
**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 March 31, 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
(Do not check if a smaller reporting company)

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 May 2, 2011 was 1,144,164,508.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

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CAUTIONARY STATEMENT

This Quarterly Report on Form 10-Q contains, or incorporates by reference, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements consist of any statement other than a recitation of historical fact and include, but are not limited to: (1) projections of revenues, expenses, income or loss, earnings or loss per share, cash flow or other financial items; (2) statements of our plans and objectives, including those relating to product releases; (3) statements of future economic performance; and (4) statements of assumptions underlying such statements. We generally use words such as “outlook,” “forecast,” “will,” “could,” “should,” “would,” “to be,” “plans,” “believes,” “may,” “expects,” “intends,” “anticipates,” “estimate,” “future,” “positioned,” “potential,” “project,” “remain,” “scheduled,” “set to,” “subject to,” “upcoming” and other similar expressions to help identify forward-looking statements. Forward-looking statements are subject to business and economic risk, reflect management’s current expectations, estimates and projections about our business, and are inherently uncertain and difficult to predict. Our actual results could differ materially. The forward-looking statements contained herein speak only at the date on which this Quarterly Report on Form 10-Q was first filed. 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 and used games, 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, the effectiveness of Activision Blizzard’s restructuring efforts, 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.

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 March 31, 2011 | At December 31, 2010 |
|--|----------------------|-------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,658 | \$ 2,812 |
| Short-term investments | 701 | 696 |
| Accounts receivable, net of allowances of \$276 million and \$377 million at March 31, 2011 and December 31, 2010, respectively | 95 | 640 |
| Inventories | 103 | 112 |
| Software development | 129 | 147 |
| Intellectual property licenses | 32 | 45 |
| Deferred income taxes, net | 464 | 620 |
| Other current assets | 167 | 293 |
| Total current assets | 4,349 | 5,365 |
| Long-term investments | 25 | 23 |
| Software development | 65 | 55 |
| Intellectual property licenses | 29 | 28 |
| Property and equipment, net | 165 | 169 |
| Other assets | 25 | 21 |
| Intangible assets, net | 152 | 160 |
| Trademark and trade names | 433 | 433 |
| Goodwill | 7,134 | 7,132 |
| Total assets | <u>\$ 12,377</u> | <u>\$ 13,386</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 172 | \$ 363 |
| Deferred revenues | 1,043 | 1,726 |
| Accrued expenses and other liabilities | 676 | 838 |
| Total current liabilities | 1,891 | 2,927 |
| Deferred income taxes, net | 83 | 92 |
| Other liabilities | 166 | 164 |
| Total liabilities | <u>2,140</u> | <u>3,183</u> |
| Commitments and contingencies (Note 14) | | |
| Shareholders' equity: | | |
| Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,383,620,047 and 1,382,479,839 shares issued at March 31, 2011 and December 31, 2010, respectively | — | — |
| Additional paid-in capital | 12,382 | 12,353 |
| Less: Treasury stock, at cost, 230,246,372 and 199,159,987 at March 31, 2011 and December 31, 2010, respectively | (2,537) | (2,194) |
| Retained earnings | 366 | 57 |
| Accumulated other comprehensive income (loss) | 26 | (13) |
| Total shareholders' equity | <u>10,237</u> | <u>10,203</u> |
| Total liabilities and shareholders' equity | <u>\$ 12,377</u> | <u>\$ 13,386</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 March 31, | |
|--|---|----------------|
| | 2011 | 2010 |
| Net revenues | | |
| Product sales | \$ 1,061 | \$ 986 |
| Subscription, licensing, and other revenues | 388 | 322 |
| Total net revenues | <u>1,449</u> | <u>1,308</u> |
| Costs and expenses | | |
| Cost of sales — product costs | 299 | 337 |
| Cost of sales — massively multi-player online role-playing game (“MMORPG”) | 63 | 54 |
| Cost of sales — software royalties and amortization | 61 | 99 |
| Cost of sales — intellectual property licenses | 29 | 43 |
| Product development | 142 | 143 |
| Sales and marketing | 64 | 56 |
| General and administrative | 98 | 65 |
| Restructuring | 19 | — |
| Total costs and expenses | <u>775</u> | <u>797</u> |
| Operating income | 674 | 511 |
| Investment and other income, net | <u>2</u> | <u>—</u> |
| Income before income tax expense | 676 | 511 |
| Income tax expense | <u>173</u> | <u>130</u> |
| Net income | <u>\$ 503</u> | <u>\$ 381</u> |
| Earnings per common share | | |
| Basic | <u>\$ 0.42</u> | <u>\$ 0.30</u> |
| Diluted | <u>\$ 0.42</u> | <u>\$ 0.30</u> |
| Weighted-average shares outstanding | | |
| Basic | 1,173 | 1,248 |
| Diluted | 1,182 | 1,264 |
| Dividends per common share | <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 Three Months Ended | |
|---|----------------------------|-----------------|
| | March 31, | |
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net income | \$ 503 | \$ 381 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Deferred income taxes | 150 | 90 |
| Depreciation and amortization | 26 | 33 |
| Amortization and write-off of capitalized software development costs and intellectual property licenses | | |
| (1) | 69 | 88 |
| Stock-based compensation expense (2) | 23 | 44 |
| Excess tax benefits from stock option exercises | (1) | (4) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 554 | 593 |
| Inventories | 11 | 40 |
| Software development and intellectual property licenses | (45) | (80) |
| Other assets | 129 | 162 |
| Deferred revenues | (716) | (637) |
| Accounts payable | (199) | (146) |
| Accrued expenses and other liabilities | (370) | (337) |
| Net cash provided by operating activities | <u>134</u> | <u>227</u> |
| Cash flows from investing activities: | | |
| Proceeds from maturities of investments | 154 | 17 |
| Payment of contingent consideration | (3) | (2) |
| Purchases of short-term investments | (161) | (187) |
| Capital expenditures | (4) | (12) |
| Net cash used in investing activities | <u>(14)</u> | <u>(184)</u> |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock to employees | 5 | 16 |
| Repurchase of common stock | (343) | (107) |
| Excess tax benefits from stock option exercises | 1 | 4 |
| Net cash used in financing activities | <u>(337)</u> | <u>(87)</u> |
| Effect of foreign exchange rate changes on cash and cash equivalents | <u>63</u> | <u>(29)</u> |
| Net (decrease) increase in cash and cash equivalents | (154) | (73) |
| 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>\$ 2,658</u> | <u>\$ 2,695</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 Three Months Ended March 31, 2011
(Unaudited)
(Amounts in millions)

| | Common Stock | | Additional Paid-In Capital | Treasury Stock | | Retained Earnings (Accumulated Deficit) | 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 | — | — | — | — | — | 503 | — | 503 |
| Foreign currency translation adjustment | — | — | — | — | — | — | 39 | 39 |
| Total comprehensive income | — | — | — | — | — | — | — | 542 |
| Issuance of common stock pursuant to employee stock options and restricted stock rights | 1 | — | 5 | — | — | — | — | 5 |
| Stock-based compensation expense related to employee stock options and restricted stock rights | — | — | 24 | — | — | — | — | 24 |
| Dividends (\$0.165 per common share) (See Note 13) | — | — | — | — | — | (194) | — | (194) |
| Shares repurchased (See Note 13) | — | — | — | (31) | (343) | — | — | (343) |
| Balance at March 31, 2011 | <u>1,383</u> | <u>\$ —</u> | <u>\$ 12,382</u> | <u>(230)</u> | <u>\$ (2,537)</u> | <u>\$ 366</u> | <u>\$ 26</u> | <u>\$ 10,237</u> |

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 62% of Activision Blizzard’s outstanding common stock at March 31, 2011.

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

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 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 presentation of our financial position and results of operations in accordance with U.S. GAAP have been included.

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 year 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 our product sales consisting of both software and hardware deliverables (such as peripherals or other ancillary collectors’ items sold together with the physical “boxed” software) and our sales of the *World of Warcraft* boxed products, expansion packs and value-added services, each of which is considered with the related subscription services. Our assessment of deliverables and units of accounting does not change under the new accounting

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principles. When determining the selling prices of our significant deliverables to enable us to allocate the revenues from the sale of our product using the relative selling price method, we use a variation of vendor-specific objective evidence (“VSOE”) of fair value and third-party evidence (“TPE”) of selling price. When neither VSOE nor TPE is available for a deliverable, we use our best estimate of the selling price (“BESP”). We do not have significant revenue arrangements that require our BESP for the quarter ended March 31, 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 our 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 or 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 that our performance obligations for this title extend beyond the sale of the game. Vendor-specific objective evidence (“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 either the sale date or the street date of the title, whichever is later. 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.

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 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.

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

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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.

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3. Inventories

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

| | At March 31, 2011 | At December 31, 2010 |
|--------------------------------|-------------------|----------------------|
| Finished goods | \$ 80 | \$ 82 |
| Purchased parts and components | 23 | 30 |
| Inventories | <u>\$ 103</u> | <u>\$ 112</u> |

4. Intangible assets, net

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

| | At March 31, 2011 | | | |
|--|------------------------------|-----------------------------|-----------------------------|------------------------|
| | Estimated useful lives | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Acquired definite-lived intangible assets: | | | | |
| License agreements | 3 - 10 years | \$ 88 | \$ (75) | \$ 13 |
| Game engines | 2 - 5 years | 32 | (31) | 1 |
| Internally-developed franchises | 11 - 12 years | 309 | (173) | 136 |
| 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>\$ (295)</u> | <u>\$ 585</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 \$8 million and \$18 million for the three months ended March 31, 2011 and 2010, respectively.

The gross carrying amounts as of March 31, 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 includes the original gross carrying amount, less accumulated amortization and impairment charges of the impaired assets as of December 31, 2010.

At March 31, 2011, future amortization of definite-lived intangible assets is estimated as follows (amounts in millions):

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| | |
|------------------------------|---------------|
| 2011 (remaining nine months) | \$ 61 |
| 2012 | 37 |
| 2013 | 18 |
| 2014 | 10 |
| 2015 | 8 |
| Thereafter | 18 |
| Total | <u>\$ 152</u> |

5. Income taxes

The income tax expense of \$173 million for the three months ended March 31, 2011 reflected an effective tax rate of 26%. The effective tax rate of 26% for the three months ended March 31, 2011 differed from the statutory rate of 35% primarily due to foreign income taxes provided at lower rates, geographic mix in profitability, recognition of federal and California research and development credits and IRC 199 domestic production deductions.

For the three months ended March 31, 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 \$173 million for the three months ended March 31, 2011 reflected an effective tax rate of 26% which differed from the effective tax rate of 25% for the three months ended March 31, 2010, primarily due to a minor increase in the amount of domestic earnings with a higher statutory rate, relative to earnings in foreign jurisdictions with a lower statutory rate, which resulted in a slightly higher overall effective tax rate over the prior period.

The overall effective income tax rate for the year could be different from the effective tax rate for the three months ended March 31, 2011 and will be dependent 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 audit 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) are lower than anticipated in foreign regions where we have lower statutory rates and/or higher than anticipated in our domestic region where we have higher statutory rates.

6. Software development and intellectual property licenses

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

| | At March 31, 2011 | At December 31, 2010 |
|--|-------------------------|----------------------------|
| Internally developed software costs | \$ 133 | \$ 142 |
| Payments made to third-party software developers | 61 | 60 |
| Total software development costs | <u>\$ 194</u> | <u>\$ 202</u> |
| Intellectual property licenses | \$ 61 | \$ 73 |

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

| | Three Months Ended March 31, | |
|---|------------------------------|--------|
| | 2011 | 2010 |
| Amortization of capitalized software development costs and intellectual property licenses | \$ 73 | \$ 101 |
| Write-offs and impairments | — | 15 |

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

Comprehensive Income

The components of comprehensive income for the three months ended March 31, 2011 and 2010 were as follows (amounts in millions):

| | Three Months Ended March 31, | |
|---|-------------------------------------|---------------|
| | 2011 | 2010 |
| Net income | \$ 503 | \$ 381 |
| Other comprehensive income: | | |
| Foreign currency translation adjustment | 39 | (20) |
| Other comprehensive income (loss) | 39 | (20) |
| Comprehensive income | \$ 542 | \$ 361 |

The components of accumulated other comprehensive income (loss) at March 31, 2011 and December 31, 2010 were as follows (amounts in millions):

| | At March 31, 2011 | At December 31, 2010 |
|---|----------------------------------|-------------------------------------|
| Foreign currency translation adjustment | \$ 28 | \$ (11) |
| Unrealized depreciation on investments, net of deferred income taxes of \$(1) for both March 31, 2011 and December 31, 2010 | (2) | (2) |
| Accumulated other comprehensive income (loss) | \$ 26 | \$ (13) |

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.

The table below segregates all assets and liabilities 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):

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| | Fair Value Measurements at March 31, 2011 Using | | | | Balance Sheet Classification |
|---|--|--|---|--|---------------------------------|
| | As of March 31, 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 | \$ 2,359 | \$ 2,359 | \$ — | \$ — | Cash and cash equivalents |
| U.S. treasuries and foreign government bonds with original maturities of three months or less | 200 | 200 | — | — | Cash and cash equivalents |
| U.S. treasuries and government agency securities | 678 | 678 | — | — | Short-term investments |
| ARS held through Morgan Stanley Smith Barney LLC | 25 | — | — | 25 | Long-term investments |
| Total financial assets at fair value | <u>\$ 3,262</u> | <u>\$ 3,237</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 table provides 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 March 31, 2011:

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| | Level 3 | |
|--|--------------|--|
| | ARS (a) | Total financial assets at fair value |
| Balance at January 1, 2011 | \$ 23 | \$ 23 |
| Total gains or (losses) (realized/unrealized) included in investment and other income, net | 2 | 2 |
| Balance at March 31, 2011 | <u>\$ 25</u> | <u>\$ 25</u> |
| The amount of total gains or (losses) for the period included in investment and other income, net attributable to the change in unrealized gains or losses relating to assets and liabilities still held at March 31, 2011 | <u>\$ 2</u> | <u>\$ 2</u> |

The following table provides 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 March 31, 2010:

| | Level 3 | | | |
|--|--------------|-------------------------------|--|--------------------------------|
| | ARS (a) | ARS rights from UBS (b) | Total financial assets at fair value | Other financial liabilities |
| Balance at January 1, 2010 | \$ 78 | \$ 10 | \$ 88 | \$ (31) |
| Total gains or (losses) (realized/unrealized) | | | | |
| Included in earnings | 2 | (3) | (1) | — |
| Included in other comprehensive loss | (1) | — | (1) | — |
| Balance at March 31, 2010 | <u>\$ 79</u> | <u>\$ 7</u> | <u>\$ 86</u> | <u>\$ (31)</u> |
| The amount of total gains or (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at March 31, 2010 | <u>\$ 2</u> | <u>\$ (3)</u> | <u>\$ (1)</u> | <u>\$ —</u> |

(a) Fair value measurements 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 March 31, 2011.

In June 2010, we sold the remainder of our ARS held with UBS at par and recognized a gain of \$7 million included within investment and other income, net in our consolidated statement of operations for the year ended December 31, 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

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\$7 million included within investment and other income in our consolidated statement of operations for the year ended December 31, 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, principally 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. 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 three-month period ended March 31, 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 |

In the fourth quarter of 2010, with the franchise and industry results of the holiday season, our outlook for the retail sales of software was significantly revised. With the continued economic downturn within our industry in 2010 and the change in the buying habits of casual consumers, we reassessed our overall expectations. We considered these economic changes while planning for 2011 during the fourth quarter of 2010, resulting in a strategy change to, among other things, focus on fewer title releases in the casual genre and discontinue the development of music 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

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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 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 consolidated balance sheet at March 31, 2011 (amounts in millions):

| | Severance | Facilities costs | Total |
|---------------------------------|--------------|---------------------|--------------|
| Balance at December 31, 2010 | \$ — | \$ — | \$ — |
| Costs charged to expense | 14 | 5 | 19 |
| Costs paid or otherwise settled | (3) | — | (3) |
| Balance at March 31, 2011 | <u>\$ 11</u> | <u>\$ 5</u> | <u>\$ 16</u> |

The total restructuring reserve balances and the net restructuring charges are presented below by operating segment (amounts in millions):

| | 2011 Restructuring Reserve Balance | | 2011 Restructuring Charges | |
|--------------|------------------------------------|-------------------------|--------------------------------------|-----------|
| | At March 31, 2011 | At December 31, 2010 | Three Months Ended March 31, 2011 | |
| Activision | \$ 16 | \$ — | \$ | 19 |
| Blizzard | — | — | — | — |
| Distribution | — | — | — | — |
| Total | <u>\$ 16</u> | <u>\$ —</u> | <u>\$</u> | <u>19</u> |

The total expected restructuring charges related to the 2011 Restructuring, expected to be completed on June 30, 2011, are presented below (amounts in millions):

| | Low | High |
|--|-------|-------|
| Expected total restructuring costs, before tax | \$ 19 | \$ 36 |
| Expected total restructuring costs, after tax | 14 | 30 |

The high end of the after tax cash charges are expected to consist primarily of employee-related severance cash costs of approximately \$24 million and facility exist costs of approximately \$6 million. All of these items will be recorded within our Activision segment, which is the only segment impacted by the 2011 Restructuring.

We have substantially 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. (“Vivendi Games”), a wholly-owned subsidiary of VGAC LLC, consummated in July 2008. There is no significant cash payment and additional charges to the income statement for the three months ended March 31, 2011.

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

Blizzard Entertainment, Inc.

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

Activision Blizzard Distribution

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

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 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 months ended March 31, 2011 and 2010 are presented below (amounts in millions):

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| | Three Months Ended March 31, | | | |
|---|------------------------------|----------|---|--------|
| | 2011 | 2010 | 2011 | 2010 |
| | Net Revenues | | Income from operations before income tax expense | |
| Activision | \$ 323 | \$ 337 | \$ 48 | \$ 7 |
| Blizzard | 357 | 306 | 170 | 158 |
| Distribution | 75 | 71 | — | — |
| Operating segments total | 755 | 714 | 218 | 165 |
| 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 | 694 | 594 | 506 | 410 |
| Stock-based compensation expense | — | — | (23) | (44) |
| Restructuring | — | — | (19) | (3) |
| Amortization of intangible assets | — | — | (8) | (17) |
| Consolidated net revenues / operating income | \$ 1,449 | \$ 1,308 | 674 | 511 |
| Investment and other income, net | | | 2 | — |
| Consolidated income before income tax expense | | | \$ 676 | \$ 511 |

Geographic information for the three months ended March 31, 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):

| | Three Months Ended March 31, | |
|------------------------------------|------------------------------|----------|
| | 2011 | 2010 |
| Net revenues by geographic region: | | |
| North America | \$ 748 | \$ 703 |
| Europe | 594 | 524 |
| Asia Pacific | 107 | 81 |
| Total consolidated net revenues | \$ 1,449 | \$ 1,308 |

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

| | Three Months Ended March 31, | |
|---------------------------------|------------------------------|----------|
| | 2011 | 2010 |
| Net revenues by platform: | | |
| Online subscriptions* | \$ 395 | \$ 310 |
| Console | 824 | 839 |
| Hand-held | 31 | 39 |
| PC and Other | 124 | 49 |
| Total platform net revenues | 1,374 | 1,237 |
| Distribution | 75 | 71 |
| Total consolidated net revenues | \$ 1,449 | \$ 1,308 |

*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 month ended March 31, 2011 or 2010.

11. Goodwill

The changes in the carrying amount of goodwill by operating segment for the three months ended March 31, 2011 are as follows (amounts in millions):

| | <u>Activision</u> | <u>Blizzard</u> | <u>Distribution</u> | <u>Total</u> |
|--------------------------------------|-------------------|-----------------|---------------------|-----------------|
| Balance at December 31, 2010 | \$ 6,942 | \$ 178 | \$ 12 | \$ 7,132 |
| Tax benefit credited to goodwill | (1) | — | — | (1) |
| Issuance of contingent consideration | 3 | — | — | 3 |
| Balance at March 31, 2011 | <u>\$ 6,944</u> | <u>\$ 178</u> | <u>\$ 12</u> | <u>\$ 7,134</u> |

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

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.

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):

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| | Three Months Ended March 31, | |
|---|------------------------------|---------|
| | 2011 | 2010 |
| Numerator: | | |
| Consolidated net income | \$ 503 | \$ 381 |
| 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 | (4) | (1) |
| Numerator for basic and diluted earnings per common share - income available to common shareholders | 496 | 378 |
| Denominator: | | |
| Denominator for basic earnings per common share - weighted-average common shares outstanding | 1,173 | 1,248 |
| Effect of potential dilutive common shares under the treasury stock method: | | |
| Employee stock options | 9 | 16 |
| Denominator for diluted earnings per common share - weighted-average common shares outstanding plus dilutive effect of employee stock options | 1,182 | 1,264 |
| Basic earnings per common share | \$ 0.42 | \$ 0.30 |
| Diluted earnings per common share | \$ 0.42 | \$ 0.30 |

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 the three months ended March 31, 2011 and 2010, we had outstanding unvested restricted stock rights of 17 million and 11 million shares of common stock on a weighted-average basis, respectively.

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 32 million and 23 million shares of common stock were not included in the calculation of diluted earnings per common share for the three months ended March 31, 2011 and 2010, respectively, as the effect of their inclusion would be anti-dilutive.

13. Capital transactions

Repurchase Program

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. 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. The 2010 Stock Repurchase Program expired on December 31, 2010.

