

Activision Blizzard, Inc.
Form 10-K
March 01, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2009

OR

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

**For the transition period from _____ to _____
Commission File Number 1-15839**

ACTIVISION BLIZZARD, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

95-4803544

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

3100 Ocean Park Blvd., Santa Monica, CA

(Address of principal executive offices)

90405

(Zip Code)

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

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

Title of each Class
Common Stock, par value \$.000001 per share

Name of Each Exchange on Which Registered
The NASDAQ Global Select Market

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

None

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

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

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

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

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

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company

(Do not check if a smaller reporting company)

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

The aggregate market value of the registrant's Common Stock held by non-affiliates on June 30, 2009 as reported on the NASDAQ was \$7,039,447,050.

The number of shares of the registrant's Common Stock outstanding at February 22, 2010 was 1,249,909,250.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement, to be filed with the Securities and Exchange Commission with respect to the 2010 Annual Meeting of Shareholders, are incorporated by reference into Part III of this Annual Report.

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PART I

EXPLANATORY NOTE

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

CAUTIONARY STATEMENT

This Annual Report on Form 10-K contains, or incorporates by reference, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements consist of any statement other than a recitation of historical fact and include, but are not limited to: (1) projections of revenues, expenses, income or loss, earnings or loss per share, cash flow or other financial items; (2) statements of our plans and objectives, including those relating to product releases; (3) statements of future economic performance; and (4) statements of assumptions underlying such statements. We generally use words such as "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. Forward-looking statements are subject to business and economic risk, reflect management's current expectations, estimates and projections about our business, and are inherently uncertain and difficult to predict. Our actual results could differ materially. The forward-looking statements contained herein speak only at the date on which this Form 10-K was first filed. Risks and uncertainties that may affect our future results include, but are not limited to, sales levels of Activision Blizzard's titles, shifts in consumer spending trends, the impact of the current macroeconomic environment, the seasonal and cyclical nature of the interactive game market, any further difficulties related to World of Warcraft in China, Activision Blizzard's ability to predict consumer preferences among competing hardware platforms, declines in software pricing, product returns and price protection, product delays, retail acceptance of Activision Blizzard's products, competition from the used game market, adoption rate and availability of new hardware (including peripherals) and related software, industry competition and competition from other forms of entertainment, rapid changes in technology, industry standards and consumer preferences including interest in specific genres such as music, first-person action and massively multiplayer online games, protection of proprietary rights, litigation against Activision Blizzard, maintenance of relationships with key personnel, customers, licensees, licensors, vendors, and third-party developers, including the ability to attract, retain and develop key personnel and developers which can create high quality "hit" titles, counterparty risks relating to customers, licensees, licensors and manufacturers, domestic and international economic, financial and political conditions and policies, foreign exchange rates and tax rates, integration of recent acquisitions and the identification of suitable future acquisition opportunities, and the other factors identified in "Risk Factors" included in Part I, Item 1A of this Report. The forward-looking statements contained herein are based upon information available to us as of the date of this Annual Report on Form 10-K and we assume no obligation to update any such forward-looking statements. Forward-looking statements believed to be true when made may ultimately prove to be incorrect. These statements are not guarantees of our future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and may cause actual results to differ materially from current expectations.

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

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Item 1. BUSINESS

Overview

Activision Blizzard is a worldwide online, personal computer ("PC"), console, and handheld game publisher. Through Activision Publishing, Inc. ("Activision"), we are a leading international publisher of interactive software products and peripherals. Activision develops and publishes video games on various consoles, handheld platforms and the PC platform through internally developed franchises and license agreements. Activision currently offers games that operate on the Sony Computer Entertainment Inc. ("Sony") PlayStation 2 ("PS2"), Sony PlayStation 3 ("PS3"), Nintendo Co. Ltd. ("Nintendo") Wii ("Wii"), and Microsoft Corporation ("Microsoft") Xbox 360 ("Xbox 360") console systems; the Sony PlayStation Portable ("PSP") and Nintendo Dual Screen ("NDS") handheld devices; the PC; the Apple iPhone ("iPhone"); and the new handheld game system Nintendo DSi. Through Blizzard Entertainment, Inc. ("Blizzard"), we are the leader in terms of subscriber base and revenues generated in the subscription-based massively multiplayer online role-playing game ("MMORPG") category. Blizzard internally develops and publishes PC-based computer games and maintains its proprietary online-game related service, Battle.net.

Our Activision business involves the development, marketing, and sale of products directly, by license, and through our affiliate label program with certain third-party publishers. Activision's products cover diverse game categories including action/adventure, action sports, racing, role-playing, simulation, first-person action, music, and strategy. Activision's target customer base ranges from casual players to core gamers, and children to adults. During 2009, Activision released *Call of Duty: Modern Warfare 2*, *Guitar Hero V*, *DJ Hero*, *Band Hero*, *Tony Hawk: Ride*, and *PROTOTYPE* and continued to publish licensed products, with titles such as *Monsters vs. Aliens*, *Ice Age: Dawn of the Dinosaurs*, *Bakugan Battle Brawlers*, *Transformers: Revenge of the Fallen*, *X-Men Origins: Wolverine*, *Marvel Ultimate Alliance 2*, and several other titles. Activision is currently developing sequels to the Guitar Hero and Call of Duty franchises, *True Crime*, an action thriller through United Front Games, *Blur* through Bizarre Creations for the racing genre and *Singularity* a first person action game through Raven Software, among other titles.

Our Blizzard business involves the development, marketing, sales and support of role playing action and strategy games. Blizzard also develops, hosts, and supports its online subscription-based games in the MMORPG category. Blizzard is the development studio and publisher best known as the creator of *World of Warcraft* and the multiple award winning Diablo, StarCraft, and World of Warcraft franchises. Blizzard distributes its products and generates revenues worldwide through various means, including: subscriptions (which consist of fees from individuals playing *World of Warcraft*, including from sales of prepaid-cards and other value added services); retail sales of physical "boxed" products; electronic download sales of PC products; and licensing of software to third-party companies that distribute *World of Warcraft* in Russia, China and Taiwan. Blizzard has released two expansion packs to *World of Warcraft*; *World of Warcraft: The Burning Crusade* and *World of Warcraft: Wrath of the Lich King*. Blizzard is currently developing new games, including a new expansion pack to the World of Warcraft franchise, *Cataclysm*, *StarCraft II: Wings of Liberty*, which will be released with the new and improved Battle.net, and sequels to the Diablo franchise.

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

The Company

Activision, Inc. was originally incorporated in California in 1979 and was reincorporated in Delaware in December 1992. In June 2000, Activision, Inc. reorganized into a holding company organizational structure. As described in the explanatory note above, Activision, Inc. consummated a

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business combination with Vivendi Games during the year ended December 31, 2008 and was renamed Activision Blizzard, Inc. Activision Blizzard is a public company traded on the NASDAQ under the ticker symbol "ATVI."

Our Strategy

Our objective is to continue to be a worldwide leader in the development, publishing, and distribution of quality interactive entertainment software, peripheral products, and online games that deliver a highly satisfying consumer entertainment experience. Through Blizzard, we plan to maintain and build upon our worldwide leadership position of online subscription-based games in the MMORPG category.

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

Create Shareholder Value. We continue to focus and enhance shareholder return in growing operating margin, maintaining a strong balance sheet, and producing strong cash flow generation.

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

Competition

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

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

We compete primarily with other publishers of personal computer and video game console interactive entertainment software. In addition to third-party software competitors, integrated video game console hardware and software companies such as Sony, Nintendo, and Microsoft compete directly with us in the development of software titles for their respective platforms. In addition, certain major media companies, such as Walt Disney Company and Time Warner, Inc., which have been investing in video game products, have increased competition within the industry. Further, a number of software publishers have developed and commercialized, or are currently developing, online games for

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use by consumers over the Internet, and we expect new competitors to continue to emerge in the MMORPG category.

Employees

We had approximately 7,000 total full-time and part-time employees at December 31, 2009. At December 31, 2009, 191 of our full-time employees were subject to term employment agreements with us. These agreements generally commit the employees to employment terms of between one and five years from the commencement of their respective agreements. Most of the employees subject to these agreements are executive officers or key members of the product development, sales, or marketing divisions. These individuals perform services for us as executives, directors, producers, associate producers, computer programmers, game designers, sales directors, or marketing product managers. In our experience, entering into employment agreements with these employees reduces our turnover during the development, production, and distribution phases of our entertainment software products and allows us to plan more effectively for future development and marketing activities.

