Activision Blizzard, Inc.
Form 10-Q
May 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the Quarterly Period Ended March 31, 2011

OR

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

For the transition period from to

Commission File Number 1-15839

ACTIVISION BLIZZARD, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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 x	Accelerated Filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares of the registrant s Common Stock outstanding at May 2, 2011 was 1,144,164,508.

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

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CAUTIONARY STATEMENT

This Quarterly Report on Form 10-Q contains, or incorporates by reference, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements consist of any statement other than a recitation of historical fact and include, but are not limited to: (1) projections of revenues, expenses, income or loss, earnings or loss per share, cash flow or other financial items; (2) statements of our plans and objectives, including those relating to product releases; (3) statements of future economic performance; and (4) statements of assumptions underlying such statements. We generally use words such as outlook, forecast, will, could, should, would, to be, plans, believes, may, expects, intends, anticipates, estimate, future, positioned, potential, project, remain, scheduled, set to, subject to, upcoming and other similar expressions to help identify forward-looking statements. Forward-looking statements are subject to business and economic risk, reflect management s current expectations, estimates and projections about our business, and are inherently uncertain and difficult to predict. Our actual results could differ materially. The forward-looking statements contained herein speak only at the date on which this Quarterly Report on Form 10-Q was first filed. Risks and uncertainties that may affect our future results include, but are not limited to, sales levels of Activision Blizzard s titles, increasing concentration of titles, shifts in consumer spending trends, the impact of the current macroeconomic environment and market conditions within the video game industry, Activision Blizzard s ability to predict consumer preferences, including interest in specific genres such as first-person action and massively multiplayer online games and preferences among competing hardware platforms, the seasonal and cyclical nature of the interactive game market, changing business models including digital and used games, competition including from used games and other forms of entertainment, possible declines in software pricing, product returns and price protection, product delays, adoption rate and availability of new hardware (including peripherals) and related software, rapid changes in technology and industry standards, litigation risks and associated costs, the effectiveness of Activision Blizzard s restructuring efforts, protection of proprietary rights, maintenance of relationships with key personnel, customers, licensees, licensors, vendors, and third-party developers, including the ability to attract, retain and develop key personnel and developers that can create high quality hit titles, counterparty risks relating to customers, licensees, licensors and manufacturers, domestic and international economic, financial and political conditions and policies, foreign exchange rates and tax rates, and the identification of suitable future acquisition opportunities and potential challenges associated with geographic expansion, and the other factors identified in Risk Factors included in Part II, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010. The forward-looking statements contained herein are based upon information available to us as of the date of this Quarterly Report on Form 10-Q and we assume no obligation to update any such forward-looking statements. Although these forward-looking statements are believed to be true when made, they may ultimately prove to be incorrect. These statements are not guarantees of our future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and may cause actual results to differ materially from current expectations.

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

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Amounts in millions, except share data)

	At March 31, 2011	At December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 2,658	$ 2,812
Short-term investments	701	696
Accounts receivable, net of allowances of $276 million and $377 million at March 31, 2011 and December 31, 2010, respectively	95	640
Inventories	103	112
Software development	129	147
Intellectual property licenses	32	45
Deferred income taxes, net	464	620
Other current assets	167	293
Total current assets	4,349	5,365
Long-term investments	25	23
Software development	65	55
Intellectual property licenses	29	28
Property and equipment, net	165	169
Other assets	25	21
Intangible assets, net	152	160
Trademark and trade names	433	433
Goodwill	7,134	7,132
Total assets	$ 12,377	$ 13,386
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 172	$ 363
Deferred revenues	1,043	1,726
Accrued expenses and other liabilities	676	838
Total current liabilities	1,891	2,927
Deferred income taxes, net	83	92
Other liabilities	166	164
Total liabilities	2,140	3,183
Commitments and contingencies (Note 14)		
Shareholders equity:		

Common stock, $0.000001 par value, 2,400,000,000 shares authorized, 1,383,620,047 and 1,382,479,839 shares issued at March 31, 2011 and December 31, 2010, respectively				
Additional paid-in capital		12,382		12,353
Less: Treasury stock, at cost, 230,246,372 and 199,159,987 at March 31, 2011 and December 31, 2010, respectively		(2,537)		(2,194)
Retained earnings		366		57
Accumulated other comprehensive income (loss)		26		(13)
Total shareholders equity		10,237		10,203
Total liabilities and shareholders equity	$	12,377	$	13,386