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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 program. For the three months ended March 31, 2011, we repurchased 29 million shares of our common stock for \$321 million pursuant to the 2011 Stock Repurchase Program. In April 2011, we settled the purchase of 2.1 million shares of our common stock for \$23 million that we had committed to repurchase in March 2011 pursuant to the 2011 Stock Repurchase Program.

Dividend

On February 10, 2010, Activision Blizzard’s Board of Directors declared a cash dividend of \$0.15 per common share payable on April 2, 2010 to shareholders of record at the close of business on February 22, 2010, and on April 2, 2010, we made a cash dividend payment of \$187 million to such shareholders. On October 22, 2010, the Company made dividend equivalent payments of \$2 million related to this cash dividend to the holders of restricted stock units.

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.

14. Commitments and contingencies

At March 31, 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. West and Zampella are seeking damages, including punitive damages, in excess of \$36 million and declaratory relief. 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. The plaintiffs claim 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. On October 12, 2010, the court consolidated this matter with the West and Zampella matter.

On August 10, 2010, the Company filed a demurrer to various causes of action in the amended Alderman complaint. On October 15, 2010, the court overruled the demurrer with respect to all causes of action other than conversion, for which it was sustained. On November 4, 2010, the Alderman plaintiffs filed a second amended complaint. On November 15, 2010, the Company filed a demurrer with respect to the claim for conversion in the second amended complaint. On March 16, 2011, the Alderman plaintiffs filed a third amended complaint adding oral and implied contract claims, equitable claims and fraud claims. On April 15, 2011, the Company filed a demurrer to a variety of claims in the third amended complaint.

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 26, 2011, Electronic Arts, Inc. filed a demurrer with respect to the claims asserted against it in the amended cross complaint. On January 31, 2011, the case was transferred to the complex division. On March 16, 2011, the court overruled Electronic Arts, Inc.’s demurrer with respect to all causes of action except as to a declaratory relief claim.

On April 1, 2011, West and Zampella filed a cross-complaint and answer in response to the Company’s cross-complaint against West, Zampella and Electronic Arts. In the cross-complaint, West and Zampella asserted fraud claims.

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The Company has accrued and will continue to accrue appropriate amounts related to bonuses and other monies allegedly owed in connection with this matter. The Company does not expect this lawsuit to have a material impact on the Company.

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 \$51 million at March 31, 2011. The gross notional amount of outstanding foreign exchange swaps was \$138 million at December 31, 2010. A pre-tax net unrealized loss of less than a million dollars for each of the three months ended March 31, 2011 and 2010, 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.

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

Blizzard Entertainment, Inc.

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

Activision Blizzard Distribution

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

The significant factors impacting our business environment are discussed below. For additional discussion refer to the "Business Overview" section in the Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2010.

Business Highlights

For the three months ended March 31, 2011, Activision Blizzard's results were strong, with net revenues of \$1.4 billion as compared to the net revenues of \$1.3 billion in same period in 2010, and earnings per diluted share of \$0.42 as compared to the earnings per diluted share of \$0.30 in same period in 2010.

According to The NPD Group, with respect to the U.S., and Charttrack and Gfk, for Europe, during the three months ended March 31, 2011, based on sales from the retail channels:

- Activision Blizzard was the #2 third-party publisher overall in the US and European retail channels;
- *Call of Duty: Black Ops* was the #1 title overall and the #1 title on each of the Xbox 360 and the PS3; and
- Activision Blizzard had 3 top 10 PC titles: *World of Warcraft: Cataclysm*, *StarCraft II*, and *Call of Duty: Black Ops*.

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Additional Highlights

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

Product Release Highlights

During the quarter ended March 31, 2011, we released *Call of Duty: Black Ops First Strike*, the first downloadable map pack for *Call of Duty: Black Ops*. In addition, we released *Nascar The Game 2011*, Lucas Arts' title *Lego Star Wars III*, and a selection of casual titles including *Zhu Zhu Puppies*.

Activision Blizzard Upcoming Product Releases

On May 3, 2011, Activision Publishing released the *Call of Duty: Black Ops Escalation* content pack on the Xbox 360 video game and entertainment system from Microsoft. The pack also is expected to be available during the second quarter on Sony's PlayStation3 computer entertainment system and the PC. During the quarter, Activision Publishing also expects to release *Transformers: Dark of the Moon*, which will launch in connection with the release of the upcoming feature film of the same name; and *Wipeout In The Zone*, a Kinect-ready title for the Xbox 360, which is expected to be available in conjunction with the premier of *Wipeout's* summer television season.

Management's Overview of Business Trends

We provide our products through both the 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 through 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 map packs and additional songs). Digital online-delivered content is generally offered to consumers for a one-time fee. Our subscription based services are digitally delivered and hosted by Blizzard Entertainment's proprietary online gaming service, Battle.net. Digital revenues have become an increasingly important part of our business and we continue to focus on and develop them. 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 March 31, 2011, our sales through digital online channels grew approximately 30% year-over-year, and by approximately \$100 million.

Conditions in the retail channels of the video games industry have remained challenging for the first three months of 2011. In the U.S. and Europe, retail sales within the industry experienced a combined overall decrease of 11% for the three months ended March 31, 2011 as compared to the same period in 2010, according to The NPD Group, Charttrack and Gfk. This suggests a continuing downward pressure in the retail channels and an increasing shift towards digital distribution. Year-over-year, we experienced growth of net revenues from digital online channels as a percentage of our total net revenues. Net revenues from digital online channels represented 30% of the total consolidated net revenues for the three months ended March 31, 2011 and \$428 million as compared to 25% and \$330 million in the same period in 2010. Net revenues from digital online channels, excluding the impact of change in deferred net revenues (a non-GAAP financial measure), represented 58% of the total consolidated net revenues for the three months ended March 31, 2011 and \$440 million as compared to 47% and \$339 million in the same period in 2010. Further, in the first quarter of 2011, we achieved 30% growth from revenues in the digital online channels year-over-year. This digital revenue growth positively impacted operating margin, and helped the Company to achieve record operating margins in the first quarter of 2011. We continue to expect growth from our higher-margin digital products for the full fiscal year of 2011, as we seek to extend our digital leadership and expand our core brands in this channel. Please refer to the reconciliation between GAAP and non-GAAP net revenues by distribution channel and our non-GAAP financial measures disclosure 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):

| | Three Months Ended March 31, | | | |
|---|-------------------------------------|------------|---------------|------------|
| | 2011 | | 2010 | |
| Net revenues: | | | | |
| Product sales | \$ 1,061 | 73% | \$ 986 | 75% |
| Subscription, licensing, and other revenues | 388 | 27 | 322 | 25 |
| Total net revenues | <u>1,449</u> | <u>100</u> | <u>1,308</u> | <u>100</u> |
| Costs and expenses: | | | | |
| Cost of sales — product costs | 299 | 21 | 337 | 26 |
| Cost of sales — MMORPG | 63 | 4 | 54 | 4 |
| Cost of sales — software royalties and amortization | 61 | 4 | 99 | 8 |
| Cost of sales — intellectual property licenses | 29 | 2 | 43 | 3 |
| Product development | 142 | 10 | 143 | 11 |
| Sales and marketing | 64 | 4 | 56 | 4 |
| General and administrative | 98 | 7 | 65 | 5 |
| Restructuring | 19 | 1 | — | — |
| Total costs and expenses | <u>775</u> | <u>53</u> | <u>797</u> | <u>61</u> |
| Operating income | 674 | 47 | 511 | 39 |
| Investment and other income, net | 2 | — | — | — |
| Income before income tax expense | 676 | 47 | 511 | 39 |
| Income tax expense | 173 | 12 | 130 | 10 |
| Net income | <u>\$ 503</u> | <u>35%</u> | <u>\$ 381</u> | <u>29%</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 operating income from external customers for the three months ended March 31, 2011 and 2010 are presented below (amounts in millions):

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| | Three Months Ended March 31, | | |
|---|------------------------------|-----------------|------------------------|
| | 2011 | 2010 | Increase (Decrease) |
| Segment net revenues: | | | |
| Activision | \$ 323 | \$ 337 | \$ (14) |
| Blizzard | 357 | 306 | 51 |
| Distribution | 75 | 71 | 4 |
| Operating segment net revenue total | <u>755</u> | <u>714</u> | <u>41</u> |
| Reconciliation to consolidated net revenues: | | | |
| Net effect from deferral of net revenues | 694 | 594 | |
| Consolidated net revenues | <u>\$ 1,449</u> | <u>\$ 1,308</u> | |
| Segment income from operations: | | | |
| Activision | \$ 48 | \$ 7 | \$ 41 |
| Blizzard | 170 | 158 | 12 |
| Distribution | — | — | — |
| Operating segment income from operations total | <u>218</u> | <u>165</u> | <u>53</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 | 506 | 410 | |
| Stock-based compensation expense | (23) | (44) | |
| Restructuring | (19) | (3) | |
| Amortization of intangible assets | <u>(8)</u> | <u>(17)</u> | |
| Consolidated operating income | 674 | 511 | |
| Investment and other income, net | 2 | — | |
| Consolidated income before income tax expense | <u>\$ 676</u> | <u>\$ 511</u> | |

*Segment Net Revenues*Activision

Activision's net revenues decreased for the three months ended March 31, 2011 as compared to the same period in 2010, primarily due to the weaker catalogue sales of games in the music and casual games genres. This decline in net revenues was partially offset by the continued strong performance from *Call of Duty: Black Ops*, which was released in November 2010, and the release in the first quarter of 2011 of the downloadable map pack *Call of Duty: Black Ops First Strike* and by the release of *Lego Star Wars III* which we publish on behalf of Lucas Arts in Europe and certain countries in Asia Pacific.

Blizzard

Blizzard's net revenues increased for the three months ended March 31, 2011 as compared to the same period in 2010, primarily as a result of the continued sales of *World of Warcraft: Cataclysm*, which was released in December 2010, *StarCraft II: Wings of Liberty*, which was released in July 2010, and *World of Warcraft: Wrath of the Lich King*, which was launched in China in August 2010. Additionally, net revenues increased due to the growth in sales of value-added services related to *World of Warcraft*, and particularly the launch of certain value-added services in China in December 2010. Value-added services consist of transactions such as realm transfers, faction changes, and other character customizations within the *World of Warcraft* game play.

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Following the launch of *World of Warcraft: Cataclysm* in the U.S. and Europe, which helped drive a growth in subscribership, the business generated record revenues. As players consumed the new content, subscribership levels have returned to pre-launch levels in the West. As of March 31, 2011, worldwide subscribers totaled 11.4 million as compared to more than 12 million at December 31, 2010. Looking forward, the company's objective is to deliver new game content in all regions to further appeal to the gaming community.

Distribution

Distribution's net revenues increased slightly for the three months ended March 31, 2011 as compared to the same period in 2010, primarily due to sales to a one-time customer.

Segment Income (Loss) from Operations

Activision

Activision's operating income increased for the three months ended March 31, 2011 as compared to the same period in 2010. The increase was primarily attributable to a greater sales mix of products with higher margins including products distributed through the digital online channels, cost savings realized from the Activision restructuring efforts in the first quarter of 2011 and a decrease in product development expenses.

Blizzard

Blizzard's operating income increased for the three months ended March 31, 2011 as compared to the same period in 2010 primarily as a result of the increase in net revenues as described above, partially offset by Blizzard's continuing investment in customer services, higher product investments and unfavorable foreign exchange rate movements.

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 of change in deferred revenues) basis. 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. 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 of 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.

The following table provides a reconciliation between GAAP and non-GAAP net revenues by distribution channel for the three months ended March 31, 2011 and 2010 (amounts in millions):

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| | Three months ended March 31, | | Increase (Decrease) |
|--|------------------------------|--------|------------------------|
| | 2011 | 2010 | |
| GAAP net revenues by distribution channel | | | |
| Retail channels | \$ 946 | \$ 907 | \$ 39 |
| Digital online channels | 428 | 330 | 98 |
| Total Activision and Blizzard | 1,374 | 1,237 | 137 |
| Distribution | 75 | 71 | 4 |
| Total consolidated GAAP net revenues | 1,449 | 1,308 | 141 |
| Change in deferred net revenues | | | |
| Retail channels | (706) | (603) | |
| Digital online channels | 12 | 9 | |
| Total changes in deferred net revenues | (694) | (594) | |
| Non-GAAP net revenues by distribution channel | | | |
| Retail channels | 240 | 304 | (64) |
| Digital online channels | 440 | 339 | 101 |
| Total Activision and Blizzard | 680 | 643 | 37 |
| Distribution | 75 | 71 | 4 |
| Total non-GAAP net revenues (1) | \$ 755 | \$ 714 | \$ 41 |

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

The increase in net revenues from digital online channels was primarily due to the continuing success of the Call of Duty and World of Warcraft franchises, particularly the release of the downloadable map pack *Call of Duty: Black Ops First Strike* in the first quarter of 2011, and subscriptions and value-added services from the release of *World of Warcraft: Cataclysm* in December 2010.

Consolidated Results

Net Revenues by Geographic Region

The following table details our consolidated net revenues by geographic region for the three months ended March 31, 2011 and 2010 (amounts in millions):

| | Three Months Ended March 31, | | Increase (Decrease) |
|--|------------------------------|----------|------------------------|
| | 2011 | 2010 | |
| Geographic region net revenues: | | | |
| North America | \$ 748 | \$ 703 | \$ 45 |
| Europe | 594 | 524 | 70 |
| Asia Pacific | 107 | 81 | 26 |
| Consolidated net revenues | \$ 1,449 | \$ 1,308 | \$ 141 |

The increase / (decrease) in deferred revenues recognized by geographic region for the three months ended March 31, 2011 and 2010 was as follows (amounts in millions):

| | Three Months Ended March 31, | | Increase (Decrease) |
|--|------------------------------|--------|------------------------|
| | 2011 | 2010 | |
| Increase/(decrease) in deferred revenues recognized by geographic region: | | | |
| North America | \$ 383 | \$ 312 | \$ 71 |
| Europe | 271 | 254 | 17 |
| Asia Pacific | 40 | 28 | 12 |
| Total impact on consolidated net revenues | \$ 694 | \$ 594 | \$ 100 |

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Consolidated net revenues for North America, Europe and Asia Pacific increased primarily due to the continuing success of the Call of Duty and World of Warcraft franchises, particularly with the release *Call of Duty: Black Ops* and *World of Warcraft: Cataclysm* in the fourth quarter of 2010, the release of the downloadable map pack *Call of Duty: Black Ops First Strike* in the first quarter of 2011 and higher revenues from *World of Warcraft's* value-added services. In addition, for Europe and Asia Pacific, the release of our affiliate label Lucas Art's *Lego Star Wars III* during the first quarter of 2011 contributed to the increase in net revenues. Furthermore, for Asia Pacific, the release of *World of Warcraft: Wrath of the Lich King* in China in August 2010 and the launch of *World of Warcraft's* value-added services in China in December 2010 contributed to the increase in net revenues. Net revenues also increased due to the favorable effect of foreign currency exchange rates in Europe and Asia Pacific. These positive impacts on net revenues for North America, Europe and Asia Pacific were partially offset by the weaker catalogue sales of games in the music and casual genres.

The increase in deferred revenues recognized was primarily attributable to Call of Duty and World of Warcraft franchises, particularly the release of *Call of Duty: Black Ops* and the release of *World of Warcraft: Cataclysm*, both released in the fourth quarter of 2010.

Foreign Exchange Impact

Changes in foreign exchange rates had a positive impact of approximately \$9 million on Activision Blizzard's net revenues for the three months ended March 31, 2011 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 and the Australian dollar in 2011 compared to 2010, which was partially offset by the strengthening of the U.S. dollar relative to the euro year-over-year.

Net Revenues by Platform

The following table details our net revenues by platform and as a percentage of total consolidated net revenues for the three months ended March 31, 2011 and 2010 (amounts in millions):

| | Three Months Ended March 31, 2011 | % of total consolidated net revenues | Three Months Ended March 31, 2010 | % of total consolidated net revenues | Increase (Decrease) |
|---------------------------------|---|--|---|--|------------------------|
| Platform net revenues: | | | | | |
| Online subscriptions* | \$ 395 | 27% | \$ 310 | 24% | \$ 85 |
| PC and other | 124 | 9 | 49 | 4 | 75 |
| Console | | | | | |
| Sony PlayStation 3 | 342 | 24 | 304 | 23 | 38 |
| Sony PlayStation 2 | 4 | — | 15 | 1 | (11) |
| Microsoft Xbox 360 | 396 | 27 | 384 | 30 | 12 |
| Nintendo Wii | 82 | 6 | 136 | 10 | (54) |
| Total console | 824 | 57 | 839 | 64 | (15) |
| Handheld | 31 | 2 | 39 | 3 | (8) |
| Total platform net revenues | 1,374 | 95 | 1,237 | 95 | 137 |
| Distribution | 75 | 5 | 71 | 5 | 4 |
| Total consolidated net revenues | <u>\$ 1,449</u> | <u>100%</u> | <u>\$ 1,308</u> | <u>100%</u> | <u>\$ 141</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.

The increase / (decrease) in deferred revenues recognized by platform for the three months ended March 31, 2011 and 2010 was as follows (amounts in millions):

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| | Three Months Ended March 31, | | Increase (Decrease) |
|--|------------------------------|--------|------------------------|
| | 2011 | 2010 | |
| Increase/(decrease) in deferred revenues recognized by platform: | | | |
| Online subscriptions | \$ 56 | \$ 8 | \$ 48 |
| PC and other | 87 | 24 | 63 |
| Console | | | |
| Sony PlayStation 3 | 244 | 222 | 22 |
| Microsoft Xbox 360 | 259 | 280 | (21) |
| Nintendo Wii | 46 | 60 | (14) |
| Total console | 549 | 562 | (13) |
| Total handheld | 2 | — | 2 |
| Total impact on consolidated net revenues | \$ 694 | \$ 594 | \$ 100 |

Net revenues from Online subscriptions increased for the three months ended March 31, 2011 as compared to the same period in 2010, primarily as a result of the release of *World of Warcraft: Cataclysm* in December 2010 and the higher revenues from the sales of *World of Warcraft's* value-added services. Net revenues from PC and other increased for the three months ended March 31, 2011 as compared to the same period in 2010, primarily as a result of the continuing performance of *StarCraft II: Wings of Liberty*, which was released in July 2010, and *Call of Duty: Black Ops*, which was released in November 2010. Net revenues from Sony PlayStation 3 and Microsoft Xbox 360 increased for the three months ended March 31, 2011 as compared to the same period in 2010 primarily as a result of the success of the Call of Duty franchise, in particular, *Call of Duty: Black Ops* and the release of its first associated downloadable map pack, *Call of Duty: Black Ops First Strike* in the first quarter of 2011. These positive impacts on the net revenues from Sony PlayStation 3 and Microsoft Xbox 360 were partially offset by the decrease in catalogue sales of titles in the music and casual game genres. Sony PlayStation 2 platform revenues continued to decline due to the aging lifecycle of the Sony PlayStation 2 platform as consumers are now almost fully transitioned to the current generation platforms. Net revenues from Nintendo Wii and Handheld decreased for the three months ended March 31, 2011 as compared to the same periods in 2010 primarily as a result of the impact of the weaker catalogue sales of games in the music and casual genres.

The increase in deferred revenues recognized for Online subscriptions, PC and other, and Sony PlayStation 3 is primarily attributable to the success of the release of *Call of Duty: Black Ops* and *World of Warcraft: Cataclysm* in the fourth quarter of 2010, and the release of *StarCraft II: Wings of Liberty* in the third quarter of 2010. The decrease in deferred revenues recognized for Microsoft Xbox 360 is due to the release of the downloadable map pack, *Call of Duty: Black Ops First Strike*, which led to more revenues being deferred into future periods. The decrease in deferred revenues recognized for Nintendo Wii is consistent with the weaker catalogue sales of games in the music and casual genres in the current quarter and last year.

Costs and Expenses

Cost of Sales

The following table details the components of cost of sales in dollars and as a percentage of total consolidated net revenues for the three months ended March 31, 2011 and 2010 (amounts in millions):

| | Three Months Ended March 31, 2011 | % of consolidated net revenues | Three Months Ended March 31, 2010 | % of consolidated net revenues | Increase (Decrease) |
|-------------------------------------|--|--------------------------------------|--|--------------------------------------|------------------------|
| Product costs | \$ 299 | 21% | \$ 337 | 26% | \$ (38) |
| MMORPG | 63 | 4 | 54 | 4 | 9 |
| Software royalties and amortization | 61 | 4 | 99 | 8 | (38) |
| Intellectual property licenses | 29 | 2 | 43 | 3 | (14) |

Total cost of sales decreased for the three months ended March 31, 2011 as compared to the same period in 2010 primarily due to the increasing portion of our net revenues from products with higher margins including products distributed through the digital

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online channels, lower intellectual property license expenses due to fewer releases of licensed titles, and the decrease in amortization of intangible assets. The decreases were partially offset by Blizzard's increased investment in customer services for our subscribers.

Product Development (amounts in millions)

| | <u>March 31,</u> <u>2011</u> | <u>% of</u> <u>consolidated</u> <u>net revenues</u> | <u>March 31,</u> <u>2010</u> | <u>% of</u> <u>consolidated</u> <u>net revenues</u> | <u>Increase</u> <u>(Decrease)</u> |
|--------------------|---------------------------------|---|---------------------------------|---|--------------------------------------|
| Three Months Ended | \$ 142 | 10% | \$ 143 | 11% | \$ (1) |

Product development costs decreased slightly for the three months ended March 31, 2011 as compared to the same period in 2010. This was primarily due to the realization of cost savings from our February 2011 restructuring activities and a more focused release slate. Partially offsetting these decreases was lower capitalization of costs related to future titles.

