

**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 December 31, 2007

OR

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

For the transition period from _____ to _____

Commission File Number 001-15839

ACTIVISION, 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 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 Act). Yes No

The number of shares of the registrant's Common Stock outstanding as of February 4, 2008 was 293,913,474.

ACTIVISION, INC. AND SUBSIDIARIES

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CAUTIONARY STATEMENT

This Quarterly Report on Form 10-Q contains, or incorporates by reference, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, but are not limited to, (1) projections of revenues, expenses, income or loss, earnings or loss per share, cash flow projections or other financial items; (2) statements of our plans and objectives, including those relating to product releases; (3) statements of future economic performance; and (4) statements of assumptions underlying such statements. We generally use words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "future," "intend," "may," "outlook," "plan," "positioned," "potential," "project," "remain," "scheduled," "set to," "subject to," "to be," "upcoming," "will," and other similar expressions to help identify forward-looking statements. These forward-looking statements are subject to business and economic risk, reflect management's current expectations, estimates and projections about our business, and are inherently uncertain and difficult to predict. Our actual results could differ materially. The forward-looking statements contained herein speak only as of the date on which they were made, and we disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of this Quarterly Report. Risks and uncertainties that may affect our future results include, but are not limited to, those discussed under the heading "Risk Factors," included in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2007 and in Part II, Item 1A of this Quarterly Report. All references to "we," "us," "our," "Activision" or "the Company" in the following discussion and analysis mean Activision, Inc. and its subsidiaries.

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Part I. Financial Information

Item 1. Financial Statements

ACTIVISION, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

| | December 31, 2007 (Unaudited) | March 31, 2007 |
|--|-------------------------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 648,659 | \$ 384,409 |
| Short-term investments | 539,914 | 570,440 |
| Accounts receivable, net of allowances of \$177,533 and \$91,418 at December 31, 2007 and March 31, 2007, respectively | 704,075 | 148,694 |
| Inventories | 153,423 | 91,231 |
| Software development | 68,240 | 107,779 |
| Intellectual property licenses | 16,686 | 27,784 |
| Deferred income taxes | 20,552 | 51,564 |
| Other current assets | 25,812 | 19,332 |
| Total current assets | 2,177,361 | 1,401,233 |
| Software development | 31,555 | 23,143 |

| | | |
|---|---------------------|---------------------|
| Intellectual property licenses | 60,940 | 72,490 |
| Property and equipment, net | 54,203 | 46,540 |
| Deferred income taxes | 119 | 48,791 |
| Other assets | 9,639 | 6,376 |
| Goodwill | 279,297 | 195,374 |
| Total assets | \$ 2,613,114 | \$ 1,793,947 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 243,338 | \$ 136,517 |
| Accrued expenses and other liabilities | 482,367 | 204,652 |
| Total current liabilities | 725,705 | 341,169 |
| Other liabilities | 21,009 | 41,246 |
| Total liabilities | 746,714 | 382,415 |
| Commitments and contingencies (Note 12) | | |
| Shareholders' equity: | | |
| Preferred stock, \$.000001 par value, 3,750,000 shares authorized, no shares issued at December 31, 2007 and March 31, 2007 | — | — |
| Series A Junior Preferred stock, \$.000001 par value, 1,250,000 shares authorized, no shares issued at December 31, 2007 and March 31, 2007 | — | — |
| Common stock, \$.000001 par value, 450,000,000 shares authorized, 293,720,682 and 283,310,734 shares issued and outstanding at December 31, 2007 and March 31, 2007, respectively | — | — |
| Additional paid-in capital | 1,113,963 | 963,553 |
| Retained earnings | 728,497 | 427,777 |
| Accumulated other comprehensive income | 23,940 | 20,202 |
| Total shareholders' equity | 1,866,400 | 1,411,532 |
| Total liabilities and shareholders' equity | \$ 2,613,114 | \$ 1,793,947 |

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

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ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

| | For the three months ended December 31, | | For the nine months ended December 31, | |
|---|--|-------------------|---|-------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net revenues | \$ 1,482,484 | \$ 824,259 | \$ 2,295,685 | \$ 1,200,500 |
| Costs and expenses: | | | | |
| Cost of sales – product costs | 597,046 | 382,165 | 966,271 | 618,162 |
| Cost of sales – software royalties and amortization | 125,614 | 77,449 | 242,293 | 106,058 |
| Cost of sales – intellectual property licenses | 39,630 | 23,566 | 86,642 | 37,838 |
| Product development | 124,501 | 37,162 | 190,483 | 88,395 |
| Sales and marketing | 120,090 | 87,410 | 240,670 | 156,139 |
| General and administrative | 71,069 | 43,387 | 144,245 | 91,647 |
| Total costs and expenses | 1,077,950 | 651,139 | 1,870,604 | 1,098,239 |
| Operating income | 404,534 | 173,120 | 425,081 | 102,261 |
| Investment income, net | 12,018 | 9,724 | 35,712 | 26,031 |
| Income before income tax provision | 416,552 | 182,844 | 460,793 | 128,292 |
| Income tax provision | 144,356 | 40,024 | 160,073 | 28,083 |
| Net income | \$ 272,196 | \$ 142,820 | \$ 300,720 | \$ 100,209 |
| Basic earnings per share | \$ 0.93 | \$ 0.51 | \$ 1.05 | \$ 0.36 |
| Weighted average common shares outstanding | 291,176 | 282,512 | 287,439 | 280,499 |

| | | | | |
|--|---------|---------|---------|---------|
| Diluted earnings per share | \$ 0.86 | \$ 0.46 | \$ 0.96 | \$ 0.33 |
| Weighted average common shares outstanding assuming dilution | 316,472 | 307,175 | 313,546 | 304,317 |

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

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ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

| | For the nine months ended December 31, | |
|--|---|------------|
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net income | \$ 300,720 | \$ 100,209 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Deferred income taxes | 76,258 | (33,254) |
| Realized gain on short-term investments | (2) | (1,823) |
| Depreciation and amortization | 26,115 | 13,303 |
| Loss on disposal of property and equipment | 1,204 | — |
| Amortization and write-offs of capitalized software development costs and intellectual property licenses (1) | 181,983 | 77,358 |
| Stock-based compensation expense (2) | 35,933 | 18,433 |
| Tax benefit of stock options and warrants exercised | 50,737 | 11,377 |
| Excess tax benefits from stock option exercises | (50,548) | (9,012) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (553,071) | (416,697) |
| Inventories | (62,192) | (20,573) |
| Software development and intellectual property licenses | (127,057) | (117,636) |
| Other assets | (7,101) | 21,128 |
| Accounts payable | 106,945 | 98,473 |
| Accrued expenses and other liabilities | 251,983 | 133,297 |
| Net cash provided by (used in) operating activities | 231,907 | (125,417) |
| Cash flows from investing activities: | | |
| Capital expenditures | (22,750) | (13,106) |
| Proceeds from disposal of property and equipment | 351 | — |
| Cash payment to effect business combinations, net of cash acquired | (68,875) | (30,545) |
| Increase in restricted cash | (4,135) | — |
| Purchases of short-term investments | (507,591) | (215,721) |
| Proceeds from sales and maturities of short-term investments | 543,450 | 361,339 |
| Net cash provided by (used in) investing activities | (59,550) | 101,967 |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock to employees | 38,964 | 18,956 |
| Excess tax benefits from stock option exercises | 50,548 | 9,012 |
| Net cash provided by financing activities | 89,512 | 27,968 |
| Effect of exchange rate changes on cash | 2,381 | 9,061 |
| Net increase in cash and cash equivalents | 264,250 | 13,579 |
| Cash and cash equivalents at beginning of period | 384,409 | 354,331 |
| Cash and cash equivalents at end of period | \$ 648,659 | \$ 367,910 |

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

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

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

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ACTIVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Nine Months ended December 31, 2007

(Unaudited)

(In thousands)

| | <u>Common Stock</u> | | <u>Additional Paid-In Capital</u> | <u>Retained Earnings</u> | <u>Accumulated Other Comprehensive Income</u> | <u>Shareholders' Equity</u> |
|--|---------------------|---------------|---------------------------------------|------------------------------|---|---------------------------------|
| | <u>Shares</u> | <u>Amount</u> | | | | |
| Balance, March 31, 2007 | 283,311 | \$ — | \$ 963,553 | \$ 427,777 | \$ 20,202 | \$ 1,411,532 |
| Components of comprehensive income: | | | | | | |
| Net income | — | — | — | 300,720 | — | 300,720 |
| Unrealized appreciation on short-term investments, net of taxes | — | — | — | — | 733 | 733 |
| Foreign currency translation adjustment | — | — | — | — | 3,005 | 3,005 |
| Total comprehensive income | | | | | | 304,458 |
| Issuance of common stock pursuant to employee stock options, restricted stock rights, employee stock purchase plans and employee bonuses | 9,024 | — | 40,821 | — | — | 40,821 |
| Issuance of common stock to effect business combination (see Note 4) | 1,386 | — | 25,864 | — | — | 25,864 |
| Stock-based compensation expense related to employee stock options, restricted stock rights, and employee stock purchase plans | — | — | 36,051 | — | — | 36,051 |
| Tax benefit associated with employee stock options | — | — | 50,737 | — | — | 50,737 |
| Employee tender offer (see Note 13) | — | — | (3,063) | — | — | (3,063) |
| Balance, December 31, 2007 | 293,721 | \$ — | \$ 1,113,963 | \$ 728,497 | \$ 23,940 | \$ 1,866,400 |

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

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ACTIVISION, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

The accompanying unaudited Consolidated Financial Statements as of December 31, 2007 and for the three and nine month periods ended December 31, 2007 and 2006 include the accounts of Activision, Inc. and its subsidiaries ("Activision" or "we"). The information furnished is unaudited and the adjustments included consist of only normal recurring adjustments that, in the opinion of management, are necessary to provide a fair statement of the results for the interim periods presented. The accompanying unaudited Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2007 as filed with the Securities and Exchange Commission ("SEC") on June 14, 2007.

Certain financial information that is normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles, but is not required for interim reporting purposes, has been condensed or omitted.

Management must make estimates and assumptions that affect the Consolidated Financial Statements and the related footnote disclosures. While management makes its best judgment, actual results could differ from those estimates.

Software Development Costs and Intellectual Property Licenses

Software development costs include payments made to independent software developers under development agreements, as well as direct costs incurred for internally developed products.

We account for software development costs in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." ("SFAS No. 86") Software development costs are capitalized once technological feasibility of a product is established and such costs are determined to be recoverable. Technological feasibility of a product encompasses both technical design documentation and game design documentation. For products where proven technology exists, this may occur early in the development cycle. Technological feasibility is evaluated on a product-by-product basis. Prior to a product's release, we expense, as part of "cost of sales – software royalties and amortization," capitalized costs when we believe such amounts are not recoverable. Capitalized costs for those products that are cancelled or abandoned are charged to product development expense in the period of cancellation. Amounts related to software development which are not capitalized are charged immediately to product development expense. We evaluate the future recoverability of capitalized amounts on a quarterly basis. The recoverability of capitalized software development costs is evaluated based on the expected performance of the specific products to which the costs relate. Criteria used to evaluate expected product performance include: historical performance of comparable products using comparable technology; orders for the product prior to its release; and estimated performance of a sequel product based on the performance of the product on which the sequel is based.

Commencing upon product release, capitalized software development costs are amortized to "cost of sales – software royalties and amortization" based on the ratio of current revenues to total projected revenues, generally resulting in an amortization period of six months or less. For products that have been released in prior periods, we evaluate the future recoverability of capitalized amounts on a quarterly basis. The primary evaluation criterion is actual title performance.

Significant management judgments and estimates are utilized in the assessment of when technological feasibility is established, as well as in the ongoing assessment of the recoverability of capitalized costs. In evaluating the recoverability of capitalized costs, the assessment of expected product performance utilizes forecasted sales amounts and estimates of additional costs to be incurred. If revised forecasted or actual product sales are less than, and/or revised forecasted or actual costs are greater than, the original forecasted amounts utilized in the initial recoverability analysis, the net realizable value may be lower than originally estimated in any given quarter, which could result in an impairment charge.

ACTIVISION, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Intellectual property license costs represent license fees paid to intellectual property rights holders for use of their trademarks, copyrights, software, technology, or other intellectual property or proprietary rights in the development of our products. Depending upon the agreement with the rights holder, we may obtain the rights to use acquired intellectual property in multiple products over multiple years, or alternatively, for a single product.

We evaluate the future recoverability of capitalized intellectual property licenses on a quarterly basis. The recoverability of capitalized intellectual property license costs is evaluated based on the expected performance of the specific products in which the licensed trademark or copyright is to be used. As many of our intellectual property licenses extend for multiple products over multiple years, we also assess the recoverability of capitalized intellectual property license costs based on certain qualitative factors such as the success of other products and/or entertainment vehicles utilizing the intellectual property, whether there are any future planned theatrical releases or television series based on the intellectual property, and the rights holder's continued promotion and exploitation of the intellectual property. Prior to the related product's release, we expense, as part of "cost of sales – intellectual property licenses," capitalized intellectual property costs when we believe such amounts are not recoverable. Capitalized intellectual property costs for those products that are cancelled or abandoned are charged to product development expense in the period of cancellation. Criteria used to evaluate expected product performance include: historical performance of comparable products using comparable technology; orders for the product prior to its release; and estimated performance of a sequel product based on the performance of the product on which the sequel is based.

Commencing upon the related product's release, capitalized intellectual property license costs are amortized to "cost of sales – intellectual property licenses" based on the ratio of current revenues for the specific product to total projected revenues for all products in which the licensed property will be utilized. As intellectual property license contracts may extend for multiple years, the amortization of capitalized intellectual property license costs relating to such contracts may extend beyond one year. For intellectual property included in products that have been released, we evaluate the future recoverability of capitalized amounts on a quarterly basis. The primary evaluation criterion is actual title performance.

Significant management judgments and estimates are utilized in the assessment of the recoverability of capitalized costs. In evaluating the recoverability of capitalized costs, the assessment of expected product performance utilizes forecasted sales amounts and estimates of additional costs to be incurred. If revised forecasted or actual product sales are less than, and/or revised forecasted or actual costs are greater than, the original forecasted amounts utilized in the initial recoverability analysis, the net realizable value may be lower than originally estimated in any given quarter, which could result in an impairment charge. Additionally, as noted above, as many of our intellectual property licenses extend for multiple products over multiple years, we also assess the recoverability of capitalized intellectual property license costs based on certain qualitative factors such as the success of other products and/or entertainment vehicles utilizing the intellectual property, whether there are any future planned theatrical releases or television series based on the intellectual property and the rights holder's continued promotion and exploitation of the intellectual property. Material differences may result in the amount and timing of charges for any period if management makes different judgments or utilizes different estimates in evaluating these qualitative factors.

Revenue Recognition

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 (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. With respect to license agreements that provide customers the right to make multiple copies in exchange for guaranteed amounts, revenue is recognized upon delivery of a master copy. Per copy royalties on sales that exceed the guarantee are recognized as earned.

ACTIVISION, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Some of our software products provide limited online features at no additional cost to the consumer. Generally, we consider such features to be incidental to the overall product offering and an inconsequential deliverable. Accordingly, we do not defer any revenue related to products containing these limited online features. In instances where online features or additional functionality is considered a substantive deliverable in addition to the software product, we take this into account when determining the appropriate revenue recognition. This evaluation is performed for each software product when it is released. We determined that one of our software titles, *Enemy Territory: Quake Wars* (which is primarily an online multiplayer personal computer ("PC") game), contains online functionality that constitutes a more-than-inconsequential separate service deliverable in addition to the product, principally because of its importance to game play. As such, our performance obligations for this title extend beyond the sale of the game, which is unique compared to other prior titles. Vendor-specific objective evidence of fair value ("VSOE") does not exist for the online functionality, as we do not separately charge for this component of the title. As a result, we are recognizing all of the revenue from the sale of this title ratably over an estimated service period, which is estimated to be six months beginning the month after shipment. In addition, we are deferring the costs of sales for this title. Cost of sales includes: manufacturing costs, software royalties and amortization, and intellectual property licenses. Overall, online play functionality is still an

emerging area for us. As we move forward, we will monitor this developing functionality and its significance for our products. Our assessment of our obligations with respect to this functionality and the resulting accounting may change in the future.

With respect to online transactions, such as electronic downloads of titles or product add-ons, revenue is recognized when the fee is paid by the online customer to purchase online content and we are notified by the online retailer that the product has been downloaded. In addition, in order to recognize revenue for both product sales and licensing transactions, persuasive evidence of an arrangement must exist and collection of the related receivable must be probable.

Sales incentives or other consideration given by us to our customers is accounted for in accordance with the Financial Accounting Standards Board's Emerging Issues Task Force ("EITF") Issue 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." In accordance with EITF Issue 01-9, sales incentives and other consideration that are considered adjustments of the selling price of our products, such as rebates and product placement fees, are reflected as reductions of 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.

Allowances for Returns, Price Protection, Doubtful Accounts, and Inventory Obsolescence

In determining the appropriate unit shipments to our customers, we benchmark our titles using historical and industry data. We closely monitor and analyze the historical performance of our various titles, the performance of products released by other publishers, and the anticipated timing of other releases in order to assess future demands of current and upcoming titles. Initial volumes shipped upon title launch and subsequent reorders are evaluated to ensure that quantities are sufficient to meet the demands from the retail markets but at the same time, are controlled to prevent excess inventory in the channel.

We may permit product returns from, or grant price protection to, our customers under certain conditions. In general, price protection refers to the circumstances when we elect to decrease the wholesale price of a product by a certain amount and, when granted and applicable, allows customers a credit against amounts owed by such customers to us with respect to open and/or future invoices. The conditions our customers must meet to be granted the right to return products or price protection are, among other things, compliance with applicable payment terms and consistent delivery to us of inventory and sell-through reports. We may also consider other factors, including the facilitation of slow-moving inventory and other market factors. Management must make estimates of potential future product returns and price protection related to current period product revenue. We estimate the amount of future returns and price protection for current period product revenue utilizing historical experience and information regarding inventory levels and the demand and acceptance of our products by the end consumer. The following factors are used to estimate the

ACTIVISION, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

amount of future returns and price protection for a particular title: historical performance of titles in similar genres, historical performance of the hardware platform, historical performance of the brand, console hardware life cycle, Activision sales force and retail customer feedback, industry pricing, weeks of on-hand retail channel inventory, absolute quantity of on-hand retail channel inventory, our warehouse on-hand inventory levels, the title's recent sell-through history (if available), marketing trade programs, and competing titles. The relative importance of these factors varies among titles depending upon, among other items, genre, platform, seasonality, and sales strategy. Significant management judgments and estimates must be made and used in connection with establishing the allowance for returns and price protection in any accounting period. Based upon historical experience we believe our estimates are reasonable. However, actual returns and price protection could vary materially from our allowance estimates due to a number of reasons including, among others, a lack of consumer acceptance of a title, the release in the same period of a similarly themed title by a competitor, or technological obsolescence due to the emergence of new hardware platforms. Material differences may result in the amount and timing of our revenue for any period if factors or market conditions change or if management makes different judgments or utilizes different estimates in determining the allowances for returns and price protection. For example, a 1% change in our December 31, 2007 allowance for returns and price protection would impact net revenues by \$1.8 million.

Similarly, management must make estimates of the uncollectibility of our accounts receivable. In estimating the allowance for doubtful accounts, we analyze the age of current outstanding account balances, historical bad debts, customer concentrations, customer creditworthiness, current economic trends, and changes in our customers' payment terms and their economic condition, as well as whether we can obtain sufficient credit insurance. Any significant changes in any of these criteria would affect management's estimates in establishing our allowance for doubtful accounts.

We value inventory at the lower of cost or market. We regularly review inventory quantities on hand and in the retail channel and record a provision for excess or obsolete inventory based on the future expected demand for our products. Significant changes in demand for our products would impact management's estimates in establishing our inventory provision.

Stock-Based Compensation Expense

On April 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS No. 123R") which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases related to the Employee Stock Purchase Plan ("employee stock purchases") based on estimated fair values. SFAS No. 123R supersedes our previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS No. 123R. We have applied the provisions of SAB 107 in our adoption of SFAS No. 123R.

SFAS No. 123R requires companies to estimate the fair value of share-based payment awards on the measurement date using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our Consolidated Statement of Operations. Stock-based compensation expense recognized under SFAS No. 123R for the three and nine months ended December 31, 2007 was \$20.9 million and \$35.9 million, respectively, and for the three and nine months ended December 31, 2006 was \$7.7 million and \$18.4 million, respectively. See Note 13 for additional information.

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in our Consolidated Statement of Operations for the three and nine months ended December 31, 2007, included compensation expense for share-based payment awards granted prior to, but not yet vested as of April 1, 2006, based on the grant date fair value estimated in

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

accordance with the pro forma provisions of SFAS No. 123 and compensation expense for the share-based payment awards granted subsequent to April 1, 2006 based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. Stock-based compensation expense recognized in the Consolidated Statement of Operations is based on awards ultimately expected to vest and has been reduced for estimated forfeitures. SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

We estimate the value of employee stock options on the date of grant using a binomial-lattice model. For additional information, see Note 13. Our determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to our expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors.

2. Acquisitions

Bizarre Creations

On September 26, 2007, we acquired 100% of Bizarre Creations Limited (“Bizarre Creations”) for an aggregate purchase price of \$67.4 million in cash. In addition, in the event that certain financial performance measures of Bizarre Creations’ business over a certain period of time (currently estimated to be 5 years from fiscal 2008) exceed specified target levels, the former shareholders of Bizarre Creations will be entitled to an additional amount of up to \$40.0 million payable in shares of our common stock. The contingent consideration will be recorded as an addition to the purchase price if the specified target levels are met. Based in the United Kingdom (“UK”), Bizarre Creations is a video game developer focusing on the racing category with its multi-million unit selling franchise Project Gotham Racing, a series for the Microsoft Xbox and the Microsoft Xbox360 platforms. Bizarre Creations has also developed and owns the Geometry Wars intellectual property. We expect that Bizarre Creations will play a role in our growth strategy as we develop intellectual property for the racing segment, expand our development capability and capacity for other genres and utilize Bizarre Creations’ proprietary development technology.

The results of operations of Bizarre Creations and the estimated fair market values of the acquired assets and liabilities have been included in our Consolidated Financial Statements since the date of acquisition. Pro forma consolidated statements of operations for this acquisition are not shown, as they would not differ materially from reported results. The acquired finite-lived intangible assets are being amortized over the estimated useful life in proportion to the economic benefits consumed, which for some intangible assets are approximated by using the straight-line method. Goodwill has been included in the publishing segment of our business and is amortized over 15 years for tax purposes.

ACTIVISION, INC. AND SUBSIDIARIES
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Preliminary Purchase Price Allocation

We accounted for this acquisition in accordance with Statement of Financial Accounting Standards No. 141, “Business Combinations” (“SFAS No. 141”). SFAS No. 141 addresses financial accounting and reporting for business combinations, requiring that the purchase method be used to account and report for all business combinations. The purchase price for the Bizarre Creations transaction was preliminarily allocated to assets acquired and liabilities assumed as set forth below (amounts in thousands):

| | |
|---|-----------|
| Current assets | \$ 4,352 |
| Property and equipment, net | 2,203 |
| Goodwill | 55,833 |
| Trademark, acquired contracts and other intangibles | 9,500 |
| Deferred tax liability | (1,876) |
| Other liabilities | (2,639) |
| | <hr/> |
| Total consideration | \$ 67,373 |

Purchased Intangible Assets

The following table presents the components of the purchased finite-lived intangible assets acquired in the Bizarre Creations acquisition (amounts in thousands):

Estimated
Useful

| | Life (in years) | Amount |
|--------------------------------|--------------------|-----------------|
| Finite-lived intangibles: | | |
| Trademark | 8 | \$ 1,100 |
| Acquired contracts | 0.5 | 2,800 |
| Other intangibles | 1 - 5 | 5,600 |
| Total finite-lived intangibles | | <u>\$ 9,500</u> |

The following table presents the gross and net balances, and accumulated amortization of the components of our purchased finite-lived intangible assets acquired in the Bizarre Creations acquisition as of December 31, 2007 (amounts in thousands):

| | Gross | Accumulated Amortization | Effect of foreign currency rates | Net |
|--------------------|-----------------|-----------------------------|--|-----------------|
| Trademark | \$ 1,100 | \$ — | \$ (25) | \$ 1,075 |
| Acquired contracts | 2,800 | (2,363) | (35) | 402 |
| Other intangibles | 5,600 | (346) | (122) | 5,132 |
| Total | <u>\$ 9,500</u> | <u>\$ (2,709)</u> | <u>\$ (182)</u> | <u>\$ 6,609</u> |

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The estimated future amortization expense of our purchased finite-lived intangible assets acquired in the Bizarre Creations acquisition as of December 31, 2007 is as follows (amounts in thousands):

| Fiscal year ending March 31, | Amount |
|-------------------------------|-----------------|
| 2008 (remaining three months) | \$ 745 |
| 2009 | 684 |
| 2010 | 1,127 |
| 2011 | 1,503 |
| 2012 | 1,503 |
| Thereafter | 1,047 |
| Total | <u>\$ 6,609</u> |

DemonWare

On May 11, 2007, Activision completed its acquisition of DemonWare, Ltd., a provider of network middleware technologies for console and PC games headquartered in Dublin, Ireland. We expect the acquisition to enable Activision to gain efficiencies related to online game development and to position us to take advantage of the growth in online gameplay that is expected to be driven by the next-generation consoles. We expect the acquisition to be immaterial to fiscal 2008 earnings per share and cash flow. Additionally, pro forma consolidated statements of operations for this acquisition are not shown, as they would not differ materially from reported results.

3. Inventories

We value inventories at the lower of cost (first-in, first-out) or market. Our inventories consist of the following (amounts in thousands):

| | December 31, 2007 | March 31, 2007 |
|--------------------------------|-------------------|------------------|
| Finished goods | \$ 143,224 | \$ 89,048 |
| Purchased parts and components | 10,199 | 2,183 |
| | <u>\$ 153,423</u> | <u>\$ 91,231</u> |

4. Goodwill

The changes in the carrying amount of goodwill for the nine months ended December 31, 2007 are as follows (amounts in thousands):

| | Publishing | Distribution | Total |
|---|-------------------|-----------------|-------------------|
| Balance as of March 31, 2007 | \$ 189,342 | \$ 6,032 | \$ 195,374 |
| Goodwill acquired during the period | 58,609 | — | 58,609 |
| Issuance of contingent consideration | 25,864 | — | 25,864 |
| Adjustment-prior period purchase allocation | (240) | — | (240) |
| Effect of foreign currency exchange rates | (384) | 74 | (310) |
| Balance as of December 31, 2007 | <u>\$ 273,191</u> | <u>\$ 6,106</u> | <u>\$ 279,297</u> |

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Goodwill acquired during the period represents goodwill of \$55.8 million and \$2.8 million related to the acquisitions of Bizarre Creations and DemonWare, respectively. See Note 2 for additional information. Issuance of contingent consideration consists of additional purchase consideration related to the acquisition of RedOctane Inc. and Vicarious Visions Inc. for \$22.7 million and \$3.1 million, respectively, which was paid in shares of our common stock.

5. Income Taxes

The income tax provision of \$144.4 million for the three months ended December 31, 2007 reflects our effective income tax rate for the third quarter fiscal 2008 of 35%, and the income tax provision of \$160.1 million for the nine months ended December 31, 2007 reflects our effective income tax rate for fiscal 2008 of 35%. While our effective income tax rate for the period equals our statutory rate there are certain items that would normally generate a variance between the two rates. Those items are the federal and state research and development tax credits and the impact of foreign tax rate differentials partially offset by state taxes. However, the net effect of those items for the three and the nine months ended December 31, 2007 was zero.

Our effective income tax rate for the third quarter fiscal 2008 of 35% differs from our effective income tax rate of 22% for the three months ended December 31, 2006 due to an increase in anticipated pretax income for fiscal 2008 determined at December 31, 2007 versus the anticipated pretax income for fiscal 2007 determined at December 31, 2006, without a corresponding increase in the benefit of book/tax differences.

The income tax expense of \$40.0 million for the three months ended December 31, 2006 reflects our effective income tax rate for the third quarter fiscal 2007 of 22% which is the same as the effective tax rate of 22% for the year ended March 31, 2007. The significant items that generated the variance between our effective rate and our statutory rate of 35% for the three and the nine months ended December 31, 2006 were research and development tax credits for state purposes, and the impact of foreign tax rate differentials, partially offset by state taxes.

We adopted the provisions of Financial Accounting Standards Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes ("FIN 48") an interpretation of Statement of Financial Accounting Standards No. 109 ("SFAS 109") on April 1, 2007. As a result of the implementation of FIN 48, we recognized no material adjustment in the liability for unrecognized income tax benefits. At the adoption date of April 1, 2007, we had \$65.5 million of unrecognized tax benefits, of which \$26.2 million would affect our effective tax rate if recognized. The liability for unrecognized tax benefits was unchanged during the three months ended December 31, 2007.

In addition, consistent with the provisions of FIN 48, we reclassified \$15.6 million of income tax liabilities from current to non-current liabilities because payment of cash is not anticipated within one year of the balance sheet date. These non-current income tax liabilities are recorded in Other Liabilities in the Consolidated Balance Sheets.

We recognize interest and penalties related to uncertain tax positions in income tax expense. As of April 1, 2007, we had approximately \$296,000 of accrued interest related to uncertain tax positions. There were no material changes to the accrued interest expense related to estimated obligations for unrecognized tax benefits net of federal benefit during the three and the nine months ended December 31, 2007.

The tax years 2002 through 2007 remain open to examination by the major taxing jurisdictions to which we are subject, including United States of America ("U.S.") and non-U.S. locations. We are currently under audit by the Internal Revenue Service and the California Franchise Tax Board, and it is reasonably possible that the current portion of our unrecognized tax benefits will significantly decrease within the next twelve months due to the outcome of these audits.

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6. Software Development Costs and Intellectual Property Licenses

As of December 31, 2007, capitalized software development costs included \$83.1 million of internally developed software costs and \$16.7 million of payments made to third-party software developers. As of March 31, 2007, capitalized software development costs included \$94.3 million of internally developed software costs and \$36.6 million of payments made to third-party software developers. Capitalized intellectual property licenses were \$77.6 million and \$100.3 million as of December 31, 2007 and March 31, 2007, respectively. Amortization and write-offs of capitalized software development costs and intellectual property licenses were \$191.8 million and \$79.2 million for the nine months ended December 31, 2007 and 2006, respectively.

7. Comprehensive Income and Accumulated Other Comprehensive Income

Comprehensive Income

The components of comprehensive income (loss) for the three and nine months ended December 31, 2007 and 2006 were as follows (amounts in thousands):

| | <u>Three months ended December 31,</u> | | <u>Nine months ended December 31,</u> | |
|------------|--|------------|---------------------------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net income | \$ 272,196 | \$ 142,820 | \$ 300,720 | \$ 100,209 |

Other comprehensive income (loss):

| | | | | |
|--|------------|------------|------------|------------|
| Foreign currency translation adjustment | (3,608) | 4,742 | 3,005 | 10,983 |
| Unrealized appreciation (depreciation) on short-term investments, net of taxes | 190 | 1,342 | 733 | (8,693) |
| Other comprehensive income (loss) | (3,418) | 6,084 | 3,738 | 2,290 |
| Comprehensive income | \$ 268,778 | \$ 148,904 | \$ 304,458 | \$ 102,499 |

Accumulated Other Comprehensive Income

For the nine months ended December 31, 2007 the components of accumulated other comprehensive income were as follows (amounts in thousands):

| | Foreign Currency | Unrealized Appreciation (Depreciation) on Investments | Accumulated Other Comprehensive Income |
|---------------------------------|------------------|---|--|
| Balance as of March 31, 2007 | \$ 21,070 | \$ (868) | \$ 20,202 |
| Other comprehensive income | 3,005 | 733 | 3,738 |
| Balance as of December 31, 2007 | \$ 24,075 | \$ (135) | \$ 23,940 |

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Notes to Consolidated Financial Statements
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Other comprehensive income is presented net of tax benefits of \$0.5 million related to unrealized appreciation on our investments for the nine months ended December 31, 2007. Income taxes were not provided for foreign currency translation items as these are considered indefinite investments in non-U.S. subsidiaries.

8. Investment Income, Net

Investment income, net is comprised of the following (amounts in thousands):

| | Three months ended December 31, | | Nine months ended December 31, | |
|----------------------------------|---------------------------------|----------|--------------------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| Interest income | \$ 12,068 | \$ 7,917 | \$ 35,823 | \$ 24,286 |
| Interest expense | (52) | (16) | (113) | (80) |
| Net realized gain on investments | 2 | 1,823 | 2 | 1,825 |
| Investment income, net | \$ 12,018 | \$ 9,724 | \$ 35,712 | \$ 26,031 |

9. Supplemental Cash Flow Information

Non-cash investing and financing activities and supplemental cash flow information is as follows (amounts in thousands):

| | Nine months ended December 31, | |
|--|--------------------------------|-----------|
| | 2007 | 2006 |
| Non-cash investing and financing activities: | | |
| Subsidiaries acquired with common stock | \$ — | \$ 30,000 |
| Change in unrealized appreciation (depreciation) on short-term investments, net of taxes | 733 | (8,693) |
| Common stock issued related to acquisitions | 25,864 | — |
| Common stock issuable related to acquisition | — | 39,000 |
| Common stock issued related to employee bonuses | 1,857 | — |
| Adjustment - prior period purchase allocation | (240) | 51 |
| Supplemental cash flow information: | | |
| Cash paid for income taxes | \$ 4,931 | \$ 3,040 |
| Cash paid for interest | 82 | 79 |

10. Operations by Reportable Segments and Geographic Area

Based upon our organizational structure, we operate two business segments: (i) publishing of interactive entertainment software and peripherals and (ii) distribution of interactive entertainment software and hardware products.

Publishing refers to the development, marketing and sale of products, either directly, by license or through our affiliate label program with certain third-party publishers. In the U.S. and Canada, we primarily sell our products on a direct basis to mass-market retailers, consumer electronics stores, discount warehouses, and game specialty stores. We conduct our international publishing activities through offices in the UK, Germany, France, Italy, Spain, Australia, Sweden, the Netherlands, Canada, South Korea, and Japan where products are sold on a direct-to-retail basis and through third-party distribution and licensing arrangements and through our wholly owned distribution subsidiaries.

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Distribution refers to our operations in the UK, the Netherlands, and Germany that provide logistical and sales services to third-party publishers of interactive entertainment software, our own publishing operations and manufacturers of interactive entertainment hardware.

The accounting policies of these segments are the same as those described in the "Summary of Significant Accounting Policies" in our Annual Report on Form 10-K for the year ended March 31, 2007. Revenue derived from sales between segments is eliminated in consolidation.

Information on the reportable segments for the three and nine months ended December 31, 2007 and 2006 is as follows (amounts in thousands):

| | Three months ended December 31, 2007 | | |
|--------------------------------------|---|---------------------|---------------------|
| | Publishing | Distribution | Total |
| Total segment revenues | \$ 1,308,650 | \$ 173,834 | \$ 1,482,484 |
| Revenues from sales between segments | (72,132) | 72,132 | — |
| Revenues from external customers | <u>\$ 1,236,518</u> | <u>\$ 245,966</u> | <u>\$ 1,482,484</u> |
| Operating income | <u>\$ 390,819</u> | <u>\$ 13,715</u> | <u>\$ 404,534</u> |
| Total assets | <u>\$ 2,371,974</u> | <u>\$ 241,140</u> | <u>\$ 2,613,114</u> |
| | Three months ended December 31, 2006 | | |
| | Publishing | Distribution | Total |
| Total segment revenues | \$ 649,797 | \$ 174,462 | \$ 824,259 |
| Revenues from sales between segments | (43,937) | 43,937 | — |
| Revenues from external customers | <u>\$ 605,860</u> | <u>\$ 218,399</u> | <u>\$ 824,259</u> |
| Operating income | <u>\$ 160,628</u> | <u>\$ 12,492</u> | <u>\$ 173,120</u> |
| Total assets | <u>\$ 1,667,103</u> | <u>\$ 224,367</u> | <u>\$ 1,891,470</u> |
| | Nine months ended December 31, 2007 | | |
| | Publishing | Distribution | Total |
| Total segment revenues | \$ 1,991,631 | \$ 304,054 | \$ 2,295,685 |
| Revenues from sales between segments | (115,488) | 115,488 | — |
| Revenues from external customers | <u>\$ 1,876,143</u> | <u>\$ 419,542</u> | <u>\$ 2,295,685</u> |
| Operating income | <u>\$ 410,269</u> | <u>\$ 14,812</u> | <u>\$ 425,081</u> |
| Total assets | <u>\$ 2,371,974</u> | <u>\$ 241,140</u> | <u>\$ 2,613,114</u> |

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| | Nine months ended December 31, 2006 | | |
|--------------------------------------|--|---------------------|---------------------|
| | Publishing | Distribution | Total |
| Total segment revenues | \$ 909,963 | \$ 290,537 | \$ 1,200,500 |
| Revenues from sales between segments | (63,288) | 63,288 | — |
| Revenues from external customers | <u>\$ 846,675</u> | <u>\$ 353,825</u> | <u>\$ 1,200,500</u> |
| Operating income | <u>\$ 92,503</u> | <u>\$ 9,758</u> | <u>\$ 102,261</u> |
| Total assets | <u>\$ 1,667,103</u> | <u>\$ 224,367</u> | <u>\$ 1,891,470</u> |

Geographic information for the three and nine months ended December 31, 2007 and 2006 is based on the location of the selling entity. Revenues from external customers by geographic region were as follows (amounts in thousands):

| | Three months ended December 31, | | Nine months ended December 31, | |
|---------------|--|-------------|---------------------------------------|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| North America | \$ 923,793 | \$ 463,388 | \$ 1,395,133 | \$ 637,251 |

| | | | | |
|--------------|---------------------|-------------------|---------------------|---------------------|
| Europe | 514,565 | 345,969 | 831,104 | 535,556 |
| Other | 44,126 | 14,902 | 69,448 | 27,693 |
| Total | \$ 1,482,484 | \$ 824,259 | \$ 2,295,685 | \$ 1,200,500 |

Revenues by platform were as follows (amounts in thousands):

| | Three months ended December 31, | | Nine months ended December 31, | |
|--------------|---------------------------------|-------------------|--------------------------------|---------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Console | \$ 1,239,984 | \$ 647,585 | \$ 1,882,342 | \$ 884,035 |
| Hand-held | 139,683 | 128,386 | 273,155 | 219,757 |
| PC | 102,817 | 48,288 | 140,188 | 96,708 |
| Total | \$ 1,482,484 | \$ 824,259 | \$ 2,295,685 | \$ 1,200,500 |

We had three customers that accounted for 13%, 14%, and 11% of consolidated net revenues for the three months ended December 31, 2007, respectively, and 15%, 14%, and 11% of consolidated net revenues for the nine months ended December 31, 2007, respectively. These customers accounted for 17%, 9%, and 10% of consolidated gross accounts receivable at December 31, 2007, respectively. These customers were customers of both our publishing and distribution businesses. We had one customer that accounted for 21% and 22% of consolidated net revenues for the three and nine month periods ended December 31, 2006, respectively, and 29% of consolidated gross accounts receivable at December 31, 2006. This customer was a customer of both our publishing and distribution businesses.

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11. Computation of Earnings Per Share

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

| | Three months ended December 31, | | Nine months ended December 31, | |
|---|------------------------------------|------------|-----------------------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| Numerator: | | | | |
| Numerator for basic and diluted earnings per share – income available to common shareholders | \$ 272,196 | \$ 142,820 | \$ 300,720 | \$ 100,209 |
| Denominator: | | | | |
| Denominator for basic earnings per share - weighted-average common shares outstanding | 291,176 | 282,512 | 287,439 | 280,499 |
| Effect of dilutive securities: | | | | |
| Employee stock options, employee stock purchase plans, and restricted stock rights | 22,927 | 24,025 | 23,101 | 23,222 |
| Warrants to purchase common stock and other dilutive common stock equivalents | 2,369 | 638 | 3,006 | 596 |
| Potential dilutive common shares | 25,296 | 24,663 | 26,107 | 23,818 |
| Denominator for diluted earnings per share – weighted-average common shares outstanding assuming dilution | 316,472 | 307,175 | 313,546 | 304,317 |
| Basic earnings per share | \$ 0.93 | \$ 0.51 | \$ 1.05 | \$ 0.36 |
| Diluted earnings per share | \$ 0.86 | \$ 0.46 | \$ 0.96 | \$ 0.33 |

Options to purchase 7.7 million and 6.7 million shares of our common stock for the three months ended December 31, 2007 and 2006, respectively, were not included in the calculations of diluted earnings per share because their effect would be antidilutive.

Options to purchase 6.0 million and 9.6 million shares of our common stock for the nine months ended December 31, 2007 and 2006, respectively, were not included in the calculations of diluted earnings per share because their effect would be antidilutive.