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

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Amounts in millions, except per share data)

	For the Three Months Ended March 31, 2011	2010
Net revenues		
Product sales	$ 1,061	$ 986
Subscription, licensing, and other revenues	388	322
Total net revenues	1,449	1,308
Costs and expenses		
Cost of sales product costs	299	337
Cost of sales massively multi-player online role-playing game (MMORPG)	63	54
Cost of sales software royalties and amortization	61	99
Cost of sales intellectual property licenses	29	43
Product development	142	143
Sales and marketing	64	56
General and administrative	98	65
Restructuring	19	
Total costs and expenses	775	797
Operating income	674	511
Investment and other income, net	2	
Income before income tax expense	676	511
Income tax expense	173	130
Net income	$ 503	$ 381
Earnings per common share		
Basic	$ 0.42	$ 0.30
Diluted	$ 0.42	$ 0.30
Weighted-average shares outstanding		
Basic	1,173	1,248
Diluted	1,182	1,264
Dividends per common share	$ 0.165	$ 0.15

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

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in millions)

	For the Three Months Ended March 31, 2011	2010
Cash flows from operating activities:		
Net income	$ 503	$ 381
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	150	90
Depreciation and amortization	26	33
Amortization and write-off of capitalized software development costs and intellectual property licenses (1)	69	88
Stock-based compensation expense (2)	23	44
Excess tax benefits from stock option exercises	(1)	(4)
Changes in operating assets and liabilities:		
Accounts receivable	554	593
Inventories	11	40
Software development and intellectual property licenses	(45)	(80)
Other assets	129	162
Deferred revenues	(716)	(637)
Accounts payable	(199)	(146)
Accrued expenses and other liabilities	(370)	(337)
Net cash provided by operating activities	134	227
Cash flows from investing activities:		
Proceeds from maturities of investments	154	17
Payment of contingent consideration	(3)	(2)
Purchases of short-term investments	(161)	(187)
Capital expenditures	(4)	(12)
Net cash used in investing activities	(14)	(184)
Cash flows from financing activities:		
Proceeds from issuance of common stock to employees	5	16
Repurchase of common stock	(343)	(107)
Excess tax benefits from stock option exercises	1	4
Net cash used in financing activities	(337)	(87)
Effect of foreign exchange rate changes on cash and cash equivalents	63	(29)
Net (decrease) increase in cash and cash equivalents	(154)	(73)
Cash and cash equivalents at beginning of period	2,812	2,768
Cash and cash equivalents at end of period	$ 2,658	$ 2,695

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

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

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

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

For the Three Months Ended March 31, 2011

(Unaudited)

(Amounts in millions)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock Shares	Treasury Stock Amount	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance at December 31, 2010	**1,382**	**$**	**$ 12,353**	**(199)**	**$ (2,194)**	**$ 57**	**$ (13)**	**$ 10,203**
Components of comprehensive income:								
Net income						503		503
Foreign currency translation adjustment							39	39
Total comprehensive income								542
Issuance of common stock pursuant to employee stock options and restricted stock rights	1		5					5
Stock-based compensation expense related to employee stock options and restricted stock rights			24					24
Dividends ($0.165 per common share) (See Note 13)						(194)		(194)
Shares repurchased (See Note 13)				(31)	(343)			(343)
Balance at March 31, 2011	**1,383**	**$**	**$ 12,382**	**(230)**	**$ (2,537)**	**$ 366**	**$ 26**	**$ 10,237**

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

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Description of Business and Basis of Consolidation and Presentation

Description of Business

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

The common stock of Activision Blizzard is traded on The NASDAQ Stock Market under the ticker symbol ATVI. Vivendi S.A. (Vivendi) owned approximately 62% of Activision Blizzard s outstanding common stock at March 31, 2011.

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

Basis of Consolidation and Presentation

Activision Blizzard prepared the accompanying unaudited condensed consolidated financial statements in accordance with the rules and regulations of the Securities and Exchange Commission for interim reporting. As permitted under those rules and regulations, certain notes or other information that are normally required by accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted if they substantially duplicate the disclosures contained in the annual audited consolidated financial statements. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation of our financial position and results of operations in accordance with U.S. GAAP have been included.