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

Intellectual Property

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

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

We actively engage in enforcement and other activities to protect our intellectual property. We typically own the copyright to the software code, as well as the brand or title name trademark under which our products are marketed. We register copyrights and trademarks in the United States and other countries as appropriate.

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

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Operating Segments

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

Activision Publishing Segment ("Activision") Business Overview

Strategy

Create, Acquire, and Maintain Strong Franchises. Activision focuses on development and publishing activities principally for products that are, or have the potential to become, franchises with sustainable mass consumer appeal and recognition. It is our experience that these products can then serve as the basis for sequels, prequels, and related new products that can be released over an extended period of time. We believe that the publishing and distribution of products based on proven franchises enhances predictability of revenues and the probability of high unit volume sales and operating profits. We own a number of successful intellectual properties such as the Call of Duty and Guitar Hero franchises. We intend to continue to develop owned franchises in the future. We have also entered into a series of strategic relationships with the owners of intellectual properties pursuant to which we have acquired the rights to publish products based on franchises such as DreamWorks' Animation LLC ("DreamWorks"), Harrah's Entertainment, Inc. ("Harrah"), Hasbro Properties Group ("Hasbro"), MGM Interactive and EON Productions Ltd. ("MGM & EON"), Mattel, Inc. ("Mattel"), Marvel Entertainment, Inc. ("Marvel"), and professional skateboarder Tony Hawk, to develop video games based on their intellectual property.

Execute Disciplined Product Selection and Development Processes. The success of our publishing business depends, in significant part, on our ability to develop high quality games that will generate high unit volume sales. Our publishing units have implemented a formal control process for the selection, development, production, and quality assurance of our products. We apply this process, which we refer to as the "Greenlight Process," to all of our products, whether externally or internally developed. The Greenlight Process includes in-depth reviews of each project at several important stages of development by a team that includes many of our highest-ranking operating managers and coordination between our sales and marketing personnel and development staff at each step in the process.

We develop our products using a combination of our internal development resources and external development resources acting under contract with us. We typically select our external developers based

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

Create and Maintain Diversity in Product Mix, Platforms, and Markets. We believe that maintaining a diversified mix of products can reduce our operating risks and enhance profitability. Therefore, we develop and publish products spanning a wide range of genres, including action/adventure, action sports, racing, role-playing, simulation, first-person action, music-based gaming, and strategy. We also develop products designed for target audiences ranging from casual players to core gamers, children to adults, and mass-market consumers to "value" buyers who seek budget-priced software. Presently, the majority of products that we develop, publish, and distribute operate on the PS3, Xbox 360, and Wii console systems, the PSP, NDS and the iPhone, and the PC. We offer games with localized content in different geographies and both online and offline. We typically offer our products for use on multiple platforms to reduce the risks associated with any single platform, leverage our costs over a larger installed hardware base, and increase unit sales.

Products

Activision has been best known for our action/adventure, action sports, role-playing, simulation, first-person action, and music video game products. We have had long-term success in the first person action categories through the Call of Duty original intellectual property, including the latest release, *Call of Duty: Modern Warfare 2*, and we plan on continuing to develop this franchise. Call of Duty has achieved approximately \$3 billion life-to-date revenue. We are a leading company in the music-based gaming genre with the Guitar Hero franchise, which combines interactive software with hardware peripherals. We expanded the franchise with the additions of *DJ Hero* and *Band Hero* releases during 2009. *Band Hero* is accompanied by hardware peripherals consisting of a guitar, drum, and microphone, and *DJ Hero* is accompanied with a turntable peripheral. We have been successful in the superheroes category with our releases of titles based on the Spider-Man and X-Men properties, including the 2009 release of *Marvel Ultimate Alliance 2* and *X-Men Origins: Wolverine*. Our Tony Hawk franchise has been a leader in the action sports genre, and we have a recently released game, *Tony Hawk: Ride*, to continue the strength of this franchise with an innovative skateboard controller. We have continued our success with the DreamWorks animated movie titles, with the 2009 release of *Monsters vs. Aliens*. We have expanded our portfolio in the action/adventure genre with the launch of a new internally developed intellectual property, *PROTOTYPE*. Further, we released *Bakugan Battle Brawlers*, which is based on the top-rated television series and a best-selling toy.

In 2010, we plan to release a diversified lineup of games based on Activision's best-selling franchises including Call of Duty, Guitar Hero, and Tony Hawk, together with other well-known titles such as True Crime, Spider-Man, and Bakugan, and a select number of new intellectual property franchises such as *Blur* and *Singularity*.

Product Development and Support

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

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

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

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

Marketing, Sales, and Distribution

Activision's marketing efforts include online activities (such as the creation of World Wide Web pages to promote specific titles and build user communities around our franchises), public relations, print and broadcast advertising, coordinated in-store and industry promotions (including merchandising and point of purchase displays), participation in cooperative advertising programs, direct response vehicles, and product sampling through demonstration software distributed through the Internet or on compact discs. From time to time, we also receive marketing support from hardware manufacturers and retailers in connection with their own promotional efforts. In addition, certain of our products contain software that enables customers to "electronically register" their purchases with us online.

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

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

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

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

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

Digital Distribution. Some of our products are sold in, or only in, a digital format, which allows consumers to purchase and download the game at their convenience. We partner with digital distributors to leverage this growing method of distribution. We also make available to our consumer value added downloadable contents to enhance their gaming experience through Microsoft, Sony and Nintendo's digital online services.

Affiliate Labels. In addition to our own products, we distribute a select number of interactive entertainment products that are developed and marketed by other third-party publishers through our "affiliate label" programs in North America, Europe, and the Asia Pacific region. The distribution of other publishers' products allows us to increase the efficiencies of our sales force and provides us with the ability to better ensure adequate shelf presence at retail stores for all of the products that we distribute. Revenues that we receive from distributing other publishers' titles mitigate the risk that a particular title or titles published by us fails to meet expectations. Services we provide under our affiliate label programs include order solicitation, in-store marketing, logistics and order fulfillment, and sales channel management, as well as other accounting and general administrative functions. Our current affiliate label partners include LucasArts, as well as several affiliate label partners in our "value" business, which offers budget-priced software to the public. Each affiliate label relationship is unique and may pertain only to distribution in certain geographic territories and may be further limited only to specific titles or titles for specific platforms.

Manufacturing

Activision prepares a set of master program copies, documentation, and packaging materials for our products for each hardware platform on which the product will be released. We also manufacture separate hardware peripherals, such as the guitar, drum and microphone for *Guitar Hero World Tour* and *Band Hero*, the new turntable for *DJ Hero*, and the new skateboard controller for *Tony Hawk: Ride*. With respect to products for use on the Sony, Nintendo, and Microsoft systems, our disk and hardware peripheral duplication, packaging, printing, manufacturing, warehousing, assembly, and shipping are performed by third-party subcontractors and Company-owned distribution facilities.

To maintain protection over their hardware technologies, Sony, Nintendo, and Microsoft generally specify or control the manufacturing and assembly of finished products. We deliver the master materials to the licensor or its approved replicator, which then manufactures finished goods and delivers them to us for distribution under our label. We use manufacturers authorized by Sony, Nintendo, or Microsoft

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to make the hardware peripherals for *Guitar Hero* titles, *Band Hero*, *DJ Hero*, and *Tony Hawk: Ride*. At the time our product unit orders are filled by the manufacturer, we become responsible for the costs of manufacturing and the applicable per unit royalty on such units, even if the units do not ultimately sell.

Blizzard Entertainment Segment ("Blizzard") Business Overview

Strategy

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

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

Products

Blizzard is a leading company in the subscription-based MMORPG category. *World of Warcraft* was initially launched in November 2004 in North America, Australia, and New Zealand; and was subsequently launched in South Korea, Europe, China, Singapore, Taiwan, Hong Kong, and Macau in 2005; Malaysia in 2006; and Thailand in 2007. As of December 31, 2009, *World of Warcraft* had approximately 11.5 million active subscribers. *World of Warcraft* is available in various languages based on the regions in which it is played and has earned awards and praise from publications around the world. Blizzard launched an expansion pack to *World of Warcraft*, *World of Warcraft: The Burning Crusade*, in January 2007 in North America, Europe, Australia, New Zealand, Singapore, Malaysia, and Thailand; in South Korea in February 2007; Taiwan, Hong Kong, and Macau in April 2007; and China in September 2007. Blizzard launched the second *World of Warcraft* expansion pack, *World of Warcraft: Wrath of the Lich King*, in November 2008 in all territories except China, where we intend to launch in 2010. Blizzard plans to launch the third installment of the *World of Warcraft* expansion pack, *World of Warcraft: Cataclysm* in 2010. Revenues associated with the *World of Warcraft* franchises accounted for 98%, 97%, and 97% of Blizzard's consolidated net revenues for the years ended December 31, 2009, 2008, and 2007, respectively.