12. Commitments and Contingencies*Credit Facilities*

We have revolving credit facilities with our Centresoft subsidiary located in the UK (the “UK Facility”) and our NBG subsidiary located in Germany (the “German Facility”). The UK Facility provided Centresoft with the ability to borrow up to GBP 12.0 million (\$23.9 million), including issuing letters of credit, on a revolving basis as of December 31, 2007. The UK Facility bore interest at LIBOR plus 2.0% as of December 31, 2007, is collateralized by substantially all of the assets of the subsidiary and expired in January 2008 and was renewed. The UK Facility also contains various covenants that require the subsidiary to maintain specified financial ratios related to, among others, fixed charges. The German Facility provided for revolving loans up to EUR 0.5 million (\$0.7 million) as of December 31, 2007, bore interest at a Eurocurrency rate plus 2.5%, is collateralized by certain of the subsidiary’s property and equipment and has no expiration date. No borrowings were outstanding against the UK Facility and the German Facility as of December 31, 2007.

As of December 31, 2007, we maintained a \$10.0 million irrevocable standby letter of credit. The standby letter of credit is required by one of our inventory manufacturers to qualify for payment terms on our inventory purchases. Under the terms of this arrangement, we are required to maintain on deposit with the bank a compensating balance, restricted as to use, of not less than the sum of the available amount of the letter of credit plus the aggregate amount of any drawings under the letter of credit that have been honored thereunder but not reimbursed. At December 31, 2007, the \$10.0 million deposit is included in short-term investments as restricted cash. No borrowings were outstanding as of December 31, 2007.

As of December 31, 2007, our publishing subsidiary located in the UK maintained a EUR 7.0 million (\$10.3 million) irrevocable standby letter of credit. The standby letter of credit is required by one of our inventory manufacturers to qualify for payment terms on our inventory purchases. The standby letter of credit does not require a compensating balance and is collateralized by substantially all of the assets of the subsidiary and expires in February 2009. No borrowings were outstanding as of December 31, 2007.

Commitments

In the normal course of business, we enter into contractual arrangements with third parties for non-cancelable operating lease agreements for our offices, for the development of products, and for the rights to intellectual property. Under these agreements, we commit to provide specified payments to a lessor, developer or intellectual property holder, as the case may be, based upon contractual arrangements. The payments to third-party developers are generally conditioned upon the achievement by the developers of contractually specified development milestones. Further, these payments to third-party developers and intellectual property holders typically are deemed to be advances and are recoupable against future royalties earned by the developer or intellectual property holder based on the sale of the related game. Additionally, in connection with certain intellectual property rights acquisitions and development agreements, we will commit to spend specified amounts for marketing support for the related game(s) which is to be developed or in which the intellectual property will be utilized. Assuming all contractual provisions are met, the total future minimum commitments for these and other contractual arrangements in place as of December 31, 2007, are scheduled to be paid as follows (amounts in thousands):

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| | Contractual Obligations(1) | | | |
|-------------------------------|----------------------------------|---------------------|------------------|-------------------|
| | Facility and Equipment Leases | Developer and IP | Marketing | Total |
| Fiscal year ending March 31, | | | | |
| 2008 (remaining three months) | \$ 4,635 | \$ 22,839 | \$ 100 | \$ 27,574 |
| 2009 | 18,987 | 74,927 | 46,283 | 140,197 |
| 2010 | 16,944 | 23,107 | 16,100 | 56,151 |
| 2011 | 14,417 | 30,886 | 13,100 | 58,403 |
| 2012 | 10,211 | 16,586 | — | 26,797 |
| Thereafter | 39,677 | 47,586 | — | 87,263 |
| Total | \$ 104,871 | \$ 215,931 | \$ 75,583 | \$ 396,385 |

(1) We have omitted FIN 48 liabilities from this table due to the inherent uncertainty regarding the timing of potential issue resolution. Specifically, either (a) the underlying positions have not been fully enough developed under audit to quantify at this time or, (b) the years relating to the issues for certain jurisdictions are not currently under audit. At the adoption date of April 1, 2007, we had \$65.5 million of unrecognized tax benefits.

Compensation Guarantee

In June 2005, we entered into an employment agreement with the President and Chief Executive Officer of Activision Publishing, Inc., our wholly owned subsidiary and principal operating subsidiary, containing a guarantee related to his total compensation. The agreement guarantees that, if on May 15, 2010 his total compensation and any severance payments received by him has not exceeded \$20.0 million, we will make a payment for the amount of the shortfall. The \$20.0 million guarantee will be recognized as compensation expense over the term of the employment agreement and consists of salary payments, bonus payments, restricted stock expense, stock option expense, and an accrual for any anticipated remaining portion of the guarantee. The remaining portion of the guarantee is accrued over the term of the agreement in “Other liabilities” and will remain accrued until the end of the employment agreement, at which point it will be used to make a payment for any shortfall or reclassified into shareholders’ equity.

In July 2006, individuals and/or entities claiming to be our stockholders filed derivative lawsuits, purportedly on our behalf, against certain current and former members of our Board of Directors as well as several of our current and former officers. Three derivative actions have been filed in Los Angeles Superior Court: Vazquez v. Kotick, et al., L.A.S.C. Case No. BC355327 (filed July 12, 2006); Greuer v. Kotick, et al. L.A.S.C. Case No. SC090343 (filed July 12, 2006); and Amalgamated Bank v. Baker, et al., L.A.S.C. Case No. BC356454 (filed August 3, 2006). These actions have been consolidated by the court under the caption In re Activision Shareholder Derivative Litigation, L.A.S.C. Master File No. SC090343 (West, J.). Four derivative actions have been filed in the United States District Court for the Central District of California: Pfeiffer v. Kotick, et al., C.D. Cal. Case No. CV06-4771 MRP (JTLx) (filed July 31, 2006), Hamian v. Kotick, et al., C.D. Cal. Case No. CV06-5375 MRP (JLTx) (filed August 25, 2006) Abdelnur vs. Kotick et al., C.D. Cal. Case No. CV07-3575 AHM (PJWx) (filed June 1, 2007), and Scarborough v. Kotick et al., C.D. Cal. Case No. CV07-4602 SVW (PLAx) (filed July 18, 2007). These actions have also been consolidated, under the caption In re Activision, Inc. Shareholder Derivative Litigation, C.D. Cal. Case No. CV06-4771 MRP (JTLx) (Pfaelzer, J.). The consolidated complaints allege, among other things, purported improprieties in our issuance of stock options. Plaintiffs seek various relief on our behalf, including damages, restitution of benefits obtained from the alleged misconduct, equitable relief, including an accounting and rescission of option contracts; and various corporate governance reforms. We expect that

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defense expenses associated with the matters will be covered by our directors and officers insurance, subject to the terms and conditions of the applicable policies.

The parties attended a mediation related to the consolidated federal action on November 1, 2007. On or about December 4, 2007, we, the plaintiffs, and certain of our current and former officers and directors notified the court in the federal action that we reached agreement in principle to settle the shareholder derivative litigation pending against such current and former directors and officers of ours. On January 17, 2008, the parties amended that agreement to, among other things, include the plaintiffs in the state court action as parties thereto. The nonbinding agreement in principle is subject, among other things, to the negotiation of a binding definitive settlement agreement addressing all settlement terms, as well as to further approval by the parties and the court.

Motions to dismiss that had been filed in the federal action have been ordered withdrawn without prejudice in view of the parties' settlement discussions.

The order granted on May 24, 2007 to stay the consolidated state action pending the resolution of motions to dismiss in the federal action is still in place. The parties have advised the state court of the parties' settlement discussions and will file a status report on February 8, 2008.

On July 24, 2006, we received a letter of informal inquiry from the SEC requesting certain documents and information relating to our historical stock option grant practices. Thereafter, the SEC issued a formal order of non-public investigation, pursuant to which it has subpoenaed documents from us related to the investigation, and has subpoenaed testimony and documents from certain current and former directors, officers and employees of ours.

We are cooperating with the SEC's investigation, and representatives of the special subcommittee of independent members of our Board of Directors established in July 2006 to review our historical stock option granting practices (the "Special Subcommittee") and its legal counsel have met with members of the staff of the SEC on several occasions, in person and by telephone (as has our outside legal counsel), to discuss the progress of the Special Subcommittee's investigation and to brief the SEC staff on the Special Subcommittee's findings and recommendations. A representative of the U.S. Department of Justice has attended certain of these meetings and requested copies of certain documents that we have provided to the staff of the SEC. At this time, we have not received any grand jury subpoenas or written requests from the Department of Justice.

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 the ownership of 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.

13. Stock-Based Compensation and Employee Benefit Plans

Equity Incentive Plans

On July 30, 2007, our Board of Directors adopted the Activision 2007 Incentive Plan (the "2007 Plan"), subject to shareholder approval, and reserved 15,000,000 shares for issuance thereunder and, on September 27, 2007, the 2007 Plan was approved by our shareholders and became effective. The 2007 Plan authorizes the Compensation Committee of our Board of Directors to provide equity-based compensation in the form of stock options, share appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other performance- or value-based awards structured by the Compensation Committee within parameters set forth in the 2007 Plan, including custom awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares of our common stock, or factors that may influence the value of our common stock or that are valued based on our performance or the performance of any of our subsidiaries or business units or other factors designated by

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the Compensation Committee, as well as incentive bonuses, for the purpose of providing incentives and rewards for superior performance to the directors, officers, employees of, and consultants to, Activision and its subsidiaries.

While the Compensation Committee has broad discretion to create equity incentives, our equity-based compensation program currently primarily utilizes a combination of options, restricted stock and restricted stock units. Such awards generally have time-based vesting schedules, vesting annually over periods of three to five years, or vest in their entirety on an anniversary of date of grant, subject to possible earlier vesting if certain performance measures are met, and all such awards which are options generally expire ten years from the grant date. Under the terms of the 2007 Plan, the exercise price for options must be equal to or greater than the closing price per share of our common stock on the date the award is granted, as reported on the NASDAQ.

Upon the effective date of the 2007 Plan, we ceased to make awards under the following equity incentive plans (collectively, the “Rolled-Up Plans”), although such plans will remain in effect and continue to govern outstanding awards: (i) Activision, Inc. 1998 Incentive Plan, as amended; (ii) Activision, Inc. 1999 Incentive Plan, as amended; (iii) Activision, Inc. 2001 Incentive Plan, as amended; (iv) Activision, Inc. 2002 Incentive Plan, as amended; (v) Activision, Inc. 2002 Executive Incentive Plan, as amended; (vi) Activision, Inc. 2002 Studio Employee Retention Incentive Plan, as amended; and (vii) Activision, Inc. 2003 Incentive Plan, as amended.

The number of shares available for issuance under the 2007 Plan was increased by an additional 2,685,577 shares of our common stock to reflect the shares reserved for issuance but not subject to outstanding awards under the Rolled-Up Plans at the time the 2007 Plan became effective. Additionally, the number of shares of our common stock reserved for issuance under the 2007 Plan may be further increased from time to time by: (i) the number of shares relating to awards outstanding under any Rolled-Up Plan that: (a) expire, or are forfeited, terminated or cancelled, without the issuance of shares; (b) are settled in cash in lieu of shares; or (c) are exchanged, prior to the issuance of shares of our common stock, for awards not involving our common stock; and (ii) if the exercise price of any option outstanding under any Rolled-Up Plan is, or the tax withholding requirements with respect to any award outstanding under any Rolled-Up Plan are, satisfied by withholding shares otherwise then deliverable in respect of the award or the actual or constructive transfer to us shares already owned, the number of shares equal to the withheld or transferred shares. As of December 31, 2007, we had approximately 16.4 million shares of our common stock reserved for future issuance under the 2007 Plan. Shares issued in connection with awards made under the 2007 Plan are generally issued as new stock issuances.

Restricted Stock Units and Restricted Stock

We grant restricted stock units and restricted stock (collectively referred to as “restricted stock rights”) under the 2007 Plan to employees around the world. Restricted stock units entitle the holders thereof to receive shares of our common stock at the end of a specified period of time. Restricted stock is issued and outstanding upon grant; however, restricted stock holders are restricted from selling the shares until they vest. Upon vesting of restricted stock rights, we may withhold shares otherwise deliverable to satisfy tax withholding requirements. Restricted stock rights are subject to forfeiture and transfer restrictions. Vesting for restricted stock rights is based upon the holders’ continued employment with us. If the vesting conditions are not met, unvested restricted stock rights will be forfeited.

During the first quarter fiscal 2008, we issued restricted stock rights of 8,000 shares to an employee with a total grant date fair value of \$163,000. During the second quarter fiscal 2008, we issued restricted stock rights of 75,333 shares to employees with a total grant date fair value of \$1.5 million. In connection with the annual grant of employee incentives in the third quarter fiscal 2008, we issued restricted stock rights of 409,208 shares to employees with a total grant date fair value of \$8.5 million. The value of the shares is based on the closing market price of our common stock on the date of grant. In accordance with SFAS No. 123R, we will recognize compensation expense and increase additional paid in capital related to restricted stock rights over the requisite service period. For the three and nine months ended December 31, 2007, we

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recorded expenses related to total restricted stock rights of approximately \$1.4 million and \$2.3 million, respectively. For the three and nine months ended December 31, 2006, we recorded expenses related to total restricted stock rights of approximately \$292,000 and \$642,000, respectively. Since the issuance dates, we have recognized \$3.7 million of the \$15.0 million total fair value, with the remainder to be recognized over a weighted-average period of 1.72 years.

Non-Plan Employee Stock Options

In connection with prior employment agreements between Activision and Robert A. Kotick, Activision’s Chairman and Chief Executive Officer, and Brian G. Kelly, Activision’s Co-Chairman, Mr. Kotick and Mr. Kelly were granted options to purchase our common stock. The Board of Directors approved the granting of these options. As of December 31, 2007, options to purchase approximately 8,304,800 shares under such grants were outstanding with a weighted-average exercise price of \$2.05.

Employee Stock Purchase Plan

Effective October 1, 2005, the Board of Directors approved the Activision, Inc. Third Amended and Restated 2002 Employee Stock Purchase Plan and the Activision, Inc. Second Amended and Restated 2002 Employee Stock Purchase Plan for International Employees (together, the “ESPP”). Under the ESPP, up to an aggregate of 4,000,000 shares of our common stock may be purchased by eligible employees during two six-month offering periods that commence each April 1 and October 1 (the “Offering Period”). Common stock is purchased by the ESPP participants at a price per share generally equal to 85% of the lower of the fair market value of our common stock on the first day of the Offering Period and the fair market value of our common stock on the purchase date (the last day of the Offering Period). Employees may purchase shares having a value not exceeding 15% of their gross compensation during an Offering Period and are limited to a maximum of \$10,000 in value for any two purchases within the same calendar year. On June 13, 2007, employees purchased 228,242 shares of our common stock at a purchase price of \$12.835 per share. On September 28, 2007, the most recent purchase date, employees purchased 126,008 shares of our common stock at a purchase price of \$16.099 per share. As of December 31, 2007, we had approximately 1.2 million shares of our common stock reserved for future issuance under the ESPP. Shares issued in connection with purchases made under the ESPP are generally issued as new stock issuances.

Non-Employee Warrants

In prior years, we have granted stock warrants to third parties in connection with the development of software and the acquisition of licensing rights for intellectual property. The warrants generally vest upon grant and are exercisable over the term of the warrant. The exercise price of third-party warrants is generally greater than or equal to the fair market value of our common stock at the date of grant. No third-party warrants were granted during the quarters or nine months ended December 31, 2007 and 2006. As of December 31, 2007 and 2006, respectively, third-party warrants to purchase 919,800 and 936,000 shares of our common stock were outstanding with a weighted-average exercise price of \$4.59 and \$4.54 per share, respectively.

In accordance with EITF 96-18, we measure the fair value of the securities on the measurement date. The fair value of each warrant is capitalized and amortized to expense when the related product is released and the related revenue is recognized. Additionally, as more fully described in Note 1, the recoverability of capitalized software development costs and intellectual property licenses is evaluated on a quarterly basis with amounts determined as not recoverable being charged to expense. In connection with the evaluation of capitalized software development costs and intellectual property licenses, any capitalized amounts for related third-party warrants are additionally reviewed for recoverability with amounts determined as not recoverable being amortized to expense. As of March 31, 2006, capitalized amounts of third-party warrants had been fully amortized.

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Employee Retirement Plan

We have a retirement plan covering substantially all of our eligible employees. The retirement plan is qualified in accordance with Section 401(k) of the Internal Revenue Code. Under the plan, employees may defer up to 92% of their pre-tax salary, up to the maximum amount allowed by law. We contribute an amount equal to 20% of each dollar contributed by a participant. Our matching contributions to the plan were approximately \$356,000 and \$1.2 million during the three and nine months ended December 31, 2007, respectively. Our matching contributions to the plan were approximately \$293,600 and \$1.0 million during the three and nine months ended December 31, 2006, respectively.

The following table sets forth the total stock-based compensation expense resulting from stock options, restricted stock rights, and ESPP included in our Consolidated Statements of Operations for the three and nine months ended December 31, 2007 and 2006 (amounts in thousands):

| | Three Months Ended December 31, 2007 | Nine months ended December 31, 2007 |
|--|---|--|
| Cost of sales - software royalties and amortization | \$ 7,708 | \$ 9,801 |
| Product development | 6,223 | 10,144 |
| Sales and marketing | 1,466 | 5,105 |
| General and administrative | 5,508 | 10,884 |
| Stock-based compensation expense before income taxes | 20,905 | 35,934 |
| Income tax benefit | (8,174) | (14,050) |
| Total stock-based compensation expense after income taxes | \$ 12,731 | \$ 21,884 |
| | Three Months Ended December 31, 2006 | Nine months ended December 31, 2006 |
| Cost of sales - software royalties and amortization | \$ 1,836 | \$ 1,872 |
| Product development | 1,394 | 4,064 |
| Sales and marketing | 1,559 | 3,488 |
| General and administrative | 2,904 | 9,009 |
| Stock-based compensation expense before income taxes | 7,693 | 18,433 |
| Income tax benefit | (3,008) | (7,207) |
| Total stock-based compensation expense after income taxes | \$ 4,685 | \$ 11,226 |

Additionally, stock option expenses are capitalized in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed" as discussed in Note 1. The

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following table summarizes stock option expense included in our Consolidated Balance Sheets as a component of software development (amounts in thousands):

| | Software Development |
|--|-------------------------|
| Balance as of March 31, 2007 | \$ 6,566 |
| Stock-based compensation expense capitalized during period | 10,952 |
| Amortization of capitalized stock-based compensation expense | (9,801) |
| Balance as of December 31, 2007 | <u>\$ 7,717</u> |

Net cash proceeds from the exercise of stock options were \$8.7 million and \$39.0 million for the three and nine months ended December 31, 2007, respectively. Net cash proceeds from the exercise of stock options were \$7.0 million and \$19.0 million for the three and nine months ended December 31, 2006, respectively. Income tax benefit from stock option exercises was \$41.5 million and \$50.7 million for the three and nine months ended December 31, 2007, respectively. Income tax benefit from stock option exercises was \$5.5 million and \$11.4 million for the three and nine months ended December 31, 2006, respectively. In accordance with SFAS No. 123R, we present excess tax benefits from the exercise of stock options, if any, as financing cash flows rather than operating cash flows.

Consistent with SFAS No. 123R, data input into our binomial lattice model reflects expected future changes during the option's contractual term. The inputs required by our binomial lattice model include expected volatility, risk-free interest rate, risk-adjusted stock return, dividend yield, contractual term, and vesting schedule, as well as measures of employees' forfeiture, exercise, and post-vesting termination behavior. Statistical methods were used to estimate termination rates for specific types of employees. These termination rates, in turn, were used to model the number of options that are expected to vest and post-vesting termination behavior. Employee-type-specific estimates of Expected Time-To-Exercise ("ETTE") were used to reflect employee exercise behavior. ETTE was estimated by using statistical procedures to first estimate the conditional probability of exercise occurring during each time period, conditional on the option surviving to that time period. These probabilities are then used to estimate ETTE. The model was calibrated by adjusting parameters controlling exercise and post-vesting termination behavior so that the measures output by the model matched values of these measures that were estimated from historical data. The weighted-average estimated value of employee stock options granted during the three months ended December 31, 2007 and 2006 was \$11.41 and \$7.44 per share, respectively, using the binomial-lattice model with the following weighted-average assumptions:

| | Employee and Director Options and Warrants | | Employee Stock Purchase Plan | |
|---|---|----------------------|---------------------------------|----------------------|
| | Three Months Ended | | Three Months Ended | |
| | December 31, 2007 | December 31, 2006 | December 31, 2007 | December 31, 2006 |
| Expected term (in years) | 5.38 | 5.76 | 0.5 | 0.5 |
| Risk-free interest rate | 4.48% | 4.70% | 4.15% | 4.74% |
| Volatility | 51.20% | 53.10% | 41.39% | 44.34% |
| Dividend yield | — | — | — | — |
| Weighted-average fair value at grant date | \$ 11.41 | \$ 7.44 | \$ 6.04 | \$ 3.89 |

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| | Nine months ended | | Nine months ended | |
|---|--------------------------|----------------------|----------------------|----------------------|
| | December 31, 2007 | December 31, 2006 | December 31, 2007 | December 31, 2006 |
| | Expected term (in years) | 5.42 | 4.80 | 0.5 |
| Risk-free interest rate | 4.72% | 5.00% | 4.15% | 4.74% |
| Volatility | 50.97% | 54.19% | 41.39% | 44.34% |
| Dividend yield | — | — | — | — |
| Weighted-average fair value at grant date | \$ 9.17 | \$ 5.68 | \$ 6.04 | \$ 3.89 |

To estimate volatility for the binomial-lattice model, we use methods or capabilities that are discussed in SFAS No. 123R and SAB No. 107. These methods included the implied volatility method based upon the volatilities for exchange-traded options on our stock to estimate short-term volatility, the historical method (annualized standard deviation of the instantaneous returns on Activision's stock) during the option's contractual term to estimate long-term volatility and a statistical model to estimate the transition or "mean reversion" from short-term volatility to long-term volatility. Based on these methods, for options granted during the three months ended December 31, 2007, the expected stock price volatility ranged from 48.02% to 51.88%, with a weighted-average volatility of 51.20% for options granted during the quarter ended December 31, 2007. For options granted during the three months ended December 31, 2006, the expected stock price volatility ranged from 44.20% to 56.10%, with a weighted-average volatility of 53.10% for options granted during the three months ended December 31, 2006.

As was the case for volatility, the risk-free rate is assumed to change during the option's contractual term. Consistent with the calculation required by a binomial lattice model, the risk-free rate reflects the interest from one time period to the next ("forward rate") as opposed to the interest rate from the grant date to the given time period ("spot rate"). Since we do not currently pay dividends and are not expected to pay them in the future, we have assumed that the dividend yield is zero.

The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding and is, as required by SFAS No. 123R, an output by the binomial-lattice model. The expected life of employee stock options depends on all of the underlying assumptions and calibration of our model. A binomial-lattice model can be viewed as assuming that employees will exercise their options when the stock price equals or exceeds an exercise boundary. The exercise boundary is not constant but continually declines as one approaches the option's expiration date. The exact placement of the exercise boundary depends on all of the model inputs as well as the measures that are used to calibrate the model to estimated measures of employees' exercise and termination behavior.

Stock-based compensation expense recognized in the Consolidated Statement of Operations is based on awards ultimately expected to vest and has been reduced for estimated forfeitures. SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Accuracy of Fair Value Estimates

We use third-party analyses to assist in developing the assumptions used in the binomial-lattice model, including model inputs and measures of employees' exercise and post-vesting termination behavior. However, we are responsible for the assumptions used to estimate the fair value of our share-based payment awards.

Our ability to accurately estimate the fair value of share-based payment awards as of the grant date depends upon the accuracy of the model and our ability to accurately forecast model inputs as long as ten years into the future. These inputs include, but are not limited to, expected stock price volatility, risk-free rate, dividend yield, and employee termination rates. Although the fair value of employee stock options is determined in accordance with SFAS No. 123R and SAB 107 using an option-pricing model, the estimates

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that are produced by this model may not be indicative of the fair value observed between a willing buyer/willing seller. Unfortunately, it is difficult to determine if this is the case, because markets do not currently exist that permit the active trading of employee stock option and other share-based instruments.

Stock option activity for the nine months ended December 31, 2007 is as follows (amounts in thousands, except per share amounts):

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|----------------------------------|---------|---------------------------------|---|---------------------------|
| Outstanding at March 31, 2007 | 49,429 | \$ 7.18 | | |
| Granted | 11,207 | 20.38 | | |
| Exercised | (9,195) | 6.48 | | |
| Forfeited | (2,243) | 9.33 | | |
| Outstanding at December 31, 2007 | 49,198 | \$ 10.54 | 6.16 | \$ 942,407 |
| Exercisable at December 31, 2007 | 26,734 | \$ 5.72 | 4.09 | \$ 641,076 |

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (i.e., the difference between our closing stock price on the last trading day of our third quarter fiscal 2008 and the exercise price, times the number of shares) that would have been received by the option holders had all option holders exercised their options on December 31, 2007. This amount changes based on the fair market value of our common stock. Total intrinsic value of options exercised is \$104.7 million and \$151.2 million for the three and nine months ended December 31, 2007, respectively. Total intrinsic value of options exercised is \$15.3 million and \$32.0 million for the three and nine months ended December 31, 2006, respectively.

As of December 31, 2007, \$93.8 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.7 years.

On June 8, 2007, with respect to unexercised options subject to Section 409A of the Internal Revenue Code held by employees who are not executive officers, Activision commenced an offer to amend the exercise price of these options to eliminate the grantee's Section 409A tax liability consistent with Internal Revenue Service guidance. Pursuant to the offer, which closed on July 6, 2007, we made a cash payment in January 2008 to employees who have accepted the offer, totaling approximately \$4.1 million, which represents the difference between the original exercise price of each amended option and the amended exercise price of each amended option. The offer with respect to all eligible options is considered a modification of those options for financial reporting purposes. Pursuant to the accounting standards in effect under SFAS No. 123R, the incremental fair value of approximately \$1.0 million and the remaining portion of approximately \$3.1 million, created as a result of cash payments that become payable pursuant to the terms of the offer, was recognized as compensation expense and equity, respectively, at the expiration of the offer period on July 6, 2007.

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14. Impact of Recently Issued Accounting Standards

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("FAS 141(R)"). This Statement provides greater consistency in the accounting and financial reporting of business combinations. It requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose the nature and financial effect of the business combination. Also in December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements* ("FAS 160"). This Statement amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 141(R) and FAS 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008, with earlier adoption being prohibited. We do not currently have any non-controlling interests in our subsidiaries, and accordingly, the adoption of FAS 160 is not expected to have a material impact on our Consolidated Financial Statements. We are currently evaluating the impact from the adoption of FAS 141R will have on our Consolidated Financial Statements.

In September 2006, the FASB issued Statement No. 157 ("SFAS No. 157"), *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 for financial assets and liabilities and is effective for fiscal years beginning after

November 15, 2008 for non-financial assets and liabilities. We do not expect that the adoption of SFAS No. 157 will have a material effect on our financial position or results of operations.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115* (“SFAS No. 159”). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. The provisions of SFAS No. 159 are effective for financial statements issued for fiscal years beginning after November 15, 2007. We are evaluating if we will adopt the fair value option of SFAS No. 159 and what impact the adoption will have on our Consolidated Financial Statements if we adopt.

In June 2007, the FASB ratified the Emerging Issues Task Force’s (“EITF”) consensus conclusion on EITF 07-03, “*Accounting for Advance Payments for Goods or Services to Be Used in Future Research and Development.*” EITF 07-03 addresses the diversity which exists with respect to the accounting for the non-refundable portion of a payment made by a research and development entity for future research and development activities. Under this conclusion, an entity is required to defer and capitalize non-refundable advance payments made for research and development activities until the related goods are delivered or the related services are performed. EITF 07-03 is effective for interim or annual reporting periods in fiscal years beginning after December 15, 2007 and requires prospective application for new contracts entered into after the effective date. We do not expect the adoption of EITF 07-03 to have a material impact on our Consolidated Financial Statements.

15. Business Combination Agreement with Vivendi

On December 2, 2007, we and Vivendi S.A. (“Vivendi”) (Euronext Paris: VIV) announced the signing of a definitive agreement to combine Vivendi Games, Inc. (“Vivendi Games”), Vivendi’s interactive entertainment business - which includes Blizzard Entertainment, Inc.’s *World of Warcraft*, a leading massively multi-player online role-playing game franchise - with us. On closing of the transaction, we will be renamed Activision Blizzard, Inc. (“Activision Blizzard”) and will continue to operate as a public company traded on NASDAQ under the ticker ATVI. While we are the legal acquirer and the surviving

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entity in this transaction, Vivendi Games will be deemed to be the accounting acquirer in the transaction treated as a reverse acquisition for accounting purposes. As such, our historical financial statements after the close of the merger will be those of Vivendi Games.

Under the term of the business combination agreement, we and Vivendi Games will combine our businesses through the merger of a newly formed, wholly owned subsidiary of ours with and into Vivendi Games. As a result of the merger, Vivendi Games, the parent company of Blizzard Entertainment, Inc. and Sierra Entertainment, Inc., will become a wholly owned subsidiary of ours. VGAC LLC, a subsidiary of Vivendi and the sole stockholder of Vivendi Games, will receive approximately 295.3 million newly issued shares of our common stock in the merger, which number is based upon a valuation of Vivendi Games at \$8.121 billion and a per share price for our common stock of \$27.50.

Simultaneously with the merger, Vivendi will purchase from us 62.9 million newly issued shares of our common stock, at \$27.50 per share, for an aggregate purchase price of approximately \$1.731 billion. Immediately following completion of the merger and share purchase, Vivendi and its subsidiaries are expected to own approximately 52.2% of the issued and outstanding shares of Activision Blizzard’s common stock on a fully diluted basis.

After the closing of the transaction, Activision Blizzard will commence a cash tender offer for up to 146.5 million of its shares (representing approximately 50% of the shares of our common stock outstanding immediately prior to the transaction) at \$27.50 per share. If the tender offer is fully subscribed, Vivendi and its subsidiaries are expected to own approximately 68.0% of the issued and outstanding shares of Activision Blizzard’s common stock on a fully diluted basis. Under the terms of the business combination agreement, we and Vivendi have agreed the purchase of the shares tendered in the tender offer will be funded as follows: (a) the first \$2.928 billion of the aggregate consideration will be funded by Activision Blizzard with proceeds from the share purchase described above, available cash on hand and, if necessary, borrowings made under one or more new credit facilities; (b) if the aggregate consideration is more than \$2.928 billion, Vivendi has agreed to purchase from Activision Blizzard, at a purchase price of \$27.50 per share, additional newly issued shares of Activision Blizzard common stock in an amount equal to the lesser of (x) \$700 million and (y) the excess of the aggregate consideration over \$2.928 billion, which amount will be used to fund the amount of the aggregate consideration that is in excess of \$2.928 billion; and (c) if the aggregate consideration exceeds \$3.628 billion, Activision Blizzard will fund the additional amount of the aggregate consideration that is in excess of \$3.628 billion (up to the maximum aggregate consideration of \$4.028 billion) through borrowings made under one or more new credit facilities issued by Vivendi or third party lenders.

The transaction is subject to customary closing conditions, including the approval by our shareholders as well as certain regulatory approvals, and is expected to close during the first half of calendar year 2008.

All information included in the accompanying unaudited Consolidated Financial Statements and notes to Consolidated Financial Statements in this report reflects only our results, and does not reflect any impact of the proposed merger.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

Our Business

We are a leading international publisher of interactive entertainment software products. We have built a company with a diverse portfolio of products that spans a wide range of categories and target markets and that are used on a variety of game hardware platforms and operating systems. We have created, licensed, and acquired a group of highly recognizable brands, which we market to a variety of consumer demographics. Our fiscal 2008 product portfolio includes titles such as *Guitar Hero II* for the Microsoft Xbox360, *Spider-Man 3 The Game* (“Spider-Man 3”), *Shrek the Third*, *TRANSFORMERS: The Game*, *Enemy Territory: Quake Wars*, *Call of Duty 4: Modern Warfare*, *Tony Hawk’s Proving Ground*, *Bee Movie Game*, *Spider-Man: Friend or Foe*, *Guitar Hero: Rocks the 80s* for the PS2, and *Guitar Hero III: Legends of Rock*.

Our products cover diverse game categories including action/adventure, action sports, racing, role-playing, simulation, first-person action, music-based gaming, and strategy. Our target customer base ranges from casual players to game enthusiasts, children to adults, and mass-market consumers to “value” buyers. We currently offer our products primarily in versions that operate on the Sony PlayStation 2 (“PS2”), the Sony PlayStation 3 (“PS3”), the Nintendo Wii (“Wii”), and the Microsoft Xbox360 (“Xbox360”) console systems, the Nintendo Game Boy Advance (“GBA”), the Nintendo Dual Screen (“NDS”), and the Sony PlayStation Portable (“PSP”) hand-held devices, and the personal computer (“PC”). The installed base for the previous generation of hardware platforms (e.g., the PS2 and the Microsoft Xbox (“Xbox”)) is significant and the fiscal 2006 release of the Xbox360 and the fiscal 2007 releases of the PS3 and the Wii have further expanded the software market. During the third quarter fiscal 2008, we successfully released three major titles for the PS3, the Xbox360, and/or the Wii – *Call of Duty 4: Modern Warfare*, *Guitar Hero III: Legends of Rock*, and *Tony Hawk’s Proving Ground*. *Guitar Hero III: Legends of Rock* and *Tony Hawk’s Proving Ground* are also available for the PS2. Our plan is to continue to build on a significant presence on the PS3, the Wii, and the Xbox360 (“the next-generation platforms”) by continuing to expand the number of titles released on the next generation and hand-held platforms while continuing to market to the PS2 platform as long as economically attractive given its large installed base.

Our publishing business involves the development, marketing, and sale of products directly, by license, or through our affiliate label program with certain third-party publishers. In North America, we primarily sell our products on a direct basis to mass-market retailers, consumer electronics stores, discount warehouses, and game specialty stores. We conduct our international publishing activities through offices in the United Kingdom (“UK”), Germany, France, Italy, Spain, the Netherlands, Sweden, Australia, Canada, South Korea, and Japan. Our products are sold internationally on a direct-to-retail basis, through third-party distribution and licensing arrangements, and through our wholly owned European distribution subsidiaries. Our distribution business consists of operations located in the UK, the Netherlands, and Germany that provide logistical and sales services to third-party publishers of interactive entertainment software, our own publishing operations, and manufacturers of interactive entertainment hardware.

Our profitability is directly affected by the mix of revenues from our publishing and distribution businesses. Operating margins realized from our publishing business are typically substantially higher than margins realized from our distribution business. Operating margins in our publishing business are affected by our ability to release highly successful or “hit” titles. Though many of these titles have substantial production or acquisition costs and marketing budgets, once a title recoups these costs, incremental net revenues directly and positively impact our operating margin. Operating margins in our distribution business are affected by the mix of hardware and software sales, with software typically producing higher margins than hardware.

Our Focus

With respect to future game development, we will continue to focus on our “big propositions,” products that are backed by strong brands and high quality development, for which we will provide significant marketing support.

Our fiscal 2008 releases include well-established brands, which are backed by high-profile intellectual property and/or highly anticipated motion picture releases. For example, we have a long-term relationship with Marvel Entertainment, Inc. through an exclusive licensing agreement for the Spider-Man and X-Men franchises through 2017. This agreement grants us the exclusive, worldwide rights to develop and publish video games based on Marvel’s comic book franchises: Spider-Man and X-Men. In addition, we have an agreement with Spider-Man Merchandising, LP which grants us exclusive, worldwide rights to publish video games based on subsequent Spider-Man feature films through 2017. Through December 31, 2007, games based on the Spider-Man and X-Men franchises have generated approximately \$1.1 billion in net revenues worldwide. Under this agreement, in the first quarter fiscal 2007 we released the video game, *X-Men: The Official Game* coinciding with the theatrical release of “X-Men: The Last Stand.” In the third quarter fiscal 2007, we released *Marvel: Ultimate Alliance* across multiple platforms and *Spider-Man: Battle for New York* on the NDS and the GBA. In the first quarter fiscal 2008, we released *Spider-Man 3* based on Columbia Pictures/Marvel Entertainment, Inc.’s feature film “Spider-Man 3,” which was released in May 2007. We also released *Spider-Man: Friend or Foe* in the third quarter fiscal 2008.

We also have an exclusive licensing agreement with professional skateboarder Tony Hawk. The agreement grants us exclusive rights to develop and publish video games through 2015 using Tony Hawk’s name and likeness. Through December 31, 2007, we have released nine titles in the Tony Hawk franchise with cumulative net revenues of \$1.3 billion, including the fiscal 2008 third quarter release, *Tony Hawk’s Proving Ground*, which was released on the PS3, the PS2, the Wii and the NDS.

We have continued our focus on establishing and maintaining relationships with talented and experienced software development and publishing teams. In June 2006, we acquired RedOctane, Inc. (“RedOctane”), the publisher of the popular Guitar Hero franchise. The Guitar Hero franchise has set the industry record, surpassing \$1 billion in North America retail sales in just 26 months, according to the NPD Group, which is a provider of consumer and retail market research information for a wide range of industries. In the third quarter fiscal 2008, we released *Guitar Hero III: Legends of Rock*, which according to the NPD Group was the number one title in units and dollars for calendar year 2007, making it the best-selling video game of all time in a single calendar year. We plan on continuing to build on this franchise by investing in future development of Guitar Hero titles across a variety of platforms. In September 2007, we acquired U.K.-based video game developer Bizarre Creations Limited (“Bizarre Creations”), a leader in the racing category. With more than 10 years’ experience in the racing genre, Bizarre Creations developed the innovative multi-million unit selling franchise, Project Gotham Racing for Microsoft, a critically-acclaimed series for the Xbox and Xbox360. Bizarre Creations and its games have won numerous industry awards including: Best Racing Game for *Project Gotham Racing 2* from the prestigious British Academy of Film and Television Arts (BAFTA); the Industry Grand Prix Award from Develop; MCV’s UK Development Team 2006 award; Best Racing/Driving Game from IGN; Game of the Year from OXM and Gamespy for *Project Gotham Racing 3*; and IGN’s Best XBLA Game for *Geometry Wars: Retro Evolved*. Bizarre Creations will play a role in our growth strategy as we develop a new intellectual property for the racing segment, expand our development capability and capacity for other genres and utilize Bizarre Creations’ proprietary development technology. We also have development agreements with other top-level, third-party developers such as id Software, Inc., Splash Damage, Ltd., and Next Level Games.

We will also continue to evaluate and exploit emerging brands that we believe have potential to become successful game franchises. For example, we have multi-year, multi-property, agreements with DreamWorks Animation LLC that grant us the exclusive rights to publish video games based on DreamWorks Animation SKG's theatrical release "Shark Tale," which was released in the second quarter fiscal 2005, "Madagascar," which was released in the first quarter fiscal 2006, "Over the Hedge," which was released in the first quarter fiscal 2007, "Shrek the Third," which was released in the first quarter fiscal 2008, "Bee Movie," which was released in the third quarter fiscal 2008, and all of their respective sequels. In addition, our multi-year agreements with DreamWorks Animation LLC also grant us the exclusive video game rights to three upcoming DreamWorks Animation feature films, including *Kung Fu Panda*, *Monsters vs Aliens* and *How to Train Your Dragon*.

Additionally, we have a strategic alliance with Harrah's Entertainment, Inc. that grants us the exclusive, worldwide interactive rights to develop and publish "World Series of Poker" video games based on the popular World Series of Poker Tournament. In the second quarter fiscal 2006, we released our first title under this alliance, *World Series of Poker*, which became the number one poker title of calendar year 2005. Further building on this franchise, in the second quarter fiscal 2007, we released our second title under this alliance, *World Series of Poker: Tournament of Champions*. Additionally, we released our third title under this alliance, *World Series of Poker: Battle for the Bracelet* in the second quarter fiscal 2008.

We also continue to build on our portfolio of licensed intellectual property. In February 2006, we signed an agreement with Hasbro Properties Group granting us the exclusive global rights (excluding Japan) to develop console, hand-held, and PC games based on Hasbro's "Transformers" brand. We had a strong initial release of our first game in late June 2007 concurrently with the early July 2007 movie release of the live action "Transformers" film from DreamWorks Pictures and Paramount Pictures. In April 2006, we signed an agreement with MGM Interactive and EON Productions Ltd. granting us the exclusive rights to develop and publish video games based on the James Bond license through 2014.