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

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

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

2. Summary of significant accounting policies

Revenue Recognition

Revenue Arrangements with Multiple Deliverables

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

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principles. When determining the selling prices of our significant deliverables to enable us to allocate the revenues from the sale of our product using the relative selling price method, we use a variation of vendor-specific objective evidence (VSOE) of fair value and third-party evidence (TPE) of selling price. When neither VSOE nor TPE is available for a deliverable, we use our best estimate of the selling price (BESP). We do not have significant revenue arrangements that require our BESP for the quarter ended March 31, 2011. The inputs we use to determine the selling price of our significant deliverables include the actual price charged by the Company for a deliverable that the Company sells separately, which represents the VSOE, and the wholesale prices of the same or similar products, which represents TPE. The pattern and timing of revenue recognition for our deliverables and allocation of the arrangement consideration did not change upon the adoption of the new accounting principles. Also, we do not expect the adoption of the new accounting principles to have a material effect on our financial statements in the periods after our initial adoption.

Product Sales

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

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

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

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

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

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

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

Sales incentives and other consideration given by us to our customers, such as rebates and product replacement fees, are considered adjustments of the selling price of our products and are reflected as reductions to revenue. Sales incentives and other consideration that represent costs incurred by us for assets or services received, such as the appearance of our products in a

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customer s national circular ad, are reflected as sales and marketing expenses when the benefit from the sales incentive is separable from sales to the same customer and we can reasonably estimate the fair value of the benefit.

Subscription Revenues

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

Licensing Revenues

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

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

Breakage Revenues

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

Other Revenues

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

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3. Inventories

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

	At March 31, 2011	At December 31, 2010
Finished goods	$ 80	$ 82
Purchased parts and components	23	30
Inventories	$ 103	$ 112

4. Intangible assets, net

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

	At March 31, 2011			
	Estimated useful lives	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				
License agreements	3 - 10 years	$ 88	$ (75)	$ 13
Game engines	2 - 5 years	32	(31)	1
Internally-developed franchises	11 - 12 years	309	(173)	136
Distribution agreements	4 years	18	(16)	2
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite	386		386
Acquired trade names	Indefinite	47		47
Total		$ 880	$ (295)	$ 585

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

Amortization expense of intangible assets was $8 million and $18 million for the three months ended March 31, 2011 and 2010, respectively.

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

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

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2011 (remaining nine months)	$	61
2012		37
2013		18
2014		10
2015		8
Thereafter		18
Total	$	152

5. Income taxes

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

For the three months ended March 31, 2011, the tax rate was based on our projected annual effective tax rate for 2011, and also included certain discrete tax items recorded during the period. Our tax expense of $173 million for the three months ended March 31, 2011 reflected an effective tax rate of 26% which differed from the effective tax rate of 25% for the three months ended March 31, 2010, primarily due to a minor increase in the amount of domestic earnings with a higher statutory rate, relative to earnings in foreign jurisdictions with a lower statutory rate, which resulted in a slightly higher overall effective tax rate over the prior period.

The overall effective income tax rate for the year could be different from the effective tax rate for the three months ended March 31, 2011 and will be dependent on our profitability for the remainder of the year. In addition, our effective income tax rates for the remainder of 2011 and future periods will depend on a variety of factors, such as changes in the mix of income by tax jurisdiction, applicable accounting rules, applicable tax laws and regulations, rulings and interpretations thereof, developments in tax audit and other matters, and variations in the estimated and actual level of annual pre-tax income or loss. Further, the effective tax rate could fluctuate significantly on a quarterly basis and could be adversely affected by the extent that income (loss) before income tax expenses (benefit) are lower than anticipated in foreign regions where we have lower statutory rates and/or higher than anticipated in our domestic region where we have higher statutory rates.

6. Software development and intellectual property licenses

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

		At March 31, 2011		At December 31, 2010
Internally developed software costs	$	133	$	142
Payments made to third-party software developers		61		60
Total software development costs	$	194	$	202

Intellectual property licenses	$	61	$	73

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

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

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

Comprehensive Income

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

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

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

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

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

8. Fair value measurements

Fair Value Measurements on a Recurring Basis

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

- Level 1 Quoted prices in active markets for identical assets or liabilities.

- Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets or other inputs that are observable or can be corroborated by observable market data.

- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

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

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	Fair Value Measurements at March 31, 2011 Using
Quoted Prices in	