Sales and Marketing (amounts in millions)

| | <u>March 31,</u> <u>2011</u> | <u>% of</u> <u>consolidated</u> <u>net revenues</u> | <u>March 31,</u> <u>2010</u> | <u>% of</u> <u>consolidated</u> <u>net revenues</u> | <u>Increase</u> <u>(Decrease)</u> |
|--------------------|---------------------------------|---|---------------------------------|---|--------------------------------------|
| Three Months Ended | \$ 64 | 4% | \$ 56 | 4% | \$ 8 |

Sales and marketing expenses increased for the three months ended March 31, 2011 as compared to the same period in 2010 due to continued marketing support for our Call of Duty and World of Warcraft franchises. The increase in sales and marketing expenses was consistent with the increase in revenues.

General and Administrative (amounts in millions)

| | <u>March 31,</u> <u>2011</u> | <u>% of</u> <u>consolidated</u> <u>net revenues</u> | <u>March 31,</u> <u>2010</u> | <u>% of</u> <u>consolidated</u> <u>net revenues</u> | <u>Increase</u> <u>(Decrease)</u> |
|--------------------|---------------------------------|---|---------------------------------|---|--------------------------------------|
| Three Months Ended | \$ 98 | 7% | \$ 65 | 5% | \$ 33 |

General and administrative expenses increased for the three months ended March 31, 2011 as compared to the same period in 2010 primarily due to higher legal expenses, as well as the unfavourable impact of foreign currency exchange rates.

Restructuring (amounts in millions)

| | <u>March 31,</u> <u>2011</u> | <u>% of</u> <u>consolidated</u> <u>net revenues</u> | <u>March 31,</u> <u>2010</u> | <u>% of</u> <u>consolidated</u> <u>net revenues</u> | <u>Increase</u> <u>(Decrease)</u> |
|--------------------|---------------------------------|---|---------------------------------|---|--------------------------------------|
| Three Months Ended | \$ 19 | 1% | \$ — | —% | \$ 19 |

On February 3, 2011, the Board of Directors of the Company approved a restructuring plan 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 increase in restructuring expenses during the three months ended March 31, 2011 as compared to the same period in 2010 was related to this restructuring plan. See Note 9 of the Notes to Condensed Consolidated Financial Statements for further details.

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Investment and other income, net (amounts in millions)

| | <u>March 31, 2011</u> | <u>% of consolidated net revenues</u> | <u>March 31, 2010</u> | <u>% of consolidated net revenues</u> | <u>Increase (Decrease)</u> |
|--------------------|---------------------------|---|---------------------------|---|--------------------------------|
| Three Months Ended | \$ 2 | —% | \$ — | —% | \$ 2 |

Investment and other income, net increased for the three months ended March 31, 2011, as compared to the same period in 2010, primarily as a result of change in our geographic investment mix with higher yield.

Income Tax Expense (amounts in millions)

| | <u>March 31, 2011</u> | <u>% of Pretax income</u> | <u>March 31, 2010</u> | <u>% of Pretax income</u> | <u>Increase (Decrease)</u> |
|--------------------|---------------------------|-----------------------------------|---------------------------|-----------------------------------|--------------------------------|
| Three Months Ended | \$ 173 | 26% | \$ 130 | 25% | \$ 43 |

The income tax expense of \$173 million for the three months ended March 31, 2011 reflected an effective tax rate of 26%. The effective tax rate of 26% for the three months ended March 31, 2011 differed from the statutory rate of 35% primarily due to foreign income taxes provided at lower rates, geographic mix in profitability, recognition of federal and California research and development credits and IRC 199 domestic production deductions.

For the three months ended March 31, 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 \$173 million for the three months ended March 31, 2011 reflected an effective tax rate of 26% which differed from the effective tax rate of 25% for the three months ended March 31, 2010, primarily due to a minor increase in the amount of domestic earnings with a higher statutory rate, relative to earnings in foreign jurisdictions with a lower statutory rate, which resulted in a slightly higher overall effective tax rate over the prior period.

The overall effective income tax rate for the year could be different from the effective tax rate for the three months ended March 31, 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 audit 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) were lower than anticipated in foreign region where we have lower statutory rates and/or higher than anticipated in our domestic region where we have higher statutory rates.

Liquidity and Capital Resources

Sources of Liquidity (amounts in millions)

| | <u>At March 31, 2011</u> | <u>At December 31, 2010</u> | <u>Increase (Decrease)</u> |
|----------------------------|--------------------------|-----------------------------|--------------------------------|
| Cash and cash equivalents | \$ 2,658 | \$ 2,812 | \$ (154) |
| Short-term investments | 701 | 696 | 5 |
| | <u>\$ 3,359</u> | <u>\$ 3,508</u> | <u>\$ (149)</u> |
| Percentage of total assets | 27% | 26% | |

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| | <u>Three Months Ended March 31,</u> | | <u>Increase</u> |
|---|-------------------------------------|----------------|-------------------|
| | <u>2011</u> | <u>2010</u> | <u>(Decrease)</u> |
| Cash flows provided by operating activities | \$ 134 | \$ 227 | \$ (93) |
| Cash flows used in investing activities | (14) | (184) | 170 |
| Cash flows used in financing activities | (337) | (87) | (250) |
| Effect of foreign exchange rate changes | 63 | (29) | 92 |
| Net decrease in cash and cash equivalents | <u>\$ (154)</u> | <u>\$ (73)</u> | <u>\$ (81)</u> |

Cash Flows Provided by Operating Activities

Cash flows provided by operating activities were lower for the three months ended March 31, 2011, as compared to the same period in 2010. For the three months ended March 31, 2011, the primary drivers of cash flows provided by operating activities 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. The decrease in cash flows provided by operating activities for the three months ended March 31, 2011 as compared to the same period in 2010 was primarily attributable to the increasing use of cash in our operations, such as the payment of taxes and operating expenses for which we had previously accrued.

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 Used in Investing Activities

Cash flows used in investing activities were lower for the three months ended March 31, 2011, as compared to the same period in 2010. Cash flows used in investing activities during the three months ended March 31, 2011 reflected the purchase of \$161 million of short-term investments, capital expenditures of \$4 million, primarily for property and equipment, and the receipt of \$154 million in proceeds from maturity of investments, the majority of which consisted of U.S. treasury and government sponsored agency debt securities. The decrease in cash flows used in investing activities for the three months ended March 31, 2011 as compared to the same period in 2010 was primarily attributable to increased proceeds from our investments.

The primary drivers of cash flows used in investing activities have typically included capital expenditures, acquisitions and the net effect of purchases and sales/maturities of short-term investments.

Cash Flows Used in Financing Activities

Cash flows used in financing activities were higher for the three months ended March 31, 2011 as compared to the same period in 2010. Cash flows used in financing activities primarily reflected the settlement of the repurchase of 1.8 million shares of our common stock for \$22 million, which we committed to purchase in December 2010 under the repurchase program authorized by our Board of Directors in February 2010 and the repurchase of 29 million shares of our common stock for \$321 million under the stock repurchase program authorized by our Board of Directors on February 3, 2011. 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 31, 2012 and a determination by the Board of Directors to discontinue the program. These purchases were partially offset by \$5 million of proceeds from the issuance of shares of our common stock to employees in connection with stock option exercises. The increase in cash flow used in financing activities was due to the increased share repurchase activities during the three months ended March 31, 2011 as compared to the same period in 2010.

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 and the repurchase of our common stock. We have not utilized debt financing as a source of cash flows.

Other Liquidity and Capital Resources

In addition to cash flows provided by operating activities, our primary source of liquidity was \$3.4 billion of cash and cash equivalents and short-term investments at March 31, 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 (specifically, \$2.5 billion at March 31, 2011) to finance our operational requirements for at least

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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, to finance the acquisition of intellectual property rights for future products from third parties, and to fund our stock repurchase program and dividends.

As of March 31, 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.

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.

Capital Expenditures

For the year ending December 31, 2011, we anticipate total capital expenditures of approximately \$100 million, primarily for property and equipment. Through the first three months of 2011, we made aggregate capital expenditures of \$4 million.

Off-balance Sheet Arrangements

At March 31, 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 control over financial reporting.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("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

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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 our product sales consisting of both software and hardware deliverables (such as peripherals or other ancillary collectors’ items sold together with the physical “boxed” software) and our sales of the *World of Warcraft* boxed products, expansion packs and value-added services, each of which is considered with the related subscription services. Our assessment of deliverables and units of accounting does not change under the new accounting principles. When determining the selling prices of our significant deliverables to enable us to allocate the revenues from the sale of our product using the relative selling price method, we use a variation of vendor-specific objective evidence (“VSOE”) of fair value and third-party evidence (“TPE”) of selling price. When neither VSOE nor TPE is available for a deliverable, we use our best estimate of the selling price (“BESP”). We do not have significant revenue arrangements that require our BESP for the quarter ended March 31, 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 our 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 or 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 that our performance obligations for this title extend beyond the sale of the game. Vendor-specific objective evidence (“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 either the sale date or the street date of the title, whichever is later. 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.

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 services. Revenues attributed to the sale of *World of Warcraft* boxed software and related

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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.

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 financial condition and operating results.

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 three months ended March 31, 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

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. 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 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 \$51 million at March 31, 2011. The gross notional amount of outstanding foreign exchange swaps was \$138 million at December 31, 2010. A pre-tax net unrealized loss of less than a million for each of the three months ended March 31, 2011 and 2010, resulted from the foreign exchange contracts and swaps with Vivendi and were recognized in the condensed consolidated statements of operations.

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. 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. From time to time, we hedge our foreign currency translation risk by entering into foreign exchange contracts with Vivendi. As of March 31, 2011, a hypothetical adverse foreign currency exchange rate movement of 10% would have resulted in potential declines in our net income of approximately \$30 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 fluctuations than a portfolio of longer term securities. At March 31, 2011, our \$2.66 billion of cash and cash equivalents were comprised primarily of money market funds. At March 31, 2011, our \$701 million of short-term investments included \$678 million of U.S. treasury and government sponsored agency debt securities and \$23 million of restricted cash. We had \$25 million in auction rate securities at fair value classified as long-term investments at March 31, 2011. Most of our investment portfolio is invested in short-term or variable rate securities. The Company has determined that, based on our investment portfolio as of March 31, 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,

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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 March 31, 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 March 31, 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. West and Zampella are seeking damages, including punitive damages, in excess of \$36 million and declaratory relief. 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. The plaintiffs claim 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. On October 12, 2010, the court consolidated this matter with the West and Zampella matter.

On August 10, 2010, the Company filed a demurrer to various causes of action in the amended Alderman complaint. On October 15, 2010, the court overruled the demurrer with respect to all causes of action other than conversion, for which it was sustained. On November 4, 2010, the Alderman plaintiffs filed a second amended complaint. On November 15, 2010, the Company filed a demurrer with respect to the claim for conversion in the second amended complaint. On March 16, 2011, the Alderman plaintiffs filed a third amended complaint adding oral and implied contract claims, equitable claims and fraud claims. On April 15, 2011, the Company filed a demurrer to a variety of claims in the third amended complaint.

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 26, 2011, Electronic Arts, Inc. filed a demurrer with respect to the claims asserted against it in the amended cross complaint. On January 31, 2011, the case was transferred to the complex division. On March 16, 2011, the court overruled Electronic Arts, Inc.'s demurrer with respect to all causes of action except as to a declaratory relief claim.

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On April 1, 2011, West and Zampella filed a cross-complaint and answer in response to the Company's cross-complaint against West, Zampella and Electronic Arts. In the cross-complaint, West and Zampella asserted fraud claims.

The Company has accrued and will continue to accrue appropriate amounts related to bonuses and other monies allegedly owed in connection with this matter. The Company does not expect this lawsuit to have a material impact on the Company.

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 March 31, 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 March 31, 2011 (amounts in millions, except the number of shares and per share data).

| 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 |
|------------------------------------|---|-------------------------------------|---|---|
| January 1, 2011—January 31, 2011 | 1,755,000 | \$ 12.48 | 1,755,000 | \$ 1,500 |
| February 1, 2011—February 28, 2011 | 4,250,000 | 10.98 | 4,250,000 | 1,453 |
| March 1, 2011—March 31, 2011 | 25,081,385 | 10.95 | 25,081,385 | 1,179 |
| Total | <u>31,086,385</u> | 11.04 | <u>31,086,385</u> | |

(1) In January 2011, we settled the purchase of shares of our common stock that we had committed to repurchase in December 2010 pursuant to the stock repurchase program approved by our Board of Directors on February 10, 2010 and announced on that day under which we were authorized to repurchase up to \$1 billion of our common stock until December 31, 2010. Purchases in February 2011 and March 2011 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 April 2011, we settled the purchase of 2.1 million shares of our common stock for \$23 million that we had agreed to repurchase in March 2011 pursuant to the 2011 Stock Repurchase Program.

Item 6. Exhibits

The exhibits listed on the accompanying index to exhibits 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: May 9, 2011

ACTIVISION BLIZZARD, INC.

/s/ THOMAS TIPPL

Thomas Tippl

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

/s/ STEPHEN WEREB

Stephen Wereb

*Chief Accounting Officer,
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* | Employment Agreement, dated as of July 6, 2010, between Eric Hirshberg and Activision Publishing, Inc. |
| 10.2* | Notice of Share Option Award, dated as of November 8, 2010, to Eric Hirshberg. |
| 10.3* | Notice of Restricted Share Unit Award, dated as of November 8, 2010, to Eric Hirshberg. |
| 10.4* | Notice of Performance-Vesting Restricted Share Unit Award, dated as of November 8, 2010, to Eric Hirshberg. |
| 10.5* | Amendment, dated as of March 3, 2011, to Employment Agreement between Brian Hodous and Activision Publishing, Inc. |
| 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 Tippl 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 Tippl 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 Calculation Linkbase Document. |
| 101.LAB | XBRL Taxonomy Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Document. |

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

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "**Agreement**") is entered into this 6th day of July, 2010, between Activision Publishing, Inc. (the "**Employer**"), a subsidiary of Activision Blizzard, Inc. ("**Activision Blizzard**" and, together with its subsidiaries, the "**Activision Blizzard Group**"), and Eric Hirshberg ("**you**").

RECITAL

The Employer desires to employ you, and you desire to be so employed by the Employer, on the terms and subject to the conditions set forth in this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and the mutual promises set forth in this Agreement, the Employer and you hereby agree as follows:

1. Term of Employment

(a) The term of your employment under this Agreement (the "**Term**") shall commence on September 1, 2010 (the "**Effective Date**") and shall end on December 31, 2015 (the "**Expiration Date**") (or such earlier date on which your employment is terminated under Section 9). Except as set forth in Section 11(s), upon the Expiration Date (or such earlier date on which your employment is terminated) all obligations and rights under this Agreement shall immediately lapse.

(b) You and the Employer each agree to provide the other with at least six (6) months notice of any intent not to continue your employment following the Expiration Date. If your employment continues beyond the Expiration Date, you shall be an at-will employee whose employment may be terminated by either party to this Agreement at any time for any reason.

2. Compensation

(a) Subject to the provisions of this Agreement, in full consideration for all rights and services provided by you under this Agreement you shall receive only the compensation set forth in this Section 2 and in Section 10 below.

(b) Commencing on the Effective Date, you shall receive an annual base salary ("**Base Salary**") of \$750,000.00, which shall be paid in accordance with the Employer's payroll policies. Your Base Salary shall be reviewed periodically and may be increased at any time by an amount determined by the Employer, in its sole and absolute discretion, subject to the last sentence of this Section 2(b). The Employer's regular periodic review of executive base salaries usually occurs in the first quarter of each calendar year. Beginning at such review in 2011, and continuing at each such annual review thereafter during the Term, your cumulative Base Salary increases shall not be less than 5% per annum, pro rated for 2010 and for every other period not equal to one year, from the Effective Date.

(c) (i) You may be eligible to receive an annual discretionary bonus (the “**Annual Bonus**”), including for the portion of 2010 occurring after the Effective Date. Your target Annual Bonus for each calendar year will be one hundred percent (100%) of your Base Salary (prorated for 2010). In all instances, the actual amount of the Annual Bonus, if any, shall be determined by the Employer, in its sole and absolute discretion, and may be based on, among other things, the portion of the year falling in the Term, your overall performance and the performance of the Employer, Activision Blizzard and the Activision Blizzard Group. The Annual Bonus, if any, will be paid at the same time bonuses for that year are generally paid to other executives, but in no event earlier than the first day of the first month, or later than the 15th day of the third month, of the year following the year to which the Annual Bonus relates. Except as otherwise set forth herein, you must remain continuously employed by the Activision Blizzard Group through the date on which an Annual Bonus, if any, is paid to be eligible to receive such Annual Bonus.

(ii) If you (x) meet your AOP Targets (as defined below) for a calendar year, (y) do not receive notice prior March 1 of the immediately following year that you will receive an Annual Bonus equal to at least the target amount of your Annual Bonus for such year, and (z) notify the Employer of your voluntary resignation of employment with the Employer not later than March 8 of such immediately following year, then you shall receive an amount equal to the greater of (x) the excess of: (I) the sum of (your starting Base Salary plus your starting target Annual Bonus plus half of the amount of your Sign-On Bonus) multiplied by 3.8 (the “**Formula Amount**”), over (II) your Modified Earned Compensation (as defined below) as of your Termination Date and (y) the Base Salary that would have been required to be paid for the remainder of the Term, in a lump sum not later than March 15 of such immediately following year. The annual operating plan objectives for the Company are determined by the Board of Directors in conjunction with management, and, as used in this Agreement, the term “AOP Targets” means the annual operating plan objectives established for you by the Chief Executive Officer and approved by the Board of Directors and the Compensation Committee of the Board of Directors. During the course of determining the annual operating plan objectives, you will have the opportunity to provide your comments and input to management regarding these objectives. Your AOP Targets will reflect your position, including any change in your position (mid-year or otherwise), and other relevant facts and circumstances. As used in this Agreement, the term “Modified Earned Compensation” means your Earned Compensation as of the applicable measuring date (as defined below) but taking into account only \$1 million of the Sign-On Bonus.

(d) Subject to the approval of the Compensation Committee of the Board of Directors of Activision Blizzard (the “**Compensation Committee**”), Activision Blizzard will grant to you a non-qualified stock option to purchase 350,000 shares of Activision Blizzard’s common stock (the “**Option**”), 540,000 restricted share units (“**RSUs**”), and 300,000 performance share units, which represent the conditional right to receive shares of Activision Blizzard’s common stock (the “**Performance Share Units**” and collectively with the Option and RSUs, the “**Equity Awards**”).

(i) The Option will vest in five equal annual installments commencing on the first anniversary of the Effective Date. The Spread (as defined below) will be determined as of the earlier to occur of (1) the Expiration Date or (2) your Termination Date (such earlier date, the “**Exercise Date**”). To the extent not vested on the Exercise Date, the Option shall be forfeited and

cancelled. Subject to Section 10(e), the amount of Spread attributable to the vested portion of the Option shall be paid after, but not more than 30 days after, the Exercise Date. Settlement may be in cash or shares of Activision Blizzard common stock, at the discretion of the Employer. If settlement is in cash, interest shall be credited at 120% of the short-term applicable federal rate determined pursuant to Section 7872 of the Code, compounded annually from the Exercise Date through the date of payment. For these purposes "Spread" shall mean the excess of the aggregate Fair Market Value (as defined by the Compensation Committee, "**Fair Market Value**") of the shares subject to the Option over the aggregate exercise price of the Option, on the Exercise Date.

- (ii) One-fifth of the RSUs will vest on the day prior to each anniversary of the first five anniversaries of the Effective Date, subject to your remaining employed by the Activision Blizzard Group through such vesting date.
- (iii) The Performance Share Units will vest in equal installments on each of March 15, 2012, March 15, 2013, March 15, 2014, March 15, 2015, and March 10, 2016 if (and only if) your AOP Targets for that fiscal year are achieved, and subject to your remaining employed by Activision Blizzard Group through such vesting date. Shares of Activision Blizzard common stock earned upon the vesting of Performance Share Units will be delivered to you on the earlier to occur of (x) March 10, 2016 and (y) five days after your Termination Date.

You acknowledge that the grant of Equity Awards pursuant to this Section 2(d) is expressly conditioned upon approval by the Compensation Committee, and that the Compensation Committee has discretion to approve or disapprove the grants and/or to determine and make modifications to the terms of the grants. The Equity Awards shall be subject to all terms of the equity incentive plan pursuant to which they are granted (the "**Incentive Plan**") and the award agreement pursuant to which they are granted. In the event of a conflict between this Agreement and the terms of the Incentive Plan or award agreements, the Incentive Plan or the award agreements, as applicable, shall govern.

(e) Within three weeks of the Effective Date, the Employer will provide you with a sign on bonus to compensate you for the bonus earned and owed to you by your current employer (the "**Sign-On Bonus**") in the amount of \$2,000,000.00 (less applicable taxes and withholdings), provided that this bonus will only be earned and payable if you commence employment with the Employer on the Effective Date.