Additionally, in the PC online category, in 2010, Blizzard plans to release *StarCraft II: Wings of Liberty* together with the new and improved *Battle.net*, which will provide integration of gameplay and community, customer services, and digital distribution of content in 2010. Blizzard has also announced the development of a sequel for *Diablo*, an action role-playing game.

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Product Development and Support

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

Marketing, Sales, and Distribution

Blizzard distributes its product and generates revenues worldwide through various means: subscriptions (which consist of fees from individuals playing *World of Warcraft*, prepaid cards, and other value added services such as the ability to change "factions", the ability to transfer "realms" and the ability to purchase a virtual pet), retail sales of physical "boxed" product, electronic download sales of PC products, and licensing of software to third-party companies that distribute *World of Warcraft* in Russia, China and Taiwan. In addition, Blizzard operates a free online game service, Battle.net, which attracts millions of active players, making it one of the largest online-game related services in the world. Battle.net is a service that allows players to connect and play Blizzard games and strengthens brand loyalty among current Blizzard gamers.

Activision Blizzard Distribution Segment ("Distribution") Business Overview

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

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

Additional Financial Information

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

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Available Information

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

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

Item 1A. RISK FACTORS

A continuing deterioration of general economic conditions could result in a reduction in discretionary spending by consumers that could reduce demand for our products.

Most of our products involve discretionary spending on the part of consumers. Consumers are generally more willing to make discretionary purchases, including purchases of products like ours, during periods in which favorable economic conditions prevail. As a result, our products may be sensitive to general economic conditions and economic cycles. A continuation or worsening of current, adverse worldwide economic conditions, including declining consumer confidence, inflation, recession, rising unemployment and volatile gasoline prices, may lead consumers to delay or reduce purchases of our products. Reduced consumer spending may also require us to incur increased selling and promotional expenses. A reduction or shift in domestic or international consumer spending could negatively impact our business, results of operations and financial condition.

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

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

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

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

Current general economic conditions may adversely affect other aspects of our business.

We are unable to predict the likely duration and severity of the current adverse economic conditions in the U.S. and other countries, and all of the effects the current macroeconomic conditions may have on our business. Among other things, because we generally maintain large cash reserves, we are subject to the risk that inflation may cause the real value of our cash and cash equivalents to decline. Furthermore, uncertainties concerning the likely length and severity of the economic downturn cause our forecasts to be subject to even greater risks and uncertainties.

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

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

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

Vivendi and its subsidiaries currently own approximately 57% of our issued and outstanding shares of common stock.

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

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

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

For so long as Vivendi or any other entity or group owns more than 50% of the total voting power of our common shares, we will be a "controlled company" within the meaning of NASDAQ rules and,

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as a result, qualify for exemptions from certain corporate governance requirements. As a controlled company, we are exempt from several NASDAQ standards, including the requirements:

that a majority of our Board consists of independent directors;

that our prospective directors be nominated solely by independent directors; and

that the compensation of our executive officers be determined solely by independent directors.

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

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

A significant portion of our revenues has historically been derived from products based on a relatively small number of popular franchises and these products are responsible for a disproportionately high percentage of our profits. For example, our top three franchises, Call of Duty, Guitar Hero, and World of Warcraft, accounted for approximately 68% of our net revenues for the year ended December 31, 2009. We expect that a limited number of popular franchises will increasingly produce a disproportionately high percentage of our revenues and profits. Due to this dependence on a limited number of franchises, the failure to achieve anticipated results by one or more products based on these franchises may significantly harm our business and financial results.

Sales of certain titles are affected by hardware peripheral availability, which increases our exposure to imbalances between projected and actual demand.

Some of our titles involve one or more separate hardware peripherals, such as the guitar which accompanies *Guitar Hero* titles, the guitar, drum and microphone which accompany *Band Hero*, the turntable which accompanies *DJ Hero* and the skateboard controller which accompanies *Tony Hawk: Ride*. Typically, we sell such software both in bundles with the hardware peripherals and on a stand-alone basis. Consumers may not want to buy such game software if they cannot also buy the hardware peripherals. If we underestimate demand or otherwise are unable to produce sufficient quantities of the hardware peripherals of an acceptable quality 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 share with competitive product offerings.

In addition, 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.

The increasing importance and complexity of hardware peripherals in our business increases our exposure to hardware manufacturing and shipping risks, including availability of sufficient third-party manufacturing capacity, and increases in manufacturing and shipping costs.

A limited number of manufacturers 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 impacts the ability of those manufacturers to produce or otherwise supply the hardware peripherals for us or increases their costs of production, including the revocation of the first party license to produce the hardware, the utilization of such manufacturer's capacity by one of our competitors, changes in safety, environmental or other regulations applicable to the peripherals and the

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manufacturing thereof, natural or manmade disasters that disrupt manufacturing, transportation or communications, labor shortages, civil unrest or issues generally negatively impacting international companies operating in China, increases in the price of petroleum or other raw materials, increases in fuel prices and other shipping costs, and increases in local labor costs in China, may adversely impact our ability to supply those peripherals to the market and the prices we must pay for those peripherals, and therefore our financial performance. Additionally, the increasing complexity and expense of these hardware peripherals increases the risk of production delays or product defects.

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

In the U.S. and Canada, Activision has primarily sold its products on a direct basis to mass-market retailers, consumer electronics stores, discount warehouses, and game specialty stores. Activision products are sold internationally on a direct-to-retail basis, through third-party distribution and licensing arrangements and through our wholly-owned European distribution subsidiaries. Activision's sales are made primarily on a purchase order basis without long-term agreements or other forms of commitments. We had two customers, Wal-Mart and GameStop, which each accounted for approximately 10% of our consolidated revenues for the year ended December 31, 2009 and accounted for approximately 18% and 10% of our consolidated gross receivables at December 31, 2009, respectively. The loss of, or significant reduction in sales to, any of Activision's principal retail customers or distributors could significantly harm our business and financial results. The concentration of sales in a small number of large customers also could make us more vulnerable to collection risk if one or more of these large customers becomes unable to pay for our products or seeks protection under the bankruptcy laws. In addition, having such a large portion of our total net revenue concentrated in a few customers reduces our negotiating leverage with these customers.

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

Our NBG and Centresoft subsidiaries distribute interactive entertainment software and hardware products and provide related services in Germany, and the U.K., respectively, and via export in other European countries for a variety of entertainment software publishers, many of which are our competitors, and hardware manufacturers. From time to time, 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 our business and financial results.

Indications of some regulatory uncertainty exist regarding our licensee's ongoing ability to operate World of Warcraft in China on a paying basis without interruption.

In April 2009, Blizzard agreed to license World of Warcraft to an affiliated company of NetEase.com, Inc. ("NetEase") in China for a term of three years. World of Warcraft was unavailable to players in China from June 7, 2009 (local), the date on which our prior license arrangements expired, until July 30, 2009 (local), when NetEase began making the game available to our previous players in China in a test format without charge. Subsequently, NetEase advised us that it received the necessary regulatory approval, and accordingly, relaunched the game to subscribers in China. Having World of Warcraft unavailable for play or available only on an unpaid basis would result in lost revenues and income, and having it unavailable for a prolonged period could have a negative effect on our reputation and subscriber base in China.