In April 2006, we signed a multi-year agreement with Mattel, Inc. which grants us the exclusive worldwide distribution rights for the catalog of video games based on Mattel, Inc.'s Barbie brand on all platforms. Through the third quarter fiscal 2007, we distributed six Barbie titles: *Barbie in the 12 Dancing Princesses*, *The Barbie Diaries: High School Mystery*, *Barbie Fashion Show*, *Barbie Horse Adventures: Mystery Ride*, *Barbie and the Magic of Pegasus*, and *Barbie as the Princess and the Pauper*. Based on the success of this distribution, we signed multi-year license agreements with Mattel, Inc. in January 2007 which grant us the exclusive worldwide rights to develop and publish new video games based on Mattel Inc.'s *Barbie* and *Hot Wheels* brands on all platforms. In the second quarter fiscal 2008, we released *Hot Wheels: Beat That!*. In September 2006, we entered into a distribution agreement with MTV Networks Kids and Family Group's Nickelodeon, a division of Viacom Inc., to be the exclusive distributor of three new Nick Jr. PC CD-ROM titles, published by Nickelodeon and based on the top preschool series on commercial television, *Dora The Explorer*, *The Backyardigans*, and *Go, Diego, Go!*.

We are utilizing these developer relationships, new intellectual property acquisitions, new original intellectual property creations, and our existing library of intellectual property to further focus our game development on product lines that will deliver significant, lasting, and recurring revenues and operating profits.

Critical Accounting Policies and Estimates

We have identified the policies below as critical to our business operations and the understanding of our financial results. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. For a detailed discussion of the application of these and other accounting policies, see Note 1 to the Notes to Consolidated Financial Statements included in Item 1. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition. 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 (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. With respect to license agreements that provide customers the right to make multiple copies in exchange for guaranteed amounts, revenue is recognized upon delivery of a master copy. Per copy royalties on sales that exceed the guarantee are recognized as earned.

Some of our software products provide limited online features at no additional cost to the consumer. Generally, we consider such features to be incidental to the overall product offering and an inconsequential

deliverable. Accordingly, we do not defer any revenue related to products containing these limited online features. In instances where online features or additional functionality is considered a substantive deliverable in addition to the software product, we take this into account when determining the appropriate revenue recognition. This evaluation is performed for each software product when it is released. We determined that one of our software titles, *Enemy Territory: Quake Wars* (which is primarily an online multiplayer PC game), contains online functionality that constitutes a more-than-inconsequential separate service deliverable in addition to the product, principally because of its importance to game play. As such, our performance obligations for this title extend beyond the sale of the game, which is unique compared to other prior titles. Vendor-specific objective evidence of fair value ("VSOE") does not exist for the online functionality, as we do not separately charge for this component of the title. As a result, we are recognizing all of the revenue from the sale of this title ratably over an estimated service period, which is estimated to be six months beginning the month after shipment. In addition, we are deferring the costs of sales for this title. Cost of sales includes: manufacturing costs, software royalties and amortization, and intellectual property licenses. Overall, online play functionality is still an emerging area for us. As we move forward, we will monitor this developing functionality and its significance for our products. Our assessment of our obligations with respect to this functionality and the resulting accounting may change in the future.

With respect to online transactions, such as electronic downloads of titles or product add-ons, revenue is recognized when the fee is paid by the online customer to purchase online content and we are notified by the online retailer that the product has been downloaded. In addition, in order to recognize revenue for both product sales and licensing transactions, persuasive evidence of an arrangement must exist and collection of the related receivable must be probable.

Sales incentives or other consideration given by us to our customers is accounted for in accordance with the Financial Accounting Standards Board's Emerging Issues Task Force ("EITF") Issue 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." In accordance with EITF Issue 01-9, sales incentives and other consideration that are considered adjustments of the selling price of our products, such as rebates and product placement fees, are reflected as reductions of 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 advertisement, are reflected as sales and marketing expenses.

Allowances for Returns, Price Protection, Doubtful Accounts, and Inventory Obsolescence. In determining the appropriate unit shipments to our customers, we benchmark our titles using historical and industry data. We closely monitor and analyze the historical performance of our various titles, the performance of products released by other publishers and the anticipated timing of other releases in order to assess future demands of current and upcoming titles. Initial volumes shipped upon title launch and subsequent reorders are evaluated to ensure that quantities are sufficient to meet the demands from the retail markets but at the same time, are controlled to prevent excess inventory in the channel.

We may permit product returns from, or grant price protection to, our customers under certain conditions. In general, price protection refers to the circumstances when we elect to decrease the wholesale price of a product by a certain amount and, when granted and applicable, allows customers a credit against amounts owed by such customers to us with respect to open and/or future invoices. The conditions our customers must meet to be granted the right to return products or price protection are, among other things, compliance with applicable payment terms and consistent delivery to us of inventory and sell-through reports. We may also consider other factors, including the facilitation of slow-moving inventory and other market factors. Management must make estimates of potential future product returns and price protection related to current period product revenue. We estimate the amount of future returns and price protection for current period product revenue utilizing historical experience and information regarding inventory levels and the demand and acceptance of our products by the end consumer. The following factors are used to estimate the amount of future returns and price protection for a particular title: historical performance of titles in similar genres, historical performance of the hardware platform, historical performance of the brand, console hardware life cycle, our sales force and retail customer feedback, industry pricing, weeks of on-hand retail channel inventory, absolute quantity of on-hand retail channel inventory, our warehouse on-hand inventory levels, the title's recent sell-through history (if available), marketing trade programs, and competing titles. The relative importance of

these factors varies among titles depending upon, among other items, genre, platform, seasonality, and sales strategy. Significant management judgments and estimates must be made and used in connection with establishing the allowance for returns and price protection in any accounting period. Based upon historical experience we believe our estimates are reasonable. However, actual returns and price protection could vary materially from our allowance estimates due to a number of reasons including, among others, a lack of consumer acceptance of a title, the release in the same period of a similarly themed title by a competitor, or technological obsolescence due to the emergence of new hardware platforms. Material differences may result in the amount and timing of our revenue for any period if factors or market conditions change or if management makes different judgments or utilizes different estimates in determining the allowances for returns and price protection. For example, a 1% change in our December 31, 2007 allowance for returns and price protection would impact net revenues by \$1.8 million.

Similarly, management must make estimates of the uncollectibility of our accounts receivable. In estimating the allowance for doubtful accounts, we analyze the age of current outstanding account balances, historical bad debts, customer concentrations, customer creditworthiness, current economic trends, and changes in our customers' payment terms and their economic condition, as well as whether we can obtain sufficient credit insurance. Any significant changes in any of these criteria would affect management's estimates in establishing our allowance for doubtful accounts.

We value inventory at the lower of cost or market. We regularly review inventory quantities on hand and in the retail channel and record a provision for excess or obsolete inventory based on the future expected demand for our products. Significant changes in demand for our products would impact management's estimates in establishing our inventory provision.

Software Development Costs. Software development costs include payments made to independent software developers under development agreements, as well as direct costs incurred for internally developed products.

We account for software development costs in accordance with Statement of Financial Accounting Standard ("SFAS") No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." Software development costs are capitalized once the technological feasibility of a product is established and such costs are determined to be recoverable. Technological feasibility of a product encompasses both technical design documentation and game design documentation. For products where proven technology exists, this may occur early in the development cycle. Technological feasibility is evaluated on a product-by-product basis. Prior to a product's release, we expense, as part of "cost of sales — software royalties and amortization," capitalized costs when we believe such amounts are not recoverable. Capitalized costs for those products that are cancelled or abandoned are charged to product development expense in the period of cancellation. Amounts related to software development which are not capitalized are charged immediately to product development expense. We evaluate the future recoverability of capitalized amounts on a quarterly basis. The recoverability of capitalized software development costs is evaluated based on the expected performance of the specific products to which the costs relate. Criteria used to evaluate expected product performance include: historical performance of comparable products using comparable technology; orders for the product prior to its release; and estimated performance of a sequel product based on the performance of the product on which the sequel is based.

Commencing upon product release, capitalized software development costs are amortized to "cost of sales — software royalties and amortization" based on the ratio of current revenues to total projected revenues, generally resulting in an amortization period of six months or less. For products that have been released in prior periods, we evaluate the future recoverability of capitalized amounts on a quarterly basis. The primary evaluation criterion is actual title performance.

Significant management judgments and estimates are utilized in the assessment of when technological feasibility is established, as well as in the ongoing assessment of the recoverability of capitalized costs. In evaluating the recoverability of capitalized costs, the assessment of expected product performance utilizes forecasted sales amounts and estimates of additional costs to be incurred. If revised forecasted or actual product sales are less than, and/or revised forecasted or actual costs are greater than, the original forecasted amounts

utilized in the initial recoverability analysis, the net realizable value may be lower than originally estimated in any given quarter, which could result in an impairment charge.

Intellectual Property Licenses. Intellectual property license costs represent license fees paid to intellectual property rights holders for use of their trademarks, copyrights, software, technology, or other intellectual property or proprietary rights in the development of our products. Depending upon the agreement with the rights holder, we may obtain the rights to use acquired intellectual property in multiple products over multiple years, or alternatively, for a single product.

We evaluate the future recoverability of capitalized intellectual property licenses on a quarterly basis. The recoverability of capitalized intellectual property license costs is evaluated based on the expected performance of the specific products in which the licensed trademark or copyright is to be used. As many of our intellectual property licenses extend for multiple products over multiple years, we also assess the recoverability of capitalized intellectual property license costs based on certain qualitative factors such as the success of other products and/or entertainment vehicles utilizing the intellectual property, whether there are any future planned theatrical releases or television series based on the intellectual property, and the rights holder's continued promotion and exploitation of the intellectual property. Prior to the related product's release, we expense, as part of "cost of sales — intellectual property licenses," capitalized intellectual property costs when we believe such amounts are not recoverable. Capitalized intellectual property costs for those products that are cancelled or abandoned are charged to product development expense in the period of cancellation. Criteria used to evaluate expected product performance include: historical performance of comparable products using comparable technology; orders for the product prior to its release; and estimated performance of a sequel product based on the performance of the product on which the sequel is based.

Commencing upon the related product's release, capitalized intellectual property license costs are amortized to "cost of sales — intellectual property licenses" based on the ratio of current revenues for the specific product to total projected revenues for all products in which the licensed property will be utilized. As intellectual property license contracts may extend for multiple years, the amortization of capitalized intellectual property license costs relating to such contracts may extend beyond one year. For intellectual property included in products that have been released, we evaluate the future recoverability of capitalized amounts on a quarterly basis. The primary evaluation criterion is actual title performance.

Significant management judgments and estimates are utilized in the assessment of the recoverability of capitalized costs. In evaluating the recoverability of capitalized costs, the assessment of expected product performance utilizes forecasted sales amounts and estimates of additional costs to be incurred. If revised forecasted or actual product sales are less than, and/or revised forecasted or actual costs are greater than, the original forecasted amounts utilized in the initial recoverability analysis, the net realizable value may be lower than originally estimated in any given quarter, which could result in an impairment charge. Additionally, as noted above, as many of our intellectual property licenses extend for multiple products over multiple years, we also assess the recoverability of capitalized intellectual property license costs based on certain qualitative factors such as the success of other products and/or entertainment vehicles utilizing the intellectual property, whether there are any future planned theatrical releases or television series based on the intellectual property and the rights holder's continued promotion and exploitation of the intellectual property. Material differences may result in the amount and timing of charges for any period if management makes different judgments or utilizes different estimates in evaluating these qualitative factors.

Stock-based Compensation Expense

On April 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS No. 123R") which requires the measurement and recognition of compensation expense for all share-based payment awards made to our employees and directors including employee stock options and employee stock purchases related to the Employee Stock Purchase Plan based on estimated fair values. Stock-based compensation expense recognized under SFAS No. 123R for the three and nine months ended December 31, 2007 was \$20.9 million and \$35.9 million, respectively, and for the three and nine months ended December 31, 2006 was \$7.7 million and \$18.4 million, respectively. See Note 13 to the Consolidated Financial Statements for additional information.

We estimate the value of employee stock options on the date of grant using a binomial-lattice model. The fair value of a share-based payment as of the grant date estimated by an option pricing model depends upon our future stock price as well as assumptions concerning expected volatility, risk-free interest rate, and risk-adjusted stock return, as well as measures of employees' forfeiture, exercise, and post-vesting termination behavior. Statistical methods were used to estimate employee type specific termination rates. These termination rates, in turn, were used to model the number of options that are expected to vest and post-vesting termination behavior. Employee type specific estimates of Expected Time-To-Exercise ("ETTE") were used to reflect employee exercise behavior. ETTE was estimated by using statistical procedures to first estimate the conditional probability of exercise occurring during each time period, conditional on the option surviving to that time period. These probabilities were then used to estimate ETTE. The model was calibrated by adjusting parameters controlling exercise and post-vesting termination behavior so that the measures output by the model matched values of these measures that were estimated from historical data. The weighted-average estimated value of employee stock options granted during the three months ended December 31, 2007 was \$11.41 per share using the binomial-lattice model with the following weighted-average assumptions:

| | <u>Three Months Ended December 31, 2007</u> | <u>Nine months ended December 31, 2007</u> |
|-------------------------|---|--|
| Expected volatility | 51.20% | 50.97% |
| Risk-free interest rate | 4.48% | 4.72% |
| Expected dividends | — | — |

To estimate volatility for the binomial-lattice model, we use methods or capabilities that are discussed in SFAS No. 123R and Staff Accounting Bulletin No. 107 ("SAB 107"). These methods included the implied volatility method based upon the volatilities for exchange-traded options on our stock to estimate short-term volatility, the historical method (annualized standard deviation of the instantaneous returns on Activision's stock) during the option's contractual term to estimate long-term volatility and a statistical model to estimate the transition or "mean reversion" from short-term volatility to long-term volatility. Based on these methods, for options granted during the three months ended December 31, 2007, the expected stock price volatility ranged from 48.02% to 51.88%, with a weighted-average volatility of 51.20% for options granted during the quarter ended December 31, 2007. For options granted during the three months ended December 31, 2006, the expected stock price volatility ranged from 44.20% to 56.10%, with a weighted-average volatility of 53.10% for options granted during the three months ended December 31, 2006.

| | | | | | | | | |
|--|---------------------|-------------|-------------------|-------------|---------------------|-------------|---------------------|-------------|
| Console | 115,712 | 8 | 102,515 | 12 | 199,138 | 9 | 164,640 | 14 |
| Hand-held | 42,812 | 3 | 57,047 | 7 | 80,598 | 3 | 98,632 | 8 |
| PC | 15,310 | 1 | 14,900 | 2 | 24,318 | 1 | 27,265 | 2 |
| Total distribution net revenues | 173,834 | 12 | 174,462 | 21 | 304,054 | 13 | 290,537 | 24 |
| Total net revenues | \$ 1,482,484 | 100% | \$ 824,259 | 100% | \$ 2,295,685 | 100% | \$ 1,200,500 | 100% |

| Operating Income by Segment and as a Percentage of Total Segment Net Revenues: | | | | | | | | |
|--|-------------------|------------|-------------------|------------|-------------------|------------|-------------------|-----------|
| Publishing | \$ 390,819 | 30% | \$ 160,628 | 25% | \$ 410,269 | 21% | \$ 92,503 | 10% |
| Distribution | 13,715 | 8 | 12,492 | 7 | 14,812 | 5 | 9,758 | 3 |
| Total operating income | \$ 404,534 | 27% | \$ 173,120 | 21% | \$ 425,081 | 19% | \$ 102,261 | 8% |

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Results of Operations – Three and Nine Months Ended December 31, 2007 and 2006

Net Revenues

We primarily derive revenue from sales of packaged interactive software games designed for play on video game consoles (such as the PS3, PS2, Xbox360, and Wii), PCs, and hand-held game devices (such as the NDS, and PSP). We also derive revenue from our distribution business in Europe, which provides logistical and sales services to third-party publishers of interactive entertainment software, to our own publishing operations, and to third-party manufacturers of interactive entertainment hardware.

The following table details our consolidated net revenues by business segment and our publishing net revenues by territory for the three months ended December 31, 2007 and 2006 (amounts in thousands):

| | Three Months Ended December 31, | | Increase/ (Decrease) | Percent Change |
|--------------------------------|---------------------------------|------------|-------------------------|-------------------|
| | 2007 | 2006 | | |
| Publishing Net Revenues | | | | |
| North America | \$ 923,793 | \$ 463,388 | \$ 460,405 | 99% |
| Europe | 340,731 | 171,507 | 169,224 | 99% |
| Other | 44,126 | 14,902 | 29,224 | 196% |
| Total International | 384,857 | 186,409 | 198,448 | 106% |
| Total publishing net revenues | 1,308,650 | 649,797 | 658,853 | 101% |
| Distribution net revenues | 173,834 | 174,462 | (628) | 0% |
| Consolidated net revenues | \$ 1,482,484 | \$ 824,259 | \$ 658,225 | 80% |

Consolidated net revenues increased 80% from \$824.3 million for the three months ended December 31, 2006 to \$1,482.5 million for the three months ended December 31, 2007.

Commencing with the second quarter fiscal 2008, we have determined that for one of our titles, *Enemy Territory: Quake Wars* (which is primarily an online multiplayer PC game), all of the net revenues from the sale of this title will be recognized on a deferred basis — straight-line over an estimated service period, which we estimate to be six months beginning in the month after shipment. As a result, we recognized \$2.8 million net revenues for the three months ended December 31, 2007. We do not anticipate any material amounts to be deferred from fiscal year 2008 into fiscal year 2009. Further, we do not anticipate deferrals for any other titles in fiscal year 2008.

Overall, the increase of consolidated net revenues for the three months ended December 31, 2007, was primarily the result of the following:

- Our total publishing net revenues increased substantially by \$658.9 million. This was primarily due to the worldwide release of two highly successful titles, *Guitar Hero III: Legends of Rock* and *Call of Duty 4: Modern Warfare*. According to the NPD Group, *Guitar Hero III: Legends of Rock* and *Call of Duty 4: Modern Warfare* were the first and second best-selling titles, respectively, in dollars in the U.S. for the month of December 2007. Also, we have been increasing the number of premium priced titles released on the next-generation platforms which has further increased our publishing net revenues as the installed base of the next-generation platforms continues to expand.
- International net revenues were impacted by a year over year strengthening of the Euro (“EUR”), Australian Dollar (“AUD”), and Great Britain Pound (“GBP”) in relation to the United States Dollar (“USD”). Foreign exchange rates increased reported consolidated net revenues by approximately \$49.2 million for the three months ended December 31, 2007. Excluding the impact of changing foreign currency rates, our consolidated net revenues increased 74% year over year.

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The following table details our consolidated net revenues by business segment and our publishing net revenues by territory for the nine months ended December 31, 2007 and 2006 (amounts in thousands):

| | <u>Nine months ended December 31,</u> | | <u>Increase/</u> | <u>Percent</u> |
|--------------------------------|---------------------------------------|--------------|-------------------|----------------|
| | <u>2007</u> | <u>2006</u> | <u>(Decrease)</u> | <u>Change</u> |
| Publishing Net Revenues | | | | |
| North America | \$ 1,395,133 | \$ 637,251 | \$ 757,882 | 119% |
| Europe | 527,050 | 245,019 | 282,031 | 115% |
| Other | 69,448 | 27,693 | 41,755 | 151% |
| Total International | 596,498 | 272,712 | 323,786 | 119% |
| Total publishing net revenues | 1,991,631 | 909,963 | 1,081,668 | 119% |
| Distribution net revenues | 304,054 | 290,537 | 13,517 | 5% |
| Consolidated net revenues | \$ 2,295,685 | \$ 1,200,500 | \$ 1,095,185 | 91% |

Consolidated net revenues increased 91% from \$1,200.5 million for the nine months ended December 31, 2006 to \$2,295.7 million for the nine months ended December 31, 2007.

Commencing with the second quarter fiscal 2008, we have determined that for one of our titles, *Enemy Territory: Quake Wars* (which is primarily an online multiplayer PC game), all of the net revenues from the sale of this title will be recognized on a deferred basis — straight-line over an estimated service period, which we estimate to be six months beginning in the month after shipment. As a result, we deferred \$6.0 million net revenues for the nine months ended December 31, 2007. We do not anticipate any material amounts to be deferred from fiscal year 2008 into fiscal year 2009. Further, we do not anticipate deferrals for any other titles in fiscal year 2008.

Overall, the increase of consolidated net revenues, for the nine months ended December 31, 2007, was primarily the result of the following:

- Our overall publishing net revenues increased substantially by \$1,081.7 million. This was primarily attributable to the successful worldwide release of titles for the first nine months of fiscal 2008, in particular, *Guitar Hero III: Legends of Rock*, and *Call of Duty 4: Modern Warfare* in the third quarter fiscal 2008, *Guitar Hero II* for the Xbox360, *Guitar Hero: Rocks the 80s* for the PS2, *Spider-Man 3*, *TRANSFORMERS: The Game*, and *Shrek the Third*. The continued momentum of *Guitar Hero II* for the PS2 which was released in the third quarter fiscal 2007 further contributed to the increase in consolidated net revenues. *Guitar Hero III: Legends of Rock* was the number one title in units and dollars for calendar year 2007 in the U.S., making it the best-selling video game of all time in a single calendar year according to the NPD Group. Further, *Call of Duty 4: Modern Warfare* was the fifth best-selling title in dollars for calendar year 2007 in the U.S. according to the NPD Group. This compares to the releases in the first nine months of fiscal 2007 of *Call of Duty 3*, *Guitar Hero II*, *Marvel: Ultimate Alliance*, *Over the Hedge*, *X-Men: The Official Game*, and the release of an affiliate title, LucasArts' *Lego Star Wars II: The Original Trilogy* in Europe. We have been increasing the number of premium priced titles released on the next-generation platforms throughout fiscal 2008 which has further increased our publishing net revenues as the installed base of the next-generation platforms continues to expand.
- Our overall distribution net revenues increased slightly by \$13.5 million. This was the result of the net revenues from existing customers and the effect of foreign currency rates, more than offsetting the termination of a significant customer at the end July 2007.
- International net revenues were impacted by a year over year strengthening of the EUR, AUD, and GBP in relation to the USD. Foreign exchange rates increased reported consolidated net revenues by approximately \$76.8 million for the nine months ended December 31, 2007. Excluding the impact of changing foreign currency rates, our consolidated net revenues increased 85% year over year.

North America Publishing Net Revenues (amounts in thousands)

| | <u>December 31,</u> | <u>% of</u> | <u>December 31,</u> | <u>% of</u> | <u>Increase/</u> | <u>Percent</u> |
|--------------------|---------------------|---------------------|---------------------|---------------------|-------------------|----------------|
| | <u>2007</u> | <u>Consolidated</u> | <u>2006</u> | <u>Consolidated</u> | <u>(Decrease)</u> | <u>Change</u> |
| | | <u>Net</u> | | <u>Net</u> | | |
| | | <u>Revenues</u> | | <u>Revenues</u> | | |
| Three Months Ended | \$ 923,793 | 62% | \$ 463,388 | 56% | \$ 460,405 | 99% |
| Nine Months Ended | 1,395,133 | 61% | 637,251 | 53% | 757,882 | 119% |

North America publishing net revenues increased 99% from \$463.4 million for the three months ended December 31, 2006 to \$923.8 million for the three months ended December 31, 2007. The main revenue drivers for the third quarter fiscal 2008 were the releases of *Guitar Hero III: Legends of Rock* and *Call of Duty 4: Modern Warfare*. According to the NPD Group, *Guitar Hero III: Legends of Rock* and *Call of Duty 4: Modern Warfare* were the first and second best-selling titles, respectively, in dollars in the U.S. for the month of December 2007. This compares to the same period of fiscal 2007 releases of *Marvel: Ultimate Alliance*, *Call of Duty 3*, *Guitar Hero II*, and *Tony Hawk's Project 8*.

For the nine months ended December 31, 2007, North America publishing net revenues were \$1,395.1 million, an increase of 119% from \$637.3 million for the nine months ended December 31, 2006. In addition to the third quarter fiscal 2008 success from *Guitar Hero III: Legends of Rock* and *Call of Duty 4: Modern Warfare*, the increase was also attributable to strong performance of several key titles, *Guitar Hero II* for the Xbox360, *Spider-Man 3*, *Shrek the Third*, *TRANSFORMERS: The Game* released in the first six months of fiscal 2008 and the strong momentum of *Guitar Hero II* for the PS2 released in

prior fiscal year. *Guitar Hero III: Legends of Rock* was the number one title in units and dollars for calendar year 2007 in the U.S., making it the best-selling video game of all time in a single calendar year according to the NPD Group. Further, *Call of Duty 4: Modern Warfare* was the fifth best-selling title in dollars for calendar year 2007 in the U.S. according to the NPD Group. This compares to the same period of fiscal 2007 when the main revenue drivers were the releases of *Marvel: Ultimate Alliance*, *Call of Duty 3*, *Guitar Hero II*, and *Tony Hawk's Project 8*, *Over the Hedge*, and *X-Men: The Official Game*.

For North America publishing net revenues, we deferred \$2.9 million net revenues for the three and the nine months ended December 31, 2007.

North America publishing net revenues also increased as a percentage of consolidated net revenues from 56% and 53% for the three and nine months ended December 31, 2006, respectively, to 62% and 61% for the three and nine months ended December 31, 2007, respectively. The increases in the percentages of total consolidated net revenues were a result of the stronger net revenues growth for the publishing segment than that of the distribution segment during the same period.

International Publishing Net Revenues (amounts in thousands)

| | December 31, 2007 | % of Consolidated Net Revenues | December 31, 2006 | % of Consolidated Net Revenues | Increase/ (Decrease) | Percent Change |
|--------------------|----------------------|---|----------------------|---|-------------------------|-------------------|
| Three Months Ended | \$ 384,857 | 26% | \$ 186,409 | 23% | \$ 198,448 | 106% |
| Nine Months Ended | 596,498 | 26% | 272,712 | 23% | 323,786 | 119% |

International publishing net revenues increased 106% from \$186.4 million for the three months ended December 31, 2006, to \$384.9 million for the three months ended December 31, 2007. We recognized \$5.7 million net revenues for the three months ended December 31, 2007. Our number of titles released in the third quarter fiscal 2008 increased to seventeen as compared to eleven titles of the same period of fiscal 2007. Our international publishing operations recorded an increase of net revenues of 106%, mainly resulting from the release of the successful *Guitar Hero III: Legends of Rocks* and *Call of Duty 4: Modern Warfare* in the third quarter fiscal 2008. Other title releases also contributed to the strong performance such as our affiliate LucasArts' titles, *Thrillville: Off the Rails*, *Star Wars Battlefront: Renegade Squadron*, and *Lego Star Wars: The Complete Saga*. We did not have any affiliate title releases in the third quarter fiscal 2007. This also compares to the main revenue drivers during the third quarter fiscal 2007 when we released *Call of*

Duty 3, *Marvel: Ultimate Alliance*, *Tony Hawk's Project 8*, *Tony Hawk's Downhill Jam*, and *Guitar Hero II*. International publishing net revenues were further increased by a quarter over quarter strengthening of the EUR, AUD, and GBP in relation to the USD of approximately \$36.6 million for the three months ended December 31, 2007 as compared to the three months ended December 31, 2006. Excluding the impact of changing foreign currency rates, our international publishing net revenues increased 87% year over year. As a percentage of consolidated net revenues, international publishing net revenues increased from 23% for the three months ended December 31, 2006 to 26% for the three months ended December 31, 2007. The increases in the percentages of total consolidated net revenues were a result of the stronger net revenue growth for the publishing segment than that of the distribution segment during the same period.

International publishing net revenues increased from \$272.7 million for the nine months ended December 31, 2006 to \$596.5 million for the nine months ended December 31, 2007. We deferred \$3.1 million net revenues for the nine months ended December 31, 2007. The significant increase in international publishing net revenues was primarily attributable to the success of the third quarter fiscal 2008 releases discussed above, and the releases in the first six months of fiscal 2008, *Spider-Man 3*, *Shrek the Third*, *Guitar Hero II* for the Xbox360, and *TRANSFORMERS: The Game*. This compares to releases of *Over the Hedge*, *X-Men: The Official Game*, and an affiliate title, LucasArts' *Lego Star Wars II: The Original Trilogy* in Europe in the first six months of fiscal 2007 and the third quarter fiscal 2007 releases. International publishing net revenues were further increased by a year over year strengthening of the EUR, AUD, and GBP in relation to the USD of approximately \$54.4 million for the nine months ended December 31, 2007 as compared to the nine months ended December 31, 2006. Excluding the impact of changing foreign currency rates, our international publishing net revenues increased 99% year over year. As a percentage of consolidated net revenues, international publishing net revenues increased from 23% for the nine months ended December 31, 2006 to 26% for the nine months ended December 31, 2007. The increases in the percentage of total consolidated net revenues were a result of the stronger net revenue growth for the publishing segment than that of the distribution segment during the same period.

Publishing Net Revenues by Platform (amounts in thousands)

The following table details our publishing net revenues by platform and as a percentage of total publishing net revenues for the three months ended December 31, 2007 and 2006 (amounts in thousands):

| | ThreeMonths Ended December 31, 2007 | % of Publishing Net Revs. | Three Months Ended December 31, 2006 | % of Publishing Net Revs. | Increase/ (Decrease) | Percent Change |
|-------------------------|--|---------------------------------|---|---------------------------------|-------------------------|-------------------|
| Publishing Net Revenues | | | | | | |
| PC | \$ 87,507 | 7% | \$ 33,388 | 5% | \$ 54,119 | 162% |
| Console | | | | | | |
| Sony PlayStation 3 | 181,959 | 14% | 28,786 | 4% | 153,173 | 532% |
| Sony PlayStation 2 | 345,707 | 26% | 290,153 | 45% | 55,554 | 19% |
| Microsoft Xbox360 | 435,859 | 33% | 145,913 | 22% | 289,946 | 199% |
| Nintendo Wii | 159,012 | 13% | 44,669 | 7% | 114,343 | 256% |
| Other | 1,735 | 0% | 35,549 | 6% | (33,814) | (95)% |
| Total console | 1,124,272 | 86% | 545,070 | 84% | 579,202 | 106% |
| Hand-held | 96,871 | 7% | 71,339 | 11% | 25,532 | 36% |

| | | | | | | |
|-------------------------------|--------------|------|------------|------|------------|------|
| Total publishing net revenues | \$ 1,308,650 | 100% | \$ 649,797 | 100% | \$ 658,853 | 101% |
|-------------------------------|--------------|------|------------|------|------------|------|

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The following table details our publishing net revenues by platform and as a percentage of total publishing net revenues for the nine months ended December 31, 2007 and 2006 (amounts in thousands):

| Publishing Net Revenues | Nine months Ended December 31, 2007 | % of Publishing Net Revs. | Nine months Ended December 31, 2006 | % of Publishing Net Revs. | Increase/ (Decrease) | Percent Change |
|-------------------------------|-------------------------------------|---------------------------|-------------------------------------|---------------------------|----------------------|----------------|
| PC | \$ 115,870 | 6% | \$ 69,443 | 8% | \$ 46,427 | 67% |
| Console | | | | | | |
| Sony PlayStation 3 | 218,574 | 11% | 28,786 | 3% | 189,788 | 659% |
| Sony PlayStation 2 | 611,134 | 31% | 397,498 | 44% | 213,636 | 54% |
| Microsoft Xbox360 | 644,552 | 32% | 176,019 | 19% | 468,533 | 266% |
| Nintendo Wii | 204,826 | 10% | 44,669 | 5% | 160,157 | 359% |
| Other | 4,118 | 0% | 72,423 | 8% | (68,305) | (94)% |
| Total console | 1,683,204 | 84% | 719,395 | 79% | 963,809 | 134% |
| Hand-held | 192,557 | 10% | 121,125 | 13% | 71,432 | 59% |
| Total publishing net revenues | \$ 1,991,631 | 100% | \$ 909,963 | 100% | \$ 1,081,668 | 119% |

Personal Computer Net Revenues (amounts in thousands)

| | December 31, 2007 | % of Publishing Net Revenues | December 31, 2006 | % of Publishing Net Revenues | Increase/ (Decrease) | Percent Change |
|--------------------|-------------------|------------------------------|-------------------|------------------------------|----------------------|----------------|
| Three Months Ended | \$ 87,507 | 7% | \$ 33,388 | 5% | \$ 54,119 | 162% |
| Nine Months Ended | 115,870 | 6% | 69,443 | 8% | 46,427 | 67% |

Net revenues from sales of titles for the PC increased 162% from \$33.4 million or 5% of publishing net revenues for the three months ended December 31, 2006 to \$87.5 million or 7% of publishing net revenues for the three months ended December 31, 2007. We recognized \$2.8 million net revenues for the three months ended December 31, 2007. We released *Call of Duty 4: Modern Warfare* on the PC in the third quarter fiscal 2008, which is the main revenue driver of PC net revenues. The last Call of Duty for the PC was *Call of Duty 2* which was released in the fourth quarter of calendar year 2006. According to the NPD Group, *Call of Duty 4: Modern Warfare* was the fourth best-selling title on PC in the U.S. for calendar year 2007. For the third quarter fiscal 2008, we also released *Bee Movie Game*, and *Spider-Man: Friend or Foe* on the PC. This compares to the only new release of the third quarter fiscal 2007 - *Marvel: Ultimate Alliance*.

Net revenues from sales of titles for the PC increased 67% from \$69.4 million or 8% of publishing net revenues for the nine months ended December 31, 2006 to \$115.9 million or 6% of publishing net revenues for the nine months ended December 31, 2007. We deferred \$6.0 million net revenues for the nine months ended December 31, 2007. The increase was attributable to the more successful titles such as *Call of Duty 4: Modern Warfare*, *Spider-Man 3*, *Shrek the Third*, and *TRANSFORMERS: The Game*. According to the NPD Group, *Call of Duty 4: Modern Warfare* was the fourth best-selling title on PC in the U.S. for calendar year 2007. This compares to the first nine months of fiscal 2007 where net revenues were primarily derived from continued catalog sales of *Call of Duty 2* as well as the releases of *Marvel: Ultimate Alliance*, *The Movies: Stunts and Effects*, *X-Men: The Official Game*, *Over the Hedge*, and our European affiliate title LucasArts' *Lego Star Wars II: The Original Trilogy*.

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We expect revenues from sales of titles for the PC to continue to increase over the next year from the continued sales of several key released titles.

Sony PlayStation 3 Net Revenues (amounts in thousands)

| | December 31, 2007 | % of Publishing Net Revenues | December 31, 2006 | % of Publishing Net Revenues | Increase/ (Decrease) | Percent Change |
|--------------------|-------------------|------------------------------|-------------------|------------------------------|----------------------|----------------|
| Three Months Ended | \$ 181,959 | 14% | \$ 28,786 | 4% | \$ 153,173 | 532% |
| Nine Months Ended | 218,574 | 11% | 28,786 | 3% | 189,788 | 659% |

The PS3 was released in North America in November 2006 and in Europe in March 2007. With a full year for the installed base of the PS3 to expand and our increased number of titles available on the PS3, net revenues from sales of titles for the PS3 increased 532% from \$28.8 million, or 4% of publishing net revenues for the three months ended December 31, 2006 to \$182.0 million, or 14% of publishing net revenues for the three months ended December 31, 2007. Net revenues from sales of titles for the PS3 increased 659% from \$28.8 million, or 3% of publishing net revenues for the nine months ended December 31, 2006 to \$218.6 million, or 11% of publishing net revenues for the nine months ended December 31, 2007. We have released eight titles on the PS3 during fiscal 2008 as compared to three titles for the same period of fiscal 2007. In the third quarter fiscal 2008, we released *Guitar Hero III: Legends of*

Rock, Call of Duty 4: Modern Warfare, Tony Hawk's Proving Ground, Soldier of Fortune: Payback, History Channel: Battle for the Pacific, and our European affiliate title LucasArts' *Lego Star Wars: The Complete Saga* on the PS3. Additionally, in the first six months of fiscal 2008, we released *Spider-Man 3* and *TRANSFORMERS: The Game* on the PS3. This compares to the third quarter fiscal 2007 releases of *Call of Duty 3, Marvel: Ultimate Alliance* and *Tony Hawk's Downhill Jam*.

Over the last nine months, Sony has cut prices and introduced lower priced models for the PS3 hardware. These price reductions have grown the installed base of the PS3, which combined with our strong slate of titles led to a significant increase in net revenues on the PS3 platform. We expect net revenues from sales of titles for the PS3 to continue to increase as the installed base of hardware grows.

Sony PlayStation 2 Net Revenues (amounts in thousands)

| | <u>December 31, 2007</u> | <u>% of Publishing Net Revenues</u> | <u>December 31, 2006</u> | <u>% of Publishing Net Revenues</u> | <u>Increase/ (Decrease)</u> | <u>Percent Change</u> |
|--------------------|------------------------------|---|------------------------------|---|---------------------------------|---------------------------|
| Three Months Ended | \$ 345,707 | 26% | \$ 290,153 | 45% | \$ 55,554 | 19% |
| Nine Months Ended | 611,134 | 31% | 397,498 | 44% | 213,636 | 54% |

In general, there is an overall decline in the industry sales of titles for the PS2 as more consumers migrated to the next-generation platform as compared to the prior year. However, net revenues from sales of our titles for the PS2 increased 19% from \$290.2 million for the three months ended December 31, 2006 to \$345.7 million for the three months ended December 31, 2007. The main contributors to the third quarter fiscal 2008 net revenues were the release of *Guitar Hero III: Legends of Rock, Spider-Man: Friend or Foe, Bee Movie Game*, and *Tony Hawk's Proving Ground*. *Guitar Hero III: Legends of Rock* was the best-selling title in dollars in the U.S. for the month of December 2007. This compares to the main revenue drivers in the third quarter fiscal 2007 releases including *Call of Duty 3, Marvel: Ultimate Alliance, Tony Hawk's Project 8, Tony Hawk's Downhill Jam*, and *Guitar Hero II*, and the continued sales of *Lego Star Wars II: The Original Trilogy* released in the second quarter fiscal 2007. For the nine months ended December 31, 2007, net revenues from sales of titles for the PS2 were \$611.1 million, an increase of 54% from the nine months ended December 31, 2006. This was primarily due to the successful release of *Guitar Hero III: Legends of Rock*, and the continued momentum for our fiscal 2007 third quarter title, *Guitar Hero II* for the PS2, as well as strong performance of our worldwide releases of *Guitar Hero: Rocks the 80s, Spider-Man 3, Shrek the Third*, and *TRANSFORMERS: The Game*. This compares to the releases during the first nine months of fiscal 2007 of *Call of Duty 3, Marvel: Ultimate Alliance, Guitar Hero II, Over the Hedge, X-Men: The Official Game*, and in Europe, *Lego Star Wars II: The Original Trilogy*.

As a percentage of publishing net revenues, net revenues from the sale of titles for the PS2 decreased from 45% to 26% for the quarters ended December 31, 2006 and 2007, respectively. Net revenues from the sale of titles for the PS2 as a percentage of publishing net revenues decreased from 44% to 31% for the nine months ended December 31, 2006 and 2007, respectively. The decreases were the result of our increase of net revenues from the next-generation platforms as we increased the number of titles on the next-generation platforms.

Although we expect net revenues from sales of titles for the PS2 to decline over time as consumers continue to migrate to the next-generation platforms, we continue to expect significant net revenues for the PS2 over the next year from the releases of many of our key titles on this platform.

Microsoft Xbox360 Net Revenues (amounts in thousands)

| | <u>December 31, 2007</u> | <u>% of Publishing Net Revenues</u> | <u>December 31, 2006</u> | <u>% of Publishing Net Revenues</u> | <u>Increase/ (Decrease)</u> | <u>Percent Change</u> |
|--------------------|------------------------------|---|------------------------------|---|---------------------------------|---------------------------|
| Three Months Ended | \$ 435,859 | 33% | \$ 145,913 | 22% | \$ 289,946 | 199% |
| Nine Months Ended | 644,552 | 32% | 176,019 | 19% | 468,533 | 266% |

For the three months ended December 31, 2007, net revenues from sales of titles for the Xbox360 increased to \$435.9 million from \$145.9 million for the three months ended December 31, 2006. Net revenues from sales of titles for the Xbox360 increased from \$176.0 million for the nine months ended December 31, 2006 to \$644.6 million for the nine months ended December 31, 2007. As a percentage of publishing net revenues, net revenues from the sales of titles for the Xbox360 increased from 22% to 33% for the quarter ended December 31, 2006 and 2007, respectively, and from 19% to 32% for the nine months ended December 31, 2006 and 2007, respectively. The significant growth of the installed base since the introduction of the Xbox360 and our successful title releases contributed to the increase in Xbox360 net revenues. We have increased the number of newly released titles on the Xbox360 from nine for the first nine months of fiscal 2007 to seventeen for the same period of fiscal 2008, which contributed to the increase in net revenues. The main drivers of net revenues on the Xbox360 in the third quarter fiscal 2008 were the releases of *Call of Duty 4: Modern Warfare, Guitar Hero III: Legends of Rock*, and *Tony Hawk's Proving Ground*. This compares to the third quarter fiscal 2007 releases of *Call of Duty 3, Guitar Hero II, Tony Hawk's Project 8, Marvel: Ultimate Alliance* and the continued strong catalog sales of *Call of Duty 2*. For the nine months ended December 31, 2007, the major revenues drivers were *Guitar Hero II, Spider-Man 3, TRANSFORMERS: The Game*, and the third quarter fiscal 2008 releases. This compares to the first nine months ended December 31, 2006 when we released *Over the Hedge, X-Men: The Official Game*, and *Lego Star Wars II: The Original Trilogy* in Europe, and the third quarter fiscal 2007 releases.