(f) If your employment with the Employer has not terminated prior to, and does not terminate on, the Expiration Date, and you have achieved your AOP Targets for at least four of the five fiscal years commencing after the Effective Date and terminating on or prior to the Expiration Date, then you shall be entitled to receive an amount equal to the excess of: (I) two times the Formula Amount, over (II) your Earned Compensation as of the Expiration Date. Such amount shall be paid in 2016 and not later than March 15, 2016. The term "Earned Compensation" means, as of the Expiration Date or the Termination Date, as applicable, the amount of all payments and the value of all benefits provided, or to be provided, to you or your designee in consideration for your services for the Employer through the earlier of the

Termination Date or the Expiration Date, including without limitation any amount payable pursuant to Section 10 hereof. Except as hereinafter provided, such amount and value shall be determined as of the Termination Date or the Expiration Date, as applicable. In regard to Equity Awards, the Earned Compensation related to (x) the Option will be the Spread; (y) the RSUs will be based on the Fair Market Value of shares of stock at the time that they vest; and (z) the Performance Share Units will be based on the Fair Market Value of the shares of stock at the time they are delivered to you. In regard to your participation in a 401(k) or similar deferred compensation plan, the Earned Compensation will be the amounts credited to your account (and for purposes of clarity, employee contributions will not be double-counted, nor shall any other consideration).

3. Title; Location

During the Term, you shall serve as Chief Executive Officer of Activision Publishing, Inc. However, you agree that after the Term shall have commenced and following discussion with the chief executive officer of Activision Blizzard about a change, you may instead be assigned to serve in such other C-level executive position with Activision Blizzard as the chief executive officer of Activision Blizzard shall determine. Your principal place of business initially shall be the Employer's headquarters in Santa Monica, California; provided, however, that you acknowledge and agree that you may be required to travel from time to time for business reasons.

4. Duties

You shall report directly to the Chief Operating Officer of Activision Blizzard (or such other executive of Activision Blizzard as may be determined from time to time by it in its sole and absolute discretion) and shall have such duties commensurate with your position as may be assigned to you from time to time by the Chief Executive Officer or Chief Operating Officer of Activision Blizzard (or, as applicable, such other executive designated by the Employer). You are also required to read, review and observe all of the Activision Blizzard Group's policies, procedures, rules and regulations in effect from time to time during the Term that apply to employees of the Employer, including, without limitation, the Code of Business Conduct and Ethics, as amended from time to time. You shall devote your full-time working time to the performance of your duties hereunder, shall faithfully serve the Employer, shall in all respects conform to and comply with the lawful directions and instructions given to you by the Chief Operating Officer of Activision Blizzard (or such other executive of the Activision Blizzard Group as may be determined from time to time by the Employer in its sole and absolute discretion) and shall use your best efforts to promote and serve the interests of the Activision Blizzard Group. Further, you shall at all times place the Employer's interests above your own, not take any actions that would conflict with the Employer's interests and shall perform all your duties for the Employer with the highest duty of care. Further, you shall not, directly or indirectly, render services of any kind to any other person or organization, whether on your own behalf or on behalf of others, without the consent of the Chief Operating Officer of Activision Blizzard or otherwise engage in activities that would interfere with your faithful and diligent performance of your duties hereunder; provided, however, that you may serve on civic or charitable boards or engage in charitable activities without remuneration if doing so is not inconsistent with, or adverse to, your employment hereunder.

5. Expenses

To the extent you incur necessary and reasonable travel or other business expenses in the course of your employment, you shall be reimbursed for such expenses, upon presentation of written documentation in accordance with the Employer's policies in effect from time to time as applicable to executives of your level.

6. Other Benefits

(a) You shall be eligible to participate in all health, welfare, retirement, pension, life insurance, disability, perquisite and similar plans, programs and arrangements generally available to executives of the Employer at your level from time to time during the Term, subject to the then-prevailing terms, conditions and eligibility requirements of each such plan, program, or arrangement.

(b) You expressly agree and acknowledge that, after the Expiration Date (or such earlier date on which your employment is terminated), you shall not be entitled to any additional benefits, except as specifically provided in this Agreement and the benefit plans in which you participate during the Term, and subject in each case to the then-prevailing terms and conditions of each such plan.

7. Vacation and Paid Holidays

(a) You will generally be entitled to paid vacation days in accordance with the generally available vacation policies of the Employer in effect for executives of your level from time to time; provided, however, that you will be entitled to accrue no less than twenty (20) paid vacation days per year unless your vacation balance exceeds the Employer's then-current maximum.

(b) You shall be entitled to all paid holidays allowed by the Employer to its full-time employees in the United States.

8. Protection of the Employer's Interests

(a) **Duty of Loyalty.** During the Term, you will owe a "**Duty of Loyalty**" to the Employer, which includes, but is not limited to, you not competing in any manner, whether directly or indirectly, as a principal, employee, agent, owner, or otherwise, with any entity in the Activision Blizzard Group; provided, however, that nothing in this Section 8(a) will limit your right to own up to five percent (5%) of any of the debt or equity securities of any business organization that is then required to file reports with the Securities and Exchange Commission pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended.

(b) **Property of the Activision Blizzard Group.** All rights worldwide with respect to any and all intellectual or other property of any nature produced, created or suggested by you, whether on your own time or not, alone or with others, during the term of your employment or resulting from your services which (i) relate in any manner at the time of conception or reduction to practice to the actual or demonstrably anticipated business of the Activision Blizzard Group, (ii) result from or are suggested by any task assigned to you or any work performed by you on behalf of the Activision Blizzard Group, (iii) were created using the time or resources of the Activision Blizzard Group, or (iv) are based on any property owned or idea

conceived by the Activision Blizzard Group, shall be deemed to be a work made for hire and shall be the sole and exclusive property of the Activision Blizzard Group. You agree to execute, acknowledge and deliver to the Employer, at the Employer's request, such further documents, including copyright and patent assignments, as the Employer finds appropriate to evidence the Activision Blizzard Group's rights in such property. Your agreement to assign to the Activision Blizzard Group any of your rights as set forth in this Section 8(b) shall not apply to any invention that qualifies fully under the provisions of California Labor Code Section 2870, where no equipment, supplies, facility or trade secret information of the Activision Blizzard Group was used, where the invention was developed entirely upon your own time, where the invention does not relate to the Activision Blizzard Group's business, and where the invention does not result from any work performed by you for the Activision Blizzard Group.

(c) **Covenant Not to Shop.** Other than during the final six (6) months of the Term, you shall not negotiate for employment with any entity or person outside of the Activision Blizzard Group. During the search process and thereafter you shall remain strictly subject to your continuing obligations under this Agreement, including, without limitation, your Duty of Loyalty, compliance with the Activision Blizzard Group's policies and your confidentiality obligations.

(d) **Confidentiality.** You acknowledge, and the Employer agrees, that during your employment you will have access to and become informed of confidential and proprietary information concerning the Activision Blizzard Group. During your employment and at all times following the termination of your employment, confidential or proprietary information of any entity in the Activision Blizzard Group shall not be used by you or disclosed or made available by you to any person except as required in the course of your employment with the Activision Blizzard Group. Upon the termination of your employment (or at any time on the Employer's request), you shall return to the Activision Blizzard Group all such information that exists, whether in electronic, written, or other form (and all copies or extracts thereof) under your control and shall not retain such information in any form, including without limitation on any devices, disks or other media. Without limiting the generality of the foregoing, you acknowledge signing and delivering to the Employer the Employee Proprietary Information Agreement attached as Exhibit A hereto (the "**Proprietary Information Agreement**") as of the Effective Date and you agree that all terms and conditions contained in such agreement, and all of your obligations and commitments provided for in such agreement, shall be deemed, and hereby are, incorporated into this Agreement as if set forth in full herein.

(e) **Return of Property and Resignation from Office.** You acknowledge that, upon termination of your employment for any reason whatsoever (or at any time on the Employer's request), you will promptly deliver to the Activision Blizzard Group or surrender to the Activision Blizzard Group's representative all property of any entity in the Activision Blizzard Group, including, without limitation, all documents and other materials (and all copies thereof) relating to the Activision Blizzard Group's business, all identification and access cards, all contact lists and third party business cards however and wherever preserved, and any equipment provided by any entity in the Activision Blizzard Group, including, without limitation, computers, telephones, personal digital assistants, memory cards and similar devices that you possess or have in your custody or under your control. You will cooperate with the Activision Blizzard Group by participating in interviews to share any knowledge you may have regarding the Activision Blizzard Group's intellectual or other property with personnel designated by the Activision Blizzard Group. You also agree to resign from any office held by

you within the Activision Blizzard Group immediately upon termination of your employment for any reason whatsoever (or at any time on the Employer's request) and you irrevocably appoint any person designated as the Activision Blizzard Group's representative at that time as your delegate to effect such resignation.

(f) **Covenant Not to Solicit.**

- (i) During your employment, you shall not, at any time or for any reason, either alone or jointly, with or on behalf of others, whether as principal, partner, agent, representative, equity holder, director, employee, consultant or otherwise, directly or indirectly:
 - (a) offer employment to, or solicit the employment or engagement of, or otherwise entice away from the employment or engagement of the Activision Blizzard Group, either for your own account or for any other person, firm or company, any person employed or otherwise engaged by any entity in the Activision Blizzard Group, whether or not such person would commit any breach of a contract by reason of his or her leaving the service of the Activision Blizzard Group; or
 - (b) solicit, induce or entice any client, customer, contractor, licensor, agent, supplier, partner or other business relationship of any entity in the Activision Blizzard Group to terminate, discontinue, renegotiate or otherwise cease or modify its relationship with the Activision Blizzard Group.
- (ii) For a period of two (2) years following the termination of your employment for any reason whatsoever, you shall not, at any time or for any reason, either alone or jointly, with or on behalf of others, whether as principal, partner, agent, representative, equity holder, director, employee, consultant or otherwise, directly or indirectly solicit the employment or engagement of, either for your own account or for any other person, firm or company, any person employed or otherwise engaged by any entity in the Activision Blizzard Group (or any person who was employed or otherwise engaged by the Activision Blizzard Group during your final ninety (90) days of employment), whether or not such person would commit any breach of a contract by reason of his or her leaving the service of the Activision Blizzard Group.
- (iii) During your employment and at all times following the termination of your employment for any reason whatsoever, you shall not, at any time or for any reason, use the confidential, trade secret information of the Activision Blizzard Group or any other unlawful means to directly or indirectly solicit, induce or entice any client, customer, contractor, licensor, agent, supplier, partner or other business relationship of any entity in the Activision Blizzard Group to terminate, discontinue, renegotiate or otherwise cease or modify its relationship with the Activision Blizzard Group.
- (iv) You expressly acknowledge and agree that the restrictions contained in this Section 8(f) are reasonably tailored to protect the Activision Blizzard Group's confidential information and trade secrets and to ensure that you

do not violate your Duty of Loyalty or any other fiduciary duty to the Employer, and are reasonable in all circumstances in scope, duration and all other respects. The provisions of this Section 8(f) shall survive the expiration or earlier termination of this Agreement.

9. Termination of Employment

(a) By the Employer for Cause.

- (i) At any time during the Term, the Employer may terminate your employment for "**Cause**," which shall mean your (i) willful, reckless or gross misconduct, (ii) material breach by you of this Agreement or your Proprietary Information Agreement, which shall continue uncured for a period of 45 days after written notice to you of such material breach consistent with the cure provisions described later in this Paragraph, (iii) conviction of or plea of no contest to a felony or crime involving dishonesty or moral turpitude, (iv) breach of duty of loyalty, or (v) violation of Employer's corporate governance policies.
- (ii) In the case of any termination for Cause pursuant to clause (iii) of the definition thereof, the Employer shall give you at least thirty (30) days written notice of its intent to terminate your employment. The notice shall specify (x) the effective date of your termination and (y) the particular acts or circumstances that constitute Cause for such termination. You shall be given the opportunity within forty-five (45) days after receiving the notice to explain why Cause does not exist or to cure any basis for Cause. Within fifteen (15) days after any such explanation or cure, the Employer will make its final determination regarding whether Cause exists and deliver such determination to you in writing. If the final decision is that Cause exists and no cure has occurred, your employment with the Employer shall be terminated for Cause as of the date of termination specified in the original notice. If the final decision is that Cause does not exist or a cure has occurred, your employment with the Employer shall not be terminated for Cause at that time.
- (iii) If your employment terminates for any reason other than a termination by the Employer for Cause, at a time when the Employer had Cause to terminate you (or would have had Cause if it then knew all relevant facts) your termination shall be treated as a termination by the Employer for Cause.

(b) By the Employer Without Cause. The Employer may terminate your employment without Cause at any time during the Term and such termination shall not be deemed a breach by the Employer of any term of this Agreement or any other duty or obligation, expressed or implied, which the Employer may owe to you pursuant to any principle or provision of law.

(c) By You In Certain Circumstances. At any time during the Term, you may terminate your employment if, without your written agreement or other voluntary action on your part (I) the Employer reassigns your principal place of business to a location that is more than

fifty (50) miles from your principal place of business as of the Effective Date and that materially and adversely affects your commute or (II) you are assigned to serve in a position other than Chief Executive Officer of Activision Publishing, Inc. or in such other C-level executive position with Activision Blizzard as the chief executive officer of Activision Blizzard shall determine; provided, however, that you must (i) provide the Employer with written notice of your intent to terminate your employment under this Section 9(c) and a description of the event you believe gives you the right to do so within thirty (30) days after the initial existence of the event and (ii) the Employer shall have ninety (90) days after you provide the notice described above to cure any such default (the "**Cure Period**"). You will have five (5) days following the end of the Cure Period to terminate your employment, after which your ability to terminate your employment under this Section 9(c) will no longer exist.

(d) **Death.** In the event of your death during the Term, your employment shall terminate immediately as of the date of your death.

(e) **Disability.** In the event that you are or become "**disabled**," the Employer shall, to the extent permitted by applicable law, have the right to terminate your employment. For purposes of this Agreement, "**disabled**" shall mean that either (i) you have a physical or mental impairment that renders you unable to perform the duties required of you under this Agreement, even with the Employer providing you a reasonable accommodation, as determined by a physician selected by the Employer in its sole discretion or (ii) you are receiving benefits under any long-term disability plan of the Employer then in effect. You shall cooperate and make yourself available for any medical examination requested by the Employer with respect to any determination of whether you are disabled within ten (10) days of such a request. Without limiting the generality of the foregoing, to the extent provided by the Employer's policies and practices then in effect, you shall not receive any Base Salary during any period in which you are disabled; provided, however, that nothing in this Section 9(e) shall impact any right you may have to any payments under the Employer's short-term and long-term disability plans, if any.

10. Termination of Obligations and Severance Payments

(a) **General.** Upon the termination of your employment pursuant to Section 9, your rights and the Employer's obligations to you under this Agreement shall immediately terminate except as provided in this Section 10 and Section 11(s), and you (or your heirs or estate, as applicable) shall be entitled to receive any amounts or benefits set forth below (subject in all cases to Sections 10(g), 11(q) and 11(r)). The payments and benefits provided pursuant to this Section 10 are (x) in lieu of any severance or income continuation protection under any plan of the Activision Blizzard Group that may now or hereafter exist and (y) deemed to satisfy and be in full and final settlement of all obligations of the Activision Blizzard Group to you under this Agreement. You shall have no further right to receive any other compensation benefits following your termination of employment for any reason except as set forth in this Section 10.

For the purposes of this Agreement, the following terms shall have the following meanings:

"**Basic Severance**" shall mean payment of (1) any Base Salary earned but unpaid as of the Termination Date; (2) any business expenses incurred but not reimbursed under Section 5 as

of the Termination Date; and (3) payment in lieu of any vacation accrued under Section 7 but unused as of the Termination Date.

“**Bonus Severance**” shall mean payment of:

- (i) an amount equal to the Annual Bonus that the Employer determines, in its sole discretion, you would have received in accordance with Section 2(c)(i) for any year that ended prior to the Termination Date had you remained employed through the date such bonus would have been otherwise been paid; and
- (ii) an amount equal to the Annual Bonus that the Employer determines, in its sole discretion, you would have received in accordance with Section 2(c)(i) for the year in which your Termination Date occurs had you had remained employed through the date such bonus would have been paid, multiplied by a fraction, the numerator of which is the number corresponding to the calendar month in which the Termination Date occurs and the denominator of which is 12, where, for purposes of calculating the amount of such bonus, any goals will be measured by actual performance.

“**Termination Date**” shall mean the effective date of your termination of employment pursuant to Sections 9(a)-(e).

(b) **Death.** In the event your employment is terminated under Section 9(d):

- (i) Basic Severance. Your heirs or estate, as the case may be, shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan;
- (ii) Lump Sum Payment of Two Times Base Salary. Your heirs or estate, as the case may be, shall receive payment of an amount equal to two (2) times the Base Salary (at the rate in effect as of the Termination Date) in a lump sum within thirty (30) days following the Termination Date; provided, however, that this amount shall be reduced by any payments to which you become entitled upon death under any Employer-sponsored plan;
- (iii) Bonus Severance. Your heirs or estate, as the case may be, shall receive payment of the Bonus Severance in a lump sum no later than the 15th day of the third month of the year following the year to which the underlying amount relates; and
- (iv) Impact on Equity Awards. All outstanding Equity Awards shall cease to vest. All vested RSUs shall be paid in accordance with their terms. The Option shall be treated as set forth in Section 2 above. Any Equity Awards that are not vested as of your Termination Date will be cancelled immediately.

(c) **Termination by the Employer if You Become Disabled.** In the event the Employer terminates your employment under Section 9(c):

- (i) **Basic Severance.** You or your legal representative, as the case may be, shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan;
- (ii) **Salary Continuation.** You or your legal representative, as the case may be, shall receive the payment of an amount equal to the Base Salary (at the rate in effect on the Termination Date) that you would have received had you remained employed through the Expiration Date, which amount shall be paid in equal installments commencing on the first payroll date following the 60th day following the Termination Date in accordance with the Employer's payroll practices as in effect from time to time, provided that the first such payment shall include any installments relating to the 60 day period following the Termination Date; provided, however, that, to the extent doing so will not result in the imposition of additional taxes under Section 409A ("**Section 409A**") of the Internal Revenue Code of 1986, as amended and the rules and regulations promulgated thereunder (the "**Code**"), this amount shall be reduced by any payments which you have received or to which you become entitled under any Employer-sponsored long-term disability plan;
- (iii) **Bonus Severance.** You or your legal representative, as the case may be, shall receive payment of the Bonus Severance in a lump sum no later than the 15th day of the third month of the year following the year to which the underlying amount relates;
- (iv) **Impact on Equity Awards.** All outstanding Equity Awards shall cease to vest. All vested RSUs shall be paid in accordance with their terms. The Option shall be treated as set forth in Section 2 above. Any Equity Awards that are not vested as of your Termination Date will be cancelled immediately; and
- (v) **Severance Conditioned Upon Release.** Payments and benefits described in Sections 10(c)(ii) and 10(c)(iii) are conditioned upon your or your legal representative's execution of a waiver and release in a form prepared by the Employer and promptly provided to you and that release becoming effective and irrevocable in its entirety within 60 days of the Termination Date. Unless otherwise provided by the Employer, if the release referenced above does not become effective and irrevocable on or prior to the 60th day following the Termination Date, you shall not be entitled to any payments under this Section 10(c) other than the Basic Severance.

(d) **Termination by the Employer Without Cause, by You Under Section 9(c).** In the event the Employer terminates your employment under Section 9(b) or you terminate your employment under Section 9(c):

- (i) **Basic Severance.** You shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan;
 - (ii) **Minimum Severance.** You or your legal representative, as the case may be, shall receive an amount equal to the greater of (x) the excess of: (I) the Formula Amount over (II) your Modified Earned Compensation as of your Termination Date and (y) the Base Salary that would have been required to be paid for the remainder of the Term. Such amount shall be paid in the year after the year in which occurs your Termination Date, but prior to March 15 of such year;
 - (iii) **Bonus Severance.** You or your legal representative, as the case may be, shall receive payment of the Bonus Severance in a lump sum no later than the 15th day of the third month of the year following the year to which the underlying amount relates;
 - (iv) **Impact on Equity Awards.** All outstanding Equity Awards shall cease to vest. All vested RSUs shall be paid in accordance with their terms. The Option shall be treated as set forth in Section 2 above. Any Equity Awards that are not vested as of your Termination Date will be cancelled immediately; and
 - (v) **Severance Conditioned Upon Release.** Payments and benefits described in Sections 10(d)(ii) and 10(d)(iii) are conditioned upon your or your legal representative's execution of a waiver and release in a form prepared by the Employer and promptly provided to you and that release becoming effective and irrevocable in its entirety within 60 days of the Termination Date. Unless otherwise provided by the Employer, if the release referenced above does not become effective and irrevocable on or prior to the 60th day following the Termination Date, you shall not be entitled to any payments under this Section 10(d) other than the Basic Severance.
- (e) **Termination by the Employer For Cause.** In the event your employment is terminated by the Employer under Section 9(a), then:
- (i) **Basic Severance.** You shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan; and
 - (ii) **Impact on Equity Awards.** All outstanding Equity Awards shall cease to vest and, whether or not vested, shall no longer be exercisable and shall be cancelled immediately.
- (f) **Termination on the Expiration Date.** In the event your employment terminates on the Expiration Date, then:

- (i) Basic Severance. You shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan;
 - (ii) Performance Payment. If you have achieved your AOP Targets for at least four of the five fiscal years commencing after the Effective Date and terminating on or prior to the Expiration Date, you shall also receive an amount equal to: (I) two times the Formula Amount, minus (II) your Earned Compensation as of the Expiration Date. Such amount shall be paid in 2016 and prior to March 15, 2016. For purposes of clarity, if your employment terminates for any reason (including your voluntary resignation in violation of your obligations under this Agreement) prior to the Expiration Date, or continues after the Expiration Date, you will not receive any payment pursuant to this provision;
 - (iii) Impact on Equity Awards. All outstanding Equity Awards, unless provided for otherwise in Paragraph 2(d) above, shall cease to vest. All vested RSUs shall be paid in accordance with their terms. The Option shall be treated as set forth in Section 2 above. Any Equity Awards that are not vested as of the Expiration Date will be cancelled immediately; and
 - (iv) Severance Conditioned Upon Release. Payments and benefits described in Section 10(f)(ii) are conditioned upon your or your legal representative's execution of a waiver and release in a form prepared by the Employer and promptly provided to you and that release becoming effective and irrevocable in its entirety within 60 days of the Termination Date. Unless otherwise provided by the Employer, if the release referenced above does not become effective and irrevocable on or prior to the 60th day following the Termination Date, you shall not be entitled to any payments under this Section 10(f) other than the Basic Severance.
- (g) **Breach of Post-termination Obligations or Subsequent Employment.**
- (i) Breach of Post-termination Obligations. In the event that you breach any of your obligations under Section 8, the Employer's obligation, if any, to make payments and provide benefits under Section 10 (other than payment of the Basic Severance) shall immediately and permanently cease and you shall not be entitled to any such payments or benefits.
 - (ii) Subsequent Employment. Notwithstanding anything to the contrary contained herein, you shall receive any payments and benefits to which you may be entitled under Section 10 (other than payment of the Basic Severance) only for the time period that you 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. If, at any time, you obtain subsequent employment or provide services as set forth in the prior sentence, you must promptly notify the Company and payments and benefits to which you may be entitled under Section 10 (other than payment of the Basic Severance) shall cease as of the date you commenced such employment or provision of services.