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

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

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

Activision Blizzard is the leading global developer, publisher and distributor in terms of subscriber base and revenues in the subscription-based MMORPG category, due to the popularity of Blizzard's *World of Warcraft* and related expansion packs. Subscription revenues from this game comprise a significant portion of our consolidated revenues. To remain the leader in the MMORPG category, it is important that we continue to refresh *World of Warcraft* or develop new MMORPG products that are favorably received by both our existing customer base and new customers. A number of software publishers have developed and commercialized or are currently developing online games for use by consumers over the Internet which pose a threat to the popularity of *World of Warcraft*, and we expect new competitors to continue to emerge in the MMORPG category. If consumer demand for *World of Warcraft* games declines and we have not introduced new MMORPG or other products that replace *World of Warcraft's* potentially decreasing revenue, or added other sources of revenue, our financial condition could suffer. Additionally, if new technologies are developed that replace MMORPG games, consumer preferences trend away from MMORPG games or new business models emerge that offer online subscriptions for free or at a substantial discount to current MMORPG subscription fees, our revenue and profitability may decline.

The development of MMORPG products requires substantial up-front expenditures. We may not be able to recover development costs for our future MMORPG 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 MMORPG market, we must continuously develop new products and enhancements to existing products. Because of the significant complexity of MMORPG 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 MMORPG product and the significant allocation of financial resources that each product requires means it is critical that we accurately predict consumer demand for new MMORPG products. If future MMORPG products do not achieve expected market acceptance or generate sufficient sales and subscription revenues upon introduction, we may not be able to recover the development and marketing costs associated with new products, and our financial results could suffer.

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Our results of operation may suffer if consumer preferences shift away from the genres from which we currently derive the majority of our revenue.

A significant portion of our revenue is derived from products in the music-based gaming, first-person action and MMORPG genres. Consumer preferences for games are difficult to predict, and if interest in those genres declines, even if our share of those genres is stable or expands, we will not be able to sustain the same level of sales of our products in those genres, and our financial results could suffer. For example, we recorded a non-cash impairment charge on finite-lived intangible assets for 2009 as a result of the weaker environment for casual and music games and our net revenues were lower in 2009 as compared to 2008 in part due to this environment.

A substantial portion of Activision Blizzard's revenues is derived from subscriptions paid by World of Warcraft subscribers. If these customers cancel their subscriptions, our results of operations may suffer.

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

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

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

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

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

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

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

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

We are subject to risks associated with the collaborative online features in our games, such as *World of Warcraft's* online chat feature, which allows consumers to post narrative comment, in real time, that is visible to other players. Despite our efforts to restrict inappropriate consumer content, from time to time objectionable and offensive consumer content may be posted to a *World of Warcraft* gaming site or the sites of other games or game services, such as Battle.net, with online chat features or game forums which allow consumers to post comments. We may be subject to lawsuits, governmental regulation or restrictions, and consumer backlash (including decreased sales and harmed reputation), as a result of consumers posting offensive content, any of which could harm our operating results.

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

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

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

The life of any one console or hand-held 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 an adverse effect on our operating results and cause our operating results to be materially different from expectations. It is therefore important for us to be able to continue to develop many high quality new products that are popularly received and to release those products in a timely manner. If we are unable to continue to do so, our business and financial results may be negatively affected.

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

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

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

Some of our products are based on intellectual property that we have developed internally or acquired from third parties. If this new intellectual property does not gain market acceptance, whether because we are unable to successfully create consumer appeal and brand recognition or otherwise, our revenues, margins, and profitability could decline.

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

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

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

We compete with other publishers of PC and video game console interactive entertainment software and peripherals. Those competitors vary in size from small companies with limited resources to very large corporations with significantly greater financial, marketing, and product development resources than we have. For example, integrated video game console hardware and software companies such as Sony, Nintendo, and Microsoft compete directly with us in the development of software titles for their respective platforms. Further, certain major media companies, such as the Walt Disney Company and Time Warner, Inc., which have been investing in video game products, have increased competition within the industry. Our competitors may spend more money and time on developing and testing products, undertake more extensive marketing campaigns, adopt more aggressive pricing policies, pay higher fees to licensors for desirable motion picture, television, sports, music and character properties, pay more to third-party software developers, or otherwise develop more commercially successful products for the PC or video game platforms than we do. In addition, competitors with large product lines and popular titles typically have greater leverage with retailers, distributors, and other customers who may be willing to promote titles with less consumer appeal in return for access to those competitors' most popular titles.

We also compete with other forms of interactive entertainment, such as casual games like iPhone applications and other mobile phone games, and games developed for use by consumers on social networking sites. Future increased consumer acceptance and increases in the availability such games or other 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 our console and hand-held products. Newer technological advances in online game software may also render products such as *World of Warcraft* obsolete. Additionally, direct sales of software over the Internet by competitors could adversely affect our distribution business.

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

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

Certain of our larger customers sell used video games, which are generally priced lower than new video games and do not result in any revenue to the publisher of the games, and the market for these games has been growing. If our customers continue to increase their sales of used video games, it could negatively affect our sales of new video games and have an adverse impact on our operating results.

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

We conduct business throughout the world, and we derive a substantial amount of revenue from international trade, particularly from Europe, Australia, and Asia. We expect that international revenues will continue to account for a significant portion of total revenues in the future and, moreover, believe that Asia will be a significant source of growth for us.

As such, we are subject to risks inherent in foreign trade, including increased tariffs and duties, fluctuations in currency exchange rates, shipping delays, increases in transportation costs, increases in local labor costs in overseas locations where our hardware peripherals are manufactured, international political, regulatory and economic developments and differing local business practices, all of which may impact operating margins or make it more difficult, if not impossible, for us to conduct business in foreign markets.

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

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

In addition, cultural differences may affect consumer preferences and limit the popularity of titles that are "hits" in the U.S. If we do not correctly assess consumer preferences in the countries in our market, our sales and revenue may be lower than expected.

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

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

continuing strong demand for developers' resources, combined with the recognition they receive in connection with their work, may cause developers who worked for us in the past either to

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work for a competitor in the future or to renegotiate agreements with us on terms less favorable for us;

limited financial resources and business expertise and inability to retain skilled personnel may force developers out of business prior to completing products or require us to fund additional costs; and

a competitor may acquire the businesses of key developers or sign them to exclusive development arrangements. In either case, we would not be able to continue to engage such developers' services for our products, except for those developers that are contractually obligated to complete development for us.

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

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

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

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

We derive a substantial portion of our revenue from the sale of products for play on video game platforms manufactured by third parties, such as Sony's PlayStation 3 and PlayStation Portable, Microsoft's Xbox 360 and Nintendo's Wii and NDS. For example, sales of products for consoles accounted for 51% of our consolidated net revenue in 2009. The success of our business is driven in large part by the availability of an adequate supply of these video game platforms, our ability to accurately predict which platforms will be successful in the marketplace, and our ability to develop commercially successful products for these platforms. We must make product development decisions and commit significant resources well in advance of the anticipated introduction of a new platform. A new platform for which we are developing products may be delayed, may not succeed or may have a shorter life cycle than anticipated. Alternatively, a platform for which we have not devoted significant resources could be more successful than initially anticipated, causing us to miss a meaningful revenue opportunity. Additionally, if the platforms for which we are developing products are not released when

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anticipated, are not available in adequate quantities to meet consumer demand, or do not attain wide market acceptance, our revenues may suffer, we may be unable to fully recover our investment in developing those products, and our financial performance may be harmed.

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

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

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

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

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

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

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

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

The agreements with these manufacturers include certain provisions, such as approval rights over all software products and related 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, because each of the manufacturers is also a publisher of games for its own hardware platforms and manufactures products for all of its other licensees, a manufacturer may give priority to its own

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products or those of our competitors in the event of insufficient manufacturing capacity. Accordingly, Sony, Nintendo, or Microsoft could cause unanticipated delays in the release of our products as well as increases to projected development, manufacturing, marketing, or distribution costs, which could harm our business and financial results.

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

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

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

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

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

Our products may be subject to legal claims.

In prior years, at least two lawsuits have been filed against numerous video game companies, including against Activision, by the families of victims who were shot and killed by teenage gunmen in attacks perpetrated at schools. These lawsuits alleged that the video game companies manufactured and/or supplied these teenagers with violent video games, teaching them how to use a gun and causing

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them to act out in a violent manner. These lawsuits have been dismissed. Similar additional lawsuits may be filed in the future. Although our general liability insurance carrier has agreed to defend lawsuits of this nature with respect to the prior lawsuits, it is uncertain whether insurance carriers would do so in the future, or if such insurance carriers would cover all or any amounts for which we might be liable if such future lawsuits are not decided in our favor. If such future lawsuits are filed and ultimately decided against us and the relevant insurance carrier does not cover the amounts for which we may be liable, it could have an adverse effect on our business and financial results. Payment of significant claims by insurance carriers may make insurance coverage materially more expensive or unavailable in the future, thereby exposing us to additional risk.