In August, Microsoft announced a reduction of the retail price of the Xbox360 by \$50 in the U.S. market and by EUR 50 in European markets. These price reductions have grown the installed base of the Xbox360, which combined with our strong slate of titles led to a significant increase in net revenues on the Xbox360 platform. We expect net revenues from sales of titles for the Xbox360 to continue to increase as the installed base of hardware grows.

Nintendo Wii Net Revenues (amounts in thousands)

| | <u>December 31, 2007</u> | <u>% of Publishing Net Revenues</u> | <u>December 31, 2006</u> | <u>% of Publishing Net Revenues</u> | <u>Increase/ (Decrease)</u> | <u>Percent Change</u> |
|--------------------|------------------------------|---|------------------------------|---|---------------------------------|---------------------------|
| Three Months Ended | \$ 159,012 | 13% | \$ 44,669 | 7% | \$ 114,343 | 256% |
| Nine Months Ended | 204,826 | 10% | 44,669 | 5% | 160,157 | 359% |

The Wii was released in November 2006 and quickly gained strong consumer acceptance due to its innovative technology and mass market appeal. With a full year of expanding the installed base of the Wii and our increased number of available titles on the Wii, for the three months ended December 31, 2007, net revenues from the sales of titles for the Wii increased to \$159.0 million from \$44.7 million for the three months ended December 31, 2006. Net revenues from the sales of titles for the Wii increased from \$44.7 million for the nine months ended December 31, 2006 to \$204.8 million for the nine months ended December 31, 2007. As a

percentage of publishing net revenues, net revenues from the sales of titles for the Wii increased from 7% to 13% for the quarter ended December 31, 2006 and 2007, respectively, and from 5% to 10% for the nine months ended December 31, 2006 and 2007, respectively. We released the first version of Guitar Hero for the Wii, *Guitar Hero III: Legends of Rock* in the third quarter fiscal 2008 which was the main contributor to net revenues and the primary reason for the increase in net revenues for the three and the nine months ended December 31, 2007. We have released fourteen other Wii titles during the first nine months of fiscal 2008 as compared to five Wii titles released during the first nine months fiscal 2007. Some of the titles we released during the third quarter fiscal 2008 were *Guitar Hero III: Legends of Rock*, *Bee Movie Game*, *Spider-Man: Friend or Foe*, *Tony Hawk's Proving Ground*, *Dancing with Stars*, *Barbie Island Princess*, *Cabela's: Big Game Hunter 2008* and, in Europe our affiliate LucasArt's titles, *Thrillville: Off the Rails*, and *Lego Star Wars: The Complete Saga*. This compares to the five titles concurrently released with the release of the Wii in November 2006, *Call of Duty 3*, *Marvel: Ultimate Alliance*, *World Series of Poker: Tournament of Champions*, *Rapala Tournament Fishing*, and *Tony Hawk's Downhill Jam*.

We expect net revenues from sales of titles for the Wii to continue to increase with the growth of the hardware installed base.

Hand-Held Net Revenues (amounts in thousands)

| | December 31, 2007 | % of Publishing Net Revenues | December 31, 2006 | % of Publishing Net Revenues | Increase/ (Decrease) | Percent Change |
|--------------------|----------------------|------------------------------------|----------------------|------------------------------------|-------------------------|-------------------|
| Three Months Ended | \$ 96,871 | 7% | \$ 71,339 | 11% | \$ 25,532 | 36% |
| Nine Months Ended | 192,557 | 10% | 121,125 | 13% | 71,432 | 59% |

Net revenues from the sales of titles for hand-held platforms for the three and nine months ended December 31, 2007 increased 36% and 59%, respectively, from the same periods of fiscal 2007. Net revenues increased from \$71.3 million and \$121.1 million for the three and nine months ended December 31, 2006, respectively, to \$96.9 million and \$192.6 million for the three and nine months ended December 31, 2007, respectively. We released more "big proposition" titles in the third quarter fiscal 2008 which contributes to the increase in net revenues. For the three months ended December 31, 2007, the increase in net revenues was primarily due to the third quarter fiscal 2008 releases *Bee Movie Game*, *Call of Duty 4: Modern Warfare*, *Spider-Man: Friend or Foe*, *Shrek: Ogres and Dronkeys* and the continued sales of *TRANSFORMERS: The Game*, and *TRANSFORMERS: Decepticon*, and our European releases of two LucasArts' titles, *Thrillville: Off the Rails*, and *Lego Star Wars: The Complete Saga*. This compares to the third quarter fiscal 2007 releases of *Tony Hawk's Downhill Jam*, *Over the Hedge: Hammy Goes Nuts!*, *Barbie in the 12 Dancing Princesses*, *Marvel: Ultimate Alliance*, *Spider-Man: Battle for New York*, and, in Europe, our affiliate LucasArts' title *Lego Star Wars II: The Original Trilogy*. For the nine months ended December 31, 2007, the increase in net revenues was attributable to successful releases of the "big proposition" titles in the third quarter fiscal 2008 and the releases of two products, *TRANSFORMERS: Decepticon* and *TRANSFORMERS: Autobots* exclusively on the NDS, *TRANSFORMERS: The Game* on the PSP, and the release of several value titles, *Animal Genius*, *Puppy Luv Spa & Resort*, and *Jewel Quest Expedition* on the NDS. This compares to fiscal 2007 releases of *Over the Hedge*, *X-Men: The Official Game*, *World Series of Poker: Tournament of Champions* and *Rapala Trophies* and our European affiliate title, LucasArts' *Lego Star Wars II: The Original Trilogy*.

With the installed base of the PSP and the NDS continuing to increase, we expect hand-held net revenues to continue to increase.

Overall

The platform mix of our future publishing net revenues will likely be impacted by a number of factors, including the ability of hardware manufacturers to continue to increase their installed hardware base for the next-generation platforms, as well as the performance of key product releases. According to the NPD Group, we were the number one console and handheld publisher for calendar year 2007. Additionally, *Guitar Hero* was the best-selling franchise in the U.S. for the full calendar year 2007 and *Guitar Hero III: Legends of Rock*, which was released in the third quarter fiscal 2008 was the number one title across all console platforms in both units and dollars, according to the NPD Group. *Call of Duty 4: Modern Warfare* was the fifth best-selling title in the U.S. for calendar year 2007 according to the NPD Group. We expect that net revenues from console titles will

continue to represent the largest component of our publishing net revenues with Xbox360 having the largest percentage of that business in fiscal 2008 due to its larger installed hardware base and our strong slate of titles. We expect significant growth in net revenues from the PS3, the Xbox360, and the Wii next-generation console systems and a decrease in the percentage of the PS2 business in fiscal 2008. Our net revenues from PC and hand-held titles will be primarily driven by our product release schedule.

A significant portion of our revenues and profits are derived from a relatively small number of popular titles and brands each year, so revenues and profits are significantly affected by our ability to release highly successful "hit" titles. For example, for the three months ended December 31, 2007, 62% of our consolidated net revenues and 70% of publishing net revenues were derived from net revenues from the releases of *Guitar Hero III: Legends of Rock* and *Call of Duty 4: Modern Warfare*. For the nine months ended December 31, 2007, 40% of our consolidated net revenues and 46% of publishing net revenues were derived from net revenues from those same titles. This revenue concentration reflects an industry wide trend, with market share of the top 5 titles of calendar year 2007 doubling versus a year ago, according to the NPD Group. For calendar year 2007, we published two out of the five top titles in terms of sales according to the NPD Group. Though many of our titles have substantial production or acquisition costs and marketing budgets, once a title recoups these costs, incremental net revenues directly and positively impact operating profits resulting in a disproportionate amount of operating income being derived from these select titles. We expect that a limited number of titles and brands will continue to produce a disproportionately large amount of our net revenues and profits.

Three key factors that could affect future publishing and distribution net revenues performance are console hardware pricing, software pricing, and transitions in console platforms. As console hardware moves through its life cycle, hardware manufacturers typically enact price reductions. Reductions in the price of console hardware typically result in an increase in the installed base of hardware owned by consumers. Historically, we have also seen that lower console hardware prices put downward pressure on software pricing. However, we expect console software launch pricing for the Xbox360 and PS3 to hold at current levels as a result of the strong consumer acceptance of these price points that has occurred since the launch of the next-generation platforms and the greater product capability and value of next generation titles. We continue to expect software launch pricing on the PS2 to hold at \$39.99 with continued momentum on this platform.

Distribution Net Revenues (amounts in thousands)

| | <u>December 31, 2007</u> | <u>% of Consolidated Net Revenues</u> | <u>December 31, 2006</u> | <u>% of Consolidated Net Revenues</u> | <u>Increase/ (Decrease)</u> | <u>Percent Change</u> |
|--------------------|------------------------------|---|------------------------------|---|---------------------------------|---------------------------|
| Three Months Ended | \$ 173,834 | 12% | \$ 174,462 | 21% | \$ (628) | 0% |
| Nine Months Ended | 304,054 | 13% | 290,537 | 24% | 13,517 | 5% |

Distribution net revenues for the three months ended December 31, 2007 decreased slightly by \$0.6 million from the same period of fiscal 2007. For the nine months ended December 31, 2007, distribution net revenues increased 5% from the same period of fiscal 2007. Distribution net revenues as a percentage of consolidated net revenues decreased from 21% and 24% for the three and nine months ended December 31, 2006, respectively, to 12% and 13% for the three and nine months ended December 31, 2007, respectively, primarily due to the significant increase in publishing net revenues. Foreign exchange rates increased reported distribution net revenues by approximately \$12.6 million and \$22.4 million for the three months and nine months ended December 31, 2007, respectively. Excluding the impact of changing foreign currency rates, distribution net revenues decreased 8% and 3% year over year from the three and nine months ended December 31, 2006, respectively. The increase in absolute dollars of distribution net revenues, for the nine months ended December 31, 2007, was primarily due to the effect of foreign currency rates. The slight decrease in absolute dollars of distribution net revenues for the three months ended December 31, 2007 was primarily due to the effect of the termination of a significant customer, which outweighed the beneficial effect of foreign currency rates.

The mix of distribution net revenues between hardware and software sales varied slightly year over year with approximately 26% of distribution net revenues from hardware sales in the first three quarters of fiscal 2008 as compared to 12% in the first three quarters of fiscal 2007. The mix of future distribution net

revenues will be driven by a number of factors including the occurrence of further hardware price reductions instituted by hardware manufacturers, and our ability to establish and maintain distribution agreements with hardware manufacturers, third-party software publishers and retail customers. For the remainder of fiscal 2008, we expect distribution net revenues to decrease in absolute dollars and as a percentage of consolidated net revenues when compared to fiscal 2007. This is a result of having exited a line of distribution business that was not meaningful to earnings and the strong growth of our publishing business.

Costs and Expenses

Cost of Sales – Product Costs (amounts in thousands)

| | <u>December 31, 2007</u> | <u>% of Consolidated Net Revenues</u> | <u>December 31, 2006</u> | <u>% of Consolidated Net Revenues</u> | <u>Increase/ (Decrease)</u> | <u>Percent Change</u> |
|--------------------|------------------------------|---|------------------------------|---|---------------------------------|---------------------------|
| Three Months Ended | \$ 597,046 | 40% | \$ 382,165 | 46% | \$ 214,881 | 56% |
| Nine Months Ended | 966,271 | 42% | 618,162 | 52% | 348,109 | 56% |

“Cost of sales – product costs” represented 40% and 46% of consolidated net revenues for the three months ended December 31, 2007 and 2006, respectively, and represented 42% and 52% of consolidated net revenues for the nine months ended December 31, 2007 and 2006, respectively. We deferred \$0.3 million and \$0.7 million “cost of sales – product costs” for the three and nine months ended December 31, 2007, respectively. The decrease in “cost of sales – product costs” as a percentage of consolidated net revenues was partially due to a higher percentage of net revenues for the three and nine months ended December 31, 2007, as compared to the same periods in the prior year, relating to our publishing business which in general carries a lower percentage “cost of sales – product costs” than our distribution business. Net revenues from our publishing business were 88% and 87% of total net revenues for the three and nine months ended December 31, 2007, respectively, as compared to 79% and 76% for the three and nine months ended December 31, 2006, respectively. As we increase our presence on the next-generation platforms, the third quarter fiscal 2008 publishing net revenues included a larger mix of next-generation product sales which carries a higher gross margin than the other console platforms. In absolute dollars, “cost of sales – product costs” increased 56% from \$382.2 million and \$618.2 million for the three and nine months ended December 31, 2006, respectively to \$597.0 million and \$966.3 million for the three and nine months December 31, 2007, respectively. “Cost of sales – product costs” increased as a result of our revenue growth in our publishing businesses.

We expect “cost of sales – product costs” as a percentage of consolidated net revenues for fiscal 2008 to be lower than fiscal 2007 due to a larger portion of our business being derived from the publishing segment and consumers continued migration to next-generation products.

Cost of Sales – Software Royalties and Amortization (amounts in thousands)

| | <u>December 31, 2007</u> | <u>% of Publishing Net Revenues</u> | <u>December 31, 2006</u> | <u>% of Publishing Net Revenues</u> | <u>Increase/ (Decrease)</u> | <u>Percent Change</u> |
|--------------------|------------------------------|---|------------------------------|---|---------------------------------|---------------------------|
| Three Months Ended | \$ 125,614 | 10% | \$ 77,449 | 12% | \$ 48,165 | 62% |
| Nine Months Ended | 242,293 | 12% | 106,058 | 12% | 136,235 | 128% |

“Cost of sales – software royalties and amortization” as a percentage of publishing net revenues decreased from 12% for the three months ended December 31, 2006 to 10% for the three months ended December 31, 2007 and stayed constant at 12% for the nine months ended December 31, 2006 and for the nine months ended December 31, 2007. In absolute dollars, “cost of sales – software royalties and amortization” increased 62% from \$77.4 million for the three months ended December 31, 2006 to \$125.6 million for the three months ended December 31, 2007. For the nine months ended December 31, 2007 “cost of sales – software royalties and amortization” increased by \$136.2 million or 128% compared to the same period of fiscal 2007. We deferred \$4.0 million “cost of sales – software royalties and amortization” for the

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nine months ended December 31, 2007. The increase in absolute dollars for the three and the nine months ended December 31, 2007 was primarily driven by higher net revenues during the three and the nine months ended December 31, 2007 when compared to the same periods of fiscal 2007. The slight decrease of “cost of sales – software royalties and amortization” as a percentage of publishing net revenue for the three months ended December 31, 2007 as compared to same period ended December 31, 2006 was attributable to the significant increase of publishing net revenues that outpaced the increase of the cost of software royalties during the third quarter fiscal 2008.

For fiscal 2008, we expect “costs of sales – software royalties and amortization” as a percentage of publishing net revenues to be in line with fiscal 2007 levels.

Cost of Sales – Intellectual Property Licenses (amounts in thousands)

| | <u>December 31,</u> <u>2007</u> | <u>% of</u> <u>Publishing</u> <u>Net Revenues</u> | <u>December 31,</u> <u>2006</u> | <u>% of</u> <u>Publishing</u> <u>Net Revenues</u> | <u>Increase/</u> <u>(Decrease)</u> | <u>Percent</u> <u>Change</u> |
|--------------------|------------------------------------|---|------------------------------------|---|---------------------------------------|---------------------------------|
| Three Months Ended | \$ 39,630 | 3% | \$ 23,566 | 4% | \$ 16,064 | 68% |
| Nine Months Ended | 86,642 | 4% | 37,838 | 4% | 48,804 | 129% |

“Cost of sales – intellectual property licenses” increased 68% from \$23.6 million, or 4%, of publishing net revenues for the three months ended December 31, 2006 to \$39.6 million, or 3%, of publishing net revenues for the three months ended December 31, 2007. “Cost of sales – intellectual property licenses” increased from \$37.9 million or 4% of publishing net revenues to \$86.6 million or 4% of publishing net revenues for the nine months ended December 31, 2006 and 2007, respectively. We recognized \$0.1 million and deferred \$1.3 million “cost of sales – intellectual property licenses” for the three and nine months ended December 31, 2007, respectively.

The increases in absolute dollars for both the three and nine months periods ended December 31, 2007 were primarily the result of the increase in net revenues. “Cost of sales – intellectual property licenses” as a percentage of publishing net revenues remained relatively constant for the three and nine months ended December 31, 2007 as compared to the same periods ended December 31, 2006. This is due to a larger movie slate with higher overall intellectual property costs, but is offset on a percentage of publishing net revenues by the larger growth of net revenues from our wholly owned intellectual properties, such as *Guitar Hero III: Legends of Rock* and *Call of Duty 4: Modern Warfare*, which do not have significant intellectual property costs.

For fiscal 2008, we expect “costs of sales – intellectual property licenses” as a percentage of publishing net revenues to be in line with fiscal 2007 levels.

Product Development (amounts in thousands)

| | <u>December 31,</u> <u>2007</u> | <u>% of</u> <u>Publishing</u> <u>Net Revenues</u> | <u>December 31,</u> <u>2006</u> | <u>% of</u> <u>Publishing</u> <u>Net Revenues</u> | <u>Increase/</u> <u>(Decrease)</u> | <u>Percent</u> <u>Change</u> |
|--------------------|------------------------------------|---|------------------------------------|---|---------------------------------------|---------------------------------|
| Three Months Ended | \$ 124,501 | 10% | \$ 37,162 | 6% | \$ 87,339 | 235% |
| Nine Months Ended | 190,483 | 10% | 88,395 | 10% | 102,088 | 115% |

Product development expenses for the three months ended December 31, 2007 increased 235% to \$124.5 million from \$37.2 million for the three months ended December 31, 2006. For the nine months ended December 31, 2007 product development expenses increased by \$102.1 million, or 115%, to \$190.5 million from \$88.4 million for the nine months ended December 31, 2006. Product development expenses as a percentage of publishing net revenues remained at 10% for the nine months ended December 31, 2006 and 2007 and increased from 6% for the three months ended December 31, 2007 to 10% for the three months ended December 31, 2007. The increase primarily resulted from costs incurred during the first three quarters of fiscal 2008 to support the greater number of new titles in development and the more technologically advanced nature

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of those titles which have not yet reached technological feasibility to be capitalized, and exceptional title performance during the third quarter fiscal 2008 leading to increased accruals for studios incentive plans.

For fiscal 2008, we expect product development expenses as a percentage of publishing net revenues to be in line with fiscal 2007 levels.

Sales and Marketing (amounts in thousands)

| | <u>December 31,</u> <u>2007</u> | <u>% of</u> <u>Consolidated</u> <u>Net Revenues</u> | <u>December 31,</u> <u>2006</u> | <u>% of</u> <u>Consolidated</u> <u>Net Revenues</u> | <u>Increase/</u> <u>(Decrease)</u> | <u>Percent</u> <u>Change</u> |
|--------------------|------------------------------------|---|------------------------------------|---|---------------------------------------|---------------------------------|
| Three Months Ended | \$ 120,090 | 8% | \$ 87,410 | 11% | \$ 32,680 | 37% |
| Nine Months Ended | 240,670 | 10% | 156,139 | 13% | 84,531 | 54% |

Sales and marketing expenses for the three months ended December 31, 2007 increased 37% to \$120.1 million from \$87.4 million for the three months ended December 31, 2006. For the nine months ended December 31, 2007, sales and marketing expenses increased by \$84.5 million, or 54%, to \$240.7 million from \$156.1 million for the nine months ended December 31, 2006. As a percentage of consolidated net revenues, sales and marketing expenses decreased from 11% and 13% for the three and nine months ended December 31, 2006, respectively, to 8% and 10% for the three and nine months ended December 31, 2007, respectively. The increases in absolute dollars were a result of higher spending associated with several larger and successful releases in the third quarter fiscal 2008 and for the nine months ended December 31, 2007, as compared to the same periods of fiscal 2007. As a result of the success of our title releases, our consolidated net revenues increased by a higher percentage than sales and marketing expenses which led to the decrease of sales and marketing expenses as a percentage of consolidated net revenues.

For fiscal 2008, we expect sales and marketing expenses as a percentage of consolidated net revenues to decrease when compared to fiscal 2007 levels due to the higher percentage growth in consolidated net revenues than that of sales and marketing expenses.

General and Administrative (amounts in thousands)

| | <u>December 31, 2007</u> | <u>% of Consolidated Net Revenues</u> | <u>December 31, 2006</u> | <u>% of Consolidated Net Revenues</u> | <u>Increase/ (Decrease)</u> | <u>Percent Change</u> |
|--------------------|------------------------------|---|------------------------------|---|---------------------------------|---------------------------|
| Three Months Ended | \$ 71,069 | 5% | \$ 43,387 | 5% | \$ 27,682 | 64% |
| Nine months ended | 144,245 | 6% | 91,647 | 8% | 52,598 | 57% |

General and administrative expenses for the three months ended December 31, 2007 increased by \$27.7 million, or 64%, to \$71.1 million from \$43.4 million for the three months ended December 31, 2006. For the nine months ended December 31, 2007, general and administrative expenses increased by \$52.6 million, or 57%, to \$144.2 million from \$91.6 million for the nine months ended December 31, 2006. As a percentage of consolidated net revenues, general and administrative expenses remained at 5% for the three months ended December 31, 2006 and 2007, and decreased from 8% to 6% for the nine months ended December 31, 2006 and 2007, respectively. Expenses were higher than prior periods primarily due to an increase in headcount related costs due to the expansion of RedOctane to support the growth of Guitar Hero, increased bonus accruals due to strong title performances, costs related to Activision's pending merger with Vivendi Games, the consolidation and related amortization of intangibles related to RedOctane, DemonWare and Bizarre Creations (acquired in June 2006, May 2007 and September 2007, respectively) in our results of operations and the impact of changes in foreign currency rates.

For fiscal 2008, we expect general and administrative expenses as a percentage of consolidated net revenues to decrease when compared to fiscal 2007 levels due to the higher percentage growth in consolidated net revenues than that of general and administrative expenses.

Operating Income (amounts in thousands)

| | <u>Three Months Ended December 31, 2007</u> | <u>% of Segment Net Revs.</u> | <u>Three Months Ended December 31, 2006</u> | <u>% of Segment Net Revs.</u> | <u>Increase/ (Decrease)</u> | <u>Percent Change</u> |
|--------------|---|---------------------------------------|---|---------------------------------------|---------------------------------|---------------------------|
| Publishing | \$ 390,819 | 30% | \$ 160,628 | 25% | \$ 230,191 | 143% |
| Distribution | 13,715 | 8% | 12,492 | 7% | 1,223 | 10% |
| Consolidated | <u>\$ 404,534</u> | 27% | <u>\$ 173,120</u> | 21% | <u>\$ 231,414</u> | 134% |
| | <u>Nine Months Ended December 31, 2007</u> | <u>% of Segment Net Revs.</u> | <u>Nine months ended December 31, 2006</u> | <u>% of Segment Net Revs.</u> | <u>Increase/ (Decrease)</u> | <u>Percent Change</u> |
| Publishing | \$ 410,269 | 21% | \$ 92,503 | 10% | \$ 317,766 | 344% |
| Distribution | 14,812 | 5% | 9,758 | 3% | 5,054 | 52% |
| Consolidated | <u>\$ 425,081</u> | 19% | <u>\$ 102,261</u> | 8% | <u>\$ 322,820</u> | 316% |

Publishing operating income for the three months ended December 31, 2007 increased by \$230.2 million, or 143% to \$390.8 million, or 30%, of segment net revenues from \$160.6 million, or 25%, of segment net revenues for the three months ended December 31, 2006. For the nine months ended December 31, 2007 publishing operating income increased by \$317.8 million, or 344%, to \$410.3 million, or 21%, of segment net revenues from \$92.5 million, or 10%, of segment net revenues for the nine months ended December 31, 2006. These increases in operating income were primarily attributable to:

- Stronger performance of our titles released in the three and nine months ended December 31, 2007.
- Cost control relative to significant growth in net revenues.

For the three months ended December 31, 2007 distribution operating income was \$13.7 million, or 8%, of segment net revenues, which compares to operating income of \$12.5 million, or 7%, of segment net revenues for the three months ended December 31, 2006. For the nine months ended December 31, 2007 distribution operating income was \$14.8 million, or 5%, of segment net revenues, which compares to operating income of \$9.8 million, or 3%, of segment net revenues for the nine months ended December 31, 2006. The results from distribution business have improved primarily due to the effect of foreign currency rates and the strong performance of Activision titles for the three and nine months ended December 31, 2007.

Investment Income, Net (amounts in thousands)

| | <u>December 31, 2007</u> | <u>% of Consolidated Net Revenues</u> | <u>December 31, 2006</u> | <u>% of Consolidated Net Revenues</u> | <u>Increase/ (Decrease)</u> | <u>Percent Change</u> |
|--------------------|------------------------------|---|------------------------------|---|---------------------------------|---------------------------|
| Three Months Ended | \$ 12,018 | 1% | \$ 9,724 | 1% | \$ 2,294 | 24% |

Net investment income for the three months ended December 31, 2007 was \$12.0 million as compared to \$9.7 million for the three months ended December 31, 2006. Net investment income for the nine months ended December 31, 2007 increased \$9.7 million from \$26.0 million for the nine months ended December 31, 2006 to \$35.7 million for the nine months ended December 31, 2007. The increases in both the three and nine months ended December 31, 2007 as compared to the three and nine months ended December 31, 2006, are

mainly due to higher interest rates combined with higher average balances of cash and short-term investments period over period.

Provision for Income Taxes (amounts in thousands)

| | December 31, 2007 | % of Pretax Income | December 31, 2006 | % of Pretax Income | Increase/ (Decrease) | Percent Change |
|--------------------|----------------------|--------------------------|----------------------|--------------------------|-------------------------|-------------------|
| Three Months Ended | \$ 144,356 | 35% | \$ 40,024 | 22% | \$ 104,332 | 261% |
| Nine Months Ended | 160,073 | 35% | 28,083 | 22% | 131,990 | 470% |

The income tax provision of \$144.4 million for the three months ended December 31, 2007, reflects our effective income tax rate for the third quarter fiscal 2008 of 35%, and the income tax provision of \$160.1 million for the nine months ended December 31, 2007, reflects our effective income tax rate for fiscal 2008 of 35%. While our effective income tax rate for the period equals our statutory rate, there are certain items that would normally generate a variance between the two rates. Those items are the federal and state research and development tax credits and the impact of foreign tax rate differentials partially offset by state taxes. However, the net effect of those items for the three and nine months periods ended December 31, 2007 was zero.

The aforementioned effective income tax rate for the third quarter fiscal 2008 of 35% differs from our effective income tax rate of 22% for the three months ended December 31, 2006, due to an increase in anticipated pretax income for fiscal 2008 determined at December 31, 2007 versus the anticipated pretax income for fiscal 2007 determined at December 31, 2006, without a corresponding increase in the benefit of book/tax differences.

The income tax expense of \$40.0 million for the three months ended December 31, 2006 reflects our effective income tax rate for the third quarter fiscal 2007 of 22% which is the same as the effective tax rate of 22% for the year ended March 31, 2007. The significant items that generated the variance between our effective rate and our statutory rate of 35% for the three months ended December 31, 2006 were research and development tax credits for state purposes, and the impact of foreign tax rate differentials, partially offset by state taxes.

Net Income

Net income for the three months ended December 31, 2007 was \$272.2 million or \$0.86 per diluted earnings per share, as compared to net income of \$142.8 million or \$0.46 per diluted earnings per share for the three months ended December 31, 2006.

Net income for the nine months ended December 31, 2007 was \$300.7 million or \$0.96 per diluted earnings per share, as compared to net income of \$100.2 million or \$0.33 per diluted earnings per share for the nine months ended December 31, 2006.

Liquidity and Capital Resources

Sources of Liquidity (amounts in thousands)

| | December 31, 2007 | March 31, 2007 | Increase/ (Decrease) |
|----------------------------|---------------------|-------------------|-------------------------|
| Cash and cash equivalents | \$ 648,659 | \$ 384,409 | \$ 264,250 |
| Short-term investments | 539,914 | 570,440 | (30,526) |
| | <u>\$ 1,188,573</u> | <u>\$ 954,849</u> | <u>\$ 233,724</u> |
| Percentage of total assets | 45% | 53% | |

| | For the Nine months ended December 31, 2007 | For the Nine months ended December 31, 2006 | Increase/ (Decrease) |
|---|---|---|-------------------------|
| Cash flows provided by (used in) operating activities | \$ 231,907 | \$ (125,417) | \$ 357,324 |
| Cash flows provided by (used in) investing activities | (59,550) | 101,967 | (161,517) |
| Cash flows provided by financing activities | 89,512 | 27,968 | 61,544 |

As of December 31, 2007, our primary source of liquidity is comprised of \$648.7 million of cash and cash equivalents and \$539.9 million of short-term investments. Over the last two years, our primary sources of liquidity have included cash on hand at the beginning of the year and cash flows generated from continuing operations. We have also generated significant cash flows from the issuance of our common stock to employees through the exercise of options which is described in more detail below in "Cash Flows from Financing Activities." We have not utilized debt financing as a significant source of cash flows. However, we do have credit facilities available at certain of our international locations, which are described below in "Credit Facilities," that can be utilized if needed.

Our investment portfolio consists of government and corporate securities with effective maturities less than 30 months. The longer the term or holding period of the securities, the more susceptible they are to changes in market rates of interest, yields on bonds, and market price volatility. Investments are reviewed periodically to identify possible impairment. When evaluating the investments, we review factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer, and our ability and intent to hold the investment for a period of time which may be sufficient for anticipated recovery in market value. Gross unrealized losses of \$0.8 million and \$1.5 million as of December 31, 2007 and March 31, 2007, respectively, were comprised mostly of unrealized losses on U.S. agency issues, commercial paper, corporate bonds, and mortgage-backed securities. We have the intent and ability to hold these securities for a reasonable period of time sufficient for a forecasted recovery of fair value up to (or beyond) the initial cost of the investment. We expect to realize the full value of all of these investments upon maturity or sale.

In view of the business combination with Vivendi Games, Inc. (see Note 15 to the Notes to Consolidated Financial Statements for details), Activision Blizzard, Inc. ("Activision Blizzard") will commence a cash tender offer for up to 146.5 million of its shares at \$27.50 per share after the closing of the transaction. If the tender offer is fully subscribed, the aggregate consideration will be approximately \$4.028 billion. Under the terms of the business combination agreement, we and Vivendi S.A. ("Vivendi") have agreed the purchase of the shares tendered in the tender offer will be funded as follows: (a) the first \$2.928 billion of the aggregate consideration will be funded by Activision Blizzard with proceeds from the share purchase described in Note 15 to the Notes to Consolidated Financial Statements, available cash on hand and, if necessary, borrowings made under one or more new credit facilities; (b) if the aggregate consideration is more than \$2.928 billion, Vivendi has agreed to purchase from Activision Blizzard, at a purchase price of \$27.50 per share, additional newly issued shares of Activision Blizzard common stock in an amount equal to the lesser of (x) \$700 million and (y) the excess of the aggregate consideration over \$2.928 billion, which amount will be used to fund the amount of the aggregate consideration that is in excess of \$2.928 billion; and (c) if the aggregate consideration exceeds \$3.628 billion, Activision Blizzard will fund the additional amount of the aggregate consideration that is in excess of \$3.628 billion (up to the maximum aggregate consideration of \$4.028 billion) through borrowings made under one or more new credit facilities issued by Vivendi or third party lenders.

We believe that we have sufficient working capital (\$1,451.7 million at December 31, 2007), in combination with proceeds available from our international credit facilities, to finance our operational requirements for at least the next twelve months, including purchases of inventory and equipment, the funding of the development, production, marketing and sale of new products, and the acquisition of intellectual property rights for future products from third parties.

Cash Flows from Operating Activities

The primary drivers of cash flows from operating activities typically have included the collection of customer receivables generated by the sale of our products, offset by payments to vendors for the manufacture, distribution and marketing of our products, third-party developers and intellectual property holders and our own employees. A significant operating use of our cash relates to our continued investment in software development and intellectual property licenses. We spent approximately \$127.1 million and \$117.6 million in the nine months ended December 31, 2007 and 2006, respectively, primarily in connection with internal development efforts and in support of third-party developers for our business. We expect that we will continue to make significant expenditures relating to our investment in software development and intellectual property licenses. Our future cash commitments relating to these investments are detailed below in "Commitments." Cash flows from operations are affected by our ability to release highly successful, or "hit," titles. Though many of these titles have substantial production or acquisition costs and marketing budgets, once a title recoups these costs, incremental net revenues typically will directly and positively impact cash flows.

For the nine months ended December 31, 2007, cash flow provided by operating activities was \$231.9 million as compared to cash flow used in operating activities of \$125.4 million for the nine months ended December 31, 2006. The principal components comprising the increased cash flows from operating activities for the nine months ended December 31, 2007 included an increase in amounts collected from customers due to increased net revenues, an increase in accounts payable, accrued expenses and other liabilities partially offset by the increase in inventory and accounts receivables. An analysis of the change in key balance sheet accounts is below in "Key Balance Sheet Accounts." We expect that a primary source of future liquidity, both short-term and long-term, will be the result of cash flows from continuing operations.

Cash Flows from Investing Activities

The primary drivers of cash used in investing activities typically have included capital expenditures, acquisitions of privately held interactive software development and publishing companies, and the net effect of purchases and sales/maturities of short-term investment vehicles. The goal of our short-term investments is to maximize return while minimizing risk, maintaining liquidity, coordinating with anticipated working capital needs, and providing for prudent investment diversification.

For the nine months ended December 31, 2007 and 2006, cash flows used in investing activities were \$59.6 million as compared to cash flow provided by \$102.0 million, respectively. For the nine months ended December 31, 2007, cash flows used in investing activities were primarily the result of capital expenditures, cash paid for acquisitions, and purchases of short-term investments partially offset by proceeds from sales and maturities of short-term investments. We have historically financed our acquisitions through the issuance of shares of our common stock, cash or a combination of our common stock and cash. We will continue to evaluate potential acquisition candidates as to the benefit they bring to us.

Cash Flows from Financing Activities

The primary sources of cash provided by financing activities have historically related to transactions involving our common stock, including the issuance of shares of our common stock to employees. We have not utilized debt financing as a significant source of cash flows. However, we do have available credit facilities at certain of our international locations, which are described below in "Credit Facilities," that can be utilized if needed.

For the nine months ended December 31, 2007 and 2006, cash flows provided by financing activities were \$89.5 million and \$28.0 million, respectively. The cash provided by financing activities for the nine months ended December 31, 2007 primarily is the result of the issuance of our common stock related to employee stock option and stock purchase plans. The increase in cash provided by financing activities is due to increase in stock option exercises during the nine months ended December 31, 2007.

During fiscal 2003, our Board of Directors authorized a buyback program under which we can repurchase up to \$350.0 million of our common stock. Under the program, shares may be purchased as determined by management and within certain guidelines, from time to time, in the open market or in

privately negotiated transactions, including privately negotiated structured stock repurchase transactions and through transactions in the options markets. Depending on market conditions and other factors, these purchases may be commenced or suspended at any time or from time to time without prior notice. As of December 31, 2007, we had approximately \$226.2 million available for utilization under the buyback program. We actively manage our

capital structure as a component of our overall business strategy. Accordingly, in the future, when we determine that market conditions are appropriate, we may seek to achieve long term value for the shareholders through, among other things, new debt or equity financings or refinancings, share repurchases and other transactions involving our equity or debt securities.

Key Balance Sheet Accounts

Accounts Receivable

| (amounts in thousands) | <u>December 31, 2007</u> | <u>March 31, 2007</u> | <u>Increase/ (Decrease)</u> |
|---------------------------|--------------------------|-----------------------|---------------------------------|
| Gross accounts receivable | \$ 881,608 | \$ 240,112 | \$ 641,496 |
| Net accounts receivable | 704,075 | 148,694 | 555,381 |

The increase in gross accounts receivable was primarily the result of increased sales volume in our publishing business due to more titles being released during the third quarter fiscal 2008 compared to the fourth quarter fiscal 2007 and higher sales volume due to seasonality of the holiday selling season. Significant shipments were made to customers in November and December and the related receivables were not due prior to quarter end.

The increase in net accounts receivable from \$148.7 million at March 31, 2007 to \$704.1 million at December 31, 2007, was smaller than the increase in gross accounts receivable due to the increase in reserves for returns, price protection, and bad debt from \$91.4 million at March 31, 2007 to \$177.5 million at December 31, 2007. Reserves for returns and price protection are a function of the number of units and pricing of titles in retail inventory (see description of *Allowances for Returns, Price Protection, Doubtful Accounts, and Inventory Obsolescence* in Item 2: Critical Accounting Policies and Estimates).

Inventories

| (amounts in thousands) | <u>December 31, 2007</u> | <u>March 31, 2007</u> | <u>Increase/ (Decrease)</u> |
|------------------------|--------------------------|-----------------------|---------------------------------|
| Inventories | \$ 153,423 | \$ 91,231 | \$ 62,192 |

The increase in inventories at December 31, 2007 compared to March 31, 2007 is primarily the result of expanding the Guitar Hero franchise across all console platforms and our continued international expansions.

Software Development

| (amounts in thousands) | <u>December 31, 2007</u> | <u>March 31, 2007</u> | <u>Increase/ (Decrease)</u> |
|------------------------|--------------------------|-----------------------|---------------------------------|
| Software development | \$ 99,795 | \$ 130,922 | \$ (31,127) |

Software development decreased from \$130.9 million at March 31, 2007 to \$99.8 million at December 31, 2007. The effect of deferring “cost of sales – software royalties and amortization” increased software development by \$4.0 million. The decrease in software development was primarily the result of an increase in amortization of third quarter fiscal 2008 titles released and stock option expenses during the nine months ended December 31, 2007, partially offset by our continued investment in Activision’s product slate.

Intellectual Property Licenses

| (amounts in thousands) | <u>December 31, 2007</u> | <u>March 31, 2007</u> | <u>Increase/ (Decrease)</u> |
|--------------------------------|--------------------------|-----------------------|---------------------------------|
| Intellectual property licenses | \$ 77,626 | \$ 100,274 | \$ (22,648) |

Intellectual property licenses decreased from \$100.3 million at March 31, 2007 to \$77.6 million at December 31, 2007. The effect of deferring “cost of sales – intellectual property licenses” increased intellectual property licenses by \$1.3 million. The decrease in intellectual property licenses primarily resulted from the amortization of intellectual property licenses upon releases of titles during the first nine months of fiscal 2008.

Accounts Payable

| (amounts in thousands) | <u>December 31, 2007</u> | <u>March 31, 2007</u> | <u>Increase/ (Decrease)</u> |
|------------------------|--------------------------|-----------------------|---------------------------------|
| Accounts payable | \$ 243,338 | \$ 136,517 | \$ 106,821 |

The increase in accounts payables of \$106.8 million from March 31, 2007 to December 31, 2007 primarily reflects increased inventory and marketing purchases to support higher revenue growth over the holiday season.

Accrued Expenses and Other Liabilities

| (amounts in thousands) | December 31, 2007 | March 31, 2007 | Increase/ (Decrease) |
|--|-------------------|----------------|-------------------------|
| Accrued expenses and Other Liabilities | \$ 482,367 | \$ 204,652 | \$ 277,715 |

The increase in accrued expenses was primarily due to the increased accruals for merger related costs, certain tax payables, the increase in accruals for marketing and royalties related to third quarter 2008 title releases, and annual bonus accruals due to exceptional title performance.

Credit Facilities

We have revolving credit facilities with our Centresoft subsidiary located in the UK (the "UK Facility") and our NBG subsidiary located in Germany (the "German Facility"). The UK Facility provided Centresoft with the ability to borrow up to GBP 12.0 million (\$23.9 million), including issuing letters of credit, on a revolving basis as of December 31, 2007. The UK Facility bore interest at LIBOR plus 2.0% as of December 31, 2007, is collateralized by substantially all of the assets of the subsidiary and expired in January 2008 and was renewed. The UK Facility also contains various covenants that require the subsidiary to maintain specified financial ratios related to, among others, fixed charges. The German Facility provided for revolving loans up to EUR 0.5 million (\$0.7 million) as of December 31, 2007, bore interest at a Eurocurrency rate plus 2.5%, is collateralized by certain of the subsidiary's property and equipment and has no expiration date. No borrowings were outstanding against the UK Facility and the German Facility as of December 31, 2007.

As of December 31, 2007, we maintained a \$10.0 million irrevocable standby letter of credit. The standby letter of credit is required by one of our inventory manufacturers to qualify for payment terms on our inventory purchases. Under the terms of this arrangement, we are required to maintain on deposit with the bank a compensating balance, restricted as to use, of not less than the sum of the available amount of the letter of credit plus the aggregate amount of any drawings under the letter of credit that have been honored thereunder but not reimbursed. At December 31, 2007, the \$10.0 million deposit is included in short-term investments as restricted cash. No borrowings were outstanding as of December 31, 2007.