11. General Provisions

(a) **Entire Agreement.** This Agreement, and the Proprietary Information Agreement and the New Employee Letter and Certification (as defined in Section 11(d)), supersede all prior or contemporaneous agreements and statements, whether written or oral, concerning the terms of your employment with the Activision Blizzard Group, and no amendment or modification of these agreements shall be binding unless it is set forth in a writing signed by both the Employer and you. To the extent that this Agreement conflicts with any of the Employer's policies, procedures, rules or regulations, this Agreement shall supersede the other policies, procedures, rules or regulations.

(b) **Use of Employee's Name and Likeness.** You hereby irrevocably grant the Activision Blizzard Group the right, but not the obligation, to use your name or likeness in any product made by the Activision Blizzard Group or for any publicity or advertising purpose in any medium now known or hereafter existing.

(c) **Assignment.** This Agreement and the rights and obligations hereunder shall not be assignable or transferable by you without the prior written consent of the Employer. The Employer may assign this Agreement or all or any part of its rights and obligations under this Agreement at any time and following such assignment all references to the Employer shall be deemed to refer to such assignee and the Employer shall thereafter have no obligation under this Agreement.

(d) **No Conflict with Prior Agreements.** You represent to the Employer that neither your commencement of employment under this Agreement nor the performance of your duties under this Agreement conflicts or will conflict with any contractual or legal commitment on your part to any third party, nor does it or will it violate or interfere with any rights of any third party. If you have acquired any confidential or proprietary information in the course of your prior employment or otherwise in connection with your provision of services to any entity outside the Activision Blizzard Group, during the Term you will fully comply with any duties to such entity then-applicable to you not to disclose or otherwise use such information. Without limiting the generality of the foregoing, you acknowledge signing and delivering to the Employer the New Employee Letter and Certification attached as Exhibit B hereto (the "*New Employee Letter and Certification*") as of the Effective Date and you agree that all terms and conditions contained in such agreement, and all of your obligations and commitments provided for in such agreement, shall be deemed, and hereby are, incorporated into this Agreement as if set forth in full herein.

(e) **Successors.** This Agreement shall be binding on and inure to the benefit of the Employer and its successors and assigns, including successors by merger and operation of law. This Agreement shall also be binding on and inure to the benefit of you and your heirs, executors, administrators and legal representatives.

(f) **Waiver.** No waiver by you or the Employer at any time of any breach by the other party of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No waiver of any provision of this Agreement shall be implied from any course of dealing between or among the parties hereto or from any failure by any party hereto to assert its rights hereunder on any occasion or series of occasions.

(g) **Expiration.** This Agreement does not constitute a commitment of the Employer with regard to your employment, express or implied, other than to the extent expressly provided for herein. Upon the Expiration Date, or, if earlier, the termination of this Agreement pursuant to Section 9, neither the Employer nor you shall have any obligation to the other with respect to your continued employment.

(h) **Taxation.** The Employer may withhold from any payments made under the Agreement all federal, state, city or other applicable taxes or amounts as shall be required or permitted pursuant to any law, governmental regulation or ruling or agreement with you.

(i) **Immigration.** In accordance with the Immigration Reform and Control Act of 1986, employment under this Agreement is conditioned upon satisfactory proof of your identity and legal ability to work in the United States.

(j) **Choice of Law.** Except to the extent governed by federal law, this Agreement shall be governed by and construed in accordance with the laws of the State of California or whatever other state in which you were last employed by the Employer, without regard to conflict of law principles.

(k) **Arbitration.**

(i) Except as otherwise provided in this Agreement, any dispute or controversy between the Employer and you will be settled by final and binding arbitration by a single arbitrator to be held in the city in which you were last employed by the Employer, unless the Employer and you agree otherwise, in accordance with the JAMS rules for resolution of employment disputes then in effect, except as provided in this Section 11(k). The arbitrator the parties select will have the authority to grant any party all remedies otherwise available by law, but will not have the power to grant any remedy that would not be available in a state or federal court in the jurisdiction in which the arbitration is being held. Either party may seek court intervention in a dispute for interim equitable relief in a court of competent subject matter jurisdiction located within the city in which you were last employed by the Employer, but the resort to interim equitable relief will be pending and in aid of arbitration only, and in such cases the trial on the merits of the action will occur in front of, and will be decided by, the arbitrator, who will have the same ability to order legal or equitable remedies as could a court of general jurisdiction. The arbitrator will have the authority to hear and rule on dispositive motions (such as motions for summary adjudication or summary judgment) and has the exclusive authority to resolve any dispute relating to the interpretation,

applicability, enforceability or formation of this agreement to arbitrate claims, including but not limited to any claim that all or any part of this agreement is void or voidable. This agreement to arbitrate applies to all claims that the Employer may have against you or that you may have against the Employer or the Employer's current and former officers, directors, employees, representatives and agents, and/or all entities affiliated with the Employer, as well as the current and former officers, directors, employees, representatives and agents of those affiliates. This arbitration obligation shall not prohibit the Employer or you from filing a claim with an administrative agency, nor does it apply to claims for workers' compensation or unemployment benefits, claims for benefits under an employee welfare or pension plan that specifies a different dispute resolution procedure, or claims which, by law, cannot be compelled to binding arbitration via private agreement.

- (ii) Notwithstanding anything to the contrary in the rules of JAMS, the arbitration shall provide (a) for written discovery and depositions as provided under the Federal Rules of Civil Procedure and (b) for a written decision by the arbitrator that includes the essential findings and conclusions upon which the decision is based which must be issued no later than thirty (30) days after a dispositive motion is heard or an arbitration hearing has completed. The Employer will pay the fees and administrative costs charged by the arbitrator and JAMS; provided, however, that if you initiate the arbitration, you must initiate it by paying to JAMS an amount equal to the filing fee for the state court of general jurisdiction in the state in which you were last employed by the Employer.
- (iii) Either party will have the same amount of time to file any claim against any other party as it would have if the claim had been filed in state or federal court in the city in which you were last employed by the Employer. In conducting the arbitration, the arbitrator shall follow the Federal Rules of Evidence (including but not limited to all applicable privileges).
- (iv) The arbitrator must be experienced in employment law. He or she will be selected by the mutual agreement of the parties. If the parties cannot agree on an arbitrator, the parties will alternately strike names from a list provided by JAMS until only one name remains. If a JAMS arbitrator is not available to conduct an arbitration in the city in which you last worked for the Employer, then another similar arbitration service provider will be selected by the mutual agreement of the parties (and all references to JAMS in this Section 11(k) will be deemed to be references to that arbitration service provider).
- (v) The decision of the arbitrator will be final, conclusive and binding on the parties to the arbitration. The prevailing party in the arbitration, as determined by the arbitrator, shall be entitled to recover his/her or its reasonable attorneys' fees, experts' fees and costs, including the costs or fees charged by the arbitrator and JAMS, in addition to such other relief as may be granted, under the standards provided by law for awarding such

fees and costs applicable to the claims asserted. Judgment may be entered on the arbitrator's decision in any court having jurisdiction.

- (vi) **You understand that your and the Employer's agreement to arbitrate all disputes means that both you and the Employer are waiving your right to file a court action, except for requests for injunctive relief pending arbitration. You also understand that both you and the Employer are giving up any right to a jury trial.**

(l) **Severability.** It is expressly agreed by the parties that each of the provisions included in Section 8(f) is separate, distinct, and severable from the other and remaining provisions of Section 8(f), and that the invalidity or unenforceability of any Section 8(f) provision shall not affect the validity or enforceability of any other provision or provisions of this Agreement. If any provision of this Agreement is held to be illegal, invalid or unenforceable under, or would require the commission of any act contrary to, existing or future laws effective during the Term, such provisions shall be fully severable, the Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part of this Agreement, and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance from this Agreement. Furthermore, in lieu of such illegal, invalid or unenforceable provision, there shall be added automatically as part of this Agreement a legal and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible.

(m) **Services Unique.** You recognize that the services being performed by you under this Agreement are of a special, unique, unusual, extraordinary and intellectual character giving them a peculiar value, the loss of which cannot be reasonably or adequately compensated for in damages in the event of a breach of this Agreement by you.

(n) **Injunctive Relief.** In the event of a breach of or threatened breach of the provisions of this Agreement regarding the exclusivity of your services and the provisions of Section 8, you agree that any remedy at law would be inadequate. Accordingly, you agree that the Employer is entitled to obtain injunctive relief for such breaches or threatened breaches in any court of competent jurisdiction. The injunctive relief provided for in Section 11(k) (i) and this Section 11(n) is in addition to, and is not in limitation of, any and all other remedies at law or in equity otherwise available to the applicable party. The parties agree to waive the requirement of posting a bond in connection with a court or arbitrator's issuance of an injunction.

(o) **Remedies Cumulative.** The remedies in this Agreement are not exclusive, and the parties shall have the right to pursue any other legal or equitable remedies to enforce the terms of this Agreement.

(p) **Headings.** The headings set forth herein are included solely for the purpose of identification and shall not be used for the purpose of construing the meaning of the provisions of this Agreement.

(q) **Section 409A.** To the extent applicable, it is intended that the Agreement comply with the provisions of Section 409A. The Agreement will be administered and

interpreted in a manner consistent with this intent, and any provision that would cause the Agreement to fail to satisfy Section 409A will have no force and effect until amended to comply therewith (which amendment may be retroactive to the extent permitted by Section 409A). Notwithstanding anything contained herein to the contrary, to the extent any payment under this Agreement is subject to Section 409A, you shall not be considered to have terminated employment with the Employer for purposes of the Agreement and no payments shall be due to you under the Agreement which are payable upon your termination of employment unless you would be considered to have incurred a "separation from service" from the Employer within the meaning of Section 409A. To the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A, amounts that would otherwise be payable and benefits that would otherwise be provided pursuant to the Agreement during the six-month period immediately following your termination of employment shall instead be paid on the first business day after the date that is six months following your termination of employment (or upon your death, if earlier). In addition, for purposes of the Agreement, each amount to be paid or benefit to be provided to you pursuant to the Employment Agreement shall be construed as a separate identified payment for purposes of Section 409A. With respect to expenses eligible for reimbursement under the terms of the Agreement, (i) the amount of such expenses eligible for reimbursement in any taxable year shall not affect the expenses eligible for reimbursement in another taxable year and (ii) any reimbursements of such expenses shall be made no later than the end of the calendar year following the calendar year in which the related expenses were incurred, except, in each case, to the extent that the right to reimbursement does not provide for a "deferral of compensation" within the meaning of Section 409A; provided, however that with respect to any reimbursements for any taxes to which you become entitled under the terms of the Agreement, the payment of such reimbursements shall be made by the Employer no later than the end of the calendar year following the calendar year in which you remit the related taxes.

(r) **Section 280G and Section 162(m).** Notwithstanding anything herein to the contrary, in the event that you receive any payments or distributions, whether payable, distributed or distributable pursuant to the terms of this Agreement or otherwise, that constitute "parachute payments" within the meaning of Section 280G of the Code, and the net after-tax amount of the parachute payment is less than the net after-tax amount if the aggregate payment to be made to you were three times your "base amount" (as defined in Section 280G(b)(3) of the Code), less \$1.00, then the aggregate of the amounts constituting the parachute payment shall be reduced to an amount that will equal three times your base amount, less \$1.00. To the extent the aggregate of the amounts constituting the parachute payments are required to be so reduced, the amounts provided under Section 10 of this Agreement shall be reduced (if necessary, to zero) with amounts that are payable first reduced first; provided, however, that, in all events the payments provided under Section 10 of this Agreement which are not subject to Section 409A shall be reduced first. Similarly, you agree that no payments or distributions, whether payable, distributed or distributable pursuant to the terms of this Agreement or otherwise, shall be made to you if the Employer reasonably anticipates that Section 162(m) of the Code would prevent the Employer from receiving a deduction for such payment. If, however, any payment is not made pursuant to the previous sentence, the Employer shall make such payment as soon as practicable in the first calendar year that it reasonably determines that it can do so and still receive a deduction for such payment. The determinations to be made with respect to this Section 11(r) shall be made by a certified public accounting firm designated by the Employer.

(s) **Survivability.** The provisions of Sections 8, 10(g), 11(b), 11(c), 11(e), 11(f), 11(h), 11(i), 11(k), 11(l), 11(m), 11(n), 11(o), 11(q), 11(r), this 11(s) and Section 12 (as well as the Proprietary Information Agreement and the New Employee Letter and Certification) shall survive the termination or expiration of this Agreement.

(t) **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original and both of which together shall constitute one and the same instrument.

(u) **Legal Counsel.** You acknowledge that you have been given the opportunity to consult with legal counsel or any other advisor of your own choosing regarding this Agreement. You understand and agree that any attorney retained by the Employer, the Activision Blizzard Group or any member of management who has discussed any term or condition of this Agreement with you or your advisor is only acting on behalf of the Employer and not on your behalf.

(v) **Right to Negotiate.** You hereby acknowledge that you have been given the opportunity to participate in the negotiation of the terms of this Agreement. You acknowledge and confirm that you have read this Agreement and fully understand its terms and contents. You further acknowledge that you were represented by an attorney during this process and all of the provisions herein have been fully explained to you.

(w) **No Broker.** You have given no indication, representation or commitment of any nature to any broker, finder, agent or other third party to the effect that any fees or commissions of any nature are, or under any circumstances might be, payable by the Activision Blizzard Group in connection with your employment under this Agreement.

(x) **All Terms Material.** Your failure to comply with any of the terms of this Agreement shall constitute a material breach of this Agreement.

12. **Indemnification**

The Employer agrees that it shall indemnify and hold you harmless to the fullest extent permitted by Delaware law from and against any and all third-party liabilities, costs and claims, and all expenses actually and reasonably incurred by you in connection therewith by reason of the fact that you are or were employed by the Activision Blizzard Group, including, without limitation, all costs and expenses actually and reasonably incurred by you in defense of litigation arising out of your employment hereunder.

13. **Notices**

All notices which either party is required or may desire to give the other shall be in writing and given either personally or by depositing the same in the United States mail addressed to the party to be given notice as follows:

| | |
|------------------|--|
| To the Employer: | Activision Publishing, Inc. 3100 Ocean Park Boulevard Santa Monica, California 90405 Attention: Chief Legal Officer |
|------------------|--|

To You:

Eric Hirshberg
c/o Gary Stiffelman
Ziffren Brittenham LLP
1801 Century Park West
LA, CA 90067

Either party may by written notice designate a different address for giving of notices. The date of mailing of any such notices shall be deemed to be the date on which such notice is given.

ACCEPTED AND AGREED TO:

Employer

Employee

ACTIVISION PUBLISHING, INC.

By: /s/ Robert A. Kotick
ROBERT A. KOTICK
Chief Executive Officer

/s/ Eric Hirshberg
ERIC HIRSHBERG

Date: July 6, 2010

Date: July 6, 2010

Proprietary Information Agreement

New Employee Letter and Certification

AMENDED AND RESTATED ACTIVISION BLIZZARD, INC.

2008 INCENTIVE PLAN

NOTICE OF STOCK OPTION AWARD

You have been awarded a stock option in respect of Common Shares of Activision Blizzard, Inc. (the "Company") with mandatory net settlement features and a fixed exercise date, as follows:

- Your name: **Eric Hirshberg**
- Total number of Shares subject to the Stock Option awarded: **350,000**
- Exercise Price: **US\$11.88 per Share**
- Date of Grant: **November 8, 2010**
- Exercise Date: **The earlier of (i) December 31, 2015 and (ii) the date of the termination of your employment**
- Grant ID: **08005632**
- Your Award of the Stock Option is governed by the terms and conditions set forth in:
 - this Notice of Stock Option Award;
 - the Stock Option Award Terms attached hereto as Exhibit A (the "Award Terms"); and
 - the Company's Amended and Restated 2008 Incentive Plan, the receipt of a copy of which you hereby acknowledge.
- Your Stock Option Award has been made in connection with your employment agreement with Activision Publishing, Inc., a wholly owned subsidiary of the Company, dated as of July 6, 2010 (as it may be amended from time to time, the "Employment Agreement"), and is also governed by any applicable terms and conditions set forth in such agreement.
- *Schedule for Vesting*: Except as otherwise provided under the Award Terms, the Stock Option awarded to you will vest as follows, provided you remain continuously employed by the Company or one of its subsidiaries or affiliates through each such date:

Schedule for Vesting

| Date of Vesting | No. of Shares Vesting at Vesting Date | Cumulative No. of Shares Vested at Vesting Date |
|-----------------|---|---|
| August 31, 2011 | 70,000 | 70,000 |
| August 31, 2012 | 70,000 | 140,000 |
| August 31, 2013 | 70,000 | 210,000 |
| August 31, 2014 | 70,000 | 280,000 |
| August 31, 2015 | 70,000 | 350,000 |

- The Stock Option is not intended to be an “incentive stock option,” as such term is defined in Section 422 of the Code.
- *Please sign and return to the Company this Notice of Stock Option Award, which bears an original signature on behalf of the Company. You are urged to do so promptly.*
- *Please return the signed Notice of Stock Option Award to the Company at:*

Activision Blizzard, Inc.
3100 Ocean Park Boulevard
Santa Monica, CA 90405
Attn: Stock Plan Administration

You should retain the enclosed duplicate copy of this Notice of Stock Option Award for your records.

Any capitalized term used but not otherwise defined herein shall have the meaning ascribed to such term in the Award Terms.

ACTIVISION BLIZZARD, INC.

/s/ Ann E. Weiser
Ann E. Weiser
Chief Human Resources Officer

Date: March 21, 2011

ACCEPTED AND AGREED:

/s/ Eric Hirshberg
Eric Hirshberg

Date: April 15, 2011

EXHIBIT A

AMENDED AND RESTATED ACTIVISION BLIZZARD, INC.

2008 INCENTIVE PLAN

STOCK OPTION AWARD TERMS

1. Definitions.

(a) For purposes of these Award Terms, the following terms shall have the meanings set forth below:

“Award” means the award described on the Grant Notice.

“Cause” shall have the meaning given to such term in the Employment Agreement.

“Common Shares” means the shares of common stock, par value \$0.000001 per share, of the Company or any security into which such Common Shares may be changed by reason of any transaction or event of the type referred to in Section 7 hereof.

“Company” means Activision Blizzard, Inc. and any successor thereto.

“Company Group” means the Company or any of its subsidiaries or other affiliates.

“Company-Sponsored Equity Account” means an account that is created with the Equity Account Administrator in connection with the administration of the Company’s equity plans and programs, including the Plan.

“Date of Grant” means the Date of Grant of the Award set forth on the Grant Notice.

“Employment Agreement” has the meaning given to the term on the Grant Notice.

“Employment Violation” means any material breach by the Holder of the Employment Agreement for so long as the terms of such employment agreement shall apply to the Holder (with any breach of the post-termination obligations contained therein deemed to be material for purposes of these Award Terms).

“Equity Account Administrator” means the brokerage firm utilized by the Company from time to time to create and administer accounts for participants in the Company’s equity plans and programs, including the Plan.

“Exercise Date” means the Exercise Date set forth on the Grant Notice.

“Exercise Price” means the Exercise Price set forth on the Grant Notice.

“**Grant Notice**” means the Notice of Stock Option Award to which these Award Terms are attached as Exhibit A.

“**Holder**” means the recipient of the Award named on the Grant Notice.

“**Option**” means the Stock Option to purchase Common Shares awarded to the Holder on the terms and conditions described in the Grant Notice and these Award Terms.

“**Plan**” means the Amended and Restated Activision Blizzard, Inc. 2008 Incentive Plan, as amended from time to time.