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

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

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

We are exposed to the risk of product returns and price protection with respect to our distributors and retailers. Return policies allow distributors and retailers to return defective, shelf-worn, 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. We may permit product returns from, or grant price protection to, our 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. We may also consider other factors, including the facilitation of slow-moving inventory and other market factors. When we offer price protection, it is offered with respect to a particular product to all of our retail customers (although only customers who meet the conditions detailed above are entitled to such price protection). Activision also offers a 90-day limited warranty to its end users that Activision products will be free from manufacturing defects. Although we maintain a reserve for returns and price protection, and although we may place limits on product returns and price protection, we could be forced to accept substantial product returns and provide substantial price protection to maintain our relationships with retailers and our access to distribution channels. Product returns and price protection that exceed our reserves could significantly harm our business and financial results.

Our business is subject to risks generally associated with the entertainment industry, any of which could significantly harm our operating results.

Our business is subject to risks that are generally associated with the entertainment industry, including the popularity, price and timing of the release of our 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 our control. These risks could negatively impact our business and financial results.

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

The interactive entertainment industry is highly seasonal, with the highest levels of consumer demand occurring during the year-end holiday buying season. As a result, net revenues, gross profits,

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and operating income have historically been highest during the second half of the year. Receivables and credit risk are likewise higher during the second half of the year as customers stock up on our products for the holiday season. Further, delays in development, licensor approvals, or manufacturing can also affect the timing of the release of products, causing us to miss key selling periods such as the year-end holiday buying season.

We may not be able to adequately adjust our cost structures in a timely fashion in response to a sudden decrease in demand.

A significant portion of our selling and general and administrative expense is comprised of personnel and facilities. In the event of a significant decline in revenues, we may not be able to exit facilities, reduce personnel, or make other changes to our 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 we do not continue to attract and retain key personnel, we will be unable to effectively conduct our business.

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

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

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

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

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

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

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

We may be subject to intellectual property claims.

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

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

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

obtain a license from the holder of the infringed intellectual property, which if available at all, may not be available on commercially favorable terms; 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 harm our business and financial results.

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

The Entertainment Software Rating Board (the "ESRB") is a self-regulatory body in the U.S. that provides consumers of interactive entertainment software with ratings information, including information relating to violence, nudity, or sexual content contained in software titles. Certain countries other than the U.S. have also established similar rating systems as prerequisites for product sales in

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those countries. In some countries, a company may be required to modify its products to comply with the requirements of the rating systems, which could delay or disrupt the release of any given product, or may prevent its sale altogether in certain territories. The relevant ESRB ratings include "Everyone" (age 6 and older), "Everyone 10+" (age 10 and older), "Teen" (age 13 and over), or "Mature" (age 17 and over). Certain of our titles have received a "Mature" rating. None of our titles has received the "Adults Only" rating (18 and over). If we are unable to obtain the ratings we have targeted for our products as a result of changes in the ESRB's ratings standards or for other reasons, including the adoption of legislation in this area, our business and prospects could be negatively affected.

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

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

In addition, many foreign countries, such as China and Germany, have laws that permit governmental entities to censor the content and/or advertising of interactive entertainment software or prohibit certain types of content. In the U.S, numerous laws have been introduced at one time or another at the federal and state level which attempt to restrict the content of games or the distribution of such products (although, to date, most courts that have ruled on such legislation have ruled in a manner favorable to the interactive entertainment industry).

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

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

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

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

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We engage in acquisitions, and may encounter difficulties in integrating these businesses and, therefore, may not realize the anticipated benefits of the acquisitions.

As part of our business strategy we, from time to time, acquire complementary companies or businesses, enter into strategic alliances and joint ventures and make investments to further our business. In the past several years, we have made various acquisitions and entered into joint venture arrangements intended to complement or expand our business, and may continue to do so in the future. The success of these transactions will depend on our ability to integrate assets and personnel acquired in these transactions and to cooperate with our strategic partners. We may encounter difficulties in integrating acquisitions with our operations, and in managing strategic investments. Furthermore, we may not realize the degree, or timing, of benefits we anticipate when we first enter into a transaction. Any of the foregoing could adversely affect our business and results of operations.

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

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

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

Historically, our stock price has been highly volatile.

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

quarter to quarter variations in results of operations;

the announcement of new products;

the announcement of lower prices on competing products;

product development or release 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 changes for hardware platforms;

consumer acceptance of hardware platforms;

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consumer spending trends;

the outcome of lawsuits or regulatory investigations in which we may become involved;

changes in earnings estimates or buy/sell recommendations by analysts;

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sales or acquisitions of common stock by our directors or executive management, or by Vivendi and its affiliates; and

investor perceptions and expectations regarding our products, plans and strategic position, and those of our competitors and customers.

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

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

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

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

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Our principal corporate and administrative offices are located at 3100 Ocean Park Boulevard, Santa Monica, California 90405 under a lease set to expire in December 2010. Other significant leased facilities include: our Blizzard offices located in Irvine, California 92612 and our North America Distribution warehouse located in Fresno, California 93725, for which the leases are set to expire in October 2013 and February 2011, respectively.

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The following is a summary of the principal leased offices we maintained as of December 31, 2009:

Purpose	North America	Europe	Asia	Total
Square footage of leased properties				
Corporate Offices	140,151	3,961		144,112
Activision Product Development & Publishing Facilities (Activision Segment)	1,331,366	146,704	21,474	1,499,544
Blizzard Product Development & Publishing Facilities (Blizzard Segment)	325,600	86,000	29,450	441,050
Distribution Facilities (Distribution Segment)		458,100		458,100
Sales offices	14,847			14,847
Total	1,811,964	694,765	50,924	2,557,653

In total, we lease approximately 50 facilities in 13 countries, including the United States, Canada, the U.K., Germany, France, Italy, Spain, Australia, Sweden, China, the Netherlands and Ireland. We anticipate no difficulty in extending the leases of our facilities or obtaining comparable facilities in suitable locations, as needed, and we consider our facilities to be adequate for our current needs.

Item 3. LEGAL PROCEEDINGS

The discussion in Note 18 to the Consolidated Financial Statements regarding legal proceedings is incorporated herein by reference. Additionally, with regard to the internal human resource inquiry and related matters described in Note 18 to the Consolidated Financial Statements, please refer to the Risk Factors set forth on pp. 15 and 26.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS [RESERVED]

Table of Contents**PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES**

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

The following table sets forth, for the periods indicated, the high and low reported sale prices for our common stock. At February 22, 2010, there were 1,853 holders of record of our common stock. For periods prior to July 9, 2008, the reported prices are for shares of Activision, Inc. before completion of the Business Combination. In addition, in July 2008, the Board of Directors approved a two-for-one split of our outstanding common stock and the prices set forth below have been restated as if the split had occurred as of the earliest period presented.

	High	Low
<i>2008</i>		
First Quarter ended March 31, 2008	\$ 14.88	\$ 12.56
Second Quarter ended June 30, 2008	18.65	13.46
Third Quarter ended September 30, 2008	19.28	14.04
Fourth Quarter ended December 31, 2008	15.39	8.28
<i>2009</i>		
First Quarter ended March 31, 2009	\$ 10.99	\$ 8.14
Second Quarter ended June 30, 2009	13.14	9.85
Third Quarter ended September 30, 2009	13.00	10.79
Fourth Quarter ended December 31, 2009	12.96	10.25
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Stock Performance Graph

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

The graph below matches the cumulative 69-month total return of holders of Activision, Inc.'s common stock with the cumulative total returns of the NASDAQ Composite index and the RDG Technology Composite index. The graph assumes that the value of the investment in our common stock and in each of the indexes (including reinvestment of dividends) was \$100 on March 31, 2004 and tracks it through December 31, 2009.