As of December 31, 2007, our publishing subsidiary located in the UK maintained a EUR 7.0 million (\$10.3 million) irrevocable standby letter of credit. The standby letter of credit is required by one of our inventory manufacturers to qualify for payment terms on our inventory purchases. The standby letter of credit

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does not require a compensating balance and is collateralized by substantially all of the assets of the subsidiary and expires in February 2009. No borrowings were outstanding as of December 31, 2007.

Commitments

In the normal course of business, we enter into contractual arrangements with third parties for non-cancelable operating lease agreements for our offices, for the development of products, and for the rights to intellectual property. Under these agreements, we commit to provide specified payments to a lessor, developer or intellectual property holder, based upon contractual arrangements. Typically, the payments to third-party developers are conditioned upon the achievement by the developers of contractually specified development milestones. These payments to third-party developers and intellectual property holders typically are deemed to be advances and are recoupable against future royalties earned by the developer or intellectual property holder based on the sale of the related game. Additionally, in connection with certain intellectual property right acquisitions and development agreements, we will commit to spend specified amounts for marketing support for the related game(s) which is to be developed or in which the intellectual property will be utilized. Assuming all contractual provisions are met, the total future minimum commitments for these and other contractual arrangements in place as of December 31, 2007, are scheduled to be paid as follows (amounts in thousands):

| Fiscal year ending March 31, | Contractual Obligations(1) | | | |
|-------------------------------|----------------------------------|---------------------|-----------|------------|
| | Facility and Equipment Leases | Developer and IP | Marketing | Total |
| 2008 (remaining three months) | \$ 4,635 | \$ 22,839 | \$ 100 | \$ 27,574 |
| 2009 | 18,987 | 74,927 | 46,283 | 140,197 |
| 2010 | 16,944 | 23,107 | 16,100 | 56,151 |
| 2011 | 14,417 | 30,886 | 13,100 | 58,403 |
| 2012 | 10,211 | 16,586 | — | 26,797 |
| Thereafter | 39,677 | 47,586 | — | 87,263 |
| Total | \$ 104,871 | \$ 215,931 | \$ 75,583 | \$ 396,385 |

- (1) We have omitted FIN 48 liabilities from this table due to the inherent uncertainty regarding the timing of potential issue resolution. Specifically, either (a) the underlying positions have not been fully enough developed under audit to quantify at this time or, (b) the years relating to the issues for certain jurisdictions are not currently under audit. At the adoption date of April 1, 2007, we had \$65.5 million of unrecognized tax benefits.

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Financial Disclosure

We maintain internal controls over financial reporting, which generally include those controls relating to the preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America. We also are focused on our "disclosure controls and

procedures,” which as defined by 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 internal and external 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 our disclosure controls and procedures, and our internal control over financial reporting, and will make refinements as necessary.

Recently Issued Accounting Standards

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (FAS 141(R)). This Statement provides greater consistency in the accounting and financial reporting of business combinations. It requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose the nature and financial effect of the business combination. Also in December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements* (FAS 160). This Statement amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 141(R) and FAS 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008 with earlier adoption being prohibited. We do not currently have any non-controlling interests in our subsidiaries, and accordingly the adoption of FAS 160 is not expected to have a material impact on our financial statements. We are currently evaluating the impact from the adoption of FAS 141R will have on our Consolidated Financial Statements.

In September 2006, the FASB issued Statement No. 157 (“SFAS No. 157”), *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 for financial assets and liabilities and is effective for fiscal years beginning after November 15, 2008 for non-financial assets and liabilities. We do not expect that the adoption of SFAS No. 157 will have a material effect on our financial position or results of operations.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115* (“SFAS No. 159”). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. The provisions of SFAS No. 159 are effective for financial statements issued for fiscal years beginning after November 15, 2007. We are evaluating if we will adopt the fair value option of SFAS No. 159 and what impact the adoption will have on our Consolidated Financial Statements if we adopt.

In June 2007, the FASB ratified the Emerging Issues Task Force’s (“EITF”) consensus conclusion on EITF 07-03, “*Accounting for Advance Payments for Goods or Services to Be Used in Future Research and Development*.” EITF 07-03 addresses the diversity which exists with respect to the accounting for the non-refundable portion of a payment made by a research and development entity for future research and development activities. Under this conclusion, an entity is required to defer and capitalize non-refundable advance payments made for research and development activities until the related goods are delivered or the related services are performed. EITF 07-03 is effective for interim or annual reporting periods in fiscal years beginning after December 15, 2007 and requires prospective application for new contracts entered into after the effective date. We do not expect the adoption of EITF 07-03 to have a material impact on our Consolidated Financial Statements.

Factors Affecting Future Performance

In connection with the Private Securities Litigation Reform Act of 1995 (the “Litigation Reform Act”), we are hereby disclosing certain cautionary information to be used in connection with written materials (including this Quarterly Report on Form 10-Q) and oral statements made by or on behalf of our employees and representatives that may contain “forward-looking statements” within the meaning of the Litigation Reform Act. Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as “may,” “expect,” “anticipate,” “estimate,” or “continue” or the negative thereof or other variations thereon or comparable terminology. You are cautioned that all forward-looking statements are necessarily speculative and there are numerous risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements. These forward-looking statements are subject to business, economic and legal risks and reflect management’s current expectations and are inherently uncertain and difficult to predict. For a discussion that highlights some of the more important risks identified by management, but which should not be assumed to be the only factors that could affect future performance, see the discussion under the heading “Risk Factors”, included in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2007, which is incorporated herein by reference and subsequent filings with the SEC. You are cautioned that we do not have a policy of updating or revising forward-looking statements, and thus you should not assume that our silence over time means that actual events are bearing out as estimated in such forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the potential loss arising from fluctuations in market rates and prices. Our market risk exposures primarily include fluctuations in interest rates, foreign currency exchange rates and market prices. All of our market risk sensitive instruments are classified as instruments entered into for purposes "other than trading." Our views on market risk are not necessarily indicative of actual results that may occur and do not represent the maximum possible gains and losses that may occur, since actual gains and losses will differ from those estimated based upon actual fluctuations in interest rates, foreign currency exchange rates and market prices and the timing of transactions.

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 in our investment portfolio. We manage our interest rate risk by maintaining an investment portfolio consisting primarily of debt instruments with high credit quality and relatively short average maturities generally between three and thirty months. We also manage our interest rate risk by maintaining sufficient cash and cash equivalent balances such that we are typically able to hold our investments to maturity. As of December 31, 2007, our cash equivalents and short-term investments included debt securities and certificates of deposit of \$786.2 million.

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The following table presents the amounts and related weighted average interest rates of our investment portfolio as of December 31, 2007 (amounts in thousands):

| | Average Interest Rate | Amortized Cost | Fair Value |
|--------------------------------|--------------------------|-------------------|---------------|
| Cash equivalents: | | | |
| Fixed rate | 4.37% | \$88,260 | \$88,211 |
| Variable rate | 4.94% | 169,752 | 169,752 |
| Short-term investments: | | | |
| Fixed rate | 5.09% | \$528,443 | \$528,279 |

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, particularly the EUR, GBP, and AUD. The volatility of the EUR, GBP, and AUD (and all other applicable currencies) will be monitored frequently throughout the coming year. When appropriate, we enter into hedging transactions in order to mitigate our risk from foreign currency fluctuations. We will continue to use hedging programs in the future and may use currency forward contracts, currency options and/or other derivative financial instruments commonly utilized to reduce financial market risks 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 purposes. As of December 31, 2007, we had outstanding foreign currency exchange forward contracts of approximately \$46.2 million. In addition, we recorded approximately \$438,000 of pre-tax unrealized gains for the estimated fair value of outstanding foreign currency exchange forward contracts, which was recorded in earnings as the contracts did not qualify as hedging instruments.

Item 4. Controls and Procedures

1) 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 ensure that: (i) information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) information is accumulated and communicated to management, including our Chief Executive Officers and Chief 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, not absolute, 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.

2) Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our Chief Executive Officers and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2007. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2007, our Chief Executive Officers and Chief Financial Officer concluded that, as of such date, 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 recorded, processed, summarized, and reported on a timely basis.

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3) Changes in Internal Control Over Financial Reporting.

There was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchange Act) during the quarter ended December 31, 2007 that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In July 2006, individuals and/or entities claiming to be stockholders of the Company filed derivative lawsuits, purportedly on behalf of the Company, against certain current and former members of the Company's Board of Directors as well as several current and former officers of the Company. Three derivative actions have been filed in Los Angeles Superior Court: *Vazquez v. Kotick, et al.*, L.A.S.C. Case No. BC355327 (filed July 12, 2006); *Greuer v. Kotick, et al.*, L.A.S.C. Case No. SC090343 (filed July 12, 2006); and *Amalgamated Bank v. Baker, et al.*, L.A.S.C. Case No. BC356454 (filed August 3, 2006). These actions have been consolidated by the court under the caption *In re Activision Shareholder Derivative Litigation*, L.A.S.C. Master File No. SC090343 (West, J.). Four derivative actions have been filed in the United States District Court for the Central District of California: *Pfeiffer v. Kotick, et al.*, C.D. Cal. Case No. CV06-4771 MRP (JTLx) (filed July 31, 2006), *Hamian v. Kotick, et al.*, C.D. Cal. Case No. CV06-5375 MRP (JLTx) (filed August 25, 2006) *Abdelnur vs. Kotick et al.*, C.D. Cal. Case No. CV07-3575 AHM (PJWx) (filed June 1, 2007), and *Scarborough v. Kotick et al.*, C.D. Cal. Case No. CV07-4602 SVW (PLAx) (filed July 18, 2007). These actions have also been consolidated, under the caption *In re Activision, Inc. Shareholder Derivative Litigation*, C.D. Cal. Case No. CV06-4771 MRP (JTLx) (Pfaelzer, J.). The consolidated complaints allege, among other things, purported improprieties in the Company's issuance of stock options. Plaintiffs seek various relief on behalf of the Company, including damages, restitution of benefits obtained from the alleged misconduct, equitable relief, including an accounting and rescission of option contracts; and various corporate governance reforms. The Company expects that defense expenses associated with the matters will be covered by its directors and officers insurance, subject to the terms and conditions of the applicable policies.

The parties attended a mediation related to the consolidated federal action on November 1, 2007. On or about December 4, 2007, the Company, the plaintiffs, and certain current and former officers and directors of the Company notified the court in the federal action that they reached agreement in principle to settle the shareholder derivative litigation pending against such current and former directors and officers of the Company. On January 17, 2008, the parties amended that agreement to, among other things, include the plaintiffs in the state court action as parties thereto. The nonbinding agreement in principle is subject, among other things, to the negotiation of a binding definitive settlement agreement addressing all settlement terms, as well as to further approval by the parties and the court.

Motions to dismiss that had been filed in the federal action have been ordered withdrawn without prejudice in view of the parties' settlement discussions.

The order granted on May 24, 2007 to stay the consolidated state action pending the resolution of motions to dismiss in the federal action is still in place. The parties have advised the state court of the parties' settlement discussions and will file a status report on February 8, 2008.

On July 24, 2006, the Company received a letter of informal inquiry from the SEC requesting certain documents and information relating to the Company's historical stock option grant practices. Thereafter, the SEC issued a formal order of non-public investigation, pursuant to which it has subpoenaed documents from the Company related to the investigation, and has subpoenaed testimony and documents from certain current and former directors, officers and employees of the Company.

The Company is cooperating with the SEC's investigation, and representatives of the special subcommittee of independent members of its Board of Directors established in July 2006 to review its historical stock option granting practices (the "Special Subcommittee") and its legal counsel have met with members of the staff of the SEC on several occasions, in person and by telephone (as has the Company's outside legal counsel), to discuss the progress of the Special Subcommittee's investigation and to brief the SEC staff on the Special Subcommittee's findings and recommendations. A representative of the U.S. Department of Justice has attended certain of these meetings and requested copies of certain documents that we have provided to the staff of the SEC. At this time, the Company has not received any grand jury subpoenas or written requests from the Department of Justice.

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In addition, the Company is party to other routine claims and suits brought by it and against it in the ordinary course of business, including disputes arising over the ownership of intellectual property rights, contractual claims, employment laws, regulations and relationships, and collection matters. In the opinion of the Company's 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

Our business is subject to many risks and uncertainties, which may affect our future financial performance, including the risk factors set forth in Item 1A of our Amended Annual Report on Form 10-K for the fiscal year ended March 31, 2007 and the additional risk factors set forth in the preliminary proxy statement filed by Activision on January 31, 2008 (and reproduced in their entirety in Exhibit 99.1 hereto) relating to the proposed combination of Activision and Vivendi Games and share purchase by Vivendi. If any of the events or circumstances described in these risk factors occurs, our business and financial performance could be harmed, our actual results could differ materially from our expectations, and the market value of our securities could decline.

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Item 6. Exhibits

(a) Exhibits

- | | |
|-----|---|
| 2.1 | Business Combination Agreement, dated as of December 1, 2007, by and among Activision, Inc., Sego Merger Corporation, Vivendi S.A., VGAC LLC and Vivendi Games, Inc. (incorporated by reference to Exhibit 2.1 of Activision's Form 8-K, filed December 6, 2007). |
| 3.1 | Amended and Restated Certificate of Incorporation of Activision Holdings, dated June 9, 2000 (incorporated by |

reference to Exhibit 2.5 of Activision's Form 8-K, filed June 16, 2000).

- 3.2 Certificate of Amendment of Amended and Restated Certificate of Incorporation of Activision Holdings dated as of June 9, 2000 (incorporated by reference to Exhibit 2.7 of Activision's Form 8-K, filed June 16, 2000).
- 3.3 Certificate of Designation of Series A Junior Preferred Stock of Activision, Inc. dated as of December 27, 2001 (incorporated by reference to Exhibit 3.4 of Activision's Form 10-Q for the quarter ended December 31, 2001).
- 3.4 Certificate of Amendment of Amended and Restated Certificate of Incorporation, as amended, of Activision, Inc., dated as of April 4, 2005 (incorporated by reference to Exhibit 3.1 of Activision's Form 8-K, filed April 5, 2005).
- 3.5 Certificate of Designation of Series A Junior Preferred Stock of Activision, Inc. dated August 4, 2005 (incorporated by reference to Exhibit 3.1 of Activision's Form 8-K, filed August 5, 2005).
- 3.6 Third Amended and Restated By-Laws of Activision, Inc., dated September 27, 2007 (incorporated by reference to Exhibit 3.6 to Activision's Registration Statement on Form S-8, Registration No. 333-146431, filed October 1, 2007).
- 4.1 Rights Agreement dated as of April 18, 2000, between Activision, Inc. and Continental Stock Transfer & Trust Company, which includes as exhibits the form of Right Certificates as Exhibit A, the Summary of Rights to Purchase Series A Junior Preferred Stock as Exhibit B and the form of Certificate of Designation of Series A Junior Preferred Stock of Activision as Exhibit C, (incorporated by reference to Activision's Registration Statement on Form 8-A, Registration No. 001-15839, filed April 19, 2000).
- 4.2 Amendment No. 1 to the Rights Agreement, dated as of December 1, 2007, by and between Activision, Inc. and Continental Stock Transfer & Trust Company, as rights agent (incorporated by reference to Exhibit 4.1 of Activision's Form 8-K, filed December 6, 2007).
- 10.1 Voting and Lock-Up Agreement, dated as of December 1, 2007, by and among Activision, Inc., Vivendi S.A. and Robert A. Kotick (incorporated by reference to Exhibit 10.1 of Activision's Form 8-K, filed December 6, 2007).

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- 10.2 Voting and Lock-Up Agreement, dated as of December 1, 2007, by and among Activision, Inc., Vivendi S.A. and Brian G. Kelly (incorporated by reference to Exhibit 10.2 of Activision's Form 8-K, filed December 6, 2007).
 - 10.3 Amended and Restated Employment Agreement, dated as of December 1, 2007, by and between Activision, Inc. and Robert A. Kotick (incorporated by reference to Exhibit 10.3 of Activision's Form 8-K, filed December 6, 2007).
 - 10.4 Amended and Restated Employment Agreement, dated as of December 1, 2007, by and between Activision, Inc. and Brian G. Kelly (incorporated by reference to Exhibit 10.4 of Activision's Form 8-K, filed December 6, 2007).
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 - 10.7 Amendment to Employment Agreement, dated as of December 1, 2007, by and between Activision, Inc. and Michael Griffith (incorporated by reference to Exhibit 10.7 of Activision's Form 8-K, filed December 6, 2007).
 - 10.8 Confidential License Agreement for the Wii Console (EEA, Australia and New Zealand), dated December 3, 2007, between Nintendo Co., Ltd., Activision, Inc. and Activision Publishing, Inc.*
 - 10.9 Notice of Stock Option Award for grants to persons other than non-employee directors pursuant to the Activision, Inc. 2007 Incentive Plan.
 - 10.10 Notice of Stock Option Award for grants to non-employee directors pursuant to the Activision, Inc. 2007 Incentive Plan.
 - 10.11 Notice of Restricted Share Award for grants to persons other than non-employee directors issued pursuant to the Activision, Inc. 2007 Incentive Plan.
 - 10.12 Notice of Restricted Share Unit Award for grants to persons other than non-employee directors issued pursuant to the Activision, Inc. 2007 Incentive Plan.
 - 10.13 Notice of Restricted Share Unit Award for grants to non-employee directors upon their initial election to the board or upon their tenth continuous year of service on the board issued pursuant to the Activision, Inc. 2007 Incentive Plan.

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- 10.14 Notice of Restricted Share Unit Award for grants to non-employee directors upon their reelection to the board (other than in connection with 10 years of continuous service) issued pursuant to the Activision, Inc. 2007 Incentive Plan.

- 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 Michael Griffith 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.
- 31.3 Certification of Thomas Tipl pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Robert A. Kotick pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Michael Griffith pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.3 Certification of Thomas Tipl pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Risk Factors from Preliminary Proxy Statement Filed by Activision on January 31, 2008.

* Portions omitted pursuant to a request for confidential treatment.

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SIGNATURES

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: February 11, 2008

ACTIVISION, INC.

/s/ Thomas Tipl

Thomas Tipl
Chief Financial Officer of Activision Publishing, Inc. and
Principal Financial and Accounting Officer of Activision, Inc.

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- 10.14 Notice of Restricted Share Unit Award for grants to non-employee directors upon their reelection to the board (other than in connection with 10 years of continuous service) issued pursuant to the Activision, Inc. 2007 Incentive Plan.
- 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 Michael Griffith 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.
- 31.3 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 Michael Griffith pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.3 Certification of Thomas Tippl pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Risk Factors from Preliminary Proxy Statement Filed by Activision on January 31, 2008.

* Portions omitted pursuant to a request for confidential treatment.

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[*] DENOTES CONFIDENTIAL MATERIALS OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT**

**CONFIDENTIAL LICENSE AGREEMENT
FOR THE Wii™ CONSOLE
(EEA, AUSTRALIA, AND NEW ZEALAND)**

THIS LICENSE AGREEMENT (“Agreement”) is entered into between NINTENDO CO., LTD. (“NINTENDO”) at 11-1 Kamitoba Hokotate-cho, Minami-ku, Kyoto, Japan 601-8501, Attn: General Manager, International Business Administration Department (Fax: 81.75.662.9619), and ACTIVISION, INC., a corporation of Delaware, and its subsidiaries (Activision Publishing, Inc., a corporation of Delaware, Activision UK, Ltd., a limited company of the United Kingdom; ATVI France, S.A.S., a corporation of France; Activision GmbH, a corporation of Germany, and Activision Pty., Ltd., a limited company of Australia) (jointly and severally “LICENSEE”) at 3100 Ocean Park Blvd., Santa Monica, CA 90405, Attn: Mr. George Rose (Fax: 310.255.2152). NINTENDO and LICENSEE agree as follows:

1. RECITALS

1.1 NINTENDO designs, develops, manufactures, markets and sells advanced design, high-quality video game systems, including the Wii™ video game console (“Wii™”).

1.2 LICENSEE desires use of the highly proprietary programming specifications, unique and valuable security technology, trademarks, copyrights and other valuable intellectual property rights of NINTENDO, which rights are only available for use under the terms of a license agreement, to develop, have manufactured, advertise, market and sell video game software for play on Wii™.

1.3 NINTENDO is willing to grant a license to LICENSEE on the terms and conditions set forth in this Agreement.

2. DEFINITIONS

2.1 “Artwork” means the text and design specifications for the Game Disc label and the Printed Materials in the format specified by NINTENDO in the Guidelines.

2.2 “Bulk Goods” means Game Discs printed with the Game Disc label portion of the Artwork for delivery to LICENSEE without Printed Materials or other packaging.

2.3 “Check Disc(s)” means the pre-production Game Discs to be produced by NINTENDO.

2.4 “Confidential Information” means the information described in Section 8.1.

2.5 “Development Tools” means the development kits, programming tools, emulators and other materials of NINTENDO, or third parties authorized by NINTENDO, that may be used in the development of Games under this Agreement.

2.6 “Effective Date” means the date that LICENSEE placed its first order for Licensed Products of October 24, 2006.

2.7 “Finished Product(s)” means the fully assembled Game Disc with a Game Disc label, Printed Materials, and packed in a plastic storage case;

2.8 “Game Disc(s)” means custom optical discs for play on Wii™ on which a Game has been stored.

2.9 “Game(s)” means any interactive programs (including source and object/binary code) developed to be compatible with Wii™.

2.10 “Guidelines” means the then-current version of “Wii™ Programming Guidelines;” “Licensee Packaging Guidelines” pertaining to the layout, trademark usage and requirements of the Game Disc label, instruction manual and Game Disc packaging; “Marketing Materials;” “Nintendo Trademark Guidelines;” “Guidelines on Ethical Content;” and “Nintendo Wii™ Software Submission Requirements,” together with other guidelines provided by NINTENDO to LICENSEE from time to time. The Guidelines on Ethical Content are attached as Annex A, and the remainder of the Guidelines have been provided to LICENSEE independent of this Agreement. The Guidelines may be changed or updated from time to time without notice, and the versions current from time to time will be available on request from NINTENDO.

2.11 “Independent Contractor” means any individual or entity that is not an employee of LICENSEE, including any independent programmer, consultant, contractor, board member or advisor.

2.12 “Intellectual Property Rights” means individually, collectively or in any combination, Proprietary Rights owned, licensed or otherwise held by NINTENDO that are associated with the development, manufacturing, advertising, marketing or sale of the Licensed Products, including, without limitation, (a) registered and unregistered trademarks and trademark applications used in connection with Wii™ including Nintendo™, Wii™, Official Nintendo Seal of Quality™, and Mii™, (b) select trade dress associated with Wii™ and licensed video games for play thereon, (c) Proprietary Rights in the Security Technology employed in the Games or Game Discs by Nintendo, (d) rights in the Development Tools for use in developing the Games, excluding, however, rights to use, incorporate or duplicate select libraries, protocols and/or sound or graphic files associated with the Development Tools which belong to any third party and for which no additional licenses or consents are required, (e) patents, patent applications, design registrations, utility models or copyrights which may be associated with the Game Discs or Printed Materials, (f) copyrights in the Guidelines, and (g) other Proprietary Rights of Nintendo in the Confidential Information.

2.13 “Licensed Products” means (a) Bulk Goods, and/or (b) Finished Products after being assembled and packaged with the Printed Materials in accordance with the Guidelines.

2.14 “Marketing Materials” means marketing, advertising or promotional materials developed by or for LICENSEE (or subject to LICENSEE’s approval) that promote the sale of the Licensed Products, including but not limited to, television, radio and on-line advertising, point-of-sale materials (e.g., posters, counter-cards), package advertising, print media and all audio or video content other than the Game that is to be included on the Game Disc.

2.15 “NDA” means the non-disclosure agreement related to Wii™ previously entered into between NINTENDO and/or NOA and LICENSEE.

2.16 “NOA” means NCL’s subsidiary, Nintendo of America Inc. of Redmond, Washington, USA.

2.17 “Notice” means any notice permitted or required under this Agreement. All Notices shall be sufficiently given when (a) personally served or delivered, or (b) transmitted by facsimile, with an original sent concurrently by mail, or (c) deposited, carriage prepaid, with a guaranteed air courier service, in each case addressed as stated herein, or addressed to such other person or address either party may designate in a Notice, or (d) transmitted by e-mail with an express written acknowledgement of receipt sent personally by or on behalf of the recipient (which shall include any automated reply). Notice shall be deemed effective upon the earlier of actual receipt or two (2) business days after transmittal, provided, however, any Notice received after the recipient’s normal business hours will be deemed received on the next business day.

2.18 “Price Schedule” means the then-current version of NINTENDO’s schedule of purchase prices and minimum order quantities for the Finished Products and the Bulk Goods. The Price Schedule has been provided to LICENSEE independent of this Agreement and may be changed or updated from time to time without notice, and the version current from time to time will be available on request from NINTENDO.

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2.19 “Printed Materials” means title page, instruction booklet, precaution booklet, and optional printed materials.

2.20 “Promotional Disc(s)” means custom optical discs compatible with Wii™ that incorporate select game promotional or supplemental materials, as may be specified or permitted in the Guidelines.

2.21 “Proprietary Rights” means any rights or applications for rights owned, licensed or otherwise held in patents, patent applications, utility models, registered design rights, unregistered design rights, trademarks, service marks, copyrights, and neighboring rights, semiconductor chip layouts or masks, database rights, trade secrets, trade dress, get up, moral rights and publicity rights, together with all inventions, discoveries, ideas, know-how, data, information, processes, methods, procedures, formulas, drawings and designs, computer programs, software source code and object code, and all amendments, modifications, and improvements thereto for which such patents, patent applications, utility models, registered design rights, unregistered design rights, trademarks, service marks, copyrights, and neighboring rights, semiconductor chip layouts or masks, database rights, trade secrets, trade dress, get up, moral rights or publicity rights may exist or may be sought and obtained in the future.

2.22 “Rebate Program” means any then-current version of NINTENDO’s optional rebate program, establishing select terms for price rebates under this Agreement.

2.23 “Reverse Engineer(ing)” means, without limitation, (a) the x-ray, electronic scanning or physical or chemical stripping of semiconductor components, (b) the disassembly, decompilation, decryption or simulation of object code or executable code, or (c) any other technique designed to extract source code or facilitate the duplication of a program or product.

2.24 “Security Technology” means the highly proprietary security features of the Wii™ and the Licensed Products to minimize the risk of unlawful copying and other unauthorized or unsafe usage, including, without limitation, any security signature, bios, data scrambling, password, hardware security apparatus, watermark, hologram, encryption, digital rights management system, copyright management information system, proprietary manufacturing process or any feature which obstructs piracy, limits unlawful, unsafe or unauthorized use, or facilitates or limits compatibility with other hardware, software, accessories or peripherals, or with respect to a video game system other than the Wii™, or limits distribution outside of the Territory.

2.25 “Sole License” means a license under which only the licensor and a single licensee can utilize the subject matter of the license.

2.26 “Term” means three (3) years from the Effective Date.

2.27 “Territory” means any and all countries within the European Economic Area; namely Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom. The Territory shall also include Australia, New Zealand, Russia, Switzerland and Turkey. NINTENDO may add additional countries to the Territory upon written notice to LICENSEE.

2.28 “TM” means trademark of NINTENDO, whether registered or not.

2.29 “Wii Network Services” means and includes the Wii Shop Channel Services, Wii™Connect24, and any related services and material delivered to a consumer’s Wii™ console over the Internet.

3. GRANT OF LICENSE; LICENSEE RESTRICTIONS

3.1 Limited License Grant. For the Term and for the Territory, NINTENDO grants to LICENSEE a nonexclusive, nontransferable, limited license to use the Intellectual Property Rights, for the purpose of and to the

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extent necessary, to develop (or have developed on LICENSEE's behalf) Games for manufacture, advertising, marketing and sale by LICENSEE as Licensed Products, subject to the terms and conditions of this Agreement. This license is royalty-free.

3.2 LICENSEE Acknowledgement. LICENSEE's use of the Intellectual Property Rights shall not create any right, title or interest of LICENSEE therein. LICENSEE is authorized and permitted to develop Games, and have manufactured, advertise, market, and sell Licensed Products, only for play on Wii™ and only in accordance with this Agreement. In the event that LICENSEE challenges NINTENDO's ownership or the validity of the Intellectual Property Rights, NINTENDO may terminate this Agreement without any notice or procedure.

3.3 Restrictions on License Grant. NINTENDO does not guarantee that the hardware for the Wii™ system is distributed throughout the Territory. Moreover, the present limited license to LICENSEE does not extend to the use of the Intellectual Property Rights for the following purposes:

(a) grant access to, distribute, transmit or broadcast a Game by electronic means or by any other means known or hereafter devised, including, without limitation, by wireless, cable, fiber optic, telephone lines, microwave, radiowave, computer or other device network, except (a) as a part of wireless Game play on and among Wii™ systems, or between Wii™ and Nintendo DS systems, (b) for the purpose of facilitating Game development under the terms of this Agreement, or (c) as otherwise approved in writing by NINTENDO. LICENSEE shall use reasonable security measures, customary within the high technology industry, to reduce the risk of unauthorized interception or retransmission of any Game transmission. No right of retransmission shall attach to any authorized transmission of a Game;

(b) authorize or permit any online activities involving a Game, including, without limitation, multiplayer, peer-to-peer or online play, except as expressly permitted by NINTENDO in writing;

(c) modify, install or operate a Game on any server or computing device for the purpose of or resulting in the rental, lease, loan or other grant of remote access to the Game;

(d) emulate, interoperate, interface or link a Game for operation or use with any hardware or software platform, accessory, computer language, computer environment, chip instruction set, consumer electronics device or device other than Wii™, the Nintendo DS system, the Development Tools or such other Nintendo system as NINTENDO may authorize in the Guidelines;

(e) embed, incorporate, or store a Game in any media or format except the optical disc format utilized by Wii™, except as may be necessary as a part of the Game development process under this Agreement;

(f) design, implement or undertake any process, procedure, program or act designed to disable, obstruct, circumvent or otherwise diminish the effectiveness or operation of the Security Technology;

(g) utilize the Intellectual Property Rights to design or develop any interactive video game program, except as authorized under this Agreement;

(h) manufacture or reproduce a Game developed under this Agreement, except through NINTENDO; or

(i) Reverse Engineer or assist in Reverse Engineering all or any part of Wii™, including the hardware, software (embedded or not) or the Security Technology, except as specifically permitted under the laws and regulations applicable in the Territory.

3.4 Development Tools. NINTENDO and NOA may lease, loan or sell Development Tools, including any improvements made by NINTENDO or NOA from time to time, to LICENSEE to assist in the development of Games under this Agreement on such terms as may be agreed between the parties. Ownership and use of any

Development Tools, whether provided by NINTENDO or NOA, prior to or during the Term hereof, shall be subject to the terms of this Agreement and any separate license or purchase agreement required by NINTENDO or any third party licensing the Development Tools. LICENSEE acknowledges the respective interests of NINTENDO, and in the case of third-party Development Tools, such third parties, in and to the Proprietary Rights associated with the Development Tools. LICENSEE's use of the Development Tools shall not create any right, title or interest of LICENSEE therein. Any license to LICENSEE to use the Development Tools does not extend to: (a) use of the Development Tools for any purpose except the design and development of Games under this Agreement, (b) reproduction or creation of derivatives of the Development Tools, except in association with the development of Games under this Agreement, (c) Reverse Engineering of the Development Tools (except as specifically permitted under the laws and/or regulations applicable in the Territory), or (d) selling, leasing, assigning, lending, licensing, encumbering or otherwise transferring the Development Tools. Anything developed or derived by LICENSEE as a result of a study of the performance, design or operation of any Nintendo Development Tools shall be considered a derivative work of the Intellectual Property Rights, but may be retained and utilized by LICENSEE in connection with this Agreement. Unless LICENSEE can demonstrate that such derivative work has one or more applications that are independent of and separate from the Intellectual Property Rights ("Independent Applications"), it shall be deemed to have granted NINTENDO and NOA an indefinite, worldwide, royalty-free, transferable and Sole License (including the right to sub-license) to such derivative work. To the extent that LICENSEE can demonstrate one or more Independent Applications, LICENSEE shall be deemed to have granted to NINTENDO and NOA a royalty-free and transferable non-exclusive License (including the right to sub-license) in relation to such Independent Applications for the Term. Anything developed or derived by LICENSEE as a result of a study of the performance, design or operation of any third-party Development Tools shall be governed by the terms of the license agreement applicable to such Development Tools. Notwithstanding any referral or information provided or posted regarding third-party Development Tools, NINTENDO and NOA make no representations or warranties with regard to any such third-party Development Tools. LICENSEE acquires and utilizes third-party Development Tools at its own risk.

3.5 Games Developed for Linked Play on Two Systems. In the event the Guidelines permit LICENSEE to develop a Game for simultaneous or linked play on Wii™ and on another Nintendo video game system, LICENSEE shall be required to acquire and maintain with NINTENDO such additional licenses as are necessary for the use of the Proprietary Rights associated with such other Nintendo video game system.

3.6 In-Game Advertising. LICENSEE shall not include advertising or product placements for products or services of third parties, whether in the Game, as separate content on a Game Disc (e.g., a trailer), or in the Printed Materials, without NINTENDO's prior written consent.

3.7 Use of Mii™ Characters. LICENSEE shall not develop any Game that permits NINTENDO's Mii™ characters to appear in the Game without NINTENDO's prior written consent.

3.8 Sending Data to Consumers. LICENSEE shall not, without the prior written consent of NINTENDO, send any data, content, messages, advertising, or other communications of any kind to any consumer's Wii™ console through the Wii™ Network Services or otherwise.

3.9 Downloadable Content. If LICENSEE desires to develop Games or updates/additions of any kind for any Licensed Product, to be downloaded to consumers through the Wii Network Services, the terms and conditions of such development shall be separately agreed in writing between the parties. LICENSEE acknowledges that the rights granted herein do not include the right to use the Intellectual Property Rights to develop downloadable content.

4. SUBMISSION AND APPROVAL OF GAME AND ARTWORK

4.1 Submission of a Completed Game to NINTENDO. Upon completion of a Game, LICENSEE shall deliver a prototype of the Game to NINTENDO in a format specified in the Guidelines. Delivery shall be made in accordance with the methods set forth in the Guidelines. Each Submission shall include such other information or documentation deemed necessary by NINTENDO, including, without limitation, a complete set of written user

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instructions, a complete description of any security holes, backdoors, time bombs, cheats, "easter eggs" or other hidden features or characters in the Game and a complete screen text script. LICENSEE must establish that the Game and any other content included on the Game Disc complies with the guidelines of the Pan European Game Information System (PEGI), the Unterhaltungssoftware Selbstkontrolle (USK), the Office of Film and Literature Classification (OFLC), or any other national or regional game rating system that NINTENDO may accept, as applicable. LICENSEE shall be responsible for the submission of the Game to the appropriate national or regional game rating organization and shall provide NINTENDO with a statement or certificate in writing from the relevant organization, confirming the rating for the Game. Where any such game has been rated as being suitable only for players aged 18 and over (or an equivalent rating), LICENSEE must submit a certificate in writing that confirms the game is rated as no higher than "M" (Mature) by the Entertainment Software Rating Board (ESRB) of the U.S. [***]

4.2 Testing of a Completed Game. Upon submission of a completed Game, NINTENDO shall promptly test the Game with regard to its technical compatibility with, and error-free operation on, Wii™ utilizing the lot check process. Within a reasonable period of time after receipt, NINTENDO shall approve or disapprove such Game. If a Game is disapproved, NINTENDO shall specify in writing the reasons for such disapproval and state what corrections are necessary. After making the necessary corrections, LICENSEE shall submit a revised Game to NINTENDO for testing. NINTENDO shall not unreasonably withhold or delay its approval of any Game. Neither the testing nor approval of a Game by NINTENDO shall relieve LICENSEE of its sole responsibility for the development, quality and operation of the Game or in any way create any warranty by NINTENDO relating to any Licensed Product.

4.3 Production of Check Discs. By submission of a completed Game to NINTENDO in accordance with Section 4.1, LICENSEE authorizes NINTENDO to proceed with production of Check Discs for such Game. If NINTENDO approves a Game, it shall promptly, and without further notification to or instruction from LICENSEE, submit such Game for the production of Check Discs. Unless otherwise advised by LICENSEE, following production of the Check Discs, NINTENDO shall deliver to LICENSEE approximately ten (10) Check Discs for content verification, testing and final approval by LICENSEE.

4.4 Approval or Disapproval of Check Discs by LICENSEE. If, after review and testing, LICENSEE approves the Check Discs, it shall promptly transmit to NINTENDO a signed authorization for production in the form specified in the Guidelines. If LICENSEE does not approve the sample Check Discs for any reason, LICENSEE shall advise NINTENDO in writing and may, after undertaking any necessary changes or corrections, resubmit the Game to NINTENDO for approval in accordance with the procedures set forth in this Section 4. The absence of a signed authorization form from LICENSEE within five (5) days after delivery of the Check Discs to LICENSEE shall be deemed disapproval of such Check Discs. Production of any order for Finished Goods or Bulk Goods shall not proceed without LICENSEE's signed authorization.

4.5 Cost of Check Discs and Disc Stamper. If LICENSEE: (a) disapproves the Check Discs for any reason (except if the disapproval is due to defects in or failure of the Check Discs due to NINTENDO's act, error or omission); (b) fails to order the minimum order quantity of any Game approved by NINTENDO within six (6) months after the date the Game was first approved by NINTENDO; or (c) submits a revised version of the Game to NINTENDO after production of such Game has commenced, LICENSEE shall reimburse NINTENDO (or its designee) for the reasonable estimated cost of the production of the Check Discs, including the cost of the disc stamper. The payment will be due (i) thirty (30) days after NINTENDO's written notification to LICENSEE of the Check Disc fee due NINTENDO because of LICENSEE's failure to approve such Check Disc; (ii) six (6) months after the date the Game was first approved by NINTENDO; or (iii) upon the subsequent submission by LICENSEE of a revised version of the Game to NINTENDO, as the case may be.

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4.6 Submission and Approval of Artwork. Prior to submitting a completed Game to NINTENDO under Section 4.1, LICENSEE shall submit to NINTENDO all Artwork for the proposed Licensed Product. Within ten (10) business days of receipt, NINTENDO shall approve or disapprove the Artwork. If any Artwork is disapproved, NINTENDO shall specify in writing the reasons for such disapproval and state what corrections or improvements are necessary. After making the necessary corrections or improvements, LICENSEE shall submit revised Artwork to NINTENDO for approval. NINTENDO shall not unreasonably withhold or delay its approval of any Artwork. The approval of the Artwork by NINTENDO shall not relieve LICENSEE of its sole responsibility for the development and quality of the Artwork or in any way create any warranty for the Artwork or the Licensed Product by NINTENDO. All Artwork must be approved prior to submitting an order for the Bulk Goods or Finished Products, and LICENSEE shall not produce any Printed Materials for commercial distribution until such Artwork or Finished Products has been approved by NINTENDO.

4.7 Artwork for Bulk Goods. If LICENSEE intends to submit an order for Bulk Goods, all Artwork and other materials to be included with the Licensed Product shall be submitted to NINTENDO in accordance with Section 4.6 herein. No Printed Materials shall be produced by LICENSEE until such Artwork has been approved by NINTENDO.

4.8 Promotional Discs. In the event NINTENDO issues Guidelines in the future that permit LICENSEE to develop and distribute Promotional Discs, either separately or as a part of the Licensed Product, the content and specifications of such Promotional Disc shall be subject to all of the terms and conditions of this Agreement, including, without limitation, the Guidelines, the Price Schedule and the submission and approval procedures provided for in this Section 4.

5. ORDER PROCESS, PURCHASE PRICE, PAYMENT AND DELIVERY

5.1 Submission of Orders by LICENSEE. After receipt of NINTENDO's approval for a Game and Artwork, LICENSEE may at any time submit a written purchase order to NINTENDO for any approved Licensed Product title. The purchase order shall specify whether it is for Finished Products or Bulk Goods. The terms and conditions of this Agreement shall control over any contrary or additional terms of such purchase order or any other written documentation or verbal instruction from LICENSEE. All orders shall be subject to acceptance by NINTENDO or its designee.

5.2 Purchase Price and Minimum Order Quantities. The purchase price and minimum order quantities for Finished Products and Bulk Goods shall be set forth in NINTENDO's then-current Price Schedule. Unless otherwise specifically provided for, the purchase price includes the cost of manufacturing a single Game Disc. No taxes, duties, import fees or other tariffs related to the development, manufacture, import, marketing or sale of the Licensed Products (except for taxes imposed on NINTENDO's income) are included in the purchase price and all such taxes are the responsibility of LICENSEE. The Price Schedule is subject to change by NINTENDO at any time without Notice, provided however, that any price increase shall be applicable only to purchase orders submitted, paid for, and accepted by NINTENDO after the date of the price increase.