“**Section 409A**” means Section 409A of the Code and the guidance and regulations promulgated thereunder.

“**Shares**” means the Common Shares which may be issued upon exercise of the Stock Option.

“**Spread**” means the excess, if any, of (i) the aggregate Market Value per Share of the Shares subject to the Stock Option over (ii) the aggregate Exercise Price of the Stock Option on the Exercise Date.

“**Term Sheet**” means the Corporate Governance Term Sheet approved by the Delaware Court of Chancery in connection with the settlement of *In re Activision, Inc. Shareholder Derivative Litigation*, C.D. Cal. Case No. CV06-4771 MRP (JTLx); *In re Activision Shareholder Derivative Litigation*, L.A.S.C. Case No. SC090343.

“**Withholding Taxes**” means any taxes, including, but not limited to, social security and Medicare taxes and federal, state and local income taxes, required to be withheld under any applicable law.

(b) Any capitalized term used but not otherwise defined herein shall have the meaning ascribed to such term in the Plan.

2. Vesting and Exercise.

(a) Vesting Schedule. Except as otherwise set forth in these Award Terms, the Stock Option shall vest in accordance with the “Schedule for Vesting” set forth on the Grant Notice.

(b) Exercisable Only by the Holder. Except as otherwise permitted under the Plan or Section 9 hereof, the Stock Option may be exercised during the Holder’s lifetime only by the Holder or, in the event of the Holder’s legal incapacity to do so, by the Holder’s guardian or legal representative acting on behalf of the Holder in a fiduciary capacity under state law and/or court supervision.

(c) Automatic Exercise on the Exercise Date. If the Market Value per Share on the Exercise Date is greater than the Exercise Price per Share, except as otherwise provided pursuant to Section 3(a), the Stock Option will be automatically exercised on such date as to any and all of the Shares as to which the Stock Option has vested without any action by the Holder. If the Market Value per Share on the Exercise Date is equal to or less than the Exercise Price, the

Stock Option shall be cancelled on such date without any consideration paid therefor. The Stock Option may not be exercised in any part prior to the Exercise Date, and any portion of the Stock Option which is not vested on the Exercise Date shall expire on such date and, after such expiration, shall no longer be exercisable.

(d) Payment of Exercise Price. The Exercise Price shall be paid through the withholding of Shares otherwise deliverable upon exercise. The number of Shares to be withheld shall equal the minimum number of whole Shares required to satisfy the aggregate Exercise Price in full.

(e) No Fractional Shares. In no event may the Stock Option be exercised for a fraction of a Share.

(f) Delivery of the Spread. As soon as practicable (and, in any event, within 30 days) after the exercise of the Stock Option on the Exercise Date, the Company shall pay to the Holder the Spread, which amount shall be paid in either cash or in Shares at the sole discretion of the Company. In the event the Company elects to settle the Spread in Shares, the Company shall (i) effect the issuance or transfer of the Shares due in respect of the Spread, (ii) cause the issuance or transfer of such Shares to be evidenced on the books and records of the Company, and (iii) cause such Shares to be delivered to a Company-Sponsored Equity Account in the name of the person entitled to such Shares (or, with the Company's consent, such other brokerage account as may be requested by such person); provided, however, that, in the event such Shares are subject to a legend as set forth in Section 13 hereof, the Company shall instead cause a certificate evidencing such Shares and bearing such legend to be delivered to the person entitled thereto. In the event the Company elects to settle the Spread in cash, interest shall be credited at 120% of the short-term applicable federal rate determined pursuant to Section 7872 of the Code, compounded annually from the Exercise Date through the date of payment.

(g) No Adjustment for Dividends or Other Rights. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date as of which the issuance or transfer of Shares to the person entitled thereto has been evidenced on the books and records of the Company.

3. Termination of Employment.

(a) Cause. In the event that the Holder's employment is terminated by the Company or any of its subsidiaries or affiliates for Cause, as of the date of such termination of employment the Stock Option shall (i) cease to vest, if not then fully vested, (ii) no longer be exercisable, whether or not vested, and (iii) be immediately cancelled.

(b) Other. In the event that the Holder's employment is terminated for any reason not addressed by Section 3(a), the Stock Option shall (i) cease to vest as of the date of such termination of employment and (ii) be exercised to the extent vested as of the date of such termination of employment in accordance with Section 2(c). To the extent not vested as of the date of such termination of service, the Stock Option shall be immediately cancelled and shall no longer be exercisable.

4. Tax Withholding. The Company shall have the right to require the Holder to satisfy any Withholding Taxes resulting from the exercise (in whole or in part) of the Stock Option, the issuance or transfer of any Shares upon exercise of the Stock Option or otherwise in

connection with the Award at the time such Withholding Taxes become due. The Company shall determine the method or methods the Holder may use to satisfy any Withholding Taxes contemplated by this Section 4, which may include any of the following: (a) by delivery to the Company of a bank check or certified check or wire transfer of immediately available funds; (b) if securities of the Company of the same class as the Shares are then traded or quoted on a national securities exchange, the Nasdaq Stock Market, Inc. or a national quotation system sponsored by the National Association of Securities Dealers, Inc., through the delivery of irrevocable written instructions, in a form acceptable to the Company, to the Equity Account Administrator (or, with the Company's consent, such other brokerage firm as may be requested by the person exercising the Stock Option) to sell some or all of the Shares, if any, being received upon such exercise in respect of the Spread, and to thereafter deliver promptly to the Company from the proceeds of such sale an amount in cash equal to the aggregate amount of such Withholding Taxes; (c) by tendering previously owned shares (valued at their Market Value per Share as of the date of tender); (d) through the withholding of Shares, if any, otherwise deliverable upon payment of the Spread; or (e) by any combination of (a), (b), (c) or (d) above. Notwithstanding anything to the contrary contained herein, (i) the Company or any of its subsidiaries or affiliates shall have the right to withhold from the Holder's compensation any Withholding Taxes contemplated by this Section 4 and (ii) the Company shall have no obligation to deliver any amount in cash or Shares upon exercise of the Stock Option unless and until all Withholding Taxes contemplated by this Section 4 have been satisfied.

5. Reservation of Shares. The Company shall at all times reserve for issuance or delivery upon exercise of the Stock Option such number of Common Shares as shall be required for issuance or delivery upon exercise thereof.

6. Committee Discretion. Except as may otherwise be provided in the Plan, the Committee shall have sole discretion to (a) interpret any provision of the Plan, the Grant Notice and these Award Terms, (b) make any determinations necessary or advisable for the administration of the Plan and the Award, and (c) waive any conditions or rights of the Company under the Award, the Grant Notice or these Award Terms. Without intending to limit the generality or effect of the foregoing, any decision or determination to be made by the Committee pursuant to these Award Terms, including whether to grant or withhold any consent, shall be made by the Committee in its sole and absolute discretion, subject only to the terms of the Plan. Subject to the terms of the Plan, the Committee may amend the terms of the Award prospectively or retroactively; however, no such amendment may materially and adversely affect the rights of the Holder taken as a whole without the Holder's consent. Without intending to limit the generality or effect of the foregoing, the Committee may amend the terms of the Award (i) in recognition of unusual or nonrecurring events (including, without limitation, events described in Section 7 hereof) affecting the Company or any of its subsidiaries or affiliates or the financial statements of the Company or any of its subsidiaries or affiliates, (ii) in response to changes in applicable laws, regulations or accounting principles and interpretations thereof, or (iii) to prevent the Award from becoming subject to Section 409A.

7. Adjustments. Notwithstanding anything to the contrary contained herein, pursuant to Section 11 of the Plan, the Committee will make or provide for such adjustments to the Award as are equitably required to prevent dilution or enlargement of the rights of the Holder that would otherwise result from (a) any stock dividend, extraordinary dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, (b) any change of control, merger, consolidation, spin-off, split-off, spin-out, split-up,

reorganization, partial or complete liquidation or other distribution of assets, or issuance of rights or warrants to purchase securities, or (c) any other corporate transaction or event having an effect similar to any of the foregoing. Moreover, in the event of any such transaction or event, the Committee, in its discretion, may provide in substitution for the Award such alternative consideration (including, without limitation, cash or other equity awards), if any, as it may determine to be equitable in the circumstances and may require in connection therewith the surrender of the Award.

8. Registration and Listing. Notwithstanding anything to the contrary contained herein, the Stock Option may not be exercised, and the Stock Option and Shares issuable upon exercise of the Stock Option may not be purchased, sold, assigned, transferred, pledged, hypothecated or otherwise disposed of or encumbered in any way, unless such transaction is in compliance with (a) the Securities Act of 1933, as amended, or any comparable federal securities law, and all applicable state securities laws, (b) the requirements of any securities exchange, securities association, market system or quotation system on which securities of the Company of the same class as the Shares are then traded or quoted, (c) any restrictions on transfer imposed by the Company's certificate of incorporation or bylaws, and (d) any policy or procedure the Company has adopted with respect to the trading of its securities, in each case as in effect on the date of the intended transaction. The Company is under no obligation to register, qualify or list, or maintain the registration, qualification or listing of, the Stock Option or Shares with the SEC, any state securities commission or any securities exchange, securities association, market system or quotation system to effect such compliance. The Holder shall make such representations and furnish such information as may be appropriate to permit the Company, in light of the then existence or non-existence of an effective registration statement under the Securities Act of 1933, as amended, relating to the Stock Option or Shares, to issue or transfer the Stock Option or Shares in compliance with the provisions of that or any comparable federal securities law and all applicable state securities laws. The Company shall have the right, but not the obligation, to register the issuance or resale of the Stock Option or Shares under the Securities Act of 1933, as amended, or any comparable federal securities law or applicable state securities law.

9. Transferability. Except as otherwise permitted under the Plan or this Section 9, the Stock Option shall not be transferable by the Holder other than by will or the laws of descent and distribution. Subject to the terms of the Plan, with the Company's consent, the Holder may transfer all or part of the Stock Option for estate planning purposes or pursuant to a domestic relations order; provided, however, that any transferee shall be bound by all of the terms and conditions of the Plan, the Grant Notice and these Award Terms and shall execute an agreement in form and substance satisfactory to the Company in connection with such transfer; and provided further that the Holder will remain bound by the terms and conditions of the Plan, the Grant Notice and these Award Terms.

10. Employment Violation. In the event of an Employment Violation, the Company shall have the right to require (i) the termination and cancellation of the Stock Option, whether vested or unvested, and (ii) if such Employment Violation occurs on or within the twelve months following the Exercise Date, repayment by the Holder to the Company of the Spread (which shall be repaid in whatever form in which it was paid). Any such termination of the Stock Option and repayment of the Spread, as the case may be, shall be in addition to, and not in lieu of, any other right or remedy available to the Company arising out of or in connection with such Employment Violation, including, without limitation, the right to terminate the Holder's

employment if not already terminated and to seek injunctive relief and additional monetary damages.

11. Compliance with Applicable Laws and Regulations and Company Policies and Procedures.

(a) The Holder is responsible for complying with (a) any federal, state and local taxation laws applicable to the Holder in connection with the Award, (b) any federal and state securities laws applicable to the Holder in connection with the Award, (c) the requirements of any securities exchange, securities association, market system or quotation system on which securities of the Company of the same class as the Shares are then traded or quoted, (d) any restrictions on transfer imposed by the Company's certificate of incorporation or bylaws, and (e) any policy or procedure the Company maintains or may adopt with respect to the trading of its securities.

(b) The Award is subject to the terms and conditions of the Term Sheet, and any Company policies or procedures adopted in connection with the Company's implementation of the Term Sheet, including, without limitation, any policy requiring or permitting the Company to recover any gains realized by the Holder in connection with the Award.

12. Section 409A.

(a) Payments contemplated with respect to the Award are intended to comply with Section 409A, and all provisions of the Plan, the Grant Notice and these Award Terms shall be construed and interpreted in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A. Notwithstanding the foregoing, (i) nothing in the Plan, the Grant Notice and these Award Terms shall guarantee that the Award is not subject to taxes or penalties under Section 409A and (ii) if any provision of the Plan, the Grant Notice or these Award Terms would, in the reasonable, good faith judgment of the Company, result or likely result in the imposition on the Holder or any other person of taxes, interest or penalties under Section 409A, the Committee may, in its sole discretion, modify the terms of the Plan, the Grant Notice or these Award Terms, without the consent of the Holder, in the manner that the Committee may reasonably and in good faith determine to be necessary or advisable to avoid the imposition of such taxes, interest or penalties; provided, however, that this Section 12 does not create an obligation on the part of the Committee or the Company to make any such modification.

(b) Neither the Holder nor any of the Holder's creditors or beneficiaries shall have the right to subject any deferred compensation (within the meaning of Section 409A) payable with respect to the Award to any anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment. Except as permitted under Section 409A, any deferred compensation (within the meaning of Section 409A) payable to the Holder or for the Holder's benefit with respect to the Award may not be reduced by, or offset against, any amount owing by the Holder to the Company.

(c) Notwithstanding anything to the contrary contained herein, if (i) the Holder is a "specified employee" (as defined in Section 409A) and (ii) a delay in the payment of the Spread to the Holder or his or her estate or beneficiaries hereunder by reason of the Holder's "separation from service" (as defined in Section 409A) with the Company or any of its subsidiaries or affiliates is required to avoid tax penalties under Section 409A, the Company

shall cause payment of the Spread to the Holder or the Holder's estate or beneficiary upon the earlier of (A) the date that is the first business day following the date that is six months after the date of the Holder's separation from service or (B) the Holder's death.

13. Legend. The Company may, if determined by it based on the advice of counsel to be appropriate, cause any certificate evidencing Shares to bear a legend substantially as follows:

"THE SECURITIES REPRESENTED HEREBY MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT."

14. No Right to Continued Employment. Nothing contained in the Grant Notice or these Award Terms shall be construed to confer upon the Holder any right to be continued in the employ of the Company or any of its subsidiaries or affiliates or derogate from any right of the Company or any of its subsidiaries or affiliates to retire, request the resignation of, or discharge the Holder at any time, with or without Cause.

15. No Rights as Stockholder. No holder of the Stock Option shall, by virtue of the Grant Notice or these Award Terms, be entitled to any right of a stockholder of the Company, either at law or in equity, and the rights of any such holder are limited to those expressed, and are not enforceable against the Company except to the extent set forth, in the Plan, the Grant Notice and these Award Terms.

16. Severability. In the event that one or more of the provisions of these Award Terms shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

17. Governing Law. To the extent that federal law does not otherwise control, the validity, interpretation, performance and enforcement of the Grant Notice and these Award Terms shall be governed by the laws of the State of Delaware, without giving effect to principles of conflicts of laws thereof.

18. Successors and Assigns. The provisions of the Grant Notice and these Award Terms shall be binding upon and inure to the benefit of the Company, its successors and assigns, and the Holder and, to the extent applicable, the Holder's permitted assigns under Section 2(b) hereof and the Holder's estate or beneficiary(ies) as determined by will or the laws of descent and distribution.

19. Notices. Any notice or other document which the Holder or the Company may be required or permitted to deliver to the other pursuant to or in connection with the Grant Notice or these Award Terms shall be in writing, and may be delivered personally or by mail, postage prepaid, or overnight courier, addressed as follows: (a) if to the Company, at its office at 3100 Ocean Park Boulevard, Santa Monica, California 90405, Attn: Stock Plan Administration, or such other address as the Company by notice to the Holder may designate in writing from time to time; and (b) if to the Holder, at the address shown in the Employment Agreement or such other address as the Holder by notice to the Company may designate in writing from time to time. Notices shall be effective upon receipt.

20. Conflict with Employment Agreement or Plan. In the event of any conflict between the terms of the Employment Agreement and the terms of the Grant Notice or these Award Terms, the terms of the Grant Notice or these Award Terms, as the case may be, shall control. In the event of any conflict between the terms of the Employment Agreement, the Grant Notice or these Award Terms and the terms of the Plan, the terms of the Plan shall control.

21. Deemed Agreement. By accepting the Award, the Holder is deemed to be bound by the terms and conditions set forth in the Plan, the Grant Notice and these Award Terms.

AMENDED AND RESTATED ACTIVISION BLIZZARD, INC.

2008 INCENTIVE PLAN

NOTICE OF RESTRICTED SHARE UNIT AWARD

You have been awarded Restricted Share Units of Activision Blizzard, Inc. (the “Company”), as follows:

- Your name: **Eric Hirshberg**
- Total number of Restricted Share Units awarded: **540,000**
- Date of Grant: **November 8, 2010**
- Grant ID: **08005702**
- Your Award of Restricted Share Units is governed by the terms and conditions set forth in:
 - this Notice of Restricted Share Unit Award;
 - the Restricted Share Unit Award Terms attached hereto as Exhibit A (the “Award Terms”); and
 - the Company’s Amended and Restated 2008 Incentive Plan, the receipt of a copy of which you hereby acknowledge.
- Your Award of Restricted Share Units has been made in connection with your employment agreement with Activision Publishing, Inc., a wholly owned subsidiary of the Company, dated as of July 6, 2010 (as it may be amended from time to time, the “Employment Agreement”), and is also governed by any applicable terms and conditions set forth in such agreement.
- *Schedule for Vesting:*

Except as otherwise provided under the Award Terms, the Restricted Share Units awarded to you will vest as follows, provided you remain continuously employed by the Company or one of its subsidiaries or affiliates through each such date:

Schedule for Vesting

| Date of Vesting | No. of Restricted Share Units Vesting at Vesting Date | Cumulative No. of Restricted Share Units Vested at Vesting Date |
|-----------------|---|---|
| August 31, 2011 | 108,00 | 108,000 |
| August 31, 2012 | 108,00 | 216,000 |
| August 31, 2013 | 108,00 | 324,000 |
| August 31, 2014 | 108,00 | 432,000 |
| August 31, 2015 | 108,00 | 540,000 |

- *Please sign and return to the Company this Notice of Restricted Share Unit Award, which bears an original signature on behalf of the Company. You are urged to do so promptly.*
- *Please return the signed Notice of Restricted Share Unit Award to the Company at:*

Activision Blizzard, Inc.
3100 Ocean Park Boulevard
Santa Monica, CA 90405
Attn: Stock Plan Administration

You should retain the enclosed duplicate copy of this Notice of Restricted Share Unit Award for your records.

Any capitalized term used but not otherwise defined herein shall have the meaning ascribed to such term in the Award Terms.

ACTIVISION BLIZZARD, INC.

/s/ Ann E. Weiser
Ann E. Weiser
Chief Human Resources Officer

Date: March 21, 2011

ACCEPTED AND AGREED:

/s/ Eric Hirshberg
Eric Hirshberg

Date: April 15, 2011

EXHIBIT A

AMENDED AND RESTATED ACTIVISION BLIZZARD, INC.

2008 INCENTIVE PLAN

RESTRICTED SHARE UNIT AWARD TERMS

1. Definitions.

(a) For purposes of these Award Terms, the following terms shall have the meanings set forth below:

“**Award**” means the award described on the Grant Notice.

“**Cause**” shall have the meaning given to such term in the Employment Agreement.

“**Common Shares**” means the shares of common stock, par value \$0.000001 per share, of the Company or any security into which such Common Shares may be changed by reason of any transaction or event of the type referred to in Section 9 hereof.

“**Company**” means Activision Blizzard, Inc. and any successor thereto.

“**Company Group**” means the Company or any of its subsidiaries or other affiliates.

“**Company-Sponsored Equity Account**” means an account that is created with the Equity Account Administrator in connection with the administration of the Company’s equity plans and programs, including the Plan.

“**Date of Grant**” means the Date of Grant of the Award set forth on the Grant Notice.

“**Employment Agreement**” has the meaning given to the term on the Grant Notice.

“**Employment Violation**” means any material breach by Grantee of his or her employment agreement with the Company or one of its subsidiaries or affiliates for so long as the terms of such employment agreement shall apply to Grantee (with any breach of the post-termination obligations contained therein deemed to be material for purposes of these Award Terms).

“**Equity Account Administrator**” means the brokerage firm utilized by the Company from time to time to create and administer accounts for participants in the Company’s equity plans and programs, including the Plan.

“**Grantee**” means the recipient of the Award named on the Grant Notice.

“Grant Notice” means the Notice of Restricted Share Unit Award to which these Award Terms are attached as Exhibit A.

“Look-back Period” means, with respect to any Employment Violation by Grantee, the period beginning on the date which is 12 months prior to the date of such Employment Violation by Grantee and ending on the date of computation of the Recapture Amount with respect to such Employment Violation.

“Plan” means the Amended and Restated Activision Blizzard, Inc. 2008 Incentive Plan, as amended from time to time.

“Recapture Amount” means, with respect to any Employment Violation by Grantee, the gross gain realized or unrealized by Grantee upon all vesting of Restricted Share Units or delivery or transfer of Vested Shares during the Look-back Period with respect to such Employment Violation, which gain shall be calculated as the sum of:

(i) if Grantee has received any Vested Shares during such Look-back Period and sold such Vested Shares, an amount equal to the product of (A) the sales price per Vested Share times (B) the number of such Vested Shares sold at such sales price; plus

(ii) if Grantee has received any Vested Shares during such Look-back Period and not sold such Vested Shares, an amount equal to the product of (A) the greatest of the following: (1) the Market Value per Share of Common Shares on the date such Vested Shares were issued or transferred to Grantee, (2) the arithmetic average of the per share closing sales prices of Common Shares as reported on NASDAQ for the 30 trading day period ending on the trading day immediately preceding the date of the Company’s written notice of its exercise of its rights under Section 12 hereof, or (3) the arithmetic average of the per share closing sales prices of Common Shares as reported on NASDAQ for the 30 trading day period ending on the trading day immediately preceding the date of computation, times (B) the number of such Vested Shares which were not sold.

