse and Nondisclosure. Consultant will not, during or subsequent to the term of this Agreement, (i) use the Confidential Information for any purpose whatsoever other than the performance of the services on behalf of the Company or (ii) disclose the Confidential Information to any third party. Consultant agrees that all Confidential Information will remain the sole property of the Company. Consultant also agrees to take all reasonable precautions to prevent any unauthorized disclosure of such Confidential Information. If Consultant is requested to disclose any Confidential Information in connection with a court or administrative proceeding or as required by applicable law, the Consultant will promptly notify the Company, so the Company may seek a protective order or take other appropriate action. The Consultant will cooperate with the Company in any such actions. If, in the absence of a protective order or other action which relieves the Consultant of its obligations, the Consultant and its lawyers reasonable determine that disclosure of the Confidential Information is legally required, then the Consultant may disclose only such Confidential Information as is required by law and the Consultant will undertake best efforts to obtain confidential treatment for such disclosure.

14.3. Former Client Confidential Information. Consultant agrees that Consultant will not, during the term of this Agreement and thereafter, improperly use or disclose any proprietary information or trade secrets of any former or current client of Consultant or other person or entity with which Consultant has an agreement or duty to keep in confidence

information acquired by Consultant, if any. Consultant also agrees that Consultant will not bring onto the Company's premises any unpublished document or proprietary information belonging to any such employer, person or entity unless consented to in writing by such employer, person or entity.

14.4. Third Party Confidential Information. Consultant recognizes that the Company has received and in the future will receive from third parties their confidential or proprietary information subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. Should Consultant come into possession of such information, Consultant agrees that, during the term of this Agreement and thereafter, Consultant owes the Company and such third parties a duty to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or to use it except as necessary in carrying out the services for the Company consistent with the Company's agreement with such third party.

14.5. Return of Materials. Upon the termination of this Agreement, or upon Company's earlier request, Consultant will deliver to the Company all of the Company's property, including but not limited to all electronically stored information and passwords to access such property, or Confidential Information that Consultant may have in Consultant's possession or control.

15. OTHER PROVISIONS.

15.1 Compliance With Other Agreements. Each of the Company and Consultant represents and warrants to each other that the execution, delivery and performance of this Agreement will not conflict with or result in the violation or breach of any term or provision of any order, judgment, injunction, contract, agreement, commitment or other arrangement to which each is a party or by which each is bound.

15.2 Counsel. The parties acknowledge and represent that, prior to the execution of this Agreement, they have had an opportunity to consult with their respective counsel, including, without limitation, tax advisors or counsel, concerning the terms and conditions set forth herein.

15.3 Entire Agreement. This Agreement is the only agreement and understanding between the parties pertaining to the provision of consulting services, and supersedes all prior agreements, summaries of agreements, descriptions of compensation packages, discussions, negotiations, understandings, representations or warranties, whether verbal or written, between the parties pertaining to such subject matter.

15.4 Governing Law and Costs. The validity, construction and performance of this Agreement will be governed by the laws, without regard to the laws as to choice or conflict of laws, of the State of California. In the event of litigation between the parties pertaining to this Agreement, the losing party will pay the reasonable attorney's fees of the prevailing party.

15.5 Severability. The invalidity or unenforceability of any particular provision of this Agreement will not affect the other provisions, and this Agreement will be construed in all respects as if any invalid or unenforceable provision were omitted.

15.6 Amendment and Waiver. This Agreement may be amended, modified or supplemented only by a writing executed by each of the parties. Any party may in writing waive any provision of this Agreement to the extent such provision is for the benefit of the waiving party. No waiver by either party of a breach of any provision of this Agreement will be construed as a waiver of any subsequent or different breach, and no forbearance by a party to seek a remedy for noncompliance or breach by the other party will be construed as a waiver of any right or remedy with respect to such noncompliance or breach.

15.7 Notice. Any notices or communications required or permitted by this Agreement will be deemed sufficiently given if in writing and when delivered personally or 48 hours after sent by Federal Express courier service and addressed as follows:

(a) If to the Company, to Activision Blizzard, Inc., Attn: Chief Legal Officer, 3100 Ocean Park Blvd., Santa Monica, CA 90405; or

(b) If to Consultant, to Suffolk Ventures LLC, c/o George Rose, President, [].

15.8 Headings. The Section and other headings contained in this Agreement are for reference purposes only and will not affect in any way the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

SUFFOLK VENTURES LLC
THE COMPANY

By: /s/ George Rose
George Rose

ACTIVISION BLIZZARD, INC.

/s/ George Rose
George Rose, individually

By: /s/ Chris B. Walther
Chris B. Walther
Chief Legal Officer

CERTIFICATION

I, Robert A. Kotick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Activision Blizzard, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, at the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ ROBERT A. KOTICK

Robert A. Kotick
Chief Executive Officer of
Activision Blizzard, Inc.

CERTIFICATION

I, Thomas Tippl, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Activision Blizzard, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, at the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ THOMAS TIPPL

Thomas Tippl
*Chief Operating Officer, Chief Financial Officer and
Principal Financial Officer of
Activision Blizzard, Inc.*

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Activision Blizzard, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert A. Kotick, President and Chief Executive Officer of the Company, certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ ROBERT A. KOTICK
Robert A. Kotick
*Chief Executive Officer of
Activision Blizzard, Inc.*

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Activision Blizzard, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas Tippl, Chief Operating Officer and Chief Financial Officer, Principal Financial Officer of the Company, certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ THOMAS TIPPL

Thomas Tippl
*Chief Operating Officer, Chief Financial Officer and
Principal Financial Officer of Activision Blizzard, Inc.*

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