5.3 Payment. Upon placement of an order with NINTENDO, LICENSEE shall pay the full purchase price either (a) by tender of an irrevocable letter of credit in favor of NINTENDO (or its designee) and payable at sight, issued by a bank acceptable to NINTENDO and confirmed, if requested by NINTENDO, at LICENSEE's expense, or (b) in cash, by wire transfer to an account designated by NINTENDO. All letters of credit shall comply with NINTENDO's written instructions and all associated banking charges shall be for LICENSEE's account.

5.4 Delivery of Licensed Products. NINTENDO shall deliver the Finished Products and Bulk Goods ordered by LICENSEE to LICENSEE FOB Japan, CIP European Destination or ex-warehouse Grossostheim, per the terms in the Price Schedule. Also per the Price Schedule, [***]. Upon mutual consent of NINTENDO and LICENSEE, orders may be delivered in partial shipments with a minimum shipment quantity as specified in the Price Schedule. Such orders shall be delivered only to countries within the Territory. Title to the Licensed Products shall vest in accordance with the terms of the applicable letter of credit or, in the absence thereof, per Incoterms 2000.

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5.5 Rebate Program. NINTENDO, at its sole option, may elect to offer LICENSEE a Rebate Program. The terms and conditions of any Rebate Program shall be subject to NINTENDO's sole discretion. LICENSEE shall not be entitled to offset any claimed rebate amount against other amounts owing NINTENDO. No interest shall be payable by NINTENDO to LICENSEE on any claimed rebate. The Rebate Program is subject to change or cancellation by NINTENDO at any time without Notice.

6. MANUFACTURE OF THE LICENSED PRODUCT

6.1 Manufacturing. Given NINTENDO's ownership of valuable Intellectual Property Rights, NINTENDO shall be the exclusive source for the manufacture of the Game Discs, Check Discs and Promotional Discs, with responsibility for all aspects of the manufacturing process, including the selection of the locations and specifications for any manufacturing facilities, determination of materials and processes, appointment of suppliers and subcontractors and management of all work-in-progress. Upon acceptance by NINTENDO of a purchase order from LICENSEE and receipt of payment as provided for at Section 5.3 herein, NINTENDO shall (through its suppliers and subcontractors) arrange for manufacturing.

6.2 Security Features. The final release version of the Game, the Game Disc and the Printed Materials shall include such Security Technology as NINTENDO, in its sole discretion, deems necessary or appropriate to (a) reduce the risk of unlawful copying or other unlawful, unsafe or unauthorized uses, (b) protect the Proprietary Rights of NINTENDO and of the LICENSEE, (c) promote consumer confidence, and (d) increase the quality, reliability or operation of Wii™.

6.3 Printed Materials for Bulk Goods. Upon delivery to LICENSEE of Bulk Goods, LICENSEE shall assemble the Printed Materials and Bulk Goods into the Licensed Products in accordance with the Guidelines. No other materials, items, products or packaging may be included or assembled with the Bulk Goods without NINTENDO's prior written consent. Bulk Goods may be sold or distributed by LICENSEE only when fully assembled in accordance with the Guidelines.

6.4 Sample Printed Materials. Within a reasonable period of time after LICENSEE's assembly of an initial order for Bulk Goods for a Game title, LICENSEE shall provide NINTENDO with (a) two (2) samples of the fully assembled Licensed Product, and (b) twenty (20) samples of the LICENSEE produced Printed Materials (excluding the plastic disc storage case, precaution booklet, and other optional printed materials) for such Game title.

6.5 Retention of Sample Licensed Products by NINTENDO. NINTENDO may, at its own expense, manufacture reasonable quantities of the Game Discs or the Licensed Products, and make a reasonable number of copies of the Printed Materials, not to exceed fifty (50) copies, to be used for archival purposes, legal proceedings against infringers of the Intellectual Property Rights, and for other lawful purposes (but not for resale).

7. MARKETING AND ADVERTISING

7.1 Approval of Marketing Materials. LICENSEE represents and warrants that the Printed Materials and the Marketing Materials shall be of high quality and comply with (a) the Guidelines, (b) the guidelines of the PEGI, and (c) all applicable laws and regulations and official codes of practice in those jurisdictions in the Territory where they will be used or distributed, including without limitation all applicable privacy laws. To protect NINTENDO's valuable Intellectual Property Rights, to prevent the dilution of NINTENDO's trademarks, and to avoid use of the licensed Intellectual Property Rights giving rise to any implication of NINTENDO's sponsorship, association, approval or endorsement where this is not the case, prior to actual use or distribution, LICENSEE shall submit to NINTENDO for review samples of all proposed Marketing Materials. NINTENDO shall, within ten (10) business days of receipt, approve or disapprove of the quality of such samples. If any of the samples are disapproved, NINTENDO shall specify the reasons for such disapproval and state what corrections and/or improvements are necessary. After making the necessary corrections and/or improvements, LICENSEE shall submit revised

7.2 **No Bundling.** To protect NINTENDO's valuable Intellectual Property Rights, to prevent the dilution of NINTENDO's trademarks and to avoid use of the licensed Intellectual Property Rights giving rise to any implication of NINTENDO's sponsorship, association, approval or endorsement where this is not the case, LICENSEE shall not, without NINTENDO's prior written approval, market or distribute any Games or Game Discs that have been bundled with (a) any peripheral designed for use with Wii™ that has not been licensed or approved in writing by NINTENDO, provided that LICENSEE is responsible for ensuring that any such peripheral shall comply with all applicable laws and regulations in the Territory, or (b) any other product or service where NINTENDO's association, approval or endorsement might be suggested by bundling the products or services.

7.3 **Warranty and Repair.** LICENSEE shall provide the original consumer with a minimum one hundred eighty (180) day (or such longer minimum period as may be required by applicable law) limited warranty on all Licensed Products. LICENSEE shall also provide reasonable product service, including out-of-warranty service, for all Licensed Products. LICENSEE shall make such warranty and repair information available to consumers as required by applicable law.

7.4 **Business Facilities.** LICENSEE agrees to develop and maintain sufficient customer service, either directly or through a third party, to adequately support the Licensed Products.

7.5 **No Sales Outside the Territory.** LICENSEE covenants that it shall not market, sell, offer to sell, import or distribute the Licensed Products outside the Territory, or within the Territory when LICENSEE has actual or constructive knowledge that a subsequent destination of the Licensed Product is outside the Territory.

7.6 **Defects and Recall.** In the event of a material programming defect in a Licensed Product that would, in NINTENDO's reasonable judgment, significantly impair the ability of a consumer to play the Game, NINTENDO may, after consultation with LICENSEE, require the LICENSEE to recall the Licensed Product and undertake suitable repairs or replacements.

7.7 **NINTENDO Promotional Materials, Publications and Events.** With a view to improving the competitiveness of the video game products consisting of Nintendo video game systems and services and compatible software published by LICENSEE and others, at its option and expense, NINTENDO may (a) utilize screen shots, Artwork and information regarding the Licensed Products in all NINTENDO published or officially licensed magazines, official NINTENDO sponsored web sites or other advertising, promotional or marketing media, which promote NINTENDO products, services or programs, and (b) exercise public performance rights in the Games and use related trademarks and Artwork in connection with NINTENDO sponsored contests, tours, conventions, trade shows, press briefings and similar events which promote such video game products. NCL shall submit to LICENSEE for review printed materials and related art for the Game that NCL intends to use in publications or media or marketing programs.

7.8 **Nintendo Gateway System.** To promote and increase demand for games on Nintendo video game systems, NINTENDO licenses select games in various non-coin activated commercial settings such as commercial airlines, cruise ships, rail systems and hotels, where customers play games on specially adapted Nintendo video game hardware referred to as the "Nintendo Gateway System". If NINTENDO identifies a Game for possible license on the Nintendo Gateway System, the parties agree to conduct good faith negotiations to determine commercially reasonable terms for such participation.

8. CONFIDENTIAL INFORMATION

8.1 **Definition.** Confidential Information means information provided to LICENSEE by NINTENDO or any third party working with NINTENDO relating to the hardware and software for Wii™ or the Development Tools, including, but not limited to, (a) all current or future information, know-how, techniques, methods, tools, emulator hardware or software, software development specifications, proprietary manufacturing processes and/or trade secrets,

(b) any information on inventions, patents, or patent applications, (c) any business, legal, marketing, pricing or sales data or information, and (d) any other information or data relating to development, design, operation, manufacturing, marketing or sales. Confidential Information shall include all confidential information disclosed, whether in writing, orally, visually, or in the form of drawings, technical specifications, software, samples, pictures, models, recordings, or other tangible items which contain or manifest, in any form, the above listed information. Confidential Information shall not include (i) data and information which was in the public domain prior to LICENSEE's receipt of the same hereunder, or which subsequently becomes part of the public domain by publication or otherwise, except by LICENSEE's wrongful act or omission, (ii) data and information which LICENSEE can demonstrate, through written records kept in the ordinary course of business, was in its possession without restriction on use or disclosure, prior to its receipt of the same hereunder, and was not acquired directly or indirectly from NINTENDO or NOA under an obligation of confidentiality which is still in force, and (iii) data and information which LICENSEE can show was received by it from a third party who did not acquire the same directly or indirectly from NINTENDO or NOA and to whom LICENSEE has no obligation of confidentiality.

8.2 **Disclosures Required by Law.** LICENSEE shall be permitted to disclose Confidential Information if such disclosure is required by an authorized governmental or judicial entity, provided that LICENSEE shall notify NINTENDO at least thirty (30) days prior to such disclosure, or such lesser period as may be needed to comply with such requirement. LICENSEE shall use its best efforts to limit the disclosure to the greatest extent possible consistent with LICENSEE's legal obligations, and if required by NINTENDO, shall cooperate in the preparation and entry of appropriate court orders limiting the persons to whom Confidential Information may be disclosed and the extent of disclosure of such Confidential Information.

8.3 **Disclosure and Use.** NINTENDO may provide LICENSEE with highly confidential development information, Guidelines, Development Tools, systems, specifications and related resources and information constituting and incorporating the Confidential Information to assist LICENSEE in the development of Games. LICENSEE agrees to maintain all Confidential Information as strictly confidential and to use such Confidential Information only in accordance with this Agreement. LICENSEE shall limit access to the Confidential Information to LICENSEE's employees having a strict need to know, and shall advise such individuals of their obligation of confidentiality as provided herein. LICENSEE shall require each such individual to retain in confidence

the Confidential Information pursuant to a written non-disclosure agreement with LICENSEE. LICENSEE shall use its best efforts to ensure that individuals who are permitted hereunder to work with or otherwise have access to Confidential Information shall not disclose or make any unauthorized use of the Confidential Information.

8.4 **No Disclosure to Independent Contractors.** LICENSEE shall not disclose the Confidential Information, including without limitation the Guidelines and Intellectual Property Rights, to any Independent Contractor, nor permit any Independent Contractor to perform or assist in development work for a Game, without the prior written consent of NINTENDO. Any Independent Contractor seeking access to Confidential Information shall be required to enter into a written non-disclosure agreement with NINTENDO or NOA that is no less restrictive than the terms of this Section 8, and that expressly includes the following language, prior to receiving any access to or disclosure of the Confidential Information from either LICENSEE or NINTENDO:

“Independent Contractor may have access to highly-confidential and proprietary information, intellectual property, and trade secrets of Nintendo Co., Ltd. and/or Nintendo of America Inc. (collectively, “Nintendo”). Independent Contractor expressly acknowledges (i) the valuable nature of such materials; and (ii) Nintendo’s right, title and interest in such materials. All such materials constitute confidential information under this agreement and shall be treated by Independent Contractor as such. Independent Contractor’s use of such materials shall not create any right, title or interest of Independent Contractor therein. In the event that Independent Contractor challenges Nintendo’s ownership or the validity of such materials, Nintendo may terminate the agreement without any notice or procedure. Nintendo Co., Ltd. and Nintendo of America Inc. are intended third-party beneficiaries of this agreement.”

At LICENSEE’s option, the written non-disclosure agreement may be with LICENSEE rather than NINTENDO or NOA, in which case the form and substance of the non-disclosure agreement must be acceptable to NINTENDO. Also, in such case LICENSEE shall provide to NINTENDO on a continuing basis a listing of all Independent Contractors who have received or been granted access to Confidential Information along with copies of the applicable written non-disclosure agreements. In addition, LICENSEE shall take all reasonable measures to ensure that its Independent Contractors fulfill the requirements of the applicable written non-disclosure agreements.

LICENSEE shall use its best efforts to ensure that its employees and Independent Contractors working with or otherwise having access to Confidential Information shall not disclose or make unauthorized use of the Confidential Information. [***]

8.5 **Agreement Confidentiality.** LICENSEE agrees that the terms, conditions and contents of this Agreement shall be treated as Confidential Information. Any public announcement or press release regarding this Agreement or the release dates for Games developed by LICENSEE under this Agreement shall be subject to NINTENDO’s prior written approval. The parties may disclose this Agreement (a) to accountants, banks, financing sources, lawyers, parent companies and related parties under substantially equivalent confidentiality obligations, (b) in connection with any formal legal proceeding for the enforcement of this Agreement, (c) as required by the regulations of the government agencies in the Territory that regulate publicly-traded securities, provided that all Confidential Information shall be edited from such disclosures to the maximum extent allowed by such government agencies, (d) in response to lawful process, subject to court order limiting the persons to whom Confidential Information may be disclosed and the extent of disclosure of such Confidential Information, approved in advance by NINTENDO, and (e) to a third party proposing to enter into a business transaction with LICENSEE or with NINTENDO, but only to the extent reasonably necessary for carrying out the proposed transaction and only under terms of mutual confidentiality.

8.6 **Notification Obligations.** LICENSEE shall promptly notify NINTENDO of the unauthorized use or disclosure of any Confidential Information by LICENSEE or any of its employees, or any Independent Contractor or its employees, and shall promptly act to recover any such information and prevent further breach of the obligations herein. The obligations of LICENSEE set forth herein are in addition to and not in lieu of any other legal remedy that may be available to NINTENDO under this Agreement or applicable law.

8.7 **Continuing Effect of the NDA.** The terms of this Section 8 supplement the terms of the NDA, which shall remain in effect. In the event of a conflict between the terms of the NDA and this Agreement, the provisions of this Agreement shall control.

9. **REPRESENTATIONS AND WARRANTIES**

9.1 **LICENSEE’s Representations and Warranties.** LICENSEE represents and warrants that:

- (a) it is a duly organized and validly existing corporation and has full authority to enter into this Agreement and to carry out the provisions hereof,
- (b) the execution, delivery and performance of this Agreement by LICENSEE does not conflict with any agreement or understanding to which LICENSEE may be bound, and
- (c) excluding the Intellectual Property Rights, LICENSEE is either (i) the sole owner of all right, title and interest in and to the trademarks, copyrights and all other Proprietary Rights incorporated into the Game or the Artwork or used in the development, advertising, marketing and sale of the Licensed Products or the Marketing Materials, or (ii) the holder of such rights, including trademarks, copyrights and all other Proprietary Rights which belong to any third party but have been licensed from such third party or an agent or licensee of a third party, such as

a collecting society, by LICENSEE, as are necessary for incorporation into the Game or the Artwork or as are used in the development, advertising, marketing and sale of the Licensed Products or the Marketing Materials under this Agreement.

9.2 **NINTENDO’s Representations and Warranties.** NINTENDO represents and warrants that:

(a) it is a duly organized and validly existing corporation and has full authority to enter into this Agreement and to carry out the provisions hereof, and

(b) the execution, delivery and performance of this Agreement by NINTENDO do not conflict with any agreement or understanding to which NINTENDO may be bound.

9.3 INTELLECTUAL PROPERTY RIGHTS DISCLAIMER. NINTENDO (ON ITS OWN BEHALF AND ON BEHALF OF ITS AFFILIATES, SUBSIDIARIES, LICENSORS, SUPPLIERS AND SUBCONTRACTORS) EXPRESSLY DISCLAIMS ALL REPRESENTATIONS AND WARRANTIES CONCERNING THE SCOPE OR VALIDITY OF THE INTELLECTUAL PROPERTY RIGHTS. NINTENDO (ON ITS OWN BEHALF AND ON BEHALF OF ITS AFFILIATES, SUBSIDIARIES, LICENSORS, SUPPLIERS AND SUBCONTRACTORS) EXPRESSLY DISCLAIMS ANY WARRANTY THAT THE DESIGN, DEVELOPMENT, ADVERTISING, MARKETING OR SALE OF THE LICENSED PRODUCTS OR THE USE OF THE INTELLECTUAL PROPERTY RIGHTS BY LICENSEE WILL NOT INFRINGE UPON ANY PATENT, COPYRIGHT, TRADEMARK OR OTHER PROPRIETARY RIGHTS OF A THIRD PARTY TO THE MAXIMUM EXTENT LEGALLY PERMISSIBLE. ANY WARRANTY, CONDITION OR TERM THAT MAY BE PROVIDED IN ANY APPLICABLE PROVISION OF ANY LAW OR REGULATION IN THE TERRITORY GOVERNING COMMERCIAL ACTIVITY, OR ANY OTHER COMPARABLE LAW OR REGULATION, IS EXPRESSLY DISCLAIMED. LICENSEE HEREBY ASSUMES THE RISK OF INFRINGEMENT.

9.4 GENERAL DISCLAIMER. NINTENDO (ON ITS OWN BEHALF AND ON BEHALF OF ITS AFFILIATES, SUBSIDIARIES, LICENSORS, SUPPLIERS AND SUBCONTRACTORS) EXPRESSLY DISCLAIMS ANY AND ALL WARRANTIES WITH RESPECT TO THE LICENSED PRODUCTS, INCLUDING, WITHOUT LIMITATION, THE SECURITY TECHNOLOGY. LICENSEE PURCHASES AND ACCEPTS ALL LICENSED PRODUCTS ON AN "AS IS" AND "WHERE IS" BASIS. NINTENDO (ON ITS OWN BEHALF AND ON BEHALF OF ITS AFFILIATES, SUBSIDIARIES, LICENSORS, SUPPLIERS AND SUBCONTRACTORS) EXPRESSLY DISCLAIMS ALL WARRANTIES, CONDITIONS OR OTHER TERMS OF ANY KIND UNDER THE APPLICABLE LAWS OF ANY COUNTRY, EXPRESS OR IMPLIED, INCLUDING IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A GENERAL OR PARTICULAR PURPOSE.

9.5 LIMITATION OF LIABILITY. TO THE MAXIMUM EXTENT PERMITTED BY LAW, NEITHER NINTENDO NOR ITS AFFILIATES, SUBSIDIARIES, LICENSORS, SUPPLIERS, OR SUBCONTRACTORS SHALL BE LIABLE FOR LOSS OF PROFITS, OR FOR ANY SPECIAL, PUNITIVE, INCIDENTAL OR CONSEQUENTIAL DAMAGES OF LICENSEE OR ITS CUSTOMERS ARISING OUT OF OR RELATED TO THIS AGREEMENT, INCLUDING, WITHOUT LIMITATION, THE BREACH OF THIS AGREEMENT BY NINTENDO, THE MANUFACTURE OF THE LICENSED PRODUCTS OR THE USE OF THE LICENSED PRODUCTS ON ANY NINTENDO VIDEO GAME SYSTEM BY LICENSEE OR BY ANY END USER.

10. INDEMNIFICATION

10.1 Claim. "Claim" means any and all third-party claims, demands, actions, suits, proceedings, losses, liabilities, damages, expenses and costs, including, without limitation, reasonable attorneys' fees and costs and any expenses incurred in the settlement or avoidance of any such claim. "Claim" shall specifically include civil, criminal, and regulatory matters, and those brought by any third party (including governmental authorities or agencies) under any national, subnational, or multinational law or regulation, or the rules of any self-regulatory body (e.g., PEGI).

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10.2 LICENSEE's Indemnification. LICENSEE shall indemnify and hold harmless NINTENDO (and any of its affiliates, subsidiaries, licensors, suppliers, officers, directors, employees or agents) from any Claims which are alleged to result from or be in connection with:

- (a) a breach by LICENSEE of any of the provisions in this Agreement,
- (b) any infringement of a third party's Proprietary Rights as a result of the design, development, advertising, marketing, sale or use of any aspect of the Licensed Products or the Marketing Materials,
- (c) a defect, failure to warn, bodily injury (including death), or other personal or property damage arising out of, or in connection with, the design, development, advertising, marketing, sale or use of any aspect of the Licensed Products, and
- (d) the design, development, advertising, marketing, sale or use of any aspect of the Licensed Products or the Marketing Materials.

NINTENDO and LICENSEE shall give prompt Notice to the other of any Claim which is or which may be subject to indemnification under this Section 10. With respect to any such Claim, LICENSEE, as indemnitor, shall have the right to select counsel and to control the defense and/or settlement thereof. NINTENDO may, at its own expense, participate in such action or proceeding with counsel of its own choice. LICENSEE shall not enter into any settlement of any Claim in which (a) NINTENDO has been named as a party, or (b) Intellectual Property Rights have been asserted, without NINTENDO's prior written consent. NINTENDO shall provide reasonable assistance to LICENSEE in its defense of any Claim.

10.3 LICENSEE's Insurance. LICENSEE shall, at its own expense, obtain a comprehensive policy of general liability insurance (including coverage for advertising injury and product liability Claims) from an insurance company rated at least B+ by A.M. Best or a comparable rating by another recognized insurance rating organization. Such policy of insurance shall be in an amount of not less than the equivalent of Five Million Dollars U.S. (\$5,000,000 US) on a per-occurrence basis and shall provide for adequate protection against any Claims. Such policy shall name NINTENDO as an additional insured and shall specify it may not be canceled without thirty (30) days' prior written Notice to NINTENDO. A Certificate of Insurance shall be provided to NINTENDO not later than the date of the initial order of Licensed Products under this Agreement or within thirty (30) days of the Effective Date of this Agreement, whatever date occurs later. If LICENSEE fails to provide NINTENDO with such Certificate of Insurance or fails to maintain such insurance at any time during the Term and for a period of two (2) years thereafter, NINTENDO, in its sole discretion may (a) terminate this Agreement in accordance with Section 13.2 herein; and/or (b) secure comparable insurance, at LICENSEE's expense, for the sole benefit and protection of NINTENDO.

10.4 Suspension of Production. In the event NINTENDO deems itself at risk with respect to any Claim under this Section 10, NINTENDO may, at its sole option, suspend production, delivery or order acceptance for any Licensed Products, in whole or in part, pending resolution of such Claim.

11. PROTECTION OF PROPRIETARY RIGHTS

11.1 Joint Actions Against Infringers. LICENSEE and NINTENDO may agree to jointly pursue cases of infringement involving the Licensed Products, as such Licensed Products will contain Proprietary Rights owned by each of them. Unless the parties otherwise agree, or unless the recovery is expressly allocated between them by the court, in the event of such an action, any recovery shall be used first to reimburse LICENSEE and NINTENDO for their respective reasonable attorneys' fees and costs, pro rata, and any remaining recovery shall be distributed to LICENSEE and NINTENDO, pro rata, based upon the fees and costs incurred in bringing such action.

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11.2 Actions by LICENSEE. LICENSEE, without the consent of NINTENDO and to the extent permitted by law, may bring any action or proceeding relating to an infringement or potential infringement of LICENSEE's Proprietary Rights in the Licensed Products. LICENSEE shall make reasonable good faith efforts to inform NINTENDO of such actions in a timely manner. LICENSEE will have the right to retain all proceeds it may derive from any recovery in connection with such actions.

11.3 Actions by NINTENDO. NINTENDO, without the consent of LICENSEE, may bring any action or proceeding relating to an infringement or potential infringement of NINTENDO's Intellectual Property Rights in the Licensed Products. NINTENDO shall make, in a timely manner, reasonable, good faith efforts to inform LICENSEE of such actions likely to affect LICENSEE's rights. NINTENDO will have the right to retain all proceeds it may derive from any recovery in connection with such actions.

12. ASSIGNMENT

12.1 Definition. "Assignment" means every type and form of assignment, transfer, sale, sublicense, delegation, encumbrance, pledge and/or hypothecation of LICENSEE's rights or obligations under this Agreement, including, but not limited to, (a) a voluntary assignment, transfer, sale, sublicense, delegation, encumbrance, pledge and/or hypothecation by LICENSEE of all or any portion of its rights or obligations under this Agreement, (b) the assignment, transfer, sale, sublicense, delegation, encumbrance, pledge and/or hypothecation of all or any portion of LICENSEE's rights or obligations under this Agreement to or by LICENSEE's trustee in bankruptcy, receiver, or other individual or entity appointed to control or direct the business and affairs of LICENSEE, (c) an involuntary assignment, transfer, sale, sublicense, delegation, encumbrance, pledge or hypothecation of all or a portion of LICENSEE's rights or obligations under this Agreement, including but not limited to a foreclosure by a third party upon assets of LICENSEE, (d) the merger or consolidation of LICENSEE if LICENSEE is a corporation, and (e) any other means or method whereby rights or obligations of LICENSEE under this Agreement are sold, assigned or transferred to another individual or entity for any reason. Assignment also includes the sale, assignment, transfer or other event affecting a change in the controlling interest of LICENSEE, whether by sale, transfer or assignment of shares in LICENSEE, or by sale, transfer or assignment of partnership interests in LICENSEE, or otherwise.

12.2 No Assignment by LICENSEE. This Agreement and the subject matter hereof are personal to LICENSEE. No Assignment of LICENSEE's rights or obligations hereunder shall be valid or effective without NINTENDO's prior written consent, which consent may be withheld by NINTENDO for any reason whatsoever in its sole discretion. In the event of an attempted Assignment in violation of this provision, NINTENDO shall have the right at any time, at its sole option, to immediately terminate this Agreement. Upon such termination, NINTENDO shall have no further obligation under this Agreement to LICENSEE or to LICENSEE's intended or purported assignee.

12.3 Proposed Assignment. Prior to any proposed Assignment of this Agreement, LICENSEE shall give NINTENDO not less than thirty (30) days prior written Notice thereof, which Notice shall disclose the name of the proposed assignee, the proposed effective date of the proposed Assignment and the nature and extent of the rights and obligations that LICENSEE proposes to assign. NINTENDO may, in its sole discretion, approve or disapprove such proposed Assignment. Unless written consent is given by NINTENDO to a proposed Assignment, any attempted or purported Assignment shall be deemed disapproved and NINTENDO shall have the unqualified right, in its sole discretion, to terminate this Agreement at any time. Upon termination, NINTENDO shall have no further obligation under this Agreement to LICENSEE or to LICENSEE's intended or purported assignee.

12.4 LICENSEE's Obligation of Non-Disclosure. LICENSEE shall not (a) disclose NINTENDO's Confidential Information to any proposed assignee of LICENSEE, or (b) permit access to NINTENDO's Confidential Information by any proposed assignee or other third party, without the prior written consent of NINTENDO to such disclosure.

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13. TERM AND TERMINATION

13.1 Term. This Agreement shall commence on the Effective Date and continue for the Term, unless earlier terminated as provided for herein.

13.2 Default or Breach. In the event that either party is in default or commits a material breach of this Agreement, which is not cured within thirty (30) days after Notice thereof, then this Agreement shall automatically terminate on the date specified in such Notice.

13.3 Bankruptcy. At NINTENDO's option, this Agreement may be terminated immediately and without Notice in the event that LICENSEE (a) makes an assignment for the benefit of creditors, (b) becomes insolvent, (c) files a voluntary petition for bankruptcy, (d) acquiesces to any involuntary bankruptcy petition, (e) is adjudicated as a bankrupt, or (f) ceases to do business.

13.4 Termination Other Than by Breach. Upon the expiration of this Agreement or its termination other than by LICENSEE's breach, LICENSEE shall have a period of one hundred eighty (180) days to sell any unsold Licensed Products. All Licensed Products in LICENSEE's control following the expiration of such sell-off period shall be destroyed by LICENSEE within ten (10) days and Notice of such destruction (with proof certified by an officer of LICENSEE) shall be delivered to NINTENDO.

13.5 Termination by LICENSEE's Breach. If this Agreement is terminated by NINTENDO as a result of a breach of its terms and conditions by LICENSEE, LICENSEE shall immediately cease all distribution, advertising, marketing or sale of any Licensed Products. All Licensed Products in LICENSEE's control as of the date of such termination shall be destroyed by LICENSEE within ten (10) days and Notice of such destruction (with proof certified by an officer of LICENSEE) shall be delivered to NINTENDO.

13.6 Breach of NDA or other NINTENDO License Agreements. At NINTENDO's option, any breach by LICENSEE of (a) the NDA, or (b) any other license agreement between NINTENDO and LICENSEE relating to the development of games for any Nintendo video game system, which breach is not cured within the time period for cure allowed under the applicable agreement (and which shall give NINTENDO reasonable cause to believe that it needs to terminate this Agreement so as to protect its legitimate business interests), shall be considered a material breach of this Agreement entitling NINTENDO to terminate this Agreement in accordance with Section 13.5 herein.

13.7 No Further Use of the Intellectual Property Rights. Upon expiration or termination of this Agreement, LICENSEE shall cease all use of the Intellectual Property Rights for any purpose, except as may be required in connection with the sale of the Licensed Products authorized under Section 13.4 herein. LICENSEE shall, within thirty (30) days of expiration or termination, (a) return to NINTENDO all Development Tools provided to LICENSEE by NINTENDO, and (b) return to NINTENDO or destroy any and all copies of materials constituting, relating to, or disclosing any Confidential Information, including but not limited to Guidelines, writings, drawings, models, data, and tools, whether in LICENSEE's possession or in the possession of any past or present employee, agent or Independent Contractor who received the information through LICENSEE. Proof of such return or destruction shall be certified by an officer of LICENSEE and promptly provided to NINTENDO.

13.8 Termination by NINTENDO's Breach. If this Agreement is terminated by LICENSEE as a result of a breach of its terms or conditions by NINTENDO, LICENSEE may continue to sell the Licensed Products in the Territory until the expiration of the Term, at which time the provisions of Section 13.4 shall apply.

14. GENERAL PROVISIONS

14.1 Compliance with Applicable Laws and Regulations. LICENSEE shall at all times comply with applicable laws, regulations and orders in the countries of the Territory relating to or in any way affecting this Agreement and LICENSEE's performance under this Agreement, including, without limitation, the export laws and regulations of any country with jurisdiction over the Intellectual Property Rights, Licensed Products, Development Tools and/or either party. LICENSEE shall not market, distribute, or sell the Game and/or Game Discs in any country in the Territory in which such marketing, distribution or sale would violate any applicable laws, regulations or orders of such country.

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14.2 Force Majeure. Neither party shall be liable for any breach of this Agreement occasioned by any cause beyond the reasonable control of such party, including governmental action, war, riot or civil commotion, fire, natural disaster, labor disputes, restraints affecting shipping or credit, delay of carriers, inadequate supply of suitable materials, or any other cause which could not with reasonable diligence be controlled or prevented by the parties. In the event of material shortages, including shortages of materials or production facilities necessary for production of the Licensed Products, NINTENDO reserves the right to allocate such resources among itself and its licensees.

14.3 Records and Audit. During the Term and for a period of two (2) years thereafter, LICENSEE agrees to keep accurate, complete and detailed records relating to the use of the Confidential Information, the Development Tools and the Intellectual Property Rights. Upon reasonable Notice to LICENSEE, NINTENDO may, at its expense, arrange for a third-party audit of LICENSEE's records, reports and other information related to LICENSEE's compliance with this Agreement; provided, however, that NINTENDO shall not, during the course of the audit, access LICENSEE's source code, development plans, marketing plans, internal business plans or other items deemed confidential by LICENSEE, except to the extent such materials incorporate, disclose or reference NINTENDO's Confidential Information or Intellectual Property Rights.

14.4 Waiver, Severability, Integration, and Amendment. The failure of a party to enforce any provision of this Agreement shall not be construed to be a waiver of such provision or of the right of such party to thereafter enforce such provision. In the event that any term, clause or provision of this Agreement shall be construed to be or adjudged invalid, void or unenforceable, such term, clause or provision shall be construed as severed from this Agreement, and the remaining terms, clauses and provisions shall remain in effect. Together with the NDA, this Agreement constitutes the entire agreement between the parties relating to the subject matter hereof. All prior negotiations, representations, agreements and understandings are merged into, extinguished by and completely expressed by this Agreement and the NDA. Any amendment to this Agreement shall be in writing, signed by both parties.

14.5 Survival. In addition to those rights specified elsewhere in this Agreement, the rights and obligations set forth in Sections 3, 8, 9, 10, 11, 13.4, 13.7, 13.8 and 14 shall survive any expiration or termination of this Agreement to the degree necessary to permit their complete fulfillment or discharge.

14.6 Governing Law and Venue. This Agreement shall be governed by the laws of Japan, without regard to its conflict of laws principles. Any legal actions (including judicial and administrative proceedings) with respect to any matter arising under or growing out of this Agreement, shall be brought in the Kyoto District Court. Each party hereby consents to the jurisdiction and venue of such court for such purposes.

14.7 Injunctive Relief. LICENSEE acknowledges that in the event of its breach of this Agreement, no adequate remedy at law may be available to NINTENDO and that NINTENDO shall be entitled to seek injunctive or other similar available relief in addition to any additional relief available to NINTENDO.

14.8 Attorneys' Fees. In the event it is necessary for either party to this Agreement to undertake legal action to enforce or defend any action arising out of or relating to this Agreement, the prevailing party in such action shall be entitled to recover from the other party all reasonable attorneys' fees, costs and expenses relating to such legal action or any appeal therefrom.

14.9 Expansion of Rights. NINTENDO may expand the rights granted to LICENSEE under this Agreement by providing written notice of such expansion of rights to LICENSEE and without having to enter into a written addendum to the present Agreement with LICENSEE.

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14.10 Delegation of Duties. NINTENDO, at its option, may delegate its duties under the present Agreement to a wholly owned subsidiary. To the extent necessary for the parties to carry out their duties under this Agreement, NINTENDO shall provide notice to LICENSEE of any such delegation, including to whom at NINTENDO's wholly owned subsidiary communications from LICENSEE under this Agreement may be directed. Also in the event of

Guidelines on Ethical Content

The following Guidelines on Ethical Content are presented for assistance in the development of Games by defining the types of the theme inconsistent with NINTENDO's corporate philosophy. Exceptions may be made when necessary to maintain the integrity of the Game or the Game's theme. Games shall not:

- (a) contain sexually explicit content including but not limited to nudity, rape, sexual intercourse and sexual touching; for instance, NINTENDO does not allow bare-breasted women in Games, however, mild displays of affection such as kissing or hugging are acceptable;
- (b) contain language or depictions which specifically denigrate members of any race, gender, ethnicity, religion or political group;
- (c) depict gratuitous or excessive blood or violence. NINTENDO does not permit depictions of animal cruelty or torture;
- (d) depict verbal or physical spousal or child abuse;
- (e) permit racial, gender, ethnic, religious or political stereotypes; for example, religious symbols such as crosses will be acceptable when fitting into the theme of the Game and not promoting a specific religious denomination;
- (f) use profanity, obscenity or incorporate language or gestures that are offensive by prevailing public standards and tastes; and
- (g) promote the use of illegal drugs, smoking materials, tobacco and/or alcohol; for example NINTENDO does not allow gratuitous beer or cigarette advertisement anywhere in a Game; however, Sherlock Holmes smoking a pipe would be acceptable as it fits the theme of the Game.

JEN:hjd

[Name of Holder]

Date: _____

EXHIBIT A

ACTIVISION, INC.

2007 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.

“Award Terms” means these Stock Option Award Terms.

“Cause” (i) shall have the meaning given to such term in any employment agreement or offer letter between the Holder and the Company or any of its subsidiaries or affiliates in effect from time to time or (ii) if the Holder is not party to any agreement or offer letter with the Company or any of its subsidiaries or affiliates or any such agreement or offer letter does not contain a definition of “cause,” shall mean the Holder’s (A) willful, reckless or gross misconduct or fraud, (B) grossly negligent performance of job responsibilities, (C) indictment on charges related to, conviction of, or pleading no contest to, a felony or crime involving dishonesty or moral turpitude, or (D) breach of any proprietary information, confidentiality, “work for hire,” non-solicitation or similar agreement between the Holder and the Company or any of its subsidiaries or affiliates.

“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 8 hereof.

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

“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.

“Disability” (A) shall have the meaning given to such term in, or otherwise be determined in accordance with, any employment agreement or offer letter between the Holder and the Company or any of its subsidiaries or affiliates in effect from time to time or (B) if the Holder is not party to any agreement or offer letter with the Company or any of its subsidiaries or affiliates or any such agreement or offer letter does not contain a definition of “disability” or otherwise provide a method for determining whether the Holder is disabled, shall have the meaning ascribed thereto under the Company’s long-term disability in effect from time to time, as interpreted under such plan (with such interpretation to be final, conclusive and binding for purposes of these Award Terms).

“Employment Violation” means any material breach by the Holder 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 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 Price” means the Exercise Price set forth on the Grant Notice.

“Expiration Date” means the Expiration Date 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.

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

“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 Activision, Inc. 2007 Incentive Plan, as amended from time to time.

“Recapture Amount” means, with respect to any Employment Violation by the Holder, the gross gain realized or unrealized by the Holder upon all exercises of the Option during the Look-back Period with respect to such Employment Violation, which gain shall be calculated as the sum of:

(i) if the Holder has exercised any portion of the Option during such Look-back Period and sold any of the Shares acquired on exercise thereafter, an amount equal to the product of (A) the sales price per Share sold minus the Exercise Price times (B) the number of Shares as to which the Option was exercised and which were sold at such sales price; plus

(ii) if the Holder has exercised any portion of the Option during such Look-back Period and not sold any of the Shares acquired on exercise thereafter, 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 of exercise, (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 11 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

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computation, minus the Exercise Price, times (B) the number of Shares as to which the Option was exercised and which were not sold.

“Shares” means the Common Shares purchasable upon exercise of the Option.

“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. Expiration. The Option shall expire on the Expiration Date and, after such expiration, shall no longer be exercisable.

3. Vesting and Exercise.

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

(b) Exercisable Only by Holder. Except as otherwise permitted under the Plan or Section 10 hereof, the 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) Procedure for Exercise. The Option may be exercised by the Holder as to all or any of the Shares as to which the Option has vested (i) by following the procedures for exercise established by the Equity Account Administrator and posted on the Equity Account Administrator’s website from time to time or (ii) with the Company’s consent, by giving the Company written notice of exercise, in such form as may be prescribed by the Company from time to time, specifying the number of Shares to be purchased.

(d) Payment of Exercise Price. To be valid, any exercise of the Option must be accompanied by full payment of the aggregate Exercise Price of the Shares being purchased. Such payment shall be made (i) by bank check or certified check or wire transfer of immediately available funds, (ii) 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. and with the Company’s consent, through the delivery of irrevocable written instructions, in 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 Option) to sell some or all of the Shares being purchased upon such exercise and to thereafter deliver promptly to the Company from the proceeds of such sale an amount in cash equal to the aggregate Exercise Price of the Shares being purchased, or (iii) with the Company’s consent, any combination of (i) or (ii) above.

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

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(f) 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 pursuant to clause (ii) of Section 3(g) hereof following exercise of the Option.

(g) Issuance and Delivery of Shares. As soon as practicable (and, in any event, within 30 days) after the valid exercise of the Option, the Company shall (i) effect the issuance or transfer of the Shares purchased upon such exercise, (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.

(h) Partial Exercise. If the Option shall have been exercised with respect to less than all of the Shares purchasable upon exercise of the Option, the Company shall make a notation in its books and records to reflect the partial exercise of the Option and the number of Shares that thereafter

remain available for purchase upon exercise of the Option.

4. 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 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) Death or Disability. Unless the Committee determines otherwise, in the event that the Holder dies while employed by the Company or any of its subsidiaries or affiliates or the Holder's employment with the Company or any of its subsidiaries or affiliates is terminated due to the Holder's Disability, the Option shall (i) cease to vest as of the date of the Holder's death or the first date of such Disability (as determined by the Committee), as the case may be, and (ii) to the extent vested as of the date of the Holder's death or such first date of such Disability, as the case may be, remain exercisable in accordance with these Award Terms until the earlier of (A) the first anniversary of the date of the Holder's death or such termination of employment, as the case may be, and (B) the Expiration Date, after which the Option shall no longer be exercisable and shall be cancelled.

(c) Other. Unless the Committee determines otherwise, in the event that the Holder's employment is terminated for any reason not addressed by Section 4(a) or 4(b) hereof, the Option shall (i) cease to vest as of the date of such termination of employment and (ii) to the extent vested as of the date of such termination of employment, be exercisable in accordance with these Award Terms until the earlier of (A) the 30th day after the date of such termination of employment and (B) the Expiration Date, after which the Option shall no longer be exercisable and shall be cancelled.

5. 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 Option, the

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issuance or transfer of any Shares upon exercise of the Option or otherwise in connection with the Award at the time such withholding Taxes become due. The Holder shall be entitled to satisfy any Withholding Taxes contemplated by this Section 5: (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. and with the Company's consent, through the delivery of irrevocable written instructions, in 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 Option) to sell some or all of the Shares being purchased upon such exercise 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; or (c) with the Company's consent, 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 the Holder's compensation any Withholding Taxes contemplated by this Section 5 and (ii) the Company shall have no obligation to deliver any Shares upon exercise of the Option unless and until all Withholding Taxes contemplated by this Section 5 have been satisfied.