“Restricted Share Units” means units subject to the Award, which represent the conditional right to receive Common Shares in accordance with the Grant Notice and these Award Terms, unless and until such units become vested or are forfeited to the Company in accordance with the Grant Notice and these Award Terms.

“Section 409A” means Section 409A of the Code and the guidance and regulations promulgated thereunder.

“Term Sheet” means the Corporate Governance Term Sheet approved by the Delaware Court of Chancery in connection with the settlement of *In re Activision, Inc. Shareholder Derivative Litigation*, C.D. Cal. Case No. CV06-4771 MRP (JTLx); *In re Activision Shareholder Derivative Litigation*, L.A.S.C. Case No. SC090343.

“Vested Shares” means Common Shares to which the holder of the Restricted Share Units becomes entitled upon vesting thereof in accordance with Section 2 or 3 hereof.

“**Withholding Taxes**” means any taxes, including, but not limited to, social security and Medicare taxes and federal, state and local income taxes, required to be withheld under any applicable law.

(b) Any capitalized term used but not otherwise defined herein shall have the meaning ascribed to such term in the Plan.

2. **Vesting.** Except as otherwise set forth in these Award Terms, the Restricted Share Units shall vest in accordance with the “Schedule for Vesting” set forth on the Grant Notice. Each Restricted Share Unit, upon vesting thereof, shall entitle the holder thereof to receive one Common Share (subject to adjustment pursuant to Section 9 hereof).

3. **Termination of Employment.**

(a) **Cause.** In the event that Grantee’s employment is terminated by the Company or any of its subsidiaries or affiliates for Cause, as of the date of such termination of employment all Restricted Share Units shall cease to vest and any outstanding Restricted Share Units and Vested Shares that have yet to settle pursuant to Section 7 hereof shall immediately be forfeited to the Company without payment of consideration by the Company.

(b) **Other.** Unless the Committee determines otherwise, in the event that Grantee’s employment is terminated for any reason other than for Cause, as of the date of such termination of employment all Restricted Share Units shall cease to vest and, with the exception of any Vested Shares that have yet to settle pursuant to Section 7 hereof, shall immediately be forfeited to the Company without payment of consideration by the Company.

4. **Tax Withholding.** The Company shall have the right to require Grantee to satisfy any Withholding Taxes resulting from the vesting of any Restricted Share Units, the issuance or transfer of any Vested Shares or otherwise in connection with the Award at the time such Withholding Taxes become due. The Company shall determine the method or methods Grantee may use to satisfy any Withholding Taxes contemplated by this Section 4, which may include any of the following: (a) by delivery to the Company of a bank check or certified check or wire transfer of immediately available funds; (b) through the delivery of irrevocable written instructions, in a form acceptable to the Company, that the Company withhold Vested Shares otherwise then deliverable having a value equal to the aggregate amount of the Withholding Taxes (valued in the same manner used in computing the amount of such Withholding Taxes); or (c) by any combination of (a) and (b) above. Notwithstanding anything to the contrary contained herein, (i) the Company or any of its subsidiaries or affiliates shall have the right to withhold from Grantee’s compensation any Withholding Taxes contemplated by this Section 4 and (ii) the Company shall have no obligation to deliver any Vested Shares unless and until all Withholding Taxes contemplated by this Section 4 have been satisfied.

5. **Reservation of Shares.** The Company shall at all times reserve for issuance or delivery upon vesting of the Restricted Share Units such number of Common Shares as shall be required for issuance or delivery upon vesting thereof.

6. **Dividend Equivalents.** In the event that any cash dividends are declared and paid on Common Shares to which the holder of the Restricted Share Units would be entitled upon

vesting thereof, such holder shall be paid, on the payment date for such dividend, the amount that such holder would have received if the Restricted Share Units had vested, and the Common Shares to which such holder was thereupon entitled had been issued and outstanding and held of record by such holder, as of the record date for such dividend; provided, however, that no such dividend equivalents shall be paid if the Restricted Share Units have been forfeited to the Company in accordance with Section 3 hereof prior to payment thereof. Notwithstanding the foregoing, in no event shall any such dividend equivalents be paid later than the 45th day following the year in which the related dividends are paid. For purposes of the time and form of payment requirements of Section 409A, such dividend equivalents shall be treated separately from the Restricted Share Units.

7. Receipt and Delivery. As soon as administratively practicable (and, in any event, within 30 days) after any Restricted Share Units vest, the Company shall (i) effect the issuance or transfer of the resulting Vested Shares, (ii) cause the issuance or transfer of such Vested Shares to be evidenced on the books and records of the Company, and (iii) cause such Vested Shares to be delivered to a Company-Sponsored Equity Account in the name of the person entitled to such Vested Shares (or, with the Company's consent, such other brokerage account as may be requested by such person); provided, however, that, in the event such Vested Shares are subject to a legend as set forth in Section 15 hereof, the Company shall instead cause a certificate evidencing such Vested Shares and bearing such legend to be delivered to the person entitled thereto.

8. Committee Discretion. Except as may otherwise be provided in the Plan, the Committee shall have sole discretion to (a) interpret any provision of the Plan, the Grant Notice and these Award Terms, (b) make any determinations necessary or advisable for the administration of the Plan and the Award, and (c) waive any conditions or rights of the Company under the Award, the Grant Notice or these Award Terms. Without intending to limit the generality or effect of the foregoing, any decision or determination to be made by the Committee pursuant to these Award Terms, including whether to grant or withhold any consent, shall be made by the Committee in its sole and absolute discretion, subject only to the terms of the Plan. Subject to the terms of the Plan, the Committee may amend the terms of the Award prospectively or retroactively; however, no such amendment may materially and adversely affect the rights of Grantee taken as a whole without Grantee's consent. Without intending to limit the generality or effect of the foregoing, the Committee may amend the terms of the Award (i) in recognition of unusual or nonrecurring events (including, without limitation, events described in Section 9 hereof) affecting the Company or any of its subsidiaries or affiliates or the financial statements of the Company or any of its subsidiaries or affiliates, (ii) in response to changes in applicable laws, regulations or accounting principles and interpretations thereof, or (iii) to prevent the Award from becoming subject to any adverse consequences under Section 409A.

9. Adjustments. Notwithstanding anything to the contrary contained herein, pursuant to Section 12 of the Plan, the Committee will make or provide for such adjustments to the Award as are equitably required to prevent dilution or enlargement of the rights of Grantee that would otherwise result from (a) any stock dividend, extraordinary dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, (b) any change of control, merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, or issuance of rights

or warrants to purchase securities, or (c) any other corporate transaction or event having an effect similar to any of the foregoing. Moreover, in the event of any such transaction or event, the Committee, in its discretion, may provide in substitution for the Award such alternative consideration (including, without limitation, cash or other equity awards), if any, as it may determine to be equitable in the circumstances and may require in connection therewith the surrender of the Award.

10. Registration and Listing. Notwithstanding anything to the contrary contained herein, the Company shall not be obligated to issue or transfer any Restricted Share Units or Vested Shares, and no Restricted Share Units or Vested Shares may be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of or encumbered in any way, unless such transaction is in compliance with (a) the Securities Act of 1933, as amended, or any comparable federal securities law, and all applicable state securities laws, (b) the requirements of any securities exchange, securities association, market system or quotation system on which securities of the Company of the same class as the securities subject to the Award are then traded or quoted, (c) any restrictions on transfer imposed by the Company's certificate of incorporation or bylaws, and (d) any policy or procedure the Company has adopted with respect to the trading of its securities, in each case as in effect on the date of the intended transaction. The Company is under no obligation to register, qualify or list, or maintain the registration, qualification or listing of, Restricted Share Units or Vested Shares with the SEC, any state securities commission or any securities exchange, securities association, market system or quotation system to effect such compliance. Grantee shall make such representations and furnish such information as may be appropriate to permit the Company, in light of the then existence or non-existence of an effective registration statement under the Securities Act of 1933, as amended, relating to Restricted Share Units or Vested Shares, to issue or transfer Restricted Share Units or Vested Shares in compliance with the provisions of that or any comparable federal securities law and all applicable state securities laws. The Company shall have the right, but not the obligation, to register the issuance or transfer of Restricted Share Units or Vested Shares or resale of Restricted Share Units or Vested Shares under the Securities Act of 1933, as amended, or any comparable federal securities law or applicable state securities law.

11. Transferability. Except as otherwise permitted under the Plan or this Section 11, the Restricted Share Units shall not be transferable by Grantee other than by will or the laws of descent and distribution. With the Company's consent, Grantee may transfer Restricted Share Units for estate planning purposes or pursuant to a domestic relations order; provided, however, that any transferee shall be bound by all of the terms and conditions of the Plan, the Grant Notice and these Award Terms and shall execute an agreement in form and substance satisfactory to the Company in connection with such transfer; and provided, further that Grantee will remain bound by the terms and conditions of the Plan, the Grant Notice and these Award Terms.

12. Employment Violation. In the event of an Employment Violation, the Company shall have the right to require (i) the forfeiture by Grantee to the Company of any outstanding Restricted Share Units or Vested Shares which have yet to settle pursuant to Section 7 hereof and (ii) payment by Grantee to the Company of the Recapture Amount with respect to such Employment Violation; provided, however, that, in lieu of payment by Grantee to the Company of the Recapture Amount, Grantee, in his or her discretion, may tender to the Company the Vested Shares acquired during the Look-back Period with respect to such Employment Violation

and Grantee shall not be entitled to receive any consideration from the Company in exchange therefor. Any such forfeiture of Restricted Share Units and payment of the Recapture Amount, as the case may be, shall be in addition to, and not in lieu of, any other right or remedy available to the Company arising out of or in connection with such Employment Violation, including, without limitation, the right to terminate Grantee's employment if not already terminated and to seek injunctive relief and additional monetary damages.

13. Compliance with Applicable Laws and Regulations and Company Policies and Procedures.

(a) Grantee is responsible for complying with (a) any federal, state and local taxation laws applicable to Grantee in connection with the Award, (b) any federal and state securities laws applicable to Grantee in connection with the Award, (c) the requirements of any securities exchange, securities association, market system or quotation system on which securities of the Company of the same class as the Shares are then traded or quoted, (d) any restrictions on transfer imposed by the Company's certificate of incorporation or bylaws, and (e) any policy or procedure the Company maintains or may adopt with respect to the trading of its securities.

(b) The Award is subject to the terms and conditions of the Term Sheet, and any Company policies or procedures adopted in connection with the Company's implementation of the Term Sheet, including, without limitation, any policy requiring or permitting the Company to recover any gains realized by Grantee in connection with the Award.

14. Section 409A.

(a) Payments contemplated with respect to the Award are intended to comply with Section 409A, and all provisions of the Plan, the Grant Notice and these Award Terms shall be construed and interpreted in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A. Notwithstanding the foregoing, (i) nothing in the Plan, the Grant Notice and these Award Terms shall guarantee that the Award is not subject to taxes or penalties under Section 409A and (ii) if any provision of the Plan, the Grant Notice or these Award Terms would, in the reasonable, good faith judgment of the Company, result or likely result in the imposition on Grantee or any other person of taxes, interest or penalties under Section 409A, the Committee may, in its sole discretion, modify the terms of the Plan, the Grant Notice or these Award Terms, without the consent of Grantee, in the manner that the Committee may reasonably and in good faith determine to be necessary or advisable to avoid the imposition of such taxes, interest or penalties; provided, however, that this Section 14 does not create an obligation on the part of the Committee or the Company to make any such modification.

(b) Neither Grantee nor any of Grantee's creditors or beneficiaries shall have the right to subject any deferred compensation (within the meaning of Section 409A) payable with respect to the Award to any anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment. Except as permitted under Section 409A, any deferred compensation (within the meaning of Section 409A) payable to Grantee or for Grantee's benefit with respect to the Award may not be reduced by, or offset against, any amount owing by Grantee to the Company.

(c) Notwithstanding anything to the contrary contained herein, if (i) the Committee determines in good faith that the Restricted Share Units do not qualify for the “short-term deferral exception” under Section 409A, (ii) Grantee is a “specified employee” (as defined in Section 409A) and (iii) a delay in the issuance or transfer of Vested Shares to Grantee or his or her estate or beneficiaries hereunder by reason of Grantee’s “separation from service” (as defined in Section 409A) with the Company or any of its subsidiaries or affiliates is required to avoid tax penalties under Section 409A but is not already provided for by this Award, the Company shall cause the issuance or transfer of such Vested Shares to Grantee or Grantee’s estate or beneficiary upon the earlier of (A) the date that is the first business day following the date that is six months after the date of Grantee’s separation from service or (B) Grantee’s death.

15. Legend. The Company may, if determined by it based on the advice of counsel to be appropriate, cause any certificate evidencing Vested Shares to bear a legend substantially as follows:

“THE SECURITIES REPRESENTED HEREBY MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT.”

16. No Right to Continued Employment. Nothing contained in the Grant Notice or these Award Terms shall be construed to confer upon Grantee any right to be continued in the employ of the Company or any of its subsidiaries or affiliates or derogate from any right of the Company or any of its subsidiaries or affiliates to retire, request the resignation of, or discharge Grantee at any time, with or without cause.

17. No Rights as Stockholder. No holder of Restricted Share Units shall, by virtue of the Grant Notice or these Award Terms, be entitled to any right of a stockholder of the Company, either at law or in equity, and the rights of any such holder are limited to those expressed, and are not enforceable against the Company except to the extent set forth in the Plan, the Grant Notice and these Award Terms.

18. Severability. In the event that one or more of the provisions of these Award Terms shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

19. Governing Law. To the extent that federal law does not otherwise control, the validity, interpretation, performance and enforcement of the Grant Notice and these Award Terms shall be governed by the laws of the State of Delaware, without giving effect to principles of conflicts of laws thereof.

20. Successors and Assigns. The provisions of the Grant Notice and these Award Terms shall be binding upon and inure to the benefit of the Company, its successors and assigns, and Grantee and, to the extent applicable, Grantee's permitted assigns under Section 11 hereof and Grantee's estate or beneficiary(ies) as determined by will or the laws of descent and distribution.

21. Notices. Any notice or other document which Grantee or the Company may be required or permitted to deliver to the other pursuant to or in connection with the Grant Notice or these Award Terms shall be in writing, and may be delivered personally or by mail, postage prepaid, or overnight courier, addressed as follows: (a) if to the Company, at its office at 3100 Ocean Park Boulevard, Santa Monica, California 90405, Attn: Stock Plan Administration, or such other address as the Company by notice to Grantee may designate in writing from time to time; and (b) if to Grantee, at the address shown in the Employment Agreement, or such other address as Grantee by notice to the Company may designate in writing from time to time. Notices shall be effective upon receipt.

22. Conflict with Employment Agreement or Plan. In the event of any conflict between the terms of the Employment Agreement and the terms of the Grant Notice or these Award Terms, the terms of the Grant Notice or these Award Terms, as the case may be, shall control. In the event of any conflict between the terms of the Employment Agreement, the Grant Notice or these Award Terms and the terms of the Plan, the terms of the Plan shall control.

23. Deemed Agreement. By accepting the Award, Grantee is deemed to be bound by the terms and conditions set forth in the Plan, the Grant Notice and these Award Terms.

AMENDED AND RESTATED ACTIVISION BLIZZARD, INC.

2008 INCENTIVE PLAN

NOTICE OF RESTRICTED SHARE UNIT AWARD

You have been awarded Restricted Share Units of Activision Blizzard, Inc. (the “Company”), as follows:

- Your name: **Eric Hirshberg**
- Total number of Restricted Share Units awarded: **300,000**
- Date of Grant: **November 8, 2010**
- Grant ID: **08005787**
- Your Award of Restricted Share Units is governed by the terms and conditions set forth in:
 - this Notice of Restricted Share Unit Award;
 - the Restricted Share Unit Award Terms attached hereto as Exhibit A (the “Award Terms”); and
 - the Company’s Amended and Restated 2008 Incentive Plan, the receipt of a copy of which you hereby acknowledge.
- Your Award of Restricted Share Units has been made in connection with your employment agreement with Activision Publishing, Inc., a wholly owned subsidiary of the Company, dated as of July 6, 2010 (as it may be amended from time to time, the “Employment Agreement”), and is also governed by any applicable terms and conditions set forth in such agreement.
- *Schedule for Vesting:*

Except as otherwise provided under the Award Terms, the Restricted Share Units awarded to you will vest as follows, provided you remain continuously employed by the Company or one of its subsidiaries or affiliates through each such date:

Schedule for Vesting

| On this Date | The Following Number of Restricted Share Units Vest | If, and Only, if the Committee Determines that the Following Has Occurred |
|----------------|---|--|
| March 15, 2012 | 60,000 | The operating income objectives for Activision Publishing, Inc. set forth in the Company’s 2011 annual operating |

Schedule for Vesting

| On this Date | The Following Number of Restricted Share Units Vest | If, and Only, if the Committee Determines that the Following Has Occurred |
|-----------------------|--|---|
| | | plan which were approved by the Committee on or prior to the 90th day of that year have been met or exceeded |
| March 15, 2013 | 60,000 | The operating income objectives for Activision Publishing, Inc. set forth in the Company's 2012 annual operating plan which were approved by the Committee on or prior to the 90th day of that year have been met or exceeded |
| March 15, 2014 | 60,000 | The operating income objectives for Activision Publishing, Inc. set forth in the Company's 2013 annual operating plan which were approved by the Committee on or prior to the 90th day of that year have been met or exceeded |
| March 15, 2015 | 60,000 | The operating income objectives for Activision Publishing, Inc. set forth in the Company's 2014 annual operating plan which were approved by the Committee on or prior to the 90th day of that year have been met or exceeded |
| March 10, 2016 | 60,000 | The operating income objectives for Activision Publishing, Inc. set forth in the Company's 2015 annual operating plan which were approved by the |

Schedule for Vesting

| On this Date | The Following Number of Restricted Share Units Vest | If, and Only, if the Committee Determines that the Following Has Occurred |
|--|---|--|
| Committee on or prior to the 90 th day of that year have been met or exceeded | | |

- *Please sign and return to the Company this Notice of Restricted Share Unit Award, which bears an original signature on behalf of the Company. You are urged to do so promptly.*
- *Please return the signed Notice of Restricted Share Unit Award to the Company at:*

Activision Blizzard, Inc.
3100 Ocean Park Boulevard
Santa Monica, CA 90405
Attn: Stock Plan Administration

You should retain the enclosed duplicate copy of this Notice of Restricted Share Unit Award for your records.

Any capitalized term used but not otherwise defined herein shall have the meaning ascribed to such term in the Award Terms.

ACTIVISION BLIZZARD, INC.

/s/ Ann E. Weiser

Ann E. Weiser
Chief Human Resources Officer

Date: March 21, 2011

ACCEPTED AND AGREED:

/s/ Eric Hirshberg

Eric Hirshberg

Date: April 15, 2011

EXHIBIT A

AMENDED AND RESTATED ACTIVISION BLIZZARD, INC.

2008 INCENTIVE PLAN

RESTRICTED SHARE UNIT AWARD TERMS

1. Definitions.

(a) For purposes of these Award Terms, the following terms shall have the meanings set forth below:

“Award” means the award described on the Grant Notice.

“Cause” shall have the meaning given to such term in the Employment Agreement.

“Common Shares” means the shares of common stock, par value \$0.000001 per share, of the Company or any security into which such Common Shares may be changed by reason of any transaction or event of the type referred to in Section 9 hereof.

“Company” means Activision Blizzard, Inc. and any successor thereto.

“Company Group” means the Company or any of its subsidiaries or other affiliates.

“Company-Sponsored Equity Account” means an account that is created with the Equity Account Administrator in connection with the administration of the Company’s equity plans and programs, including the Plan.

“Date of Grant” means the Date of Grant of the Award set forth on the Grant Notice.

“Employment Agreement” has the meaning given to the term on the Grant Notice.

“Employment Violation” means any material breach by Grantee of his or her employment agreement with the Company or one of its subsidiaries or affiliates for so long as the terms of such employment agreement shall apply to Grantee (with any breach of the post-termination obligations contained therein deemed to be material for purposes of these Award Terms).

“Equity Account Administrator” means the brokerage firm utilized by the Company from time to time to create and administer accounts for participants in the Company’s equity plans and programs, including the Plan.

“Grantee” means the recipient of the Award named on the Grant Notice.

“Grant Notice” means the Notice of Restricted Share Unit Award to which these Award Terms are attached as Exhibit A.

“Look-back Period” means, with respect to any Employment Violation by Grantee, the period beginning on the date which is 12 months prior to the date of such Employment Violation by Grantee and ending on the date of computation of the Recapture Amount with respect to such Employment Violation.

“Plan” means the Amended and Restated Activision Blizzard, Inc. 2008 Incentive Plan, as amended from time to time.