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

COMPARISON OF 6 YEAR CUMULATIVE TOTAL RETURN*

Among Activision Blizzard, Inc., The NASDAQ Composite Index
And The RDG Technology Composite Index

*
100 invested on 3/31/04 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	3/04	3/05	3/06	3/07	3/08	12/08	12/09
Activision Blizzard, Inc.	100.00	124.74	154.97	212.84	306.90	194.18	249.70
NASDAQ Composite	100.00	102.04	118.97	126.37	116.84	80.73	116.61
RDG Technology Composite	100.00	96.69	114.09	118.05	113.80	76.05	122.68

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

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Cash Dividends

On February 10, 2010 Activision Blizzard's Board of Directors declared a cash dividend of \$0.15 per common share payable on April 2, 2010 to shareholders of record at the close of business on February 22, 2010. Although we expect dividends to be an annual occurrence, future dividends will depend upon our earnings, financial condition, cash requirements, future prospects, and other factors deemed relevant by our Board of Directors. We did not pay cash dividends in 2008 or 2009.

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

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

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

Stock Splits

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

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

The following table provides the number of shares repurchased and average price paid per share during each quarter for the year ended December 31, 2009, and the approximate dollar value of shares that may yet be purchased under our \$1.25 billion stock repurchase program as of December 31, 2009.

Period	Total number of shares repurchased(1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plan (in millions)
January 1, 2009 - March 31, 2009	31,877,760	\$ 9.82	31,877,760	\$ 561
April 1, 2009 - June 30, 2009	19,371,247	11.85	19,371,247	332
July 1, 2009 - September 30, 2009	24,585,978	11.85	24,585,978	290
October 1, 2009 - October 31, 2009				
November 1, 2009 - November 30, 2009	4,400,900	11.43	4,400,900	240
December 1, 2009 - December 31, 2009	20,483,348	10.98	20,483,348	15
Total	100,719,233	\$ 11.01	100,719,233	

(1)

All purchases were made pursuant to a stock repurchase program, announced on November 5, 2008, authorized by our Board of Directors pursuant to which we were originally authorized to repurchase up to \$1 billion of our common stock. On July 31, 2009, our Board of Directors authorized an increase of \$250 million to the stock repurchase program bringing the total authorization to \$1.25 billion.

In addition to the repurchases in the above table, we had agreed to repurchase approximately 1.3 million shares of our common stock at an average price per share of \$11.32 for a value of \$15 million that had not yet settled at December 31, 2009. This completed the \$1.25 billion stock repurchase program.

On February 10, 2010, we announced that our Board of Directors authorized a new stock repurchase program under which we may repurchase up to \$1 billion of our common stock on terms and conditions to be determined by the Company until the earlier of December 31, 2010 or a determination by the Board of Directors to discontinue the repurchase program.

Item 6. SELECTED FINANCIAL DATA

On July 9, 2008, a business combination (the "Business Combination") by and among Activision, Inc., Sego Merger Corporation, a wholly-owned subsidiary of Activision, Inc., Vivendi S.A. ("Vivendi"), VGAC LLC, a wholly-owned subsidiary of Vivendi, and Vivendi Games, Inc. ("Vivendi Games"), a wholly-owned subsidiary of VGAC LLC, was consummated. As a result of the consummation of the Business Combination, Activision, Inc. was renamed Activision Blizzard, Inc. For accounting purposes, the Business Combination is treated as a "reverse acquisition," with Vivendi Games deemed to be the acquirer. The historical financial statements of Activision Blizzard, Inc. prior to July 9, 2008 are those of Vivendi Games, Inc. (see Note 1 of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K). Therefore, 2009 and 2008 financial data is not comparable with prior periods.

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The following table summarizes certain selected consolidated financial data, which should be read in conjunction with our Consolidated Financial Statements and Notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K. The selected consolidated financial data presented below at and for each of the years in the five-year period ended December 31, 2009 is derived from our Consolidated Financial Statements. All amounts set forth in the following tables are in millions, except per share data.

	For the years ended December 31,				
	2009	2008	2007	2006	2005
Statement of Operations Data:					
Net revenues	\$ 4,279	\$ 3,026	\$ 1,349	\$ 1,018	\$ 780
Net income (loss)	113	(107)	227	139	45
Net income (loss) per share(1)	0.09	(0.11)	0.38	0.24	0.08

	At December 31,				
	2009	2008	2007	2006	2005
Balance Sheet Data:					
Total assets	\$ 13,742	\$ 14,465	\$ 879	\$ 758	\$ 539

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

Cash Dividends

On February 10, 2010 Activision Blizzard's Board of Directors declared a cash dividend of \$0.15 per common share payable on April 2, 2010 to shareholders of record at the close of business on February 22, 2010. Although we expect dividends to be an annual occurrence, future dividends will depend upon our earnings, financial condition, cash requirements, future prospects, and other factors deemed relevant by our Board of Directors. We did not pay cash dividends in 2009, 2008, 2007, 2006 or 2005.

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

Business Overview

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

Activision Publishing, Inc.

Activision Publishing, Inc. ("Activision") is a leading international publisher of interactive software products and peripherals. Activision develops and publishes video games on various consoles, handheld platforms and the PC platform through internally developed franchises and license agreements. Activision currently offers games that operate on the Sony Computer Entertainment Inc. ("Sony") PlayStation 2 ("PS2"), Sony PlayStation 3 ("PS3"), Nintendo Co. Ltd. ("Nintendo") Wii ("Wii"), and Microsoft Corporation ("Microsoft") Xbox 360 ("Xbox 360") console systems; the Sony PlayStation Portable ("PSP") and Nintendo Dual Screen ("NDS") handheld devices; the PC; the iPhone; and the new handheld game system Nintendo DSi. Our Activision business involves the development, marketing, and sale of products directly, by license, and through our affiliate label program with certain

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third-party publishers. Activision's products cover diverse game genres including action/adventure, action sports, racing, role-playing, simulation, first-person action, music, and strategy. Activision's target customer base ranges from casual players to core gamers, and children to adults.

Blizzard Entertainment, Inc.

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

Activision Blizzard Distribution

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

Business Combination

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

Activision Blizzard's Non-Core Exit Operations

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

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Key Market Conditions and Business Results

Market conditions were challenging in 2009 with total retail software sales in the U.S. and Europe down 10% from the prior year, according to The NPD Group, Charttrack, and Gfk. With the weakened economy, retailers focused on reducing inventories. The market weakness was most notable in the casual game and music genres, as compared to core gamer performing titles, with casual consumers scaling back their purchases, including making fewer purchases of higher-priced point peripheral-based games in the music genre.

For 2009, Activision Blizzard's consolidated net revenues were \$4,279 million, and consolidated net income was \$113 million, which included a \$409 million charge from the impairment of finite-lived intangible assets reflecting the impact of the weaker market for the casual and music genres. The Company generated \$1,183 million in net cash from operating activities.

Notwithstanding, this challenging macroeconomic environment, Activision Blizzard grew its share by 1.8 points over the previous year across all platforms to 16% in the combined U.S. and European market, according to The NPD Group, Charttrack, and Gfk.

Following the year end, the Company announced a new stock repurchase program under which the Company can repurchase up to \$1 billion of the Company's common stock. The Board of Directors also declared a cash dividend of \$0.15 per common share payable on April 2, 2010 to shareholders of record at the close of business on February 22, 2010.

Additional Business Highlights

According to The NPD Group with respect to the U.S. market, Charttrack and Gfk, for the European market, during the year ended December 31, 2009:

Call of Duty: Modern Warfare 2 was the #1 best selling console title in the U.S. and Europe;

DJ Hero was the highest grossing new intellectual property launched in 2009 in the U.S. and Europe;

Call of Duty and Guitar Hero were two of the top-five best selling franchises across all platforms in the U.S. and Europe;

We are the #1 U.S. publisher overall for the PS3 and Xbox 360, and the #1 third-party publisher for the Wii; and

Call of Duty: Modern Warfare 2 and *World of Warcraft: Wrath of the Lich King* were two of the top five-best selling PC titles in dollars in the U.S. and Europe.

To date, *Call of Duty: Modern Warfare 2* has sold more than \$1 billion in retail sales worldwide, according to The NPD Group, Charttrack, and Gfk. Further, at December 31, 2009, there were approximately 11.5 million gamers worldwide subscribed to play *World of Warcraft*.