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

7. 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 8 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 of the Code.

8. 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 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, or (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

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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.

9. Registration and Listing. Notwithstanding anything to the contrary contained herein, the Option may not be exercised, and the Option and Shares purchasable upon exercise of the 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 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 Option or Shares, to issue or transfer the 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 Option or Shares under the Securities Act of 1933, as amended, or any comparable federal securities law or applicable state securities law.

10. Transferability. Except as otherwise permitted under the Plan or this Section 10, the 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 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.

11. Employment Violation. The terms of this Section 11 shall apply to the Option if the Holder is or becomes subject to an employment agreement with the Company or any of its subsidiaries or affiliates. In the event of an Employment Violation, the Company shall have the right to require (i) the termination and cancellation of the Option, whether vested or unvested, and (ii) payment by the Holder to the Company of the Recapture Amount with respect to such Employment Violation; provided, however, that, in lieu of payment by the Holder to the Company of the Recapture Amount, the Holder, in his or her discretion, may tender to the Company the Shares acquired upon exercise of the Option during the Look-back Period with respect to such Employment Violation and the Holder shall not be entitled to receive any consideration from the Company in exchange therefor. Any such termination of the Option and payment of the Recapture Amount, as the case may be, shall be in addition to, and not in lieu of,

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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.

12. Section 409A. Payments contemplated with respect to the Award are intended to be exempt from Section 409A of the Code, 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 of the Code. Notwithstanding the foregoing, 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 a penalty tax under Section 409A of the Code, 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 penalty tax.

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 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 3(b)

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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 any employment agreement or offer letter between the Holder and the Company or any of its subsidiaries or affiliates in effect from time to time 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 any employment agreement or offer letter between the Holder and the Company or any of its subsidiaries or affiliates in effect from time to time 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 any employment agreement or offer letter between the Holder and the Company or any of its subsidiaries or affiliates in effect from time to time, 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.

ACTIVISION, INC.

2007 INCENTIVE PLAN

NOTICE OF STOCK OPTION AWARD

You have been awarded an Option to purchase Shares of Activision, Inc. (the "Company"), as follows:

- Your name: [_____ ; _____]
- Total number of Shares purchasable upon exercise of the Option awarded: [10,000][20,000]
- Exercise Price: US \$[_____] per Share
- Date of Grant: [_____]
- Expiration Date: [_____ ; _____]
- Grant ID: [_____]
- Your Award of the 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 2007 Incentive Plan, the receipt of a copy of which you hereby acknowledge.
- *Schedule for Vesting*: Except as otherwise provided under the Award Terms, the Option awarded to you will vest and become exercisable as follows, provided you continuously serve as a member of the Board 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 |
|---------------------------------------|--|--|
| [3 months after Date of Grant] | [2,500] | [2,500] |
| [6 months after Date of Grant] | [2,500] | [5,000] |
| [9 months after Date of Grant] | [2,500] | [7,500] |
| [First anniversary of Date of Grant] | [2,500] | [10,000] |
| [15 months after Date of Grant] | [2,500] | [12,500] |
| [18 months after Date of Grant] | [2,500] | [15,000] |
| [21 months after Date of Grant] | [2,500] | [17,500] |
| [Second anniversary of Date of Grant] | [2,500] | [20,000] |

- The 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, 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, INC.

By: _____
Title: _____
Date: _____

ACCEPTED AND AGREED:

EXHIBIT A

ACTIVISION, INC.

2007 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.

“**Award Terms**” means these Stock Option Award Terms.

“**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 8 hereof.

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

“**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.

“**Disability**” means “permanent and total disability” as defined in Section 22(e)(3) of the Code, as interpreted by the Company (with such interpretation to be final, conclusive and binding 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 Price**” means the Exercise Price set forth on the Grant Notice.

“**Expiration Date**” means the Expiration Date 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 Activision, Inc. 2007 Incentive Plan, as amended from time to time.

“**Shares**” means the Common Shares purchasable upon exercise of the Option.

“**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. Expiration. The Option shall expire on the Expiration Date and, after such expiration, shall no longer be exercisable.

3. Vesting and Exercise.

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

(b) Exercisable Only by Holder. Except as otherwise permitted under the Plan or Section 10 hereof, the 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) Procedure for Exercise. The Option may be exercised by the Holder as to all or any of the Shares as to which the Option has vested (i) by following the procedures for exercise established by the Equity Account Administrator and posted on the Equity Account Administrator’s

website from time to time or (ii) with the Company's consent, by giving the Company written notice of exercise, in such form as may be prescribed by the Company from time to time, specifying the number of Shares to be purchased.

(d) Payment of Exercise Price. To be valid, any exercise of the Option must be accompanied by full payment of the aggregate Exercise Price of the Shares being purchased. Such payment shall be made (i) by bank check or certified check or wire transfer of immediately available funds, (ii) 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. and with the Company's consent, through the delivery of irrevocable written instructions, in 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 Option) to sell some or all of the Shares being purchased upon such exercise and to thereafter deliver promptly to the Company from the proceeds of such sale an amount in cash equal to the aggregate Exercise Price of the Shares being purchased, or (iii) with the Company's consent, any combination of (i) or (ii) above.

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

(f) 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 pursuant to clause (ii) of Section 3(g) hereof following exercise of the Option.

(g) Issuance and Delivery of Shares. As soon as practicable (and, in any event, within 30 days) after the valid exercise of the Option, the Company shall (i) effect the issuance or transfer of the Shares purchased upon such exercise, (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 12 hereof, the Company shall instead cause a certificate evidencing such Shares and bearing such legend to be delivered to the person entitled thereto.

(h) Partial Exercise. If the Option shall have been exercised with respect to less than all of the Shares purchasable upon exercise of the Option, the Company shall make a notation in its books and records to reflect the partial exercise of the Option and the number of Shares that thereafter remain available for purchase upon exercise of the Option.

4. Termination of Service.

(a) Death or Disability. Unless the Committee determines otherwise, in the event that the Holder dies during his term as a member of the Board or the Holder ceases to serve as a member of the Board due to the Holder's Disability, the Option shall (i) immediately vest as of the date of the Holder's death or the first date of such Disability (as determined by the Committee), as the case may be, and (ii) remain exercisable in accordance with these Award Terms until the earlier of (A) the first anniversary of the date of the Holder's death or cessation of service, as the case may be, and (B) the Expiration Date, after which the Option shall no longer be exercisable and shall be cancelled.

(b) Change of Control. Unless the Committee determines otherwise, in the event that the Holder ceases to serve as a member of the Board pursuant to the terms of any business combination or similar transaction involving the Company, the Option shall (i) immediately vest as of the date on which such business combination or similar transaction is consummated, and (ii) be exercisable in accordance with these Award Terms until the earlier of (A) the first anniversary of the date of the Holder's cessation of service, and (B) the Expiration Date, after which the Option shall no longer be exercisable and shall be cancelled.

(c) Other. Unless the Committee determines otherwise, in the event that the Holder ceases to serve as a member of the Board for any reason not addressed by Section 4(a) or 4(b) hereof, the Option shall (i) cease to vest as of the date of such termination of service and (ii) to the extent vested as of the date of such termination of service, be exercisable in accordance

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with these Award Terms until the earlier of (A) the 30th day after the date of such termination of service and (B) the Expiration Date, after which the Option shall no longer be exercisable and shall be cancelled.

5. 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 Option, the issuance or transfer of any Shares upon exercise of the Option or otherwise in connection with the Award at the time such Withholding Taxes become due. The Holder shall be entitled to satisfy any Withholding Taxes contemplated by this Section 5: (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. and with the Company's consent, through the delivery of irrevocable written instructions, in 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 Option) to sell some or all of the Shares being purchased upon such exercise 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; or (c) with the Company's consent, 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 the Holder's compensation any Withholding Taxes contemplated by this Section 5 and (ii) the Company shall have no obligation to deliver any Shares upon exercise of the Option unless and until all Withholding Taxes contemplated by this Section 5 have been satisfied.

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

7. 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 8 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 of the Code.

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8. 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 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, or (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.

9. Registration and Listing. Notwithstanding anything to the contrary contained herein, the Option may not be exercised, and the Option and Shares purchasable upon exercise of the 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 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 Option or Shares, to issue or transfer the 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 Option or Shares under the Securities Act of 1933, as amended, or any comparable federal securities law or applicable state securities law.

10. Transferability. Except as otherwise permitted under the Plan or this Section 10, the 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 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.

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11. Section 409A. Payments contemplated with respect to the Award are intended to be exempt from Section 409A of the Code, 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 of the Code. Notwithstanding the foregoing, 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 a penalty tax under Section 409A of the Code, 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 penalty tax.

12. 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."

13. No Right to Continued Service. Nothing contained in the Grant Notice or these Award Terms shall be construed to confer upon the Holder any right to continued service on the Board or derogate from any right of the Company's stockholders to remove the Holder from the Board at any time, with or without cause.

14. No Rights as Stockholder. No holder of the 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.

15. 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.

16. 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.

17. 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 3(b) hereof and the Holder's estate or beneficiary(ies) as determined by will or the laws of descent and distribution.

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18. 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 on the records of the Company 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.

19. Conflict with Plan. In the event of any conflict between the terms of the Grant Notice or these Award Terms and the terms of the Plan, the terms of the Plan shall control.

20. 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.

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ACTIVISION, INC.

2007 INCENTIVE PLAN

NOTICE OF RESTRICTED SHARE AWARD

You have been awarded Restricted Shares of Activision, Inc. (the "Company"), as follows:

- Your name: [_____ ; _____]
- Total number of Restricted Shares awarded: [_____]
- Date of Grant: [_____ & nbsp;]
- Grant ID: [_____]
- Your Award of Restricted Shares is governed by the terms and conditions set forth in:
 - this Notice of Restricted Share Award;
 - the Restricted Share Award Terms attached hereto as Exhibit A (the "Award Terms"); and
 - the Company's 2007 Incentive Plan, the receipt of a copy of which you hereby acknowledge.
- **[Your Award of Restricted Shares has been made in connection with your employment agreement with the Company or one of its subsidiaries or affiliates as a material inducement to your entering into or renewing employment with such entity pursuant to such agreement, and is also governed by any applicable terms and conditions set forth in such agreement.]**
- *Schedule for Lapse of Restrictions:* Except as otherwise provided under the Award Terms, the Restrictions on the Restricted Shares awarded to you will lapse as follows, provided you remain continuously employed by the Company or one of its subsidiaries or affiliates through each such date:

Schedule for Lapse of Restrictions

| <u>Date on which Restrictions Lapse</u> | <u>No. of Restricted Shares as to which Restrictions Lapse</u> |
|--|--|
| First anniversary of Date of Grant | [_____] |
| Second anniversary of Date of Grant | [_____] |
| Third anniversary of Date of Grant | [_____] |
| [Fourth anniversary of Date of Grant] | [_____] |
| [Fifth anniversary of Date of Grant] | [_____] |

- ***Please sign and return to the Company this Notice of Restricted Share Award, which bears an original signature on behalf of the Company. You are urged to do so promptly.***
-
- If you wish to make an election to include the value of the Restricted Shares in your taxable income for the current calendar year, you must complete and sign the Section 83(b) Election Form attached hereto as Exhibit B and both (1) file a copy of it with the Internal Revenue Service Center at which you file your federal income tax return and (2) return a copy of it to the Company, in each case no later than the 30th day after the Date of Grant.
 - ***Please return all items to be returned to the Company to:***

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

You should retain (1) the enclosed duplicate copy of this Notice of Restricted Share Award for your records and (2) if applicable, two copies of your completed Section 83(b) Election Form, (a) one copy of which should be filed with the Internal Revenue Service Center at which you file your federal income tax return no later than 30th day after the Date of Grant as described above and (b) one copy of which should be submitted with your federal income tax return for the current calendar year.

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

ACTIVISION, INC.

By: _____
 Title: _____
 Date: _____

[Name of Grantee]

Date: _____

EXHIBIT A
ACTIVISION, INC.

2007 INCENTIVE PLAN

RESTRICTED SHARE AWARD TERMS

1. Definitions.

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

“Additional Shares” means any additional Common Shares issued in respect of Restricted Shares in connection with any adjustment pursuant to Section 10 hereof.

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

“Award Terms” means these Restricted Share Award Terms.

“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 10 hereof.

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

“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 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 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 Activision, Inc. 2007 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 lapses of the Restrictions 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 the Restrictions lapsed with respect to such Vested Shares, (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 14 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 Book Entry” means a book entry on the Company’s stock register maintained by its transfer agent and registrar, which book entry shall bear a notation regarding the Restrictions as set forth in Section 15(a) hereof and, if appropriate, a notation regarding securities law restrictions as

set forth in Section 15(b) hereof.

“**Restricted Shares**” means Common Shares subject to the Award (including any Additional Shares) as to which the Restrictions have not lapsed and which have not been forfeited to the Company in accordance with the Grant Notice and these Award Terms.

“**Restrictions**” means the restrictions set forth in Section 2 hereof.

“**Section 83(b) Election**” means an election under Section 83(b) of the Code, or any successor provision thereto, to include the value of the Restricted Shares in taxable income for the calendar year in which the Award is granted.

“**Vested Shares**” means Common Shares subject to the Award (including any Additional Shares) as to which the Restrictions have lapsed in accordance with Section 3 or 4 hereof.

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“**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. Restrictions. None of the Common Shares subject to the Award (including any Additional Shares), or any right or privilege pertaining thereto, may be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of or encumbered in any way not expressly permitted by these Award Terms, or subjected to execution, attachment or similar process, unless and until such restrictions thereon lapse pursuant to Section 3 or 4 hereof. Any attempt to sell, assign, transfer, pledge, hypothecate or otherwise dispose of or encumber any such Common Shares, or any right or privilege pertaining thereto, in any way not expressly permitted by these Award Terms before such restrictions thereon lapse pursuant to Section 3 or 4 hereof shall be null and void and of no force and effect.

3. Lapse of Restrictions. Except as otherwise set forth in these Award Terms, the Restrictions shall lapse in accordance with the “Schedule for Lapse of Restrictions” set forth on the Grant Notice.

4. Termination of Employment. Unless the Committee determines otherwise, in the event that Grantee’s employment is terminated for any reason, as of the date of such termination of employment the Restrictions shall cease to lapse and any Restricted Shares shall immediately be forfeited to the Company without payment of consideration by the Company.

5. Tax Withholding. The Company shall have the right to require Grantee to satisfy any Withholding Taxes resulting from the lapse of the Restrictions, from any Section 83(b) Election or otherwise in connection with the Award at the time such Withholding Taxes become due. Grantee shall be entitled to satisfy any Withholding Taxes contemplated by this Section 5: (a) by delivery to the Company of a bank check or certified check or wire transfer of immediately available funds; (b) with the Company’s consent, 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) with the Company’s consent, 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 5 and (ii) the Company shall have no obligation to deliver any Vested Shares unless and until all Withholding Taxes contemplated by this Section 5 have been satisfied.

6. Voting Rights. The holder of the Restricted Shares shall be entitled to the voting privileges associated therewith.

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7. Dividends. Any cash dividends declared and paid on the Restricted Shares shall be paid to the holder thereof concurrently with the payment of such dividends to all other record holders of Common Shares.

8. Receipt and Delivery; Removal of Restrictions. Restricted Shares shall be evidenced by a Restricted Book Entry in the name of the holder of the Restricted Shares. Restricted Shares shall become Vested Shares at such time as the Restrictions thereon lapse in accordance with the Grant Notice and these Award Terms. As soon as practicable after the Restrictions on any Restricted Shares lapse, the Company shall cause the legend regarding the Restrictions set forth in Section 15(a) hereof to be removed from the resulting Vested Shares and cause the resulting 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 regarding securities law restrictions as set forth in Section 15(b) hereof, the Company shall instead cause a certificate evidencing such Vested Shares and bearing such legend to be delivered to the person entitled thereto.

9. 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 10 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 of the Code.

10. Adjustments. Notwithstanding anything to the contrary contained herein, pursuant to Section 13 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, or (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

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determine to be equitable in the circumstances and may require in connection therewith the surrender of the Award.

11. Section 409A. Payments contemplated with respect to the Award are intended to be exempt from Section 409A of the Code, 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 of the Code. Notwithstanding the foregoing, 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 a penalty tax under Section 409A of the Code, 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 penalty tax.

12. Registration and Listing. Notwithstanding anything to the contrary contained herein, the Company shall not be obligated to issue or transfer any Restricted Shares 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 Shares 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 Shares or Vested Shares, to issue or transfer Restricted Shares 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 Shares or Vested Shares or resale of Restricted Shares or Vested Shares under the Securities Act of 1933, as amended, or any comparable federal securities law or applicable state securities law.

13. Transferability. Notwithstanding the Restrictions, with the Company's consent, Grantee may transfer Restricted Shares 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.

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14. Employment Violation. The terms of this Section 14 shall apply to the Restricted Shares if Grantee is or becomes subject to an employment agreement with the Company or any of its subsidiaries or affiliates. In the event of an Employment Violation, the Company shall have the right to require (a) the forfeiture by Grantee to the Company of any Restricted Shares and (b) 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 Shares 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.

15. Legends.

(a) Restrictions. The Company shall cause any Restricted Book Entry evidencing the Restricted Shares to bear a notation substantially as follows:

"THE SALE OR TRANSFER OF THE SECURITIES REPRESENTED HEREBY, WHETHER VOLUNTARY, INVOLUNTARY OR BY OPERATION OF LAW, IS SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AS SET FORTH IN THE ACTIVISION, INC. 2007 INCENTIVE PLAN (THE "PLAN"), AND IN THE ASSOCIATED NOTICE OF RESTRICTED SHARE AWARD, INCLUDING THE RESTRICTED SHARE AWARD TERMS ATTACHED THERETO (THE "AWARD NOTICE"). A COPY OF THE PLAN AND AWARD NOTICE MAY BE OBTAINED FROM ACTIVISION, INC."

(b) Securities Laws. The Company may, if determined by it based on the advice of counsel to be appropriate, cause any Restricted Book Entry evidencing Restricted Shares or any certificate evidencing Vested Shares to bear a notation or legend, as the case may be, 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. **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.

18. **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.

19. **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 13 hereof and Grantee’s estate or beneficiary(ies) as determined by will or the laws of descent and distribution.

20. **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 on any employment agreement or offer letter between Grantee and the Company or any of its subsidiaries or affiliates in effect from time to time, 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.

21. **Conflict with Employment Agreement or Plan.** In the event of any conflict between the terms of any employment agreement or offer letter between Grantee and the Company or any of its subsidiaries or affiliates in effect from time to time 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 any employment agreement or offer letter between Grantee and the Company or any of its subsidiaries or affiliates in effect from time to time, the Grant Notice or these Award Terms and the terms of the Plan, the terms of the Plan shall control.

22. **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.

EXHIBIT B
ACTIVISION, INC.

2007 INCENTIVE PLAN

SECTION 83(b) ELECTION FORM

**Election to Include Value of Restricted Property in Gross Income
in Year of Transfer under Internal Revenue Code § 83(b)**

The undersigned (the “Taxpayer”) hereby makes an election pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, with respect to the property described below and supplies the following information in accordance with the applicable federal income tax regulations:

1. The name, address and taxpayer identification number of the Taxpayer are:

Name: _____
Address: _____

Taxpayer I.D. Number: _____

2. Description of property with respect to which the election is being made:

[] shares of Common Stock, par value \$0.000001 per share, of Activision, Inc., a Delaware corporation (the “Company”).

3. Date of transfer; taxable year: The date on which property was transferred is [] . The taxable year to which this election relates is calendar year [] .

4. The nature of the restrictions to which the property is subject: The property is subject to transfer restrictions by virtue of an agreement between the Taxpayer and the Company, and the book entry on the Company’s stock register evidencing the property bears a notation to that effect. Except as otherwise described below, the restrictions on the property will lapse as follows:

Schedule for Lapse of Restrictions

| Date on which Restrictions Lapse | Number of Shares as to which Restrictions Lapse |
|------------------------------------|---|
| First anniversary of Date of Grant | [] |

| | | |
|--|---|---|
| Second anniversary of Date of Grant | [|] |
| Third anniversary of Date of Grant | [|] |
| [Fourth anniversary of Date of Grant] | [|] |
| [Fifth anniversary of Date of Grant] | [|] |

Unless the Company decides otherwise, in the event that Taxpayer's employment is terminated for any reason, as of the date of such termination of employment the restrictions will cease to lapse and all restricted property will immediately be forfeited to the Company without payment of consideration by the Company.

5. **Fair market value:** The fair market value at time of transfer (determined without regard to any restrictions other than restrictions which by their terms will never lapse) of the property with respect to which this election is being made is \$[] per share.
6. **Amount paid for property:** Taxpayer did not pay any cash amount for the property.
7. **Furnishing statement to employer:** A copy of this statement has been furnished to the Company.

Dated: _____

Signature of Taxpayer

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Instructions for Section 83(b) Election Form

1. The form must be filed with the Internal Revenue Service Center (or other IRS office) at which the Taxpayer files his or her federal income tax return and with the Company, in each case no later than the 30th day after the date of grant set forth on the Notice of Restricted Share Award to which this Section 83(b) Election Form is attached as Exhibit B.
2. In addition, the Taxpayer must submit one copy of the form with his or her federal income tax return for the year in which the date of grant occurred.
3. The Section 83(b) election, once made, is irrevocable, unless the Internal Revenue Service consents to the revocation.
4. The Taxpayer must *sign* the form.

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ACTIVISION, INC.

2007 INCENTIVE PLAN

NOTICE OF RESTRICTED SHARE UNIT AWARD

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

- Your name: [_____]
- Total number of Restricted Share Units awarded: [_____]
- Date of Grant: [_____]
- Grant ID: [_____]

- 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 2007 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 the Company or one of its subsidiaries or affiliates as a material inducement to your entering into or renewing employment with such entity pursuant to such 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 |
|--|---|---|
| First anniversary of Date of Grant | [_____] | [_____] |
| Second anniversary of Date of Grant | [_____] | [_____] |
| Third anniversary of Date of Grant | [_____] | [_____] |
| [Fourth anniversary of Date of Grant] | [_____] | [_____] |
| [Fifth anniversary of Date of Grant] | [_____] | [_____] |

- ***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, 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, INC.

By: _____
 Title: _____
 Date: _____

ACCEPTED AND AGREED:

 [Name of Grantee]

Date: _____

EXHIBIT A
ACTIVISION, INC.

2007 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.

“**Award Terms**” means these Restricted Share Unit Award Terms.

“**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, Inc. and any successor thereto.

“**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 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 Activision, Inc. 2007 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.

“**Vested Shares**” means Common Shares to which the holder of 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).

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3. Termination of Employment. Unless the Committee determines otherwise, in the event that Grantee’s employment is terminated for any reason, as of the date of such termination of employment any Restricted Share Units shall cease to vest and 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. Grantee shall be entitled to satisfy any Withholding Taxes contemplated by this Section 4: (a) by delivery to the Company of a bank check or certified check or wire transfer of immediately available funds; (b) with the Company’s consent, 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) with the Company’s consent, 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 fiscal year in which the related dividends are paid. For purposes of the time and form of payment requirements of Section 409A of the Code, 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 14 hereof, the Company shall instead cause a certificate

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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 of the Code.

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, or (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. The terms of this Section 12 shall apply to the Restricted Share Units if Grantee is or becomes subject to an employment agreement with the Company or any of its subsidiaries or affiliates. 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 Restricted Share Units 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. Section 409A.

(a) Payments contemplated with respect to the Award are intended to comply with Section 409A of the Code, 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 of the Code. Notwithstanding the foregoing, 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 a penalty tax under Section 409A of the Code, 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 penalty tax.

(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 of the Code) payable with respect to the Award to any anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment. Except as permitted under Section 409A of the Code, any deferred compensation (within the meaning of Section 409A of the Code) 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) If (i) the Committee determines in good faith that 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 of the Code) with the Company or any of its subsidiaries or affiliates does not qualify for the "short-term deferral exception" or otherwise would constitute a "deferral of compensation" under Section 409A of the Code, (ii) Grantee is a "specified employee" (as defined in Section 409A of the Code) and (iii) delay of payment is required by Section 409A of the Code 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.

14. Legends. 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."

15. 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.

16. 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.

17. 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.

18. 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.

19. 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.

20. 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 any employment agreement or offer letter between Grantee and the Company or any of its subsidiaries or affiliates in effect from time to time, 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.

21. Conflict with Employment Agreement or Plan. In the event of any conflict between the terms of any employment agreement or offer letter between Grantee and the Company or any of its subsidiaries or affiliates in effect from time to time 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 any employment agreement or offer letter between Grantee and the Company or any of its subsidiaries or affiliates in effect from time to time, the Grant Notice or these Award Terms and the terms of the Plan, the terms of the Plan shall control.

22. 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.

ACTIVISION, INC.

2007 INCENTIVE PLAN

NOTICE OF RESTRICTED SHARE UNIT AWARD

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

- Your name: [_____ ; _____]
- Total number of Restricted Share Units awarded: **[10,000]**
- Date of Grant: [_____]
- Grant ID: [_____]

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 2007 Incentive Plan, the receipt of a copy of which you hereby acknowledge.
- Schedule for Vesting:* Except as otherwise provided under the Award Terms, the Restricted Share Units awarded to you will vest as follows, provided you continuously serve as a member of the Board of Directors through each such date:

Schedule for Vesting

| <u>Date of Vesting</u> | <u>No. of Restricted Share Units Vesting at Vesting Date</u> | <u>Cumulative No. of Restricted Share Units Vested at Vesting Date</u> |
|---------------------------------------|--|--|
| [3 months after Date of Grant] | [1,250] | [1,250] |
| [6 months after Date of Grant] | [1,250] | [2,500] |
| [9 months after Date of Grant] | [1,250] | [3,750] |
| [First anniversary of Date of Grant] | [1,250] | [5,000] |
| [15 months after Date of Grant] | [1,250] | [6,250] |
| [18 months after Date of Grant] | [1,250] | [7,500] |
| [21 months after Date of Grant] | [1,250] | [8,750] |
| [Second anniversary of Date of Grant] | [1,250] | [10,000] |

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, 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, INC.

By: _____
 Title: _____
 Date: _____

ACCEPTED AND AGREED:

 [Name of Grantee]

Date: _____

EXHIBIT A**ACTIVISION, INC.****2007 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.

“**Award Terms**” means these Restricted Share Unit Award Terms.

“**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, Inc. and any successor thereto.

“**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.

“**Disability**” means “permanent and total disability” as defined in section 22(e)(3) of the Code, as interpreted by the Company (with such interpretation to be final, conclusive and binding 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.

“**Plan**” means the Activision, Inc. 2007 Incentive Plan, as amended from time to time.

“**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.

“**Separation from Service**” means separation from service within the meaning of Section 409A of the Code.

“**Vested Shares**” means Common Shares to which the holder of 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 Service.

(a) Death or Disability. In the event that Grantee incurs a Separation from Service due to death or Disability, the Restricted Share Units shall immediately vest as of the date of Grantee’s death or the first date of such Disability (as determined by the Committee), as the case may be.

(b) Change of Control. In the event that Grantee incurs a Separation from Service pursuant to the terms of any business combination or similar transaction involving the Company, the Restricted Share Units shall immediately vest as of the date of such Separation from Service.

(c) Other. Unless the Committee determines otherwise, in the event that Grantee incurs a Separation from Service for any reason not addressed by Section 3(a) and 3(b) hereof, as of the date of such Separation from Service any Restricted Share Units shall cease to vest and 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. Grantee shall be entitled to satisfy any Withholding Taxes contemplated by this Section 4: (a) by delivery to the Company of a bank check or certified check or wire transfer of immediately available funds; (b) with the Company's consent, 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

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amount of such Withholding Taxes); or (c) with the Company's consent, 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(c) 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 fiscal year in which the related dividends are paid. For purposes of the time and form of payment requirements of Section 409A of the Code, 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 (a) with respect to the portion of the Restricted Share Units that vest on or before the first anniversary of the Date of Grant either in accordance with the "Schedule for Vesting" set forth on the Grant Notice or due to a Separation from Service pursuant to Section 3 hereof, the earlier of (i) the first anniversary of the Date of Grant and (ii) the date of Grantee's Separation from Service and (b) with respect to the portion of the Restricted Share Units that vest after the first anniversary of the Date of Grant either in accordance with the "Schedule for Vesting" set forth on the Grant Notice or due to a Separation from Service pursuant to Section 3 hereof, the earlier of (i) the second anniversary of the Date of Grant and (ii) the date of Grantee's Separation from Service, the Company shall (A) effect the issuance or transfer of the Vested Shares, (B) cause the issuance or transfer of such Vested Shares to be evidenced on the books and records of the Company, and (C) 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 13 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

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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 of the Code.

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, or (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

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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. Section 409A. Payments contemplated with respect to the Award are intended to comply with Section 409A of the Code, 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 of the Code. Notwithstanding the foregoing, 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 a penalty tax under Section 409A of the Code, 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 penalty tax.

13. Legends. 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.”

14. No Right to Continued Service. Nothing contained in the Grant Notice or these Award Terms shall be construed to confer upon Grantee any right to continued service on the Board or derogate from any right of the Company's stockholders to remove Grantee from the Board at any time, with or without cause.

15. 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.

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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 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.

19. 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 on the records of the Company 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.

20. Conflict with Plan. In the event of any conflict between the terms of 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, Grantee is deemed to be bound by the terms and conditions set forth in the Plan, the Grant Notice and these Award Terms.

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ACTIVISION, INC.

2007 INCENTIVE PLAN

NOTICE OF RESTRICTED SHARE UNIT AWARD

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

- Your name: [_____]
- Total number of Restricted Share Units awarded: **[5,000]**
- Date of Grant: [_____ & nbsp; _____]
- Grant ID: [_____ & nbsp; _____]

- 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 2007 Incentive Plan, the receipt of a copy of which you hereby acknowledge.

· *Schedule for Vesting:* Except as otherwise provided under the Award Terms, the Restricted Share Units awarded to you will vest as follows, provided you continuously serve as a member of the Board of Directors through each such date:

Schedule for Vesting

| <u>Date of Vesting</u> | <u>No. of Restricted Share Units Vesting at Vesting Date</u> | <u>Cumulative No. of Restricted Share Units Vested at Vesting Date</u> |
|--------------------------------------|--|--|
| [3 months after Date of Grant] | [1,250] | [1,250] |
| [6 months after Date of Grant] | [1,250] | [2,500] |
| [9 months after Date of Grant] | [1,250] | [3,750] |
| [First anniversary of Date of Grant] | [1,250] | [5,000] |

· *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, 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, INC.

By: _____
 Title: _____
 Date: _____

ACCEPTED AND AGREED:

[Name of Grantee]

Date: _____

EXHIBIT A
ACTIVISION, INC.

2007 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.

“**Award Terms**” means these Restricted Share Unit Award Terms.

“**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, Inc. and any successor thereto.

“**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.

“**Disability**” means “permanent and total disability” as defined in section 22(e)(3) of the Code, as interpreted by the Company (with such interpretation to be final, conclusive and binding 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.

“**Plan**” means the Activision, Inc. 2007 Incentive Plan, as amended from time to time.

“**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.

“**Separation from Service**” means separation from service within the meaning of Section 409A of the Code.

“**Vested Shares**” means Common Shares to which the holder of 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 Service.

(a) Death or Disability. In the event that Grantee incurs a Separation from Service due to death or Disability, the Restricted Share Units shall immediately vest as of the date of Grantee’s death or the first date of such Disability (as determined by the Committee), as the case may be.

(b) Change of Control. In the event that Grantee incurs a Separation from Service pursuant to the terms of any business combination or similar transaction involving the Company, the Restricted Share Units shall immediately vest as of the date of such Separation from Service.

(c) Other. Unless the Committee determines otherwise, in the event that Grantee incurs a Separation from Service for any reason not addressed by Section 3(a) and 3(b) hereof, as of the date of such Separation from Service any Restricted Share Units shall cease to vest and 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. Grantee shall be entitled to satisfy any Withholding Taxes contemplated by this Section 4: (a) by delivery to the Company of a bank check or certified check or wire transfer of immediately available funds; (b) with the Company’s consent, through the delivery of irrevocable written instructions, in a form

amount of such Withholding Taxes); or (c) with the Company's consent, 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(c) 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 fiscal year in which the related dividends are paid. For purposes of the time and form of payment requirements of Section 409A of the Code, 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 the earlier of (i) the first anniversary of the Date of Grant and (ii) the date of Grantee's Separation from Service, the Company shall (A) effect the issuance or transfer of the Vested Shares, (B) cause the issuance or transfer of such Vested Shares to be evidenced on the books and records of the Company, and (C) 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 13 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 of the Code.

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, or (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. Section 409A. Payments contemplated with respect to the Award are intended to comply with Section 409A of the Code, 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 of the Code. Notwithstanding the foregoing, 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 a penalty tax under Section 409A of the Code, 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 penalty tax.

13. Legends. 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.”

14. No Right to Continued Service. Nothing contained in the Grant Notice or these Award Terms shall be construed to confer upon Grantee any right to continued service on the Board or derogate from any right of the Company’s stockholders to remove Grantee from the Board at any time, with or without cause.

15. 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.

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 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.

19. 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 on the records of the Company 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.

20. Conflict with Plan. In the event of any conflict between the terms of 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, Grantee is deemed to be bound by the terms and conditions set forth in the Plan, the Grant Notice and these Award Terms.

CERTIFICATION

I, Robert A. Kotick, Chief Executive Officer of Activision, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Activision, 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 officers 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, as of 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 officers 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: February 11, 2008

/s/ Robert A. Kotick
Robert A. Kotick
Chief Executive Officer
Activision, Inc.

CERTIFICATION

I, Michael Griffith, President and Chief Executive Officer of Activision Publishing, Inc. and Principal Executive Officer of Activision, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Activision, 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 officers 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, as of 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 officers 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: February 11, 2008

/s/ Michael Griffith

Michael Griffith

President and Chief Executive Officer

Activision Publishing, Inc. and Principal Executive

Officer of Activision, Inc.

CERTIFICATION

I, Thomas Tippl, Chief Financial Officer of Activision Publishing, Inc. and Principal Financial and Accounting Officer of Activision, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Activision, 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 officers 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, as of 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 officers 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: February 11, 2008

/s/ Thomas Tippl

Thomas Tippl
Chief Financial Officer of
Activision Publishing, Inc. and
Principal Financial and Accounting
Officer of Activision, 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, Inc. (the "Company") on Form 10-Q for the period ending December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert A. Kotick, 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.

/s/ Robert A. Kotick

Robert A. Kotick
Chief Executive Officer of
Activision, Inc.
February 11, 2008

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version 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, Inc. (the "Company") on Form 10-Q for the period ending December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Griffith, President and Chief Executive Officer of Activision Publishing, Inc. and Principal Executive Officer of Activision, Inc., 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.

/s/ Michael Griffith

Michael Griffith
President and Chief Executive Officer
of Activision Publishing, Inc. and
Principal Executive Officer of
Activision, Inc.
February 11, 2008

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version 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, Inc. (the "Company") on Form 10-Q for the period ending December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas Tippl, Chief Financial Officer of Activision Publishing, Inc. and Principal Financial and Accounting Officer of Activision, Inc., 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.

/s/ Thomas Tippl

Thomas Tippl
Chief Financial Officer of
Activision Publishing, Inc. and
Principal Financial and Accounting
Officer of Activision, Inc.
February 11, 2008

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version 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.

**RISK FACTORS FROM PRELIMINARY PROXY STATEMENT
FILED BY ACTIVISION, INC. ON JANUARY 31, 2008**

The following risk factors, which were originally set forth substantially in the form below in the preliminary proxy statement (the "Preliminary Proxy") filed by Activision, Inc. ("Activision") on January 31, 2008 in connection with the solicitation of Activision stockholder approval for certain transactions relating to the proposed business combination of Activision and Vivendi Games, Inc. ("Vivendi Games"), a wholly-owned indirect subsidiary of Vivendi S.A. ("Vivendi"), and share purchase by Vivendi pursuant to the Business Combination Agreement, dated as of December 1, 2007, by and among Activision, Sego Merger Corporation, a newly formed, wholly-owned direct subsidiary of Activision, Vivendi, VGAC LLC, a wholly-owned indirect subsidiary of Vivendi and the sole stockholder of Vivendi Games, and Vivendi Games (the "Business Combination Agreement"), are incorporated by reference into this Quarterly Report of Activision on Form 10-Q for the quarterly period ended December 31, 2008. These risk factors supplement the risk factors included in Activision's Amended Annual Report on Form 10-K for the fiscal year ended March 31, 2007.

The risk factors that appear below have been modified from the risk factors that appear in the Preliminary Proxy in order to eliminate cross-references to sections of the Preliminary Proxy that are not reproduced below. References to "we" or "our" in the risk factors below refer to Activision. References to "Activision Blizzard" refer to the combined company following the completion of the proposed business combination between Activision and Vivendi Games. References to "Blizzard" and "Sierra" refer to Blizzard Entertainment, Inc. and Sierra Entertainment Inc., respectively, each of which is a direct wholly-owned subsidiary of Vivendi Games. References to the "Transaction" refer to the transactions contemplated by the Business Combination Agreement."

Risks Related to the Transaction

Although we expect that the Transaction will result in benefits to Activision, we may not realize those benefits because of integration difficulties and other challenges.

The success of our combination with Vivendi Games will be dependent in large part on the success of the management of the combined company in integrating the operations, technologies and personnel of the two companies following the completion of the Transaction. The failure of the combined company to meet the challenges involved in successfully integrating the operations of Activision and Vivendi Games or to otherwise realize any of the anticipated benefits of the Transaction, including additional revenue opportunities, could impair the results of operations of the combined company. In addition, the overall integration of the companies is a complex, time-consuming and expensive process that, without proper planning and effective and timely implementation, could significantly disrupt the businesses of Activision and Vivendi Games.

The challenges involved in this integration include the following:

- integrating successfully each company's operations, technologies, products and services;
- reducing the costs associated with each company's operations and, in particular, reducing historic losses in the Sierra businesses;
- coordinating the publishing, distribution and marketing efforts to effectively promote the products of the combined company;
- preserving development, distribution, licensing or other important relationships of both Activision and Vivendi Games and resolving potential conflicts that may arise;
- consolidating and rationalizing information technology platforms and administrative infrastructures;
- minimizing the diversion of management attention from ongoing business concerns; and
- combining the corporate cultures, maintaining employee morale and retaining key employees.

The combined company may not successfully integrate the operations of Activision and Vivendi Games in a timely manner, or at all, and the combined company may not realize the anticipated benefits or synergies of the Transaction to the extent, or in the timeframe, anticipated. The anticipated benefits and synergies include cost savings associated with anticipated restructurings and other operational efficiencies, greater economies of scale and revenue enhancement opportunities. However, these anticipated benefits and synergies assume a

successful integration and are based on projections, which are inherently uncertain, and other assumptions. Even if integration is successful, anticipated benefits and synergies may not be achieved.

Vivendi will own between 52.2% and 68.0% of Activision Blizzard's outstanding shares of common stock after completion of the Transaction and the post-closing tender offer.

Immediately upon closing of the Transaction, Vivendi and its subsidiaries are expected to own approximately 52.2% of our issued and outstanding shares of common stock on a fully diluted basis. If the maximum number of our shares is tendered in the tender offer, Vivendi and its subsidiaries are expected to own approximately 68.0% of our issued and outstanding shares of common stock on a fully diluted basis.

As a result of the Transaction, Vivendi will have the ability to nominate a majority of the combined company's board of directors and determine the outcome of certain matters submitted to Activision Blizzard's stockholders, such as the approval of significant transactions. As a result, actions that may be supported by a majority of the other stockholders could be blocked by Vivendi. In addition, Vivendi's ownership could affect the liquidity in the market for the combined company's common stock.

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

Some of our current directors and executive officers have interests in the Transaction that may differ from your interests as a stockholder and these persons may have conflicts of interest in recommending you approve the proposals set forth in this proxy statement.

In considering whether to approve the proposals and subproposals set forth in this proxy statement, you should recognize that some of the members of management and our board of directors may have interests in the Transaction that differ from, or are in addition to, their interests as stockholders. These interests include:

- the rights of certain officers to receive payments or other benefits, including grants of equity awards and the modification of vesting schedules of existing options, following the completion of the Transaction;
- the continuing service of several of Activision's existing directors and executive officers in the combined company after the closing date;
- the amendment of employment arrangements with certain of Activision's executive officers to provide incentives for their continued service to the combined company after the closing date; and
- the continued indemnification of Activision's directors post-closing.

The completion of the Transaction is subject to the receipt of consents and approvals from government entities that may not be received or that may impose conditions that could have an adverse effect on the combined company following the completion of the Transaction.