“Recapture Amount” means, with respect to any Employment Violation by Grantee, the gross gain realized or unrealized by Grantee upon all vesting of Restricted Share Units or delivery or transfer of Vested Shares during the Look-back Period with respect to such Employment Violation, which gain shall be calculated as the sum of:

(i) if Grantee has received any Vested Shares during such Look-back Period and sold such Vested Shares, an amount equal to the product of (A) the sales price per Vested Share times (B) the number of such Vested Shares sold at such sales price; plus

(ii) if Grantee has received any Vested Shares during such Look-back Period and not sold such Vested Shares, an amount equal to the product of (A) the greatest of the following: (1) the Market Value per Share of Common Shares on the date such Vested Shares were issued or transferred to Grantee, (2) the arithmetic average of the per share closing sales prices of Common Shares as reported on NASDAQ for the 30 trading day period ending on the trading day immediately preceding the date of the Company’s written notice of its exercise of its rights under Section 12 hereof, or (3) the arithmetic average of the per share closing sales prices of Common Shares as reported on NASDAQ for the 30 trading day period ending on the trading day immediately preceding the date of computation, times (B) the number of such Vested Shares which were not sold.

“Restricted Share Units” means units subject to the Award, which represent the conditional right to receive Common Shares in accordance with the Grant Notice and these Award Terms, unless and until such units become vested or are forfeited to the Company in accordance with the Grant Notice and these Award Terms.

“Section 409A” means Section 409A of the Code and the guidance and regulations promulgated thereunder.

“Term Sheet” means the Corporate Governance Term Sheet approved by the Delaware Court of Chancery in connection with the settlement of *In re Activision, Inc. Shareholder Derivative Litigation*, C.D. Cal. Case No. CV06-4771 MRP (JTLx); *In re Activision Shareholder Derivative Litigation*, L.A.S.C. Case No. SC090343.

“Vested Shares” means Common Shares to which the holder of the Restricted Share Units becomes entitled upon vesting thereof in accordance with Section 2 or 3 hereof.

“**Withholding Taxes**” means any taxes, including, but not limited to, social security and Medicare taxes and federal, state and local income taxes, required to be withheld under any applicable law.

(b) Any capitalized term used but not otherwise defined herein shall have the meaning ascribed to such term in the Plan.

2. **Vesting.** Except as otherwise set forth in these Award Terms, the Restricted Share Units shall vest in accordance with the “Schedule for Vesting” set forth on the Grant Notice. Each Restricted Share Unit, upon vesting thereof, shall entitle the holder thereof to receive one Common Share (subject to adjustment pursuant to Section 9 hereof).

3. **Termination of Employment.**

(a) **Cause.** In the event that Grantee’s employment is terminated by the Company or any of its subsidiaries or affiliates for Cause, as of the date of such termination of employment all Restricted Share Units shall cease to vest and any outstanding Restricted Share Units and Vested Shares that have yet to settle pursuant to Section 7 hereof shall immediately be forfeited to the Company without payment of consideration by the Company.

(b) **Other.** Unless the Committee determines otherwise, in the event that Grantee’s employment is terminated for any reason other than for Cause, as of the date of such termination of employment all Restricted Share Units shall cease to vest and, with the exception of any Vested Shares that have yet to settle pursuant to Section 7 hereof, shall immediately be forfeited to the Company without payment of consideration by the Company.

4. **Tax Withholding.** The Company shall have the right to require Grantee to satisfy any Withholding Taxes resulting from the vesting of any Restricted Share Units, the issuance or transfer of any Vested Shares or otherwise in connection with the Award at the time such Withholding Taxes become due. The Company shall determine the method or methods Grantee may use to satisfy any Withholding Taxes contemplated by this Section 4, which may include any of the following: (a) by delivery to the Company of a bank check or certified check or wire transfer of immediately available funds; (b) through the delivery of irrevocable written instructions, in a form acceptable to the Company, that the Company withhold Vested Shares otherwise then deliverable having a value equal to the aggregate amount of the Withholding Taxes (valued in the same manner used in computing the amount of such Withholding Taxes); or (c) by any combination of (a) and (b) above. Notwithstanding anything to the contrary contained herein, (i) the Company or any of its subsidiaries or affiliates shall have the right to withhold from Grantee’s compensation any Withholding Taxes contemplated by this Section 4 and (ii) the Company shall have no obligation to deliver any Vested Shares unless and until all Withholding Taxes contemplated by this Section 4 have been satisfied.

5. **Reservation of Shares.** The Company shall at all times reserve for issuance or delivery upon vesting of the Restricted Share Units such number of Common Shares as shall be required for issuance or delivery upon vesting thereof.

6. **Dividend Equivalents.** In the event that any cash dividends are declared and paid on Common Shares to which the holder of the Restricted Share Units would be entitled upon

vesting thereof, such holder shall be paid, on the payment date for such dividend, the amount that such holder would have received if the Restricted Share Units had vested, and the Common Shares to which such holder was thereupon entitled had been issued and outstanding and held of record by such holder, as of the record date for such dividend; provided, however, that no such dividend equivalents shall be paid if the Restricted Share Units have been forfeited to the Company in accordance with Section 3 hereof prior to payment thereof. Notwithstanding the foregoing, in no event shall any such dividend equivalents be paid later than the 45th day following the year in which the related dividends are paid. For purposes of the time and form of payment requirements of Section 409A, such dividend equivalents shall be treated separately from the Restricted Share Units.

7. Receipt and Delivery. Upon the earlier to occur of (x) March 10, 2016 and (y) five (5) days following the termination of Grantee's employment for any reason on or prior to December 31, 2015, the Company shall (i) effect the issuance or transfer of the resulting Vested Shares, (ii) cause the issuance or transfer of such Vested Shares to be evidenced on the books and records of the Company, and (iii) cause such Vested Shares to be delivered to a Company-Sponsored Equity Account in the name of the person entitled to such Vested Shares (or, with the Company's consent, such other brokerage account as may be requested by such person); provided, however, that, in the event such Vested Shares are subject to a legend as set forth in Section 15 hereof, the Company shall instead cause a certificate evidencing such Vested Shares and bearing such legend to be delivered to the person entitled thereto.

8. Committee Discretion. Except as may otherwise be provided in the Plan, the Committee shall have sole discretion to (a) interpret any provision of the Plan, the Grant Notice and these Award Terms, (b) make any determinations necessary or advisable for the administration of the Plan and the Award, and (c) waive any conditions or rights of the Company under the Award, the Grant Notice or these Award Terms. Without intending to limit the generality or effect of the foregoing, any decision or determination to be made by the Committee pursuant to these Award Terms, including whether to grant or withhold any consent, shall be made by the Committee in its sole and absolute discretion, subject only to the terms of the Plan. Subject to the terms of the Plan, the Committee may amend the terms of the Award prospectively or retroactively; however, no such amendment may materially and adversely affect the rights of Grantee taken as a whole without Grantee's consent. Without intending to limit the generality or effect of the foregoing, the Committee may amend the terms of the Award (i) in recognition of unusual or nonrecurring events (including, without limitation, events described in Section 9 hereof) affecting the Company or any of its subsidiaries or affiliates or the financial statements of the Company or any of its subsidiaries or affiliates, (ii) in response to changes in applicable laws, regulations or accounting principles and interpretations thereof, or (iii) to prevent the Award from becoming subject to any adverse consequences under Section 409A.

9. Adjustments. Notwithstanding anything to the contrary contained herein, pursuant to Section 12 of the Plan, the Committee will make or provide for such adjustments to the Award as are equitably required to prevent dilution or enlargement of the rights of Grantee that would otherwise result from (a) any stock dividend, extraordinary dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, (b) any change of control, merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, or issuance of rights

or warrants to purchase securities, or (c) any other corporate transaction or event having an effect similar to any of the foregoing. Moreover, in the event of any such transaction or event, the Committee, in its discretion, may provide in substitution for the Award such alternative consideration (including, without limitation, cash or other equity awards), if any, as it may determine to be equitable in the circumstances and may require in connection therewith the surrender of the Award.

10. Registration and Listing. Notwithstanding anything to the contrary contained herein, the Company shall not be obligated to issue or transfer any Restricted Share Units or Vested Shares, and no Restricted Share Units or Vested Shares may be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of or encumbered in any way, unless such transaction is in compliance with (a) the Securities Act of 1933, as amended, or any comparable federal securities law, and all applicable state securities laws, (b) the requirements of any securities exchange, securities association, market system or quotation system on which securities of the Company of the same class as the securities subject to the Award are then traded or quoted, (c) any restrictions on transfer imposed by the Company's certificate of incorporation or bylaws, and (d) any policy or procedure the Company has adopted with respect to the trading of its securities, in each case as in effect on the date of the intended transaction. The Company is under no obligation to register, qualify or list, or maintain the registration, qualification or listing of, Restricted Share Units or Vested Shares with the SEC, any state securities commission or any securities exchange, securities association, market system or quotation system to effect such compliance. Grantee shall make such representations and furnish such information as may be appropriate to permit the Company, in light of the then existence or non-existence of an effective registration statement under the Securities Act of 1933, as amended, relating to Restricted Share Units or Vested Shares, to issue or transfer Restricted Share Units or Vested Shares in compliance with the provisions of that or any comparable federal securities law and all applicable state securities laws. The Company shall have the right, but not the obligation, to register the issuance or transfer of Restricted Share Units or Vested Shares or resale of Restricted Share Units or Vested Shares under the Securities Act of 1933, as amended, or any comparable federal securities law or applicable state securities law.

11. Transferability. Except as otherwise permitted under the Plan or this Section 11, the Restricted Share Units shall not be transferable by Grantee other than by will or the laws of descent and distribution. With the Company's consent, Grantee may transfer Restricted Share Units for estate planning purposes or pursuant to a domestic relations order; provided, however, that any transferee shall be bound by all of the terms and conditions of the Plan, the Grant Notice and these Award Terms and shall execute an agreement in form and substance satisfactory to the Company in connection with such transfer; and provided, further that Grantee will remain bound by the terms and conditions of the Plan, the Grant Notice and these Award Terms.

12. Employment Violation. In the event of an Employment Violation, the Company shall have the right to require (i) the forfeiture by Grantee to the Company of any outstanding Restricted Share Units or Vested Shares which have yet to settle pursuant to Section 7 hereof and (ii) payment by Grantee to the Company of the Recapture Amount with respect to such Employment Violation; provided, however, that, in lieu of payment by Grantee to the Company of the Recapture Amount, Grantee, in his or her discretion, may tender to the Company the Vested Shares acquired during the Look-back Period with respect to such Employment Violation

and Grantee shall not be entitled to receive any consideration from the Company in exchange therefor. Any such forfeiture of Restricted Share Units and payment of the Recapture Amount, as the case may be, shall be in addition to, and not in lieu of, any other right or remedy available to the Company arising out of or in connection with such Employment Violation, including, without limitation, the right to terminate Grantee's employment if not already terminated and to seek injunctive relief and additional monetary damages.

13. Compliance with Applicable Laws and Regulations and Company Policies and Procedures.

(a) Grantee is responsible for complying with (a) any federal, state and local taxation laws applicable to Grantee in connection with the Award, (b) any federal and state securities laws applicable to Grantee in connection with the Award, (c) the requirements of any securities exchange, securities association, market system or quotation system on which securities of the Company of the same class as the Shares are then traded or quoted, (d) any restrictions on transfer imposed by the Company's certificate of incorporation or bylaws, and (e) any policy or procedure the Company maintains or may adopt with respect to the trading of its securities.

(b) The Award is subject to the terms and conditions of the Term Sheet, and any Company policies or procedures adopted in connection with the Company's implementation of the Term Sheet, including, without limitation, any policy requiring or permitting the Company to recover any gains realized by Grantee in connection with the Award.

14. Section 409A.

(a) Payments contemplated with respect to the Award are intended to comply with Section 409A, and all provisions of the Plan, the Grant Notice and these Award Terms shall be construed and interpreted in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A. Notwithstanding the foregoing, (i) nothing in the Plan, the Grant Notice and these Award Terms shall guarantee that the Award is not subject to taxes or penalties under Section 409A and (ii) if any provision of the Plan, the Grant Notice or these Award Terms would, in the reasonable, good faith judgment of the Company, result or likely result in the imposition on Grantee or any other person of taxes, interest or penalties under Section 409A, the Committee may, in its sole discretion, modify the terms of the Plan, the Grant Notice or these Award Terms, without the consent of Grantee, in the manner that the Committee may reasonably and in good faith determine to be necessary or advisable to avoid the imposition of such taxes, interest or penalties; provided, however, that this Section 14 does not create an obligation on the part of the Committee or the Company to make any such modification.

(b) Neither Grantee nor any of Grantee's creditors or beneficiaries shall have the right to subject any deferred compensation (within the meaning of Section 409A) payable with respect to the Award to any anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment. Except as permitted under Section 409A, any deferred compensation (within the meaning of Section 409A) payable to Grantee or for Grantee's benefit with respect to the Award may not be reduced by, or offset against, any amount owing by Grantee to the Company.

(c) Notwithstanding anything to the contrary contained herein, if (i) the Committee determines in good faith that the Restricted Share Units do not qualify for the “short-term deferral exception” under Section 409A, (ii) Grantee is a “specified employee” (as defined in Section 409A) and (iii) a delay in the issuance or transfer of Vested Shares to Grantee or his or her estate or beneficiaries hereunder by reason of Grantee’s “separation from service” (as defined in Section 409A) with the Company or any of its subsidiaries or affiliates is required to avoid tax penalties under Section 409A but is not already provided for by this Award, the Company shall cause the issuance or transfer of such Vested Shares to Grantee or Grantee’s estate or beneficiary upon the earlier of (A) the date that is the first business day following the date that is six months after the date of Grantee’s separation from service or (B) Grantee’s death.

15. Legend. The Company may, if determined by it based on the advice of counsel to be appropriate, cause any certificate evidencing Vested Shares to bear a legend substantially as follows:

“THE SECURITIES REPRESENTED HEREBY MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT.”

16. No Right to Continued Employment. Nothing contained in the Grant Notice or these Award Terms shall be construed to confer upon Grantee any right to be continued in the employ of the Company or any of its subsidiaries or affiliates or derogate from any right of the Company or any of its subsidiaries or affiliates to retire, request the resignation of, or discharge Grantee at any time, with or without cause.

17. No Rights as Stockholder. No holder of Restricted Share Units shall, by virtue of the Grant Notice or these Award Terms, be entitled to any right of a stockholder of the Company, either at law or in equity, and the rights of any such holder are limited to those expressed, and are not enforceable against the Company except to the extent set forth in the Plan, the Grant Notice and these Award Terms.

18. Severability. In the event that one or more of the provisions of these Award Terms shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

19. Governing Law. To the extent that federal law does not otherwise control, the validity, interpretation, performance and enforcement of the Grant Notice and these Award Terms shall be governed by the laws of the State of Delaware, without giving effect to principles of conflicts of laws thereof.

20. Successors and Assigns. The provisions of the Grant Notice and these Award Terms shall be binding upon and inure to the benefit of the Company, its successors and assigns, and Grantee and, to the extent applicable, Grantee's permitted assigns under Section 11 hereof and Grantee's estate or beneficiary(ies) as determined by will or the laws of descent and distribution.

21. Notices. Any notice or other document which Grantee or the Company may be required or permitted to deliver to the other pursuant to or in connection with the Grant Notice or these Award Terms shall be in writing, and may be delivered personally or by mail, postage prepaid, or overnight courier, addressed as follows: (a) if to the Company, at its office at 3100 Ocean Park Boulevard, Santa Monica, California 90405, Attn: Stock Plan Administration, or such other address as the Company by notice to Grantee may designate in writing from time to time; and (b) if to Grantee, at the address shown in the Employment Agreement, or such other address as Grantee by notice to the Company may designate in writing from time to time. Notices shall be effective upon receipt.

22. Conflict with Employment Agreement or Plan. In the event of any conflict between the terms of the Employment Agreement and the terms of the Grant Notice or these Award Terms, the terms of the Grant Notice or these Award Terms, as the case may be, shall control. In the event of any conflict between the terms of the Employment Agreement, the Grant Notice or these Award Terms and the terms of the Plan, the terms of the Plan shall control.

23. Deemed Agreement. By accepting the Award, Grantee is deemed to be bound by the terms and conditions set forth in the Plan, the Grant Notice and these Award Terms.

**Amendment #1 to the Employment Agreement
Between Brian Hodous and Activision Publishing, Inc.**

This Amendment #1 to the Employment Agreement (“Amendment”) is effective as of August 1, 2011, by and between Brian Hodous (“Employee”) and Activision Publishing, Inc. (“Employer”), a subsidiary of Activision Blizzard, Inc. (“*Activision Blizzard*” and, together with its subsidiaries, the “*Activision Blizzard Group*”). All capitalized terms shall have the same meaning set forth in the Employment Agreement (as defined below).

RECITALS:

Employee and Employer entered into an Employment Agreement dated as of July 31, 2009 (the “Employment Agreement”).

Employee and Employer desire to amend the Employment Agreement in certain respects as set forth herein.

AGREEMENT:

The parties hereby agree to amend the terms of the Employment Agreement. Except as specifically set forth in this Amendment, the Employment Agreement shall remain unmodified and in full force and effect. If any term or provision of the Employment Agreement is contradictory to, or inconsistent with, any term or provision of this Amendment, then the terms of this Amendment shall in all events control. The amended terms are as follows:

1. **Term of Employment:** In Paragraph 1(a), the Expiration Date is changed from July 31, 2011 to March 31, 2013.

2. **Compensation:** Paragraphs 2(b) and 2(d) are modified as follows:

(b) The first sentence of Paragraph 2(b) shall now read: “Consistent with the salary increase to be provided to you on March 6, 2011, you shall receive an annual base salary (“*Base Salary*”) of \$610,000.00 paid in accordance with the Employer’s payroll practices in effect from time to time.”

(d) Paragraph 2(d) shall now read: “Subject to the approval of the Compensation Committee of the Board of Directors of Activision Blizzard (the “*Compensation Committee*”), Activision Blizzard will grant to you a non-qualified stock option to purchase 50,000 shares of Activision Blizzard’s common stock (the “*Option*”), 55,000 restricted share units which represent the conditional right to receive shares of Activision Blizzard’s common stock (the “*RSUs*”), and 40,000 performance-vesting restricted stock units, which represent the conditional right to receive shares of Activision Blizzard’s common stock (the “*Performance RSUs*,” and collectively with the Option and RSUs, the “*2011 Equity Awards*”).

- (ii) The Option will vest in full on March 31, 2013, subject to your remaining employed by the Activision Blizzard Group through such vesting date.
- (iii) The RSUs will vest in full on March 31, 2013, subject to your remaining employed by the Activision Blizzard Group through such vesting date.
- (iv) The Performance RSUs will vest on or about (but no later than) March 15, 2013, as determined by the Compensation Committee, as follows: (1) one-half of the Performance RSUs will vest if, and only if, the Compensation Committee determines that Activision Blizzard's operating income is greater than or equal to the operating income objectives for Activision Blizzard set forth in its annual operating plan established by the Board of Directors and approved by the Compensation Committee (the "Performance Objective") for fiscal year 2011; and (2) one-half of the Performance RSUs will vest if, and only if, the Compensation Committee determines that the Performance Objective is met for fiscal year 2012. Employee acknowledges that vesting of the Performance RSUs is subject to your remaining employed by the Activision Blizzard Group through the vesting date and the Compensation Committee's determination, in its discretion, that the performance objectives have been satisfied.

You acknowledge that the grant of 2011 Equity Awards pursuant to this Section 2(d) is expressly conditioned upon approval by the Compensation Committee, and that the Compensation Committee has discretion to approve or disapprove the grants and/or to determine and make modifications to the terms of the grants. The 2011 Equity Awards shall be subject to all terms of the equity incentive plan pursuant to which they are granted (the "**Incentive Plan**") and Activision Blizzard's standard forms of award agreement (as modified to the extent necessary to reflect the provisions of Section 10). In the event of a conflict between this Agreement and the terms of the Incentive Plan or award agreements, the Incentive Plan or the award agreements, as applicable, shall govern. These 2011 Equity Awards, if and when approved by the Compensation Committee, shall be in addition to any previous equity incentive awards made to you."

3. **Duties:** Paragraph 4 shall be modified to reflect that Employee shall report to Activision Blizzard's Chief Operating Officer (or such other executive of the Activision Blizzard Group as may be determined from time to time by it in its sole and absolute discretion) and all references in Paragraph 4 to Employer's "President and Chief Executive Officer" shall be changed to "Activision Blizzard's Chief Operating Officer."

4. **Termination of Obligations and Severance Payments:** Paragraph 11, specifically including Paragraphs 11(b)(iv), 11(c)(iv)b, 11(d)(ii), and 11(e)(iii), shall be modified as follows:

- a. Where the reference to "Equity Awards" appears, it shall now read "Equity Awards and 2011 Equity Awards"
- b. Where the sentence "All vested RSUs shall be paid in accordance with their terms." appears, it shall now read "All vested RSUs and Performance RSUs shall be paid in accordance with their terms."

5. **Notices:** Paragraph 14 shall be modified to reflect the following address for Employee: 12248 Gorham Ave., Los Angeles, CA 90049.

AGREED AND ACCEPTED:

Employer

Employee

ACTIVISION PUBLISHING, INC.

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

/s/ Brian Hodous
Brian Hodous

Date: March 3, 2011

Date: February 28, 2011

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: May 9, 2011

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

CERTIFICATION

I, Thomas Tipl, 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: May 9, 2011

/s/ THOMAS TIPPL

Thomas Tipl
*Chief Operating Officer and Chief Financial Officer,
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 March 31, 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: May 9, 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 March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas Tippel, 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: May 9, 2011

/s/ THOMAS TIPPL

Thomas Tippel

*Chief Operating Officer and Chief Financial Officer,
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.