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Product Releases

Games released during the year ended December 31, 2009 included:

<i>Monsters vs. Aliens;</i>	<i>Guitar Hero 5;</i>
<i>Guitar Hero: Metallica;</i>	<i>Marvel Ultimate Alliance 2;</i>
<i>X-Men Origins: Wolverine;</i>	<i>Bakugan Battle Brawlers;</i>
<i>Guitar Hero: Modern Hits;</i>	<i>DJ Hero;</i>
<i>PROTOTYPE;</i>	<i>Band Hero;</i>
<i>Guitar Hero: Smash Hits;</i>	<i>Call of Duty: Modern Warfare 2;</i>
<i>Transformers: Revenge of the Fallen;</i>	<i>Tony Hawk: Ride;</i>
<i>Ice Age: Dawn of the Dinosaurs;</i>	<i>Guitar Hero: Van Halen;</i> and
<i>Wolfenstein;</i>	Three map packs for <i>Call of Duty: World at War.</i>

In 2010, we expect to continue to build on our success by releasing key franchise games including Blizzard's *StarCraft II: Wings of Liberty* and the World of Warcraft expansion pack, *Cataclysm*, as well as a diversified lineup of games based on Activision's best-selling franchises including Call of Duty, Guitar Hero, and Tony Hawk, together with other well-known titles such as True Crime, Spider-Man, and Bakugan, and a select number of new intellectual property franchises such as *Blur* and *Singularity*.

International Operations

International sales are a fundamental part of our business. Net revenues from international sales accounted for approximately 48%, 50%, and 53% of our total consolidated net revenues for the years ended December 31, 2009, 2008 and 2007, respectively. We maintain significant operations in the United States, Canada, the United Kingdom, Germany, France, Italy, Spain, Australia, Sweden, South Korea, Norway, Denmark, China, and the Netherlands. We believe that it is important to develop content locally that is specifically directed toward local cultures and customs to succeed internationally. Our international business is subject to risks typical of an international business, including, but not limited to, foreign currency exchange rate volatility. Accordingly, our future results could be materially and adversely affected by changes in foreign currency exchange rates.

Management's Overview of Business Trends

Online Content and Digital Downloads

We provide a variety of electronically delivered products. Many of our video games that are available through retailers as physical "boxed" products such as DVDs are also available by direct digital download through the Internet (from websites that we own and others owned by third parties to which we license our products). We also offer downloadable content and add-ons to our products (*e.g.*, map packs and additional songs). Electronically delivered content is generally offered to consumers for a one-time fee. We continue to focus on and grow our digital download and online revenues and we believe that this will become an increasingly important part of our business over time.

Current Generation of Game Consoles

The current generation of game consoles began with Microsoft's launch of the Xbox 360 in 2005, and continued in 2006 when Sony and Nintendo launched their next-generation systems, the PS3 and the Wii, respectively. We have seen a significant decline in PS2 revenues during 2009 as compared to 2008, suggesting that this prior generation platform may soon be completely replaced by the current generation of consoles. Overall console sales remained strong in 2009, with an installed base of hardware in the U.S. and Europe of 218 million units as of December 31, 2009, representing an increase of 37% in units year over year. We will continue to monitor game console sales to manage our product delivery on each platform in a manner we believe to be most effective.

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Concentration of Top Titles

A significant portion of our revenues has historically been derived from video games based on a few popular franchises and these video games are responsible for a disproportionately high percentage of our profits. We expect that a limited number of popular franchises will continue to produce a disproportionately high percentage of our revenues and profits. For example, our top three franchises, Call of Duty, Guitar Hero, and World of Warcraft, accounted for approximately 68% of our net revenues for the year ended December 31, 2009. This is similar to the overall trend in the video game industry. For example, the top 10 titles accounted for 37% of the sales in the U.S. video game industry in the three months ended December 31, 2009, according to The NPD Group. In 2010, we expect to release key franchise games including Blizzard's *StarCraft II: Wings of Liberty* and the World of Warcraft expansion pack, *Cataclysm*, as well as a diversified lineup of games based on Activision Publishing's best-selling franchises including Call of Duty, Guitar Hero, and Tony Hawk, together with other well-known titles such as True Crime, Spider-Man, and Bakugan. Also in 2010, we expect to continue to explore new intellectual properties to broaden our franchise portfolio by releasing a select number of new intellectual properties, such as *Blur* and *Singularity*.

Seasonality

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

Consolidated Statements of Operations Data

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

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

	For the years ended December 31,					
	2009		2008		2007	
Net revenues:						
Product sales	\$ 3,080	72%	\$ 1,872	62%	\$ 457	34%
Subscription, licensing, and other revenues	1,199	28	1,154	38	892	66
Total net revenues	4,279	100	3,026	100	1,349	100
Costs and expenses:						
Cost of sales product costs	1,432	33	1,160	38	171	13
Cost of sales software royalties and amortization	348	8	267	9	52	4
Cost of sales intellectual property licenses	315	7	219	7	9	1
Cost of sales massively multi-player online role-playing game ("MMORPG")	212	5	193	7	204	15
Product development	627	15	592	20	397	29
Sales and marketing	544	13	464	15	172	13
General and administrative	395	9	271	9	166	12
Impairment of intangible assets	409	10				
Restructuring	23	1	93	3	(1)	
Total costs and expenses	4,305	101	3,259	108	1,170	87
Operating income (loss)	(26)	(1)	(233)	(8)	179	13
Investment and other income (loss), net	18	1	46	2	(4)	
Income (loss) before income tax benefit	(8)		(187)	(6)	175	13
Income tax benefit	(121)	(3)	(80)	(2)	(52)	(4)
Net income (loss)	\$ 113	3%	\$ (107)	(4)%	\$ 227	17%

Operating Segment Results

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

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

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income (loss) for the years ended December 31, 2009, 2008, and 2007 are presented below (amounts in millions):

	For the years ended December 31,			Increase/ (decrease)	Increase/ (decrease)
	2009	2008	2007	2009 v 2008	2008 v 2007
Segment net revenues:					
Activision	\$ 3,156	\$ 2,152	\$ 272	\$ 1,004	\$ 1,880
Blizzard	1,196	1,343	1,107	(147)	236
Distribution	423	227		196	227
Operating segment net revenue total	4,775	3,722	1,379	1,053	2,343
Reconciliation to consolidated net revenues:					
Net effect from deferred net revenues	(497)	(713)	(40)	216	(673)
Other*	1	17	10	(16)	7
Consolidated net revenues	\$ 4,279	\$ 3,026	\$ 1,349	\$ 1,253	\$ 1,677
Segment income (loss) from operations:					
Activision	\$ 663	\$ 307	\$ (13)	\$ 356	\$ 320
Blizzard	555	704	568	(149)	136
Distribution	16	22		(6)	22
Operating segment income from operations total	1,234	1,033	555	201	478
Reconciliation to consolidated operating income (loss):					
Net effect from deferral of net revenues and related cost of sales	(383)	(496)	(38)	113	(458)
Stock-based compensation expense	(154)	(90)	(137)	(64)	47
Restructuring	(23)	(93)	1	70	(94)
Amortization of intangible assets and purchase price accounting related adjustments	(259)	(292)	(4)	33	(288)
Impairment of intangible assets	(409)			(409)	
Integration and transaction costs	(24)	(29)		5	(29)
Other*	(8)	(266)	(198)	258	(68)
Total consolidated operating income (loss)	\$ (26)	\$ (233)	\$ 179	\$ 207	\$ (412)

(*)

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

Note The historical financial statements prior to July 10, 2008 are those of Vivendi Games only. The financial information of the businesses operated by Activision, Inc. prior to the Business Combination is included from the date of the Business Combination (i.e. from July 10, 2008 onwards), but not for prior periods. We provide a discussion and analysis of the operating segments for the years ended December 31, 2009, 2008, and 2007 in the Supplemental Pro Forma Information section below as the pro forma basis provides greater comparability for the Activision and Distribution segments as

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the Supplemental Pro Forma Information reflects pre-Business Combination businesses previously operated by Activision, Inc. The Blizzard segment is not affected by any of the pro forma adjustments.

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

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

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

Stock-Based Compensation Expense

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

Restructuring

We have implemented an organizational restructuring plan as a result of the Business Combination. The restructuring activities include severance costs, facility exit costs and balance sheet write downs and exit costs from the cancellation of projects. We do not expect any material costs relating to this item going forward as we have completed our restructuring activities.

Amortization of Intangible Assets and Purchase Price Accounting Related Adjustments

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

Impairment of Intangible Assets

As a result of the accounting impairment test, we recorded a non-cash impairment charge on finite-lived intangible assets of \$409 million, or \$0.19 loss per share, for the year ended December 31, 2009 reflecting a weaker environment for the casual game and music genres.