We cannot complete the Transaction unless we receive various consents, orders, approvals and clearances from antitrust and other authorities in the United States and the European Union. Activision and Vivendi have made the required filings under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the applicable waiting period has expired. However, we have yet to receive the requisite regulatory approvals from European Union authorities and there can be no assurance that we will receive such approvals. In addition, these authorities may impose conditions on the completion of the Transaction or require changes to the terms of the Business Combination Agreement. For example, the European Union may require divestiture of certain assets as a condition to the closing of the Transaction. Neither we nor Vivendi is obligated to agree to divest material assets as a condition of the closing of the Transaction. While we do not currently expect that any such conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the Transaction or imposing additional costs on or limiting the revenues of the combined company, any of which may have an adverse effect on us following the completion of the proposed Transaction.

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

The sale of shares of common stock that Vivendi and its subsidiaries receive in the Transaction or to fund the tender offer will be restricted, but Vivendi may sell these shares under certain circumstances, including pursuant to a registered underwritten public offering under the Securities Act of 1933, as amended (the "Securities Act"), or in accordance with Rule 144 under the Securities Act. We have entered into an investor agreement with Vivendi, which includes registration rights and which will give Vivendi the right 120 days after the closing date to require us to register all or a portion of its shares at any time, subject to certain limitations. The sale of a substantial number of shares of common stock by Vivendi or by our other stockholders within a short period of time could cause our stock price to decrease, and make it more difficult for us to raise funds through future offerings of common stock.

If the amendment to our certificate of incorporation to increase the number of authorized shares of common stock is approved and the Transaction is completed, we will be able to issue more shares of common stock than currently authorized. As a result, such future issuances of common stock could have a dilutive effect on the earnings per share and voting power of Activision Blizzard stockholders.

If the amendment to our certificate of incorporation to increase the number of authorized shares of common stock is approved by stockholders and the Transaction is completed, we will be able to issue more shares of common stock than currently authorized. If the board of directors elects to issue additional shares of common stock in the future, whether in public offerings, in connection with mergers and acquisitions, or otherwise, such additional issuances could dilute the earnings per share and voting power of Activision Blizzard stockholders.

The Transaction is subject to conditions, including certain conditions that may not be satisfied, and may not be completed on a timely basis, or at all. Failure to consummate the Transaction could have material and adverse effects on Activision.

The completion of the Transaction is subject to a number of conditions. Therefore, the completion and timing of completion of the Transaction is uncertain. If the Transaction is not completed on a timely basis, or at all, our ongoing business may be adversely affected and, without realizing any of the benefits of having completed the Transaction, we will be subject to a number of risks, including the following:

- we may be required to pay a termination fee of \$180 million if the Transaction is terminated under certain circumstances, as described in the Business Combination Agreement;
- we will be required to pay certain costs relating to the Transaction, such as legal, accounting, financial advisor and printing fees, whether or not the Transaction is completed; and
- matters relating to the Transaction (including integration planning) may require substantial commitments of time and resources by our management, which could otherwise have been devoted to other opportunities that may have been beneficial to us.

In addition, we could also be subject to litigation related to any failure to complete the Transaction. If the Transaction is not completed on a timely basis, or at all, these risks may materialize and may adversely affect our business, financial results and stock price.

Risks Related to Activision's Business

SEC investigation and litigation relating to stock options remain pending and may adversely affect our business and results of operations.

Although the special subcommittee of independent members of our board of directors established in July 2006 to review our historical stock option granting practices, which we refer to as the special subcommittee, has completed its review of those practices and our stock option grants made in the period between 1992 and 2006, a formal investigation by the Securities and Exchange Commission ("SEC") relating to our stock option granting practices remains pending, as does derivative litigation against us and certain of our current and former directors and officers. Although we believe that we have taken appropriate action by restating our financial statements through the fiscal year ended March 31, 2006, as filed in our amended Annual Report on Form 10-K/A on May 25, 2007, and made appropriate disclosures for matters relating to stock options, the SEC (or the court in the derivative actions) may disagree with the findings of the special subcommittee or with the manner in which we have accounted for and reported, or not reported, the financial impact of past option grant measurement date errors. If so, we may need to further restate our prior financial statements, further amend our filings with the SEC, or take

other actions not currently contemplated. In addition, these proceedings are likely to result in additional legal expense that may affect our results in future periods, and may also result in diversion

of management attention and other resources, as well as fines, penalties, damages and other sanctions. These eventualities could materially and adversely affect our business and results of operations. We cannot currently predict the ultimate outcome of these proceedings.

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

A significant portion of our revenues is derived from products based on a relatively small number of popular brands each year, and these products are responsible for a disproportionate amount of our profits. In addition, many of these products have substantial production or acquisition costs and marketing budgets. In fiscal 2007, 39% of our consolidated net revenues (and 52% of our worldwide publishing net revenues) was derived from three brands, which accounted for 17%, 13%, and 9% of consolidated net revenues, respectively (and 23%, 18%, and 11% of worldwide publishing net revenues, respectively). In fiscal 2006, 30% of our consolidated net revenues (and 38% of our worldwide publishing net revenues) was derived from three brands, which accounted for 14%, 8%, and 8% of consolidated net revenues, respectively (and 18%, 10%, and 10% of our worldwide publishing net revenues, respectively). We expect that a limited number of popular brands will continue to produce a disproportionately large amount of our revenues and profits. Due to this dependence on a limited number of brands, the failure to achieve anticipated results by one or more products based on these brands may significantly harm our business and financial results.

Sales of certain titles such as Guitar Hero are affected by hardware peripheral availability.

Some of our titles involve a separate hardware peripheral, such as the guitar in *Guitar Hero*. Typically, we sell such software both in bundles with the hardware peripheral and on a stand-alone basis. Consumers may not want to buy such game software if they cannot also buy the hardware peripheral. If we underestimate demand or otherwise are unable to produce sufficient quantities of the hardware peripheral or allocate too few peripherals to geographic markets and hardware platforms where demand exceeds supply, we will forego revenue. This may also create greater opportunities for competitors to develop or gain market share with competitive product offerings. If we overestimate demand and make too many peripherals, or allocate too many peripherals to geographic markets and hardware platforms where there is insufficient demand, we will incur unrecoverable manufacturing costs for unsold units as well as for unsold game software. In either case, hardware peripheral manufacturing and allocation decisions may negatively affect our financial performance.

There are a limited number of manufacturers who are authorized by Sony, Nintendo or Microsoft to make the hardware peripherals for *Guitar Hero*, and the majority of those manufacturers are located in China. Anything that adversely impacts the ability of those manufacturers to produce the hardware peripheral for us, including without limitation the revocation of the first party license to produce the hardware, the utilization of such manufacturer's capacity by one or our competitors, or issues generally negatively impacting international companies operating in China, will adversely impact our ability to supply those peripherals to the market.

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

In the United States and Canada, we primarily sell our products on a direct basis to mass-market retailers, consumer electronics stores, discount warehouses, and game specialty stores. Our products are sold internationally on a direct-to-retail basis, through third-party distribution and licensing arrangements and through our wholly-owned European distribution subsidiaries. Our sales are made primarily on a purchase order basis without long-term agreements or other forms of commitments. Our largest customers, Wal-Mart and GameStop, accounted for approximately 22% and 8%, respectively, of our consolidated net revenues for the fiscal year ended March 31, 2007 and approximately 22% and 10% of our consolidated net revenues for the fiscal year ended March 31, 2006. The loss of, or significant reduction in sales to, any of our principal retail customers or distributors could significantly harm our business and financial results. The concentration of sales in a small number of large customers also could make us more vulnerable to collection risk if one or more of these large customers became unable to pay for our products. In addition, having such a large portion of our total net revenue concentrated in a few customers reduces our negotiating leverage with these customers.

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

Our CD Contact, NBG, and Centresoft subsidiaries distribute interactive entertainment software and hardware products and provide related services in the Benelux countries, Germany, and the United Kingdom, respectively, and via export in other European countries for a variety of entertainment software publishers,

many of which are our competitors, and hardware manufacturers. From time to time, they also maintain exclusive relationships to serve certain retail customers. These services are generally performed subject to limited-term arrangements. Although we expect to use reasonable efforts to retain these vendors and retail customer relationships, we may not be successful in this regard. The cancellation or non-renewal of one or more of these arrangements could adversely affect business and financial results.

Risks Related to the Vivendi Games Business

Vivendi Games is dependent on Blizzard's World of Warcraft franchise.

The majority of Vivendi Games' total net sales are derived from Blizzard's *World of Warcraft* franchise. For the nine month period ended September 30, 2007, and the years ended December 31, 2006 and 2005, Blizzard's *World of Warcraft* titles accounted for approximately 85%, 62%, and 48%, respectively, of Vivendi Games' total net sales. Vivendi Games is the current leading global developer, publisher and distributor in terms of subscriber base and revenues in the subscription-based massively multiplayer online role-playing game ("MMORPG") category, due to the popularity of *World of Warcraft* and related expansion packs. To remain the leader in the MMORPG category, it is important that Vivendi Games continue to refresh *World of Warcraft* or develop new MMORPG products that are favorably received by its existing customer base and new customers. A number of software publishers have developed and commercialized or are currently developing online games for use by consumers over the Internet which pose a threat to the popularity of *World of Warcraft*, and Vivendi Games expects new competitors to continue to emerge in the massively multiplayer online game ("MMOG") category. If consumer demand for

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

The development of MMOG products requires substantial up-front expenditures. Vivendi Games may not be able to recover development costs for its future MMOG products.

Consumer preferences for games are usually cyclical and difficult to predict, and even the most successful titles remain popular for only limited periods of time, unless refreshed with new content. In order to remain competitive in the MMOG market, Vivendi Games must continuously develop new products and enhancements to existing products. Because of the significant complexity of MMOG games, these products require a longer development time and are more expensive to create than traditional console game products. In addition, the long lead time involved in developing a MMOG product and the significant allocation of financial resources that each product requires means it is critical that Vivendi Games accurately predict consumer demand for new MMOG products. While *World of Warcraft*'s popularity allowed it to recoup its production costs, if future MMOG products do not achieve expected market acceptance or generate sufficient sales and subscription revenues upon introduction, Vivendi Games may not be able to recover the development and marketing costs associated with new products, and its financial results could suffer.

A substantial portion of Vivendi Games' revenues are derived from subscriptions paid by World of Warcraft subscribers. If these customers cancel their subscriptions, Vivendi Games' financial condition could suffer.

A substantial portion of Vivendi Games' revenues are generated by subscription fees paid by consumers who play *World of Warcraft*. Typically, *World of Warcraft* subscribers purchase one (1) to three (3) month memberships that are cancellable, without penalty, at the end of the membership period. If *World of Warcraft* subscribers become dissatisfied, they may choose not to renew their memberships in order to engage in other forms of entertainment (including competing MMOG offerings) and Vivendi Games may not be able to replace lost subscribers. Additionally, if general economic conditions decline, consumers may decrease their discretionary spending on entertainment items such as MMOG games and users may choose not to renew their *World of Warcraft* subscriptions. A decrease in the overall subscription base of *World of Warcraft* could substantially harm Vivendi Games' operating results.

Vivendi Games depends on servers to operate its MMORPG business. If Vivendi Games were to lose server capacity, for any reason, its business could suffer.

Vivendi Games' business relies on the continuous operation of its data servers. Any broad based catastrophic server malfunction, a significant intrusion by hackers that circumvents its security measures, or a

failure of Vivendi Games' disaster recovery service would likely interrupt the operation of Vivendi Games' MMORPG games and could result in the loss of subscription-based sales. An extended interruption of service could harm Vivendi Games' goodwill and operating results.

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

Vivendi Games may not accurately predict the amount of bandwidth necessary to sustain its business.

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

Conversely, since Vivendi Games purchases additional bandwidth based on anticipated growth, its bandwidth capacity is sometimes larger than necessary to sustain its existing needs. If Vivendi Games' projected online business growth is delayed or does not occur, Vivendi Games will incur larger bandwidth expenses than necessary. If Vivendi Games underestimates the amount of bandwidth that its online business requires, and its purchased bandwidth capacity is insufficient to meet demand, Vivendi Games' business and reputation may suffer.

Vivendi Games' results of operations or reputation may be harmed as a result of offensive consumer posted content.

Vivendi Games is subject to risks associated with *World of Warcraft*'s collaborative online features, specifically its online chat feature. Consumers may post narrative comment, in real time, onto *World of Warcraft*'s gaming sites that is visible to other users. Despite Vivendi Games' efforts to police and restrict inappropriate consumer content, from time to time objectionable and offensive consumer content may be posted to a *World of Warcraft*'s gaming site. Vivendi Games may be subject to lawsuits, governmental regulation or restrictions, and consumer backlash (including decreased sales and harmed goodwill), as a result of consumers posting offensive content, any of which could harm Vivendi Games' operating results.

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

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

Risks Related to the Businesses of Activision and Vivendi Games

The future success of the Activision and Vivendi Games businesses depends on each company's ability to release popular products.

The life of any one console or handheld game product is relatively short and generally involves a relatively high level of sales during the first few months after introduction followed by a rapid decline in sales. Because revenues associated with an initial product launch generally constitute a high percentage of the total revenues

associated with the life of a product, delays in product releases or disruptions following the commercial release of one or more new products could have a material adverse effect on the companies' operating results and cause such operating results to be materially different from expectations. It is therefore important for each of Activision and Vivendi Games to be able to continue to develop many high quality new products that are popularly received. Each company focuses its development and publishing activities principally on products that are, or have the potential to become, franchise brand properties. If the companies are unable to do this, their respective business and financial results may be negatively affected.

The businesses of Activision and Vivendi Games are "hit" driven. If the companies do not deliver "hit" titles, or if consumers prefer competing products, sales could suffer.

While many new products are regularly introduced, only a relatively small number of "hit" titles account for a significant portion of net revenue. Competitors may develop titles that imitate or compete with either of Activision's or Vivendi Games' "hit" titles, and take sales away from them or reduce their ability to command premium prices for those titles. Hit products published by the companies' competitors may take a larger share of consumer spending than anticipated, which could cause product sales to fall below expectations. If the companies' competitors develop more successful products or offer competitive products at lower price, or if Activision or Vivendi Games does not continue to develop consistently high-quality and well received products, revenues, margins, and profitability will decline.

If Activision or Vivendi Games is unable to maintain or acquire licenses to intellectual property, they may publish fewer "hit" titles and revenues may decline.

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

The interactive entertainment industry is highly competitive and competitors may succeed in narrowing the market share and reducing the sales of Activision and Vivendi Games.

Activision and Vivendi Games compete with other publishers of PC and video game console interactive entertainment software and peripherals. The competitors vary in size from small companies with limited resources to very large corporations with significantly greater financial, marketing, and product development resources than either company has. For example, integrated video game console hardware and software companies such as Sony, Nintendo, and Microsoft compete directly with the companies in the development of software titles for their respective platforms. Certain of these competitors can spend more money and time on developing and testing products, undertake more extensive marketing campaigns, adopt more aggressive pricing policies, pay higher fees to licensors for desirable motion picture, television, sports, music and character properties, and pay more to third-party software developers than either Activision or Vivendi Games may be able to do.

Activision and Vivendi Games also compete with other forms of entertainment and leisure activities. In particular, the overall growth in the use of the Internet and online services by consumers may pose a competitive threat if customers and potential customers spend less of their available time using interactive entertainment software and more using the Internet and online services. Future increased consumer acceptance and increases in the availability of online games or technological advances in online game software or the Internet could result in a decline in platform-based software and negatively impact sales of each company's console and handheld products. Newer technological advances in online game software may also render products such as Vivendi Games' *World of Warcraft* obsolete. Direct sales of software over the Internet by competitors could materially adversely affect Activision's distribution business as well.

Competition in the interactive entertainment industry is intense and Activision and Vivendi Games expect new competitors to continue to emerge.

The businesses of Activision and Vivendi Games are subject to risks and uncertainties of international trade.

Activision and Vivendi Games conduct business throughout the world, and each company derives a substantial amount of revenue from international trade, particularly from Europe, Australia, and Asia. Activision's international revenues have accounted for 50%, 52% and 50% of Activision's consolidated net revenues in fiscal 2007, 2006 and 2005, respectively. Similarly, Vivendi Games' international revenues have accounted for approximately 51%, 48% and 46%, of Vivendi Games' net revenue for the nine months ended September 30, 2007, and the years ended December 31, 2006 and 2005, respectively. Each company expects that international revenues will continue to account for a significant portion of total revenues in the future.

Activision and Vivendi Games are subject to risks inherent in foreign trade, including increased tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays, and international political, regulatory and economic developments, all of which can have a significant impact on their respective operating results. A deterioration in relations between the U.S. and any country in which Activision or Vivendi Games has significant operations or

sales, including China, in particular, could result in the adoption or expansion of trade restrictions that harm Activision's or Vivendi Games' business and operating results. The implementation of government regulations in a country that Activision or Vivendi Games has significant operations or sales could adversely impact Activision's or Vivendi Games' business and operating results. For example, to operate in China, *World of Warcraft* must have a publishing number. A decision by the Chinese government to revoke the number or decline to grant a number for future products would adversely impact Vivendi Games operating results. Additionally, in the past, legislation has been implemented in China that has required modifications to the *World of Warcraft* software. The future implementation of similar laws may require engineering modifications to either company's products that are not cost-effective, if even feasible at all or could degrade the customer experience to the point where customers ceased to purchase such products.

If government regulations or restrictions prevent Activision or Vivendi Games from repatriating internationally derived revenue into the U.S., or a country's tax structure makes repatriation cost prohibitive, Activision or Vivendi Games may not transfer this revenue into the U.S., which could affect its ability to reinvest or utilize such amounts in its business.

Furthermore, either company's international operations may be subject to changes in applicable local laws, regulatory requirements, tariffs and other barriers that may make it more difficult, if not impossible, for such company to conduct business in foreign markets or may affect its operating margins.

In addition, cultural differences may affect consumer preferences and limit the popularity of titles that are "hits" in the United States. If either company does not correctly assess consumer preferences in the countries in our market, its sales and revenue may be lower than expected.

Fluctuations in foreign exchange rates may have a negative impact on the businesses of Activision or Vivendi Games.

Activision and Vivendi Games transact business in various foreign currencies and have significant international sales and expenses denominated in foreign currencies, subjecting them to foreign currency risk. All of Vivendi Games' international sales are made in local currencies, which could fluctuate against the dollar. Vivendi Games has, in the past, entered into various derivative financial instruments with Vivendi to manage and reduce the exposure to fluctuations in foreign currency exchange rates. All of these instruments are traded over the counter by Vivendi with highly-rated counter-parties. All derivative financial instruments are only used for hedging purposes. Activision also has engaged in limited currency hedging activities. While these hedging activities mitigate some foreign currency risk, each company's reported results of operations and financial condition would be adversely affected by unfavorable foreign currency fluctuations. Additionally, there can be no assurance that Activision Blizzard will continue these programs, or that it will be successful in managing exposure to foreign currency risks. In the future, currency exchange rates may have a negative or materially adverse impact on revenues from international sales and licensing and thus on each company's business and financial results.

Activision and Vivendi Games rely on independent third parties to develop some of their respective software products.

Activision and Vivendi Games rely on independent third-party software developers to develop some of their software products. Since they depend on these developers, in the aggregate, the companies remain subject to the following risks:

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

Increased competition for skilled third-party software developers also has compelled Activision and Vivendi Games to agree to make significant advance payments on royalties to game developers. If the products subject to these arrangements do not generate sufficient revenues to recover these royalty advances, Activision or Vivendi Games, as applicable, would have to write-off unrecovered portions of these payments, which could cause material harm to such company's business and financial results. Typically, Activision and Vivendi Games pay developers a royalty based on a percentage of net revenues, less agreed upon deductions, but from time to time, the companies have agreed to pay developers fixed per unit product royalties after royalty advances are fully recouped. To the extent that sales prices of products on which the companies have agreed to pay a fixed per unit royalty are marked down, profitability could be adversely affected.

The platform licensors of each of Activision and Vivendi Games set the royalty rates and other fees that must be paid to publish games for their platforms, and therefore have significant influence on costs.

Activision and Vivendi Games pay a licensing fee to the hardware manufacturer for each copy of a product manufactured for that manufacturer's game platform. In order to publish products for new hardware platforms, each company must take a license from the platform licensor which gives the platform licensor the opportunity to set the fee structure that must be paid in order to publish games for that platform. Similarly, the platform licensors have retained the flexibility to change their fee structures for online gameplay and features for their consoles and the manufacturing of products. The control that platform licensors have over the fee structures for their platforms and online access makes it difficult for Activision and Vivendi Games to predict their respective costs and profitability in the medium to long term. It is also possible that platform licensors will not renew existing licenses. Any increase in fee structures or nonrenewal of licenses would have a significant negative impact on the companies' respective business models and profitability.

The businesses of Activision and Vivendi Games are highly dependent on the success, timely release and availability of new video game platforms, on the continued availability of existing video game platforms, as well as each company's ability to develop commercially successful products for these platforms.

Activision derives most of its revenue, and Vivendi Games, through its subsidiary Sierra, also derives a substantial amount of revenue, from the sale of products for play on video game platforms manufactured by third parties, such as Sony's PlayStation 2, PlayStation 3 and PlayStation Portable, Microsoft's Xbox 360 and Nintendo's Wii and DS. The success of each company's business is driven in large part by the availability of an adequate supply of these video game platforms, its ability to accurately predict which platforms will be successful in the marketplace, and its ability to develop commercially successful products for these platforms. Activision and Vivendi Games must make product development decisions and commit significant resources well in advance of the anticipated introduction of a new platform. A new platform for which Activision or Vivendi Games is developing products may be delayed, may not succeed or may have a shorter life cycle than anticipated. Alternatively, a platform for which one or both of the companies have not devoted significant

resources could be more successful than initially anticipated, causing such company to miss out on a meaningful revenue opportunity. Additionally, the platforms for which either company is developing products are not released when anticipated, are not available in adequate quantities to meet consumer demand, or do not attain wide market acceptance, the affected company's revenues may suffer, the affected company may be unable to fully recover its investments made in developing products, and its financial performance may be harmed.

Transitions in console platforms could have a material impact on the market for interactive entertainment software.

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

Activision and Vivendi Games must make significant expenditures to develop products for new platforms which may not be successful or released when anticipated.

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

In addition, Activision and Vivendi Games seek to release many of their products in conjunction with specific events, such as the release of a related movie. If either company misses these key selling periods due to product delays or delayed introduction of a new platform for which it has developed products, such company's sales may suffer disproportionately.

If the average price of prior-generation titles continues to decline or if Activision or Vivendi Games is unable to sustain launch pricing on next-generation titles, the affected company's operating results will suffer.

Both Activision and Vivendi Games have experienced a decrease in the average price of titles for prior-generation platforms. As the interactive entertainment industry transitions to next-generation video game platforms, the companies expect there to be fewer prior-generation titles able to command premium prices, and that even these titles will be subject to price reductions at an earlier point in their sales cycle than has been seen in prior years. The companies expect the average price of prior-generation titles to continue to decline, which may have a negative effect on each company's margins and operating results.

Next-generation titles for the Xbox 360, Sony's PlayStation 3 and the Nintendo Wii have been offered at premium retail prices since the launch of such consoles. Activision and Vivendi Games expect to continue to price next-generation titles at a premium level, but if they are unable to sustain launch pricing on these next-generation titles they may experience a negative effect on their respective margins and operating results.

Platform licensors are chief competitors of both Activision and Vivendi Games and frequently control the manufacturing of and have broad approval rights over each company's console and handheld video game products.

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

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

In addition, platform licensors control each company's ability to provide online game capabilities for console platform products and in large part establish the financial terms on which these services are offered to consumers. Currently, Microsoft provides online capabilities for the Xbox 360 and Sony provides online capabilities for PlayStation 2 and PlayStation 3 products. In each case, compatibility code and/or the consent of the licensor are required for both companies to include online capabilities in its console products. As these capabilities become more significant, the failure or refusal of licensors to approve either company's products may harm the business and financial results of the affected company.

Activision and Vivendi Games may face difficulty obtaining access to retail shelf space necessary to market and sell their products effectively.

Retailers typically have a limited amount of shelf space and promotional resources, and there is intense competition among consumer interactive entertainment software products for high quality retail shelf space and promotional support from retailers. To the extent that the number of products and

platforms increases, competition for shelf space may intensify and may require the companies to increase their respective marketing expenditures. Retailers with limited shelf space typically devote the most and highest quality shelf space to those products expected to be best sellers. Neither Activision nor Vivendi Games can be certain that its new products will consistently achieve such “best seller” status. Due to increased competition for limited shelf space, retailers and distributors are in an increasingly better position to negotiate favorable terms of sale, including price discounts, price protection, marketing and display fees, and product return policies. Activision’s and Vivendi Games’ products constitute a relatively small percentage of any retailer’s sales volume. Neither Activision nor Vivendi Games can be certain that retailers will continue to purchase their respective products or to provide those products with adequate levels of shelf space and promotional support on acceptable terms. A prolonged failure in this regard may significantly harm one or both of the companies’ business and financial results.

Activision’s and Vivendi Games’ products may be subject to legal claims.

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

If the products of Activision or Vivendi Games contain defects, their business could be harmed significantly.

Software products and peripherals as complex as the ones published by each of Activision and Vivendi Games may contain undetected errors when first introduced or when new versions are released. Despite extensive testing prior to release, neither company can be certain that errors will not be found in new products or releases after shipment that could result in loss of or delay in market acceptance. This loss or delay could significantly harm the relevant company’s business, financial results, and reputation.

Activision and Vivendi Games may permit their respective customers to return products and to receive pricing concessions which could reduce net revenues and results of operations.

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

The businesses of Activision and Vivendi Games may be burdened with payment defaults and uncollectible accounts if either company’s distributors or retailers cannot honor their existing credit arrangements.

Distributors and retailers in the interactive entertainment software industry have from time to time experienced significant fluctuations in their businesses and a number of them have failed. The insolvency or business failure of any significant retailer or distributor could materially harm the business and financial results. Activision and Vivendi Games typically make sales to most retailers and some distributors on unsecured credit, with terms that vary depending upon the customer’s credit history, solvency, credit limits, and sales history, as well as whether sufficient credit insurance can be obtained. Although, as in the case with most customers, Activision and Vivendi Games have insolvency risk insurance to protect against a customers’ bankruptcy, insolvency, or liquidation, this insurance contains significant deductibles and co-payment obligations, and does not cover all instances of non-payment. In addition, although Activision and Vivendi Games maintain a reserve for uncollectible receivables, the reserve may not be sufficient in every circumstance. As a result, a payment default by a significant customer could significantly harm the relevant company’s business and financial results.

The businesses of Activision and Vivendi Games are subject to risks generally associated with the entertainment industry, any of which could significantly harm each company’s operating results.

The businesses of Activision and Vivendi Games are subject to risks that are generally associated with the entertainment industry, including the popularity, price and timing of games and the platforms on which they are played; economic conditions that adversely affect discretionary consumer spending; changes in consumer demographics; the availability and popularity of other forms of entertainment; and critical reviews and public tastes and preferences, which may change rapidly and cannot necessarily be predicted. Many of these risks are beyond the control of Activision and Vivendi Games. These risks could negatively impact each company’s business and financial results.

Activision and Vivendi Games are exposed to seasonality in the sale of their products.

The interactive entertainment software industry is highly seasonal, with the highest levels of consumer demand occurring during the calendar year end holiday buying season. As a result, net revenues, gross profits, and operating income have historically been highest during the second half of the calendar year. Receivables and credit risk are likewise higher during the second half of the calendar year as customers stock up on the companies’ products for the holiday season. Additionally, in a platform transition period, sales of game console software products can be significantly affected by the timeliness of introduction of game console platforms by the manufacturers of those platforms, such as Sony, Nintendo, and Microsoft. The timing of hardware platform

introduction is also often tied to holidays and is not within either company's control. If a hardware platform is released unexpectedly close to the holidays, this would result in a shortened holiday buying season and could negatively impact the sales of each company's products. Further, delays in development, licensor approvals, or manufacturing can also affect the timing of the release of products, causing the companies to miss key selling periods such as the calendar year end holiday buying season.

Activision and Vivendi Games may not be able to adequately adjust their respective cost structures in a timely fashion in response to a sudden decrease in demand.

A significant portion of each company's selling and general and administrative expense is comprised of personnel and facilities. In the event of a significant decline in revenues, Activision and Vivendi Games may not be able to exit facilities, reduce personnel, or make other changes to their respective cost structures without disruption to operations or without significant termination and exit costs. Management may not be able to implement such actions in a timely manner, if at all, to offset an immediate shortfall in revenues and profit.

If Activision and Vivendi Games do not continue to attract and retain key personnel, they will be unable to effectively conduct their respective businesses.

The success of each of Activision and Vivendi Games depends to a significant extent on each company's ability to identify, hire, and retain skilled personnel. The software industry is characterized by a high level of employee mobility and aggressive recruiting among competitors for personnel with technical, marketing, sales, product development, and management skills. One or both of the companies may have difficulties in attracting and retaining skilled personnel or may incur significant costs in order to do so. If Activision or Vivendi Games is unable to attract additional qualified employees or retain the services of key personnel, its business and financial results could be negatively impacted.

The products of Activision and Vivendi Games are subject to the threat of piracy and unauthorized copying, and inadequate intellectual property laws and other protections could prevent the companies from enforcing or defending their respective proprietary technologies.

Each of Activision and Vivendi Games regard its software as proprietary and relies on a combination of copyright, patent, trademark and trade secret laws, employee and third-party nondisclosure agreements, and other methods to protect its proprietary rights. Activision and Vivendi Games own or license various copyrights, patents, and trademarks. Each company is aware that some unauthorized copying occurs, and if a significantly greater amount of unauthorized copying of its software products were to occur, it could cause material harm to such company's business and financial results.

Policing unauthorized use of the companies' products is difficult, and software piracy is a persistent problem, especially in certain countries. Further, the laws of some countries where Activision's and Vivendi Games' products are or may be distributed either do not protect their products and intellectual property rights to the same extent as the laws of the United States, or are poorly enforced. Legal protection of each company's rights may be ineffective in such countries. In addition, though each company takes steps to make the unauthorized copying and distribution of its products more difficult, neither company's efforts may be successful in controlling the piracy of its products. Organized pirate operations have been expanding globally. In addition, the proliferation of technology designed to circumvent the protection measures used in the companies' products, the availability of broadband access to the Internet, the ability to download pirated copies of games from various Internet sites and peer-to-peer networks, and the widespread proliferation of Internet cafes using pirated copies of each company's products, all have contributed to an expansion in piracy. This could have a negative effect on each company's respective growth and profitability in the future.

Moreover, as the companies leverage their software products using emerging technologies such as the Internet and online services, the ability to protect intellectual property rights and to avoid infringing intellectual property rights of others may diminish. Neither Activision nor Vivendi Games can be certain that existing intellectual property laws will provide adequate protection for its products in connection with these emerging technologies.

Data breaches involving the source code for Activision's and Vivendi Games' products or customer or employee data stored by the companies could adversely affect their respective reputations and revenues.

Activision and Vivendi Games store the source code for their interactive entertainment software products as it is created on multiple electronic devices. In addition, the companies store customer account information for, and other confidential information related to, employees. A breach of the systems on which such source code, account information and other sensitive data is stored could lead to piracy of the companies' software or fraudulent activity and claims and lawsuits in connection with data security breaches. A data intrusion into Blizzard's *World of Warcraft* servers could also disrupt the operation of *World of Warcraft*. If Activision or Vivendi Games is subject to data security breaches, it may have a loss in sales or be forced to pay damages or other amounts, which could materially and adversely affect profitability. In addition, any damage to its

reputation resulting from a data breach could have a material adverse impact on revenues and future growth prospects, or increase costs by leading to additional security measures being required.

Activision and Vivendi Games may be subject to intellectual property claims.

As the number of interactive entertainment software products increases and the features and content of these products continue to overlap, software developers increasingly may become subject to infringement claims. Many of the companies' products are highly realistic and feature materials that are based on real world examples, which may be the subject of intellectual property infringement claims of others. In addition, the companies' products often utilize complex, cutting edge technology that may become subject to emerging intellectual property rights of others. Although both Activision and Vivendi Games believe that it makes reasonable efforts to ensure that its products do not violate the intellectual property rights of others, it is possible that third parties still may claim infringement. From time to time, each company receives communications from third parties regarding such claims. Existing or future infringement claims against Activision and Vivendi Games, whether valid or not, may be time consuming and expensive to defend.

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

- cease selling, incorporating, or using products or services that incorporate the challenged intellectual property;

- obtain a license from the holder of the infringing intellectual property, which if available at all, may not be available on commercially favorable terms; or
- redesign the affected interactive entertainment software products or hardware peripherals, which could result in additional costs, delay introduction and possibly reduce commercial appeal of the affected products.

Any of these actions may cause material harm to the relevant company's respective business and financial results.

Each of Activision's and Vivendi Games' products are subject to ratings by the Entertainment Software Rating Board and similar agencies. Failure to obtain target ratings could negatively impact sales.

The Entertainment Software Rating Board (the "ESRB") requires game publishers to provide consumers with ratings information, including information relating to violence, nudity, or sexual content contained in software titles, and imposes significant penalties for noncompliance. Certain countries have also established similar rating systems as prerequisites for product sales in those countries. In some instances, a company may be required to modify its products to comply with the requirements of the rating systems, which could delay or disrupt the release of any given product, or may prevent their sale altogether in certain territories. The relevant ratings include "Everyone" (age 6 and older), "Everyone 10+" (age 10 and older), "Teen" (age 13 and over), or "Mature" (age 17 and over). Certain of Activision's and Vivendi Games' titles have received a "Mature" rating. None of either company's titles has received the "Adults Only" rating (18 and over). Activision and Vivendi Games believe that they comply with rating systems and properly display the ratings and content descriptions received for their respective titles. If either company is unable to obtain the targeted ratings for its products as a result of changes in the ESRB's ratings standards or for other reasons, including the adoption of legislation in this area, the relevant company's business and prospects could be negatively affected.

The business, products, and distribution of Activision and Vivendi Games are subject to increasing regulation of content in key territories. If each company does not successfully respond to these regulations, its business may suffer.

Legislation is continually being introduced that may affect both the content and the distribution of products. For example, privacy laws in the United States and Europe impose various restrictions on the collection and storage of personal information. Those rules vary by territory although the Internet recognizes no geographical boundaries. In addition, many foreign countries have laws that permit governmental entities to censor the content and/or advertising of interactive entertainment software. Other countries, such as Germany, prohibit certain types of content.

In the United States, numerous laws have been introduced at the federal and state level which attempt to restrict the content of games or the distribution of such products. For example, recent legislation has been adopted in several states, and proposed at the federal level, that prohibits the sale of certain games (e.g., violent games or those with "M (Mature)" or "AO (Adults Only)" ratings) to minors. In addition, a number of state

legislative bodies in states such as Illinois, California, Michigan, and Washington have introduced various forms of legislation designed to regulate and control sales of video games deemed inappropriate for sales to minors. New and recent incidents linking video games and violence may lead to increased pressure for legislative activity. To date, all the courts have ruled on such legislation in a manner favorable to the interactive entertainment software industry. But in the event such legislation is adopted and enforced, sales may be harmed because the products each company is able to offer to its customers and the size of the potential market for its products may be limited. Activision and Vivendi Games may also be required to modify certain products or alter marketing strategies to comply with new and possibly inconsistent regulations, which could be costly or delay the release of its products.

If one or more of Activision's or Vivendi Games' titles were found to contain objectionable undisclosed, pertinent content, the relevant company's business could suffer.

Throughout the history of this industry, many video games have been designed to include certain hidden content and gameplay features that are accessible through the use of in-game cheat codes or other technological means that are intended to enhance the gameplay experience. However, in some cases, undisclosed, pertinent content or features have been found in other publishers' interactive entertainment software products. In a few cases, the ESRB has reacted to discoveries of undisclosed, pertinent content and features by changing the rating that was originally assigned to the product, requiring the publisher to change the game and/or game packaging and/or fining the publisher. Retailers have on occasion reacted to the discovery of such undisclosed content by removing these games from their shelves, refusing to sell them, and demanding that their publishers accept them as product returns. Likewise, interactive entertainment software consumers have reacted to the revelation of undisclosed content by refusing to purchase such games, demanding refunds for games they have already purchased, refraining from buying other games published by the company whose game contained the objectionable material, and, in at least one occasion, filing a lawsuit against the publisher of the product containing such content.

Activision and Vivendi Games have implemented preventative measures designed to reduce the possibility of objectionable undisclosed, pertinent content from appearing in the video games they publish. Nonetheless, these preventative measures are subject to human error, circumvention, overriding, and reasonable resource constraints. If a video game either company published were found to contain undisclosed, pertinent content, the ESRB could demand that the game be recalled and its packaging changed to reflect a revised rating, retailers could refuse to sell it and demand the acceptance of returns of any unsold copies or returns from customers, and/or consumers could refuse to buy it, demand refunds or file lawsuits. This could have a material negative impact on operating results and financial condition. In addition, a company's reputation could be harmed, which could impact sales of its other video games. If any of these consequences were to occur, the business and financial performance could be significantly harmed.

Other Risks Related to Business and Operations Following the Transaction

Historically, Activision's stock price has been highly volatile.

The trading price of Activision's common stock has been and could continue to be subject to wide fluctuations in response to many factors, including:

- quarter to quarter variations in results of operations;
- the announcements of new products;
- competitors' announcements of new products;
- product development or release schedule;
- general conditions in the computer, software, entertainment, media or electronics industries, and in the economy;
- timing of the introduction of new platforms and delays in the actual release of new platforms;

- hardware manufacturers' announcements of price reductions in hardware platforms;
 - consumer spending trends;
 - changes in earnings estimates or buy/sell recommendations by analysts;
 - sales or acquisitions of common stock by Activision Blizzard's directors, executive management, or Vivendi and its affiliates; and
 - investor perceptions and expectations regarding products, plans and strategic position, and those of the company's competitors and customers.
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In addition, the public stock markets experience extreme price and trading volume volatility, particularly in high technology sectors of the market. This volatility has significantly affected the market prices of securities of many technology companies for reasons often unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of Activision Blizzard common stock after completion of the Transaction.

The requirements of integrating and maintaining internal controls at the combined company may strain Activision Blizzard's resources and divert management's attention, and if we fail to establish and maintain proper internal controls, the combined company's ability to produce accurate financial statements or comply with applicable regulations could be impaired.

As a result of the Transaction, Vivendi Games, which is a privately-held company, will become a wholly-owned subsidiary of Activision Blizzard and thus will become subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and the rules and regulations of the National Association of Securities Dealers. The requirements of these rules and regulations will increase Activision Blizzard's legal, accounting and financial compliance costs, will make some activities more difficult, time-consuming and costly and may also place undue strain on the combined company's personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that a company maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain the effectiveness of Activision Blizzard's disclosure controls and procedures and internal control over financial reporting during the integration process following the Transaction, Activision Blizzard will need to expend significant resources and provide significant management oversight. The combined company has a substantial effort ahead of it to implement appropriate processes, implement and document a comprehensive and uniform system of internal control over relevant processes of the combined company, assess their design, remediate any deficiencies identified and test their operation. As a result, management's attention may be diverted from other business concerns, which could harm the combined company's business, operating results and financial condition. These efforts will also involve substantial accounting-related costs. In addition, if the combined company is unable to continue to meet these requirements, it may not be able to remain listed on NASDAQ.

Implementing any appropriate changes to internal controls or integrating existing procedures may require specific compliance training of its officers and employees, entail substantial costs in order to modify its existing accounting systems, and take a significant period of time to complete. These actions may not, however, be effective in establishing the adequacy of its internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase Activision Blizzard's operating costs and could materially impair its ability to operate the business. In the event that the combined company is not able to demonstrate compliance with Section 404 of the Sarbanes-Oxley Act in a timely manner, that its internal controls are perceived as inadequate or that it is unable to produce timely or accurate financial statements, investors may lose confidence in Activision Blizzard's operating results and its stock price could decline.

Changes in tax rates or exposure to additional tax liabilities could adversely affect Activision Blizzard's operating results and financial condition.

Activision Blizzard will be subject to income taxes in the United States and in various foreign jurisdictions. Significant judgment is required in determining worldwide provision for income taxes and, in the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. Activision is, and the combined company will be, required to estimate future taxes. Although Activision currently believes its tax estimates are reasonable, the estimate process is inherently uncertain, and such estimates are not binding on tax authorities. The effective tax rate could be adversely affected by changes in the business, including the mix of earnings in countries with differing statutory tax rates, changes in tax elections, changes in applicable tax laws as well as other factors. Further, tax determinations are regularly subject to audit by tax authorities and developments in those audits could adversely affect the relevant income tax provision. Should the ultimate tax liability exceed estimates, the combined company's income tax provision and net income could be materially affected.

Activision is, and Activision Blizzard will be, also required to pay taxes other than income taxes, such as payroll, sales, use, value-added, net worth, property, and goods and services taxes, in both the United States and various foreign jurisdictions. Tax authorities regularly examine these non-income taxes. There can be no

assurance that the outcomes from these examinations, changes in the business or changes in applicable tax rules will not have an adverse effect on operating results and financial condition.