Integration and Transaction Costs

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

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Segment Net Revenues

Activision

For the year ended December 31, 2009, net revenues from the Activision segment increased as compared to 2008 primarily due to the following:

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

Strong performance from new intellectual property launches of *DJ Hero* and *PROTOTYPE* in 2009; and

Exceptional performance from *Call of Duty: Modern Warfare 2*.

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

For the year ended December 31, 2008, net revenues from the Activision segment increased as compared to 2007 primarily due to the consummation of the Business Combination, which resulted in revenues from Activision, Inc. of approximately \$1,988 million being included from the date of the Business Combination, but not in 2007.

Blizzard

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

Blizzard's net revenues increased for the year ended December 31, 2008 as compared to 2007 primarily due to the release of the second expansion pack of *World of Warcraft: Wrath of the Lich King* in November 2008 and an increase in the number of *World of Warcraft* subscribers.

Distribution

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

The increase in Distribution net revenues for the year ended December 31, 2008 as compared to 2007 is due to the consummation of the Business Combination, which resulted in revenues from Activision, Inc. of \$227 million relating to Distribution segment being included from the date of the Business Combination but not in 2007.

Segment Income (Loss) from Operations Highlights

Activision

For the year ended December 31, 2009, operating income from the Activision segment increased as compared to 2008 primarily due to the following:

The increase in net revenues from Activision as noted above; and

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Lower operating expenses stemming from continuing effective cost containment strategies.

For the year ended December 31, 2008, operating income from the Activision segment increased as compared to 2007 primarily due to the consummation of the Business Combination, which resulted in operating income from Activision, Inc. of approximately \$371 million being included from the date of the Business Combination, but not in 2007.

Blizzard

For the year ended December 31, 2009, operating income from the Blizzard segment decreased as compared to 2008 primarily as a result of the following:

The decrease in net revenues noted above; and

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

For the year ended December 31, 2008, operating income from the Blizzard segment increased as compared to 2007 mainly as a result of the successful release of the second expansion pack of *World of Warcraft: Wrath of the Lich King* in November 2008.

Supplemental Pro Forma Operating Segment Results

The consummation of the Business Combination has resulted in the businesses operated by Activision, Inc. prior to the Business Combination being included from the date of the Business Combination (i.e. from July 9, 2008 onwards), but not for prior periods. Therefore, for comparability purposes, we combined Activision, Inc.'s financial information with Activision Blizzard's reported financial information in the following table to create pro forma Activision Blizzard financial information for the years ended December 31, 2008 and 2007. This pro forma information is for informational purposes only and does not reflect any operating efficiencies or inefficiencies which may have resulted from the Business Combination and therefore is not necessarily indicative of results that would have been achieved had the business been combined during the years presented. We have included a reconciliation between the reported consolidated and segment financial information to the

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pro forma consolidated and segment financial information. See Note 14 of the Notes to Consolidated Financial Statements for further details of our segment presentation.

	For the years ended December 31,							
	2009	2008	2007	Increase/ (decrease) 2009 v 2008	Increase/ (decrease) 2008 v 2007	% change 2009 v 2008	% change 2008 v 2007	
Pro forma segment net revenues:								
Activision	\$ 3,156	\$ 3,279	\$ 2,472	\$ (123)	\$ 807	(4)%	33%	
Blizzard	1,196	1,343	1,107	(147)	236	(11)	21	
Distribution	423	410	408	13	2	3		
Pro forma operating segment net revenue total	4,775	5,032	3,987	(257)	1,045	(5)	26	
Reconciliation to pro forma consolidated net revenues:								
Net effect from deferral of net revenues	(497)	(713)	(40)	216	(673)	30	NM	
Other*	1	17	10	(16)	7	(94)	70	
Pro forma consolidated net revenues	\$ 4,279	\$ 4,336	\$ 3,957	\$ (57)	\$ 379	(1)%	10%	
Pro forma segment income (loss) from operations:								
Activision	\$ 663	\$ 469	\$ 411	\$ 194	\$ 58	41%	14%	
Blizzard	555	704	568	(149)	136	(21)	24	
Distribution	16	27	15	(11)	12	(41)	80	
Pro forma operating segment income from operations total	1,234	1,200	994	34	206	3	21	
Reconciliation to pro forma consolidated operating income (loss):								
Net effect from deferral of net revenues and related cost of sales	(383)	(496)	(38)	113	(458)	23	NM	
Stock-based compensation expense	(154)	(181)	(225)	27	44	15	20	
Restructuring	(23)	(93)	1	70	(94)	75	NM	
Amortization of intangible assets and purchase price accounting related adjustments	(259)	(376)	(380)	117	4	31	1	
Impairment of intangible assets	(409)			(409)				
Integration and transaction costs	(24)	(42)	4	18	(46)	43	NM	
Other*	(8)	(266)	(198)	258	(68)	97	(34)	
Total pro forma consolidated operating income (loss)	\$ (26)	\$ (254)	\$ 158	\$ 228	\$ (412)	90%	(261)%	

(*)

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

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

On a pro forma operating segment basis, our operating margin for the years ended December 31, 2009, 2008 and 2007 was 26%, 24% and 25%, respectively. Highlights and analysis of our individual segment net revenues and income from operations are as follows:

Pro forma Activision Segment Net Revenues

Activision's net revenues decreased for the year ended December 31, 2009 as compared to 2008 primarily due to:

The prolonged weakness in the economy adversely impacting the casual game and music genres and the stronger performance of the Guitar Hero franchise in 2008 as compared to 2009; and

The decline in sales of PS2 platform titles due to the aging lifecycle of the PS2 platform as consumers transition to current generation platforms.

Partially offsetting this decrease was an increase in net revenues from the exceptional performance of *Call of Duty: Modern Warfare 2* in November 2009 and growth in online digital revenues from downloadable content.

Activision's net revenues increased for the year ended December 31, 2008 as compared to 2007 primarily as a result of:

Stronger performance of games related to the Guitar Hero franchise;

Higher price points for the Guitar Hero franchise's hardware bundles, which consisted of drums, guitars and/or microphones, as compared to our software-only products; and

Growth in the Nintendo Wii platform installed base positively impacting Wii software titles.

Pro Forma Activision Segment Income from Operations

Activision's operating income increased for the year ended December 31, 2009 as compared to 2008 primarily due to:

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

Strong performance from new intellectual property launches of *DJ Hero* and *PROTOTYPE* in 2009;

Growth in the higher margin online digital revenues; and

Lower operating expenses stemming from continuing effective cost containment strategies.

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

The increase in Activision segment operating income for the year ended December 31, 2008 as compared to 2007 was mainly attributable to:

The increase in net revenues discussed above;

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Partially offset by:

The higher cost of sales related to the manufacturing and distribution cost of the Guitar Hero hardware bundle; and

The unfavorable impact of changes in foreign exchange rates, as the U.S. dollar strengthened primarily in relation to the British pound, euro and Australian dollar.

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Schedules of Reconciliation of Reported Consolidated and Segment Financial Information to Pro Forma Consolidated and Segment Financial Information for the Years Ended December 31, 2008 and 2007

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

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

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For the year ended December 31, 2007, the pro forma Activision Blizzard financial information is comprised of Activision, Inc.'s financial information for each quarter of calendar year 2007 together with Activision Blizzard's reported financial information for the year ended December 31, 2007. We extracted the financial information of each quarter of calendar year 2007 from Activision, Inc.'s quarterly information which has not been audited.

	For the year ended December 31, 2007			
	Reported	Activision, Inc.	Pro forma adjustments(i)	Pro forma Activision Blizzard
Consolidated net revenues	\$ 1,349	\$ 2,608	\$	\$ 3,957
Reconciliation to segment net revenues:				
Net effect from deferral of net revenues	40			40
Other(ii)	(10)			(10)
Total segment net revenues	\$ 1,379	\$ 2,608	\$	\$ 3,987
Segment net revenues				
Activision	\$ 272	\$ 2,200	\$	\$ 2,472
Blizzard	1,107			1,107
Distribution		408		408
Total segment net revenues	\$ 1,379	\$ 2,608	\$	\$ 3,987
Consolidated operating income (loss)	\$ 179	\$ 396	\$ (417)	\$ 158
Reconciliation to segment operating income (loss):				
Net effect from deferral of net revenues and related cost of sales	38			38
Stock-based compensation expense	137	43